



**JSC "KAUNO ENERGIJA"**

**CONSOLIDATED ANNUAL REPORT  
FOR THE YEAR 2008**



## JSC “KAUNO ENERGIJA” CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2008

### CONTENTS

1. Period under review for which consolidated annual report is prepared	3
2. Companies composing the group of companies and their contact data	3
3. The nature of the main activity of the companies composing the group of companies	3
4. The agreements of Issuer with finance broker companies and (or) credit institutions	4
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)	4
6. Objective review of companies group state, activity and development, characterization of main risk types and indetermination with which there is confrontation	4
7. The analysis of the companies group financial and non-financial activity results, information related to the environment and personnel issues	7
8. References and additional explanations on the data presented in the annual financial report	10
9. Important events after the end of the previous financial year	10
10. The plans and forecasts of the activity of the companies group	10
11. Information on the companies group research and development activity	12
12. Information on Issuer acquired and own shares	12
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	12
14. Information on Issuer subsidiary and secondary enterprises	12
15. The share capital structure of the Issuer	13
16. Data on issues of the shares of the Issuer	13
17. Information about the shareholders of the Issuer	15
18. Employees	16
19. Order of changes of Regulations of the Issuer	18
20. Issuer bodies	18
21. Members of the collegiate bodies, the manager of the company, chief accountant	19
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	21
23. All agreements of the Issuer and members of its bodies or employees which would involve compensation in case of their resignation or firing without grounding or if their work would end due to the changes in Issuers control	21
24. Information about major related party transactions	22
25. Information on the observance of the Governance code of the companies	22
26. Data about publicly declared information	22
27. JSC “Kauno energija” report on the compliance with the Governance Code for the companies listed on the Stock Exchange NASDAQ OMX Vilnius	24

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

JSC "Kauno energija" consolidated annual report is prepared for the year 2008.

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

JSC "Kauno energija" (hereinafter – the Company or Issuer) prepares both the Company's and the consolidated financial accountability. The group (hereinafter – the Group) consists of the Company 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 rd. 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 branch of State enterprise Register Centre
VAT payer code:	LT350148314

On 17 December 2008 the registered authorized capital is LTL 119,510,292 (one hundred nineteen millions five hundred ten thousands two hundred ninety two) and is divided into 19,918,382 (nineteen millions nine hundred eighteen thousand three hundred eighty two) ordinary registered shares of LTL 6 nominal value. 100 thousand units ordinary registered shares on 31 December 2008 are not paid.

### Main data about the daughter company:

Name of the company:	Closed-end company "Pastatų priežiūros paslaugos"
Legal - organizational form:	Closed-end company
Address:	Savanorių ave. 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 branch of State enterprise Register Centre
VAT payer code:	LT100002506015

Authorized capital amounts to LTL 6,518,000 and is divided into 65,180 ordinary registered shares of LTL 100 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. Company is the parent company of the Group. The Company produces and sells heat energy to consumers in Kaunas and Jurbarkas cities and in part of Kaunas 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 in accordance with licenses held.

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

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

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

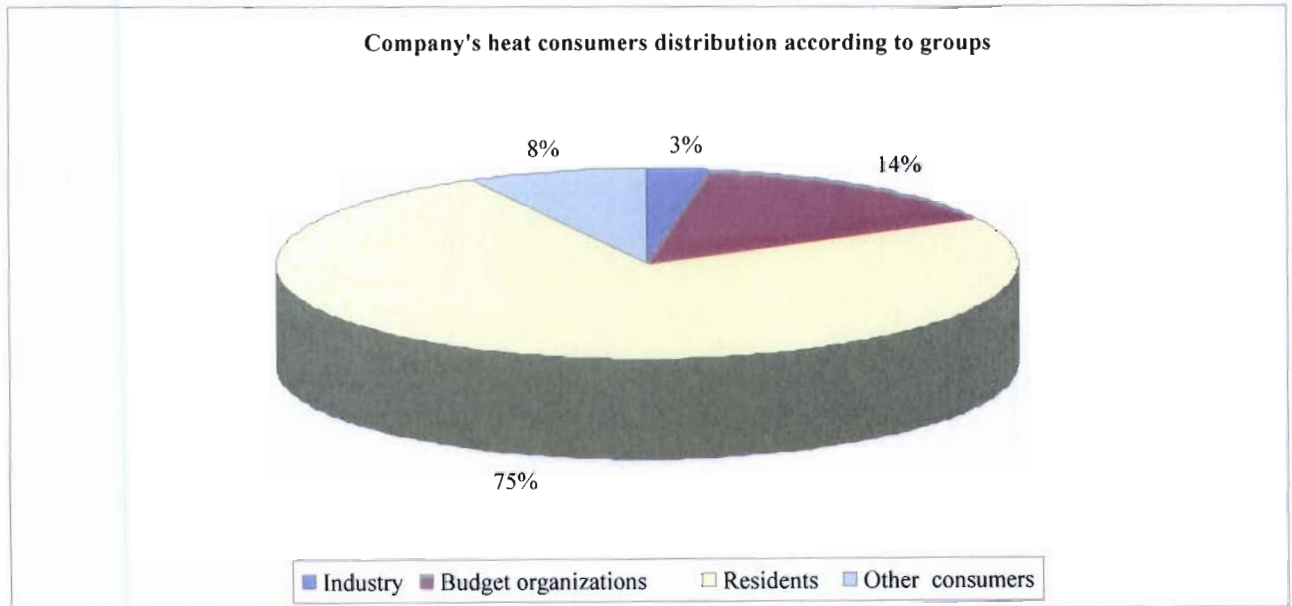
The nominal value of Issuer's 19,718,382 units ordinary registered shares (VP ISIN code LT0000123010) is – LTL 118,310,292. They are included into NASDAQ OMX Vilnius Stock Exchange Baltic secondary trade list.

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

At the end of 2008 the Group covered about 90 % of district heating market in Kaunas city, 95 % in Jurbarkas city and about 15 % of lodging heating and hot water supply systems and heat points equipment supervision market in Kaunas city. To the Company's heat supply integrated and local network were connected 2,333 enterprises, organizations and 115,939 thousand units residents.

Distribution of the Company's heat consumers according to the groups is provided in Picture 1.

Picture 1

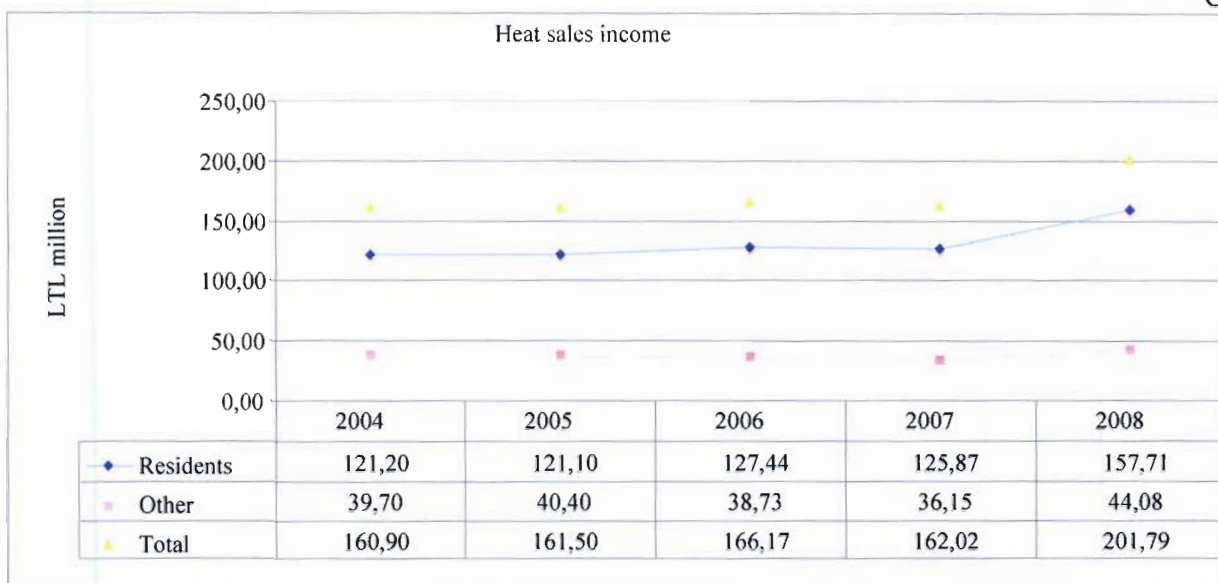


In 2008 the Group incurred LTL 4,235 thousand loss, the Company – LTL 4,343 thousand. The Group's income from the main activity amounted to LTL 205,974 thousand, the Company's – LTL 205,233 thousand. The major part of income was received from the sold heat energy: the Group's – 97.95 %, the Company's – 98.32 %.

In 2008 the Company's income from heat sale reached LTL 201,79 million and compared with 2007 increased, but this was determined by increased price. Data are provided in Chart 1.



Chart 1

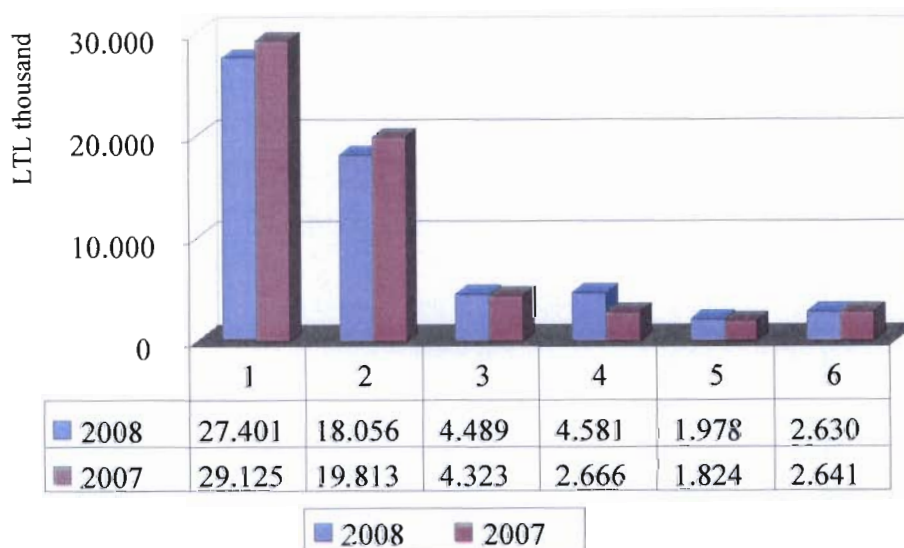


Already today it can be stated that the Group's investments into the newest technologies (the automation of isolated network boiler houses, automated accounting of consumers system, distant data transfer and processing system, modern client servicing system – 'One call' principle), renewal and development 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 buildings in Kaunas region.

In 2008 the Company invested LTL 27,401 thousand (from which LTL 8,592 thousand – funds from other resources – commercial banks), from which LTL 2,627 thousand is allocated to connect 43 new consumers to the centralized heat supply networks, which sum capacity is 11,82 MW. In 2008 from investments funds 1.861 km new heat supply networks were laid and reconstruction and repair of 5.068 km heat supply networks was made. Company's investments are provided in Chart 2.

Investments of the Company in the period 2007–2008

Chart 2



1. Total investments (funds from other financial resources in 2008 – LTL 8,592 thousand, in 2007 – LTL 10,883 thousand);
2. New construction and reconstruction of heat supply networks (funds from other financial resources in 2008 – LTL 6,155 thousand LTL, in 2007 – LTL 9,900 thousand);
3. Liquidation of group heat points (funds from other financial resources in 2008 – LTL 3,964 thousand, in 2007 – LTL 3,994 thousand);
4. Production equipments (funds from other financial resources in 2008 – LTL 1,199 thousand);
5. Subsidiary „Jurbarko šilumos tinklai“ (funds from other financial resources in 2008 – LTL 1,200 thousand, in 2007 – LTL 982 thousand);

6. Connection of new consumers (funds from other financial resources in 2008 – LTL 2,122 thousand, in 2007 – LTL 1,793 thousand).

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

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.* The 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 Company's sales depend on heat energy consumption, which directly depends on heat need, which is determined by average outdoor temperature of heating season, on consumers investments into heat saving and rational consumption and on the speed of heat market development. The dynamics of consumers' connections and disconnections is provided in Table 1.

Table 1

Capacity, MW	2004	2005	2006	2007	2008	2004-2008
Consumers disconnections	7,31	5,09	2,457	1,46	1,94	18,73
Consumers connections	9,41	18,4	22,7	11,58	11,82	73,91

During the connection of new consumers, attention is paid to heat supply development possibilities. The reconstruction of buildings and their insulation reduce buildings heat needs and consumers for the rational heat consumption by controlling lodgings temperature can reduce heat consumption. Now economical situation determined the reduction of residents buying capacity, slowing of commercial and services sector development. Bigger worsening of economical situation would make influence on consumers' solvency and on general heat supply and buildings' supervision services activity results.

Natural gas is main fuel used for generation of energy. Increasing prices of the fuel influence the heat and electricity energy production cost and purchase price of heat energy purchased from the closed-end company Kauno termofikacijos elektrinė (Kaunas Power Plant).

The competition between other gas and electricity supply companies and the Group and the Company is displayed by the disconnections of the consumers from the district heating system (during 2008 – 1.94 MW) and choosing alternative heat sources (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 change of building heating'.

The Group's and the Company's management structure was changed in 2004.

The activity of the Group and the Company is cyclic. During heating season (October – April) the biggest income is rendered; 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 controlling package of the Company's shares and, in accordance with the laws of the Republic of Lithuania, can set certain obligatory works, heat energy supply conditions and orders to the main activity of the Group and the Company. According to the heat energy price



calculation project provided by the Company the base price of the Company's supplied heat energy is determined by the State Prices and Energy Control Commission. The base price can be recalculated twice per calendar year according to the activity efficiency increase index set for particular supplier and to the correction coefficients set by the Commission: inflation, fuel prices changes, change in sold heat and other factors. 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 controls the management of the Company.

*Social factors.* The activity of the Group is significant to many residents and companies of the Kaunas region. The Group gets claims mostly for sum of payment billed for the provided services, low quality of services, 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 automation level in the heat production infrastructure causes greater need of handwork. 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 – 88 %, heavy fuel oil – 0.1 %, peat – 7 %, biogas – 3 %, wood residues – 2 %).

*The repayment of the bank loans:* Detailed information is presented in Company's consolidated and the Company's financial statements for the year 2008, Note 12 in the explanatory notes. 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 2008 the Company did not implement activity program because the changes of the planned activity results for the year 2008 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. Larger costs were conditioned by higher than forecast heat purchase price from independent producer closed-end company Kauno termofikacijos elektrinė.

The comparison of financial rates for the year 2008 with 2007 and 2006 is presented in Table 2.

*Table 2*

No.	Index title	Company's 2006	Group's 2006	Company's 2007	Group's 2007	Company's 2008	Group's 2008
1	Net profitability, % (net profit /sales and services)*100	5.1	3.21	-5.1	-5.03	-2.1	-2.1
2	Return on tangible asset, % (net profit/average value of tangible asset)*100	4.5	2.9	-4.0	-4.1	-2.7	-2.6

3	Debt coefficient (liability /asset)	0.35	0.35	0.41	0.41	0.52	0.53
4	Debt – ownership coefficient (liability/ownership of the owners)	0.54	0.55	0.68	0.70	1.1	1.12
5	General liquidity coefficient (short term asset /short term liability)	1.0*	1.0	0.85	0.85	0.91	0.91
6	The turnover of the asset (sales and services /asset)	0.87	0.89	0.77	0.79	0.84	0.86
7	ETBITA (profit before interest, profit tax, depreciation and amortization) LTL thousand	29,055	25,073	12,055	12,239	16,825	16,987
8	General profitability (general profit/sales and services)*100	0.8	1.1	-6.1	-6.0	-1.1	-1.4
9	Profitability from main activity (activity profit/ sales and services)*100	0.8	1.1	-6.1	-6.0	-1.1	-1.4
10	Ownership change (ROE) percent (net profit/average ownership of owners)*100	6.8	4.4	-6.6	-6.8	-3.7	-3.7
11	Asset change (ROA) percent (net profit/average asset)*100	4.4	2.9	-3.9	-4.0	-1.9	-1.9
12	Urgent payment coefficient ((short term asset- storages)/short term liabilities)	0.8	0.8	0.75	0.75	0.84	0.84
13	Payment in cash index (cash in account and cash/short term liabilities)	0.1	0.09	0.08	0.08	0.04	0.04
14	Net profit per share (net profit/average weighted number of the shares in turnover)	0.47	0.30	-0.43	-0.43	-0.22	-0.21
15	Net profit, LTL thousand	9,360	5,907	-8,621	-8,626	-4,343	-4,235
16	Asset, LTL thousand	211,350	207,154**	219,198	215,227**	244,782	240,520
17	The owners' ownership, LTL thousand	129,633	126,180	119,770	116,312	116,627	113,277
18	The owners' ownership per share, LTL	7.0	6.8	6.6	6.4	5.9	5.7
19	P/E (last market price of year share/(net profit/number of shares at the end of the year) price-earnings ratio	9.06	14.4	-8.01	-8.0	-9.17	-9.41
20	Sales and services, LTL thousand	183,224	183,734	168,003	169,528	205,233	205,974
20.1	Heat energy	166,172	166,172	162,017	162,017	201,793	201,760
20.2	Electric energy	2,005	2,005	2,694	2,694	506	506
20.3	The supervision of building heating and hot water supply systems, heating points equipment	6,893	7,403	3,277	4,802	2,934	3,708
21	Share capital, LTL thousand	118,310	118,310	118,310	118,310	119,510	119,510
22	Relation of share capital and asset	0.56	0.57	0.54	0.55	0.49	0.50

\* decrease was stipulated by the increased financial liability for the current year.

\*\* the asset of the Group is less than that of the Company because of the elimination of LTL 4.5 million asset revaluation for the asset contribution to the subsidiary.

The comparison of non-financial data for the year 2008 with the year 2007 and 2006 is presented in Table 3.



Table 3

No.	Index name	Index characterisation	Company's 2006	Group's 2006	Company's 2007	Group's 2007	Company's 2008	Group's 2008
1.	Produced and purchased energy: from it supplied to network	thousand MWh	1,821.1	1,821.1	1,710.1	1,710.1	1,631.2	1,631.2
1.1.	Heat energy supplied to the network	thousand MWh	1,804	1,804	1,692.3	1,692.3	1,607.1	1,607.1
1.2.	Electricity energy	thousand MWh	17.1	17.1	17.8	17.8	2.3	2.3
2.	Sold energy	thousand MWh	1,438.3	1,437.9	1,340.3	1,340.1	1,280.7	1,280.5
2.1.	Heat energy	thousand MWh	1,423	1,422.6	1,324.4	1,324.2	1,278.4	1,278.2
2.2.	Electricity energy	thousand MWh	15.3	15.3	15.9	15.9	2.3	2.3
3.	Reconstructed heat supply route	m	5,499	5,499	3,793	3,793	5,068	5,068
4.	New laid heat supply route	m	3,275	3,275	2,090	2,090	1,861	1,861

*The influence of the environment on the activity.* The Company's activity result can be influenced by the decrease in sales caused by decrease in heat demand, which is stipulated by the higher heating season average outdoor temperature, changes of fuel prices, heat purchase price from independent producers.

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, in 2008, compared with 2007, increased 0.72 ct (51.4 %) and amounts 2.12 ct. Average price of purchased heat energy in 2008, compared with 2007, increased 1.51 ct (24 %) and amounts to 7.79 ct.

*Information related to environment issues:* JSC "Kauno energija" in the implementation of it's activity seeks to use nature resources economically, to implement environment friendly technologies based on the requirements of legal acts regulating environmental issues and to use prevention mains, by reducing negative impact on the environment.

*Waste management.* In the company was organized in it's activity forming waste gathering, sorting and transfer to the waste managers – to the companies having waste management licences. In the year 2008 to the recycling there were transferred 344 tones of mixed communal waste, 0,114 tones of quicksilver lamps, 0,86 tones of electricity and electronic equipment waste, 13,5 tones of fuel oil and diesel fuel waste, 29,8 tones of scrapmetal, 0,220 tones of lead accumulators, 2,140 tones of used tires.

*Rainfall management.* JSC "Kauno energija" according to the coordinated graphic with Kaunas RAAD constantly observes that from the stationary pollution sources falling rainfall would correspond to the permissible norms, determined in the permissions on pollutant integrated prevention and control.

*Air pollution.* JSC "Kauno energija" stationary environment air pollutant sources metering laboratory, having permission, given by Environment security agency according to the coordinated graphic with Kaunas RAAD constantly observes that from the stationary pollutant sources thrown out pollutants into the atmosphere would correspond to the permissible norms, determined in the permissions on pollutant integrated prevention and control. In the Ežerėlis, Girioniai and Noreikiškės boiler houses biofuel is burned, so reducing pollution of the atmosphere. In the table, provided below, is the comparison of the amount of the JSC "Kauno energija" stationary environment air pollution sources into the atmosphere air thrown out pollutant of the year 2008 with the year 2007.

Name of contaminant	Solid parts	Nitrogen oxides	Coal monoxide	Surplur dioxide	Hydrocarbon	Vanadium pentoxide	Other contaminants
Thrown out in the year 2008, t	12,959	67,094	209,778	12,404	27,607	0,007	0,440
Thrown out in the year 2007, t	12,314	75,937	218,854	22,692	28,335	0,053	0,440

For the smoke cleaning from solid parts in Ežerėlis and Girioniai boiler houses there are installed cyclones, their work efficiency is controlled annually. Company participates in the trade system of greenhouse effect rising gas emissions, into this system falls Petrašiūnai power plant, „Pergalė“ boiler house, „Šilko“ boiler house, Garliavos boiler house, Noreikiškės boiler house with cogeneration power plant, subsidiary „Jurbarko šilumos tinklai“.

*Information related to personnel issues:* 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 for the qualified specialists can be identified.

## **8. References and additional explanations on the data presented in the annual financial report and main features on companies group internal control and risk management systems, related to the consolidated financial reports composition**

All main financial data is presented in the collection of financial statements for the year 2008 and its explanatory notes.

*Internal control of consolidated reports.* Composing consolidated financial reports, company units it's and daughter company's financial reports rows consequently adding asset, liabilities, ownership, incomes and costs articles. Further eliminates: company's investments into daughter company's balance value and company's ownership part in daughter company, remains of group's internal balance, transactions, incomes and costs. For this aim evolvent of all transactions, incomes and costs coordinated among them for the period is being prepared, depreciation difference of property input, which is evaluated based on market value, comparing with it's balance value.

For the composition of consolidated group's reports, company's and daughter company's reports are composed the same day. It is being controlled if company's and it's daughter company's finance politics is the same for the similar transactions.

Daughter company's incomes and costs are included into consolidated reports from the acquisition day.

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

Since 2006, the audit of the Company is prepared by the independent audit company. In the general shareholders meeting on 28 April, 2006 closed-end company "Ernst & Young Baltic" (audit company certificate No. 0001335, Subačiaus str. 7, LT – 01008 Vilnius) has been chosen for the preparation of the audit of financial activity audit of the Company for the period of 2006–2008.

Audit was completed on 3 March, 2009. It was carried out by the auditor Jonas Akelis (auditor's licence No 000003). Audited financial statements for the year 2008 and independent auditor's report are presented together with this annual report of the Company.

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

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

In the future the Group in its activity plans to increase the efficiency of activity and to improve consumer service. According to the conclusions of the work "JSC "Kauno energija" technical-economical state



evaluation”, prepared by closed-end company “Energetikos linijos” and recommendations provided by closed-end company „Savvin“ in work „JSC „Kauno energija“ financial state and structure evaluation and further development recommendations“, prepared in 2008 for the development of Company’s activity in 2009 it is foreseen to optimize and to make the Company’s activity more efficient by changing its management structure. In addition, the Group plans to implement supervision of buildings heating and hot water supply systems, heat points supervision and exploitation of underground collectors.

Investments create a strong potential for the business development and profitability. The aim of the Group’s investment programme for the year 2009 is to further develop the Company’s heat production, transmission and supply through increase of heat supply reliability, development engineering systems supervision services and improvement of services quality.

In 2009 for investments it is planned to allot LTL 46.446 million (the Company plans to invest LTL 17.056 million from its own funds and LTL 29.39 million it plans to borrow from commercial banks or to receive grant from EU structural funds). The largest investments in 2009 are planned to allot to the reconstruction and repair of the heat supply networks, laying of new networks, closing of the group heating substations. For the receiving of grants from structural funds, these projects are prepared: (i) The renewal of Kaunas city heat supply networks by implementation of modern technologies (Reconstruction of heat supply networks V. Krėvės ave. 82 A...118 H, Kaunas) unique No. 1997-2035-2018. Total investments sum LTL 15.46 million (excluding VAT), foreseen EU grant of LTL 6 million; (ii) The development of centralized heat supply by building new heat track (heat supply networks from A. Juozapavičiaus ave. 23A up to A. Juozapavičiaus ave. 90). Total investments amount to LTL 6.54 million (excluding VAT), foreseen EU grant of LTL 3.140 million; (iii) „Kaunas city main heat supply networks 6T (unique No.1998-4014-3019) in Kuršių str. 49C, Jonavos str. between NA-7 and NA-9 and networks over bridge through Neris in auto-highway Vilnius – Klaipėda above Kaunas, complex reconstruction for the increase of reliability by implementing modern technologies“. Total investments amount to LTL 5.08 million (excluding VAT), foreseen EU grant of LTL 2.384 million; (iv) Reconstruction of Kaunas city integrated network Centre main (4T). Project value amounts to LTL 14.18 million (excluding VAT), foreseen EU grant of LTL 6 million; (v) Reconstruction of Kaunas city integrated network Žaliakalnis main (4Ž). Project value amounts to LTL 9.92 million (excluding VAT), foreseen EU grant of LTL 4.8 million.

In addition, it is foreseen to develop project „Distant data gathering equipment implementation works for the current and new consumers“, in 2009 by implementing investment plans it is foreseen to finish heat metering equipment and pressure sensing elements distant data gathering systems installing and implementation, which was carried out in 2008 and further to develop these systems by installing in heat points and also to implement the modernization of boilers, condensate economizer installation in the Company’s subsidiary „Jurbarko šilumos tinklai“, the changing of heat metering equipments and other important works.

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 2009 are presented in Table 4.

Table 4

Index title	Company's thousand LTL	Daughter company's thousand LTL	Group's thousand LTL
Total profit (loss)	13,358	-605	12,753
Sales income	312,608	2,260	312,903
Cost	299,250	2,865	300,150
Other activity result	315	120	435
Income	1,251	120	1,347
Cost	936	0	912
Financial investment activity result	-2,786	-8	-2,794
Income	1,200	0	1,200
Cost	3,986	8	3,994
<b>Total profit (loss)</b>	<b>10,887</b>	<b>-493</b>	<b>10,394</b>



## **11. Information on the companies group research and development activity**

In 2007 the Company signed an 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, also there emerges the opportunity in Kaunas city to use alternative fuel (communal waste) and to implement the conversion of used fuel. In March 2008 additional report of the research work "Communal waste burning possibilities project's documentation preparation" was prepared.

Also by the order of the Company Lithuanian energy institute has finished scientific work "JSC "Kauno energija" heat supply system development strategy for the period 2007–2020". According to the technical tasks prepared by the Company it was evaluated technical, economical and financial state of the Company. Mentioned state evaluations are presented in work "Evaluation of JSC "Kauno energija" technical-economical state" prepared by closed-end company "Energetikos linijos" and work "JSC "Kauno energija" financial state and structure evaluation and recommendations for further development" prepared by closed-end company "SAVVIN".

## **12. Information on Issuer acquired and own shares**

*(number and nominal value of the patronized company shares, belonging to the company, its subsidiaries or by their assignment, but by their name acting persons)*

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

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

All the information on this issue is presented in Notes 2.7, 2.8, 22, 25 of the explanatory notes to the financial statements.

## **14. Information on Issuer subsidiary and secondary enterprises**

By the decision of the Company's management the subsidiary of the Company "Jurbarko šilumos tinklai" was established and registered on 9 September 1997, address V. Kudirkos str. 11, 4430 Jurbarkas. In the branch of the Company heat energy is produced and sold to 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. The Company avoided the need to burn heavy fuel oil with high content of sulphur at the same time avoiding excess of permitted pollution of the atmosphere. In 2008 the construction of new boiler, burned by gas, was completed in the subsidiary of the Company "Jurbarko šilumos tinklai".

At the end of 2008 there were 39 employees working in the Company's subsidiary "Jurbarko šilumos tinklai".

On 1 July, 2006 daughter company of the Company closed-end company "Pastatų priežiūros paslaugos" was established. Address of the daughter company is Savanorių ave. 347, 49423 Kaunas - 43, company code 300580563. Its share capital amounts to LTL 6,518,000 and is divided into 65,180 ordinary registered shares of LTL 100 par value each. Company owns 65,180 units of closed-end company "Pastatų priežiūros paslaugos" ordinary registered shares.

Daughter company of JSC "Kauno energija" closed-end company "Pastatų priežiūros paslaugos" has no directly or indirectly managed shares packages in other companies.

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.

At the end of the year 2008 there were 56 employees working in the daughter company of the Company.

### 15. The share capital structure of the Issuer

In the Enterprises register of the Republic of Lithuania the registered share capital of the Company is LTL 119,510,292.

The share capital structure of the Company according to the type of shares is presented in Table 5.

Table 5

Type of shares	Number of shares, units	Par value, LTL	Total nominal value, LTL	Municipalities portion in the share capital, %	Private shareholders portion in the share capital, %
Ordinary registered shares	19,918,382	6	119,510,292	96.42	3.58
Total	19,918,382*	-	119.510.292	96.42	3.58

\* 100 thousand units of ordinary shares were not paid for as of 31 December, 2008.

### 16. Data on issues of the shares of the Issuer

On 17 December 2008 the registered authorized capital is LTL 119,510,292 (one hundred nineteen millions five hundred ten thousands two hundred ninety two) and is divided into 19,918,382 (nineteen millions nine hundred eighteen thousand three hundred eighty two) ordinary registered shares of LTL 6 nominal value. 100 thousand units of ordinary registered shares are not paid for as of 31 December, 2008.

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	19,718,382 ORS
Nominal value	LTL 6
Total nominal value of shares	LTL 118,310,292

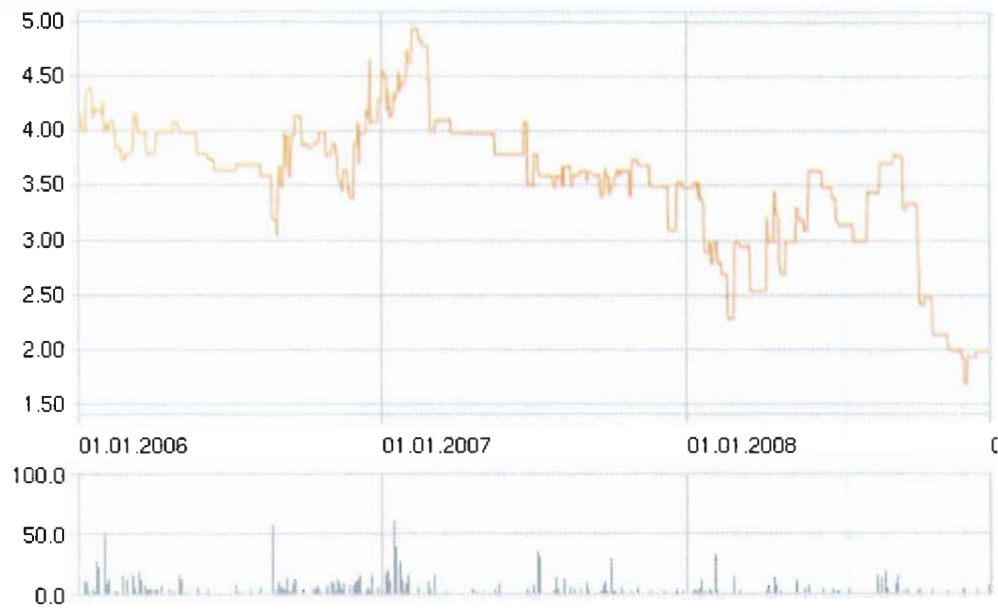
The Company's security trading history is presented in Table 6.

Table 6

PRICE	2005	2006	2007	2008	2009
Open	1.96	4.18	4.58	3.50	2.00
High	6.30	4.67	4.95	3.80	2.00
Low	2.01	3.05	3.10	1.70	1.41
Last	4.18	4.30	3.50	2.00	1.41
Traded, units	870,151	183,008	138,163	82,775	8,203
Turnover, million	4.19	0.70	0.55	0.26	0.01
Capitalisation, million	79.29	81.56	66.39	37.94	27.80

Share prices and turnover history is presented in Chart 2.

Chart 2





Comparison of JSC “Kauno energija” share price with it’s section rate and OMX Vilnius index

Chart 3

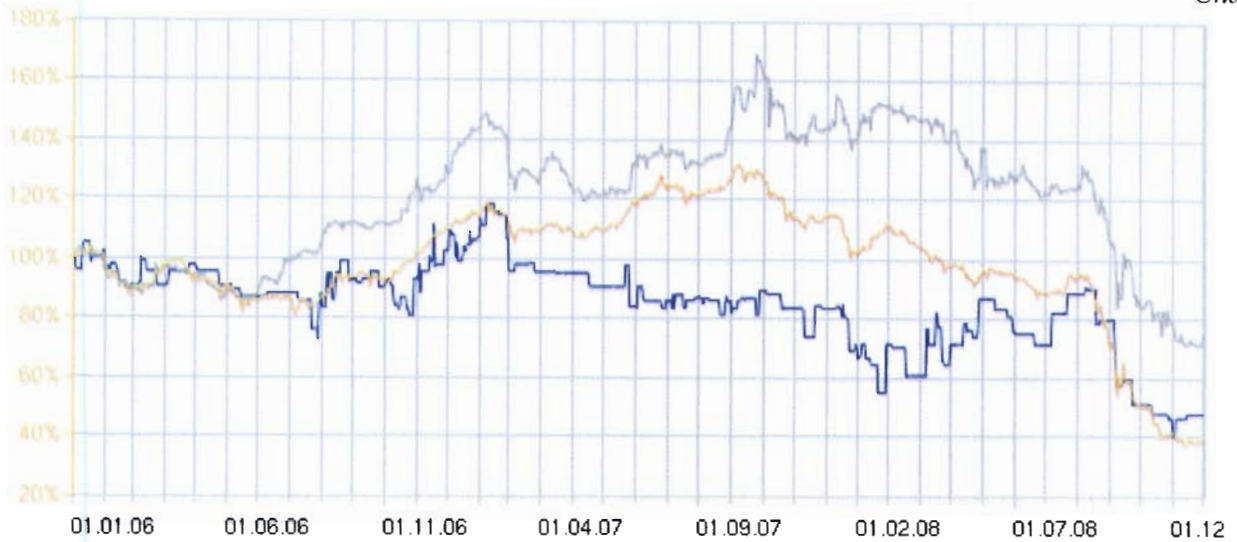


Chart 3 data:

Index/Equity	01.01.2006	01.01.2009	+/-%	
—OMX Vilnius	448.76	179.25	-60.06	↓.
—OMX Baltic Utilities GI	786.12	589.90	-24.96	↓.
—KNR1L	4.18 LTL	2.00 LTL	-52.15	↓.

### 17. Information about the shareholders of the Issuer

As of 31 December, 2008 total number of Company’s shareholders is 353 shareholders.

Shareholders of the Issuer, who owned more than 5 % of authorized Company’s capital (19,918,382 ORS), registered on 17 December, 2008, as of 31 December, 2008 are presented in Table 7.

Table 7

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, %
<b>Kaunas city municipality</b> Laisvės Ave. 96, 44251 Kaunas Company code 111106319	16,954,892	85.12	85.12	-
<b>Kaunas district municipality</b> Savanorių Ave. 371, 49500 Kaunas Company code 111100622	1,606,168	8.07	8.07	-
<b>Other shareholders</b>	713,512	3.58	3.58	-
<b>Jurbarkas district municipality</b> Dariaus ir Girėno Str. 96, 74187 Jurbarkas Company code 111106276	643,810	3.23	3.23	-
<b>Total</b>	19,918,382	100	100	

17.1. Shareholders who on 31 December 2008 owned more than 5 % of shares of the Company (18,968,382 ORS) released into public circulation of securities (registration No. A01031430) are presented in Table 8.

No shareholders of the Issuer have any special control rights. Rights of all shareholders are equal, which are determined in 4 clause of Law on joint stock companies of the Republic of Lithuania. Number of shares, which grant votes during general meeting of shareholders of the Company, is 19,918,382 units.

The Company is not informed about voting rights limitation and about any shareholders mutual agreements for which could be limited the transfer of securities and (or) voting rights.

Since the establishment of the Issuer there were no dividends allotted to pay.

Table 8

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 (%)
<b>Kaunas city municipality</b> Laisvės ave. 96, 44251 Kaunas Company code 111106319	Ordinary registered shares	16 954 892	101 729 352	85,98	85,12
<b>Kaunas district municipality</b> Savanorių ave. 371, 49500 Kaunas Company code 111100622	Ordinary registered shares	1 606 168	9 637 008	8,15	8,07
<b>Other shareholders</b>	Ordinary registered shares	713 512	4 281 072	3,62	3,58
<b>Jurbarkas district municipality</b> Dariaus ir Girėno str. 96, 74187 Jurbarkas Company code 111106276	Ordinary registered shares	443 810	2 662 860	2,25	3,23
		<b>19 718 382</b>	<b>118 310 292</b>	<b>100</b>	<b>100</b>

\* Number of shares of the Company released to public circulation and part of share capital in percent differs from the number of shares of the Issuer registered in the Enterprises Register centre and from the part of shares, issued to public circulation, because on 17 December, 2008 100 thousand units of ordinary shares of the Company's from 200 thousand units registered ordinary shares are not paid.

## 18. Employees

According to the data as of 31 December, 2008, there were 654 employees in the Group. The change of the employees' number in 2008 is presented in Table 9.

Table 9

Listed number of employees	Company's 31-12-2006	Group's 31-12-2006	Company's 31-12-2007	Group's 31-12-2007	Company's 31-12-2008	Group's 31-12-2008
Total	630	735	615	705	598	654
Here: managers	4	10	4	9	4	6
specialists	284	308	294	319	295	314
workers	342	417	317	377	299	334



The education of employees of the Company at the end of the period

Table 10

No.	Educational level	Company's 31-12-2006	Group's 31-12-2006	Company's 31-12-2007	Group's 31-12-2007	Company's 31-12-2008	Group's 31-12-2008
1.	Not finished secondary	27	41	24	30	23	27
2.	Secondary	273	321	253	290	241	270
3.	College	117	132	114	135	105	110
4.	Higher	213	241	224	250	229	247
	Total	630	735	615	705	598	654

Average conditional number of employees and average monthly salary  
(including taxes at the end of 2008)

Table 11

No.	Employees	Company	Group
1.1.	Average conditional number of managers	4	8
1.2.	Average monthly salary of managers	9,461.9	6,741.8
2.1.	Average conditional number of specialists	280	303
2.2.	Average monthly salary of specialists	2,731.9	2,691.5
3.1.	Average conditional number of workers	292	338
3.2.	Average monthly salary of workers	1,964.1	1,937.8

Salary of Issuer employees consists of constant salary part, variable salary part, extra pay and bonuses paid according to Work code of the Republic of Lithuania and other laws. Bonuses are paid from net profit if the general shareholders meeting allots profit part to pay bonuses to the Company's employees. Until 2009 the general shareholders meeting has not allotted profit part to pay bonuses to the Issuer employees.

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

According to collective agreement currently effective 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 Company 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, son 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's 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 LTL 2,000 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's 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 the Company foresee that general meeting of shareholders of the Company has 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 the Company, 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 its members. The General Meeting of Shareholders can recall all Supervisory Board or its 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 its Management Bodies activity supervision issues. Supervisory Board has no right to charge or transfer its 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 its 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 its 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 authority 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 who's term of office begins on 30-07-2007 ends on 30-04-2011*

*Jonas Koryzna.* Doctor of Technical sciences. Member of Kaunas city Municipality Council. Member of City Committees of Economy and Energy, Chairman of Privatization Commission. Chairman of the Company's Supervisory Board. Vice-president of Kaunas Hall of Commerce, Industry and Craft, member of Kaunas Rotary club. Has no shares of the Company. Has shares of FMI "Kapitalo srutai" 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" (Regional projects management centre). 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". Responsible secretary of Lithuanian Movement "Černobilis". Has no shares of the Company. Has no shares of the Company. Has shares of closed-end companies "Siroma", "Neogena", "Nida".

*Rimas Antanas Ručys.* Member of Kaunas city Municipality Council, member of colleague. Deputy Chairman of Committee of City Economy and Energy. Director of closed-end company "Ručenta". Has no shares of the Company. Has shares of closed-end company "Ručenta", joint stock company "Stumbras" and joint stock company "Biofuture".

*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 at 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. Chief-engineer 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 the reporting period 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**

*Data about the members of the management board :*

*Vytautas Mikaila.* Doctor of Technical sciences. Director of closed-end company “MVE group”. From 16 December, 2008 Chairman of the Company’s management board. From 02-02-2009 Consultant of General Manager on Strategy at Company. Has no shares of the Company. Has 55 % of closed-end company “MVE group” shares.

During the reporting period the member of the Management board did not receive any payments (salary, bonuses) or guaranties, no property transfers were made or occurred.

The beginning of the term of Office 03-12-2008, end 30-04-2011.

*Ramūnas Gatautis.* Doctor of Technical sciences, Lithuanian Energy Institute, Laboratory of Energetics complex research. 01-08-2008 – 30-01-2009 - Consultant of General Manager on Strategy at Company. From 02-02-2009 –Deputy of Administration Director, Kaunas city municipality. Chairman of the Management Board at Company till 15-12-2008. Member of International energy economists association. Has no shares of the Company. Does not participate in the capital of other companies.

During the reporting period for the member of Management board there was counted payment (salary) amounting to LTL 40 thousand, no bonuses or guarantees granted, no property transfers were made or occurred.

The beginning of term of office 27-11-2007, end 30-04-2011.

*Algirdas Vaitiekūnas.* Head of Energy Sector Department, City Economy Department, Kaunas city municipality. Deputy Chairman of the Management Board of Company. Has no shares of the Company. Does not participate in the capital of other companies.

During the reporting period the member of the Management board did not receive any payments (salary, bonuses) or guaranties, no property transfers were made or occurred.

The beginning of term of office 30-04-2004, 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.

During the reporting period the member of the Management board did not receive any payments (salary, bonuses) or guaranties, no property transfers were made or occurred.

The beginning of term of office 27-11-2007, end 27-01-2009.

*Vykintas Šuksteris.* Doctor of Technical sciences. Director of closed-end company AF-terma. Member of International energy economists association, member of Lithuanian Thermotechnical Engineers Society, President of Lithuanian Association of Energy Consultants. Has no shares of the Company. Does not participate in the capital of other companies.

During the reporting period the member of the Management board did not receive any payments (salary, bonuses) or guaranties, no property transfers were made or occurred.

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.

During the reporting period the member of the Management board did not receive any payments (salary, bonuses) or guaranties, no property transfers were made or occurred.

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.

During the reporting period the member of the Management board did not receive any payments (salary, bonuses) or guaranties, no property transfers were made or occurred.

The beginning of term of office 27-11-2007, end 30-04-2011.

*Kęstutis Jonaitis*. Lawyer, Office of Lawyer N. Katilius. Has 1,100 units of shares of closed-end company “Technobilis”, which make 54.03 % of authorized capital. Has no shares of the Company.

During the reporting period the member of the Management board did not receive any payments (salary, bonuses) or guaranties, no property transfers were made or occurred.

The beginning of term of office 27-11-2007, end 01-12-2008.

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

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

*Aleksandras Sigitas Matelionis*. General Manager of the Company during the period 27-07-2004 - 18-11-2008. Education – higher, 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), Company’s subsidiary Kaunas district network Deputy of Director for heat supply (05-08-1997), Company’s 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 the Company since 27-07-2000, chief accountant since 16-01-2003. Education – higher, Vilnius University, 1984, work economy, profession – economist. Working places during 10 years and positions held: Chief Accountant of the Company’s subsidiary “Kauno energijos paslaugos” (22-06-1998), Company’s Deputy Chief Accountant (10-01-2000). Closed end company “Itvizija” chief accountant (1998 till 2004-04), closed-end company “Energijos realizacijos centras” chief accountant (01-2003 till 06-2004). Has 2,641 units of the Company’s shares, which make less than 5 % of the authorized capital. Does not participate in the capital of other companies.

During 2008 total remuneration for the *General Manager and Chief Accountant* amounted to LTL 355,9 thousand, average per person – LTL 177,9 thousand; 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 resignation or firing without grounding or if their work would end due to the changes in Issuers control**

None.

## 24. Information about major related party transactions

There have been no distinct major transactions. Detailed information is presented in Note 20 of explanatory notes to the financial statements.

## 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 below 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 the internet website of the Issuer. All information can be received through Vilnius Stock Exchange internet website (<http://www.baltic.omxgroup.com/?id=3304>) and internet site of the Issuer (<http://www.kel.lt/?id=348>).

Information declared during 2008:

- 29-01-2008 Preliminary results of JSC “Kauno energija” activity for the year 2007;
- 07-03-2008 JSC “Kauno energija” general shareholders meeting;
- 20-03-2008 Annual report, financial statements and draft resolutions of the ordinary general meeting to be held on 28 April 2008 ;
- 28-03-2008 The change of JSC “Kauno energija” general shareholders meeting agenda;
- 16-04-2008 The modification in agenda of JSC “Kauno energija” general shareholders meeting;
- 29-04-2008 The Decisions of the general shareholders meeting;
- 29-04-2008 I quarter activity results of the year 2008 and intermediate Financial statements for the I quarter;
- 23-05-2008 Concerning basic prices of district heating;
- 23-05-2008 Convention of JSC “Kauno energija” uncommon shareholders meeting and decisions projects;
- 28-06-2008 The Decisions of the uncommon shareholders meeting of the JSC “Kauno energija”;  
In the uncommon general shareholders meeting of JSC “Kauno energija” on 26 June 2008 the following decisions were taken:
  1. Agenda question – Concerning the increase of JSC “Kauno energija” share capital by additional monetary contributions. To increase the share capital of joint stock company “Kauno energija” up to LTL 1,200,000 (from LTL 118,310,292 up to LTL 119,510,292) by additional monetary contribution made by Jurbarkas district municipality (code 111106276, Darius and Girėnas str. 96, 74187 Jurbarkas), paying by it 200,000 (two hundred thousand) units issued ordinary named LTL 6 par value shares of the Company, which emission price is equal to the shares nominal value.
  2. Agenda question – Concerning the cancellation of priority right for all shareholders to acquire newly issued shares of JSC “Kauno energija”. To cancel the priority right for all shareholders to acquire newly issued 200,000 (two hundred thousand) units ordinary named LTL 6 (six) nominal value shares of the JSC “Kauno energija”, aiming to increase the investments of JSC “Kauno energija” branch „Jurbarko šilumos tinklai“, by giving the right to acquire these shares for the budget institution Jurbarkas district municipality, code 111106276, Darius and Girėnas Str. 96, 74187 Jurbarkas.
  3. Agenda question – Concerning the change of JSC “Kauno energija” regulations and the authorization to sign them. To change the regulations of the JSC “Kauno energija” and to authorize general director A. S. Matelionis of the JSC “Kauno energija” to sign the changed text of JSC “Kauno energija” regulations.
- 29-07-2008 intermediate information on JSC “Kauno energija” activity 6 months, 2008 and information on district heating prices: The validation of JSC “Kauno energija” centralized supplied heat price, determined by the Council of Kaunas city municipality on 19 July 2007 decision No. T-398, is expanded till the coming into force day of JSC “Kauno energija” new heat base price, coordinated at State prices and energy control commission.
- 27-10-2008 9 months activity results of the year 2008.
- 30-10-2008 information on JSC “Kauno energija” supplied heat price determination and application: JSC “Kauno energija” management board following the decision No. 03-164 on 30 October 2008 of State prices and energy control commission and protocol decision determined heat prices without value added tax:

1. monomial heat price for the used heat amount, when heat is supplied from individual heat points belonging to residents (heat consumers) – 24.29 ct/kWh,
  2. monomial heat price for the used heat amount, when heat is supplied from the group or individual heat points belonging to supplier – 25.46 ct/kWh.  
These prices are applied starting from 1 December 2008.
- 17-11-2008 information on the resignation of the management board member Kęstutis Jonaitis, lawyer, Lawyer N. Katilius office. On 14 November, 2008 Kęstutis Jonaitis provided the statement “For the resignation from the members of JSC “Kauno energija” Management board”: Kęstutis Jonaitis resigns from the members of the Management board from 1 December 2008.
  - 18-11-2008 information on Company’s general manager: Management board of JSC “Kauno energija” decided to recall Aleksandras Sigitas Matelionis from position of general director on 21<sup>st</sup> November, 2008 and elected Rimantas Bakas, doctor of Technical sciences, as general manager of JSC “Kauno energija” from 24 November 2008.
  - 05-12-2008 information on the election of management body and planned activity results: JSC “Kauno energija” Supervisory board elected Vytautas Mikaila as member of JSC “Kauno energija” management board. For the factual difference in fuel and purchased heat prices the planned activity result of the year 2008 is LTL 3,719 thousand loss.
  - 18-12-2008 information on the registration of the new JSC “Kauno energija” bylaws and of the chairman of the Management board. Register of Legal Persons of the Republic of Lithuania has registered new wording of JSC “Kauno energija” bylaws, confirmed on 26 June 2008 by the shareholders meeting. On 15 December 2008 JSC “Kauno energija” management board from its members elected Vytautas Mikaila as new chairman of the Management board.
  - 13-01-2009 Information on the resignation of the Management board member Mantas Raila, Director of closed-end company RP Reklama, on 13 January 2009, presented the request to the Company on the resignation from the members of Management board: Mantas Raila resigns from the members of the Management board from 27 January 2009.
  - 30-01-2009 Preliminary result of JSC “Kauno energija” activity of the year 2008.

General Manager of JSC “Kauno energija”



Rimantas Bakas



**JSC "Kauno energija" report on the compliance with the Governance Code for the companies listed on the Stock Exchange NASDAQ OMX Vilnius**

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 Stock Exchange NASDAQ OMX, Vilnius, for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES / RECOMMENDATIONS	YES/ NO /NOT APP LI- CAB LE	COMMENT
<b>Principle I: Basic Provisions</b> <b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
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	Company prepares and revises the strategy of production annually. 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. The 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. The 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	
<b>Principle II: The corporate governance framework</b> <b>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.</b>		
Bodies of the Company are the general shareholders meeting, Supervisory board, the Management board and the Manager.	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 bodies' 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	In the Company elected supervisory board is set up and is acting partly based on the manner defined in the Principles III and IV.
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,	Yes	The Supervisory board of the Company is elected for the 4 (four) years and according
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.		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 depart 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.
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b>  <b>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.</b></p>		

<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>The Company publishes only the information, which is provided by the members of the collegial body and which is presented in the annual report (data on the participation in the issuers share 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 % other companies capital and votes, in %).</p>
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>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, because there is no such need.</p>
<p>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.</p>	<p>No</p>	<p>The Company does not influence the composition of the collegial body because the candidatures to the members of the Company's collegial</p>



		body are offered by the main shareholder. For this reason we did not follow the recommendations.
<p>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:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li> <li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</li> <li>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group;</li> <li>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</li> <li>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory</li> </ol>	No	The Company does not follow this recommendation because the majority of the Supervisory board members (six members) represent the controlling shareholder having 85.12 % of votes.

<p>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;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>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.</p>		
<p>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.</p>	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.
<p>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.</p>	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.
<p>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.</p>	Not applicable	The members of the Supervisory board are not remunerated from the Company's funds.
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b>  <b>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.</b></p>		

<p>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.</p>	<p>Yes</p>	<p>The Supervisory board elected in the Company presents 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 its management bodies activity supervision functions allotted to the Supervisory board competence.</p>
<p>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).</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>Yes</p>	



<p>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.</p>		
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>There was no committee's formation practice at the Company because there was no need of it at the Company. Till now there were no any committees in the Company, but till the general shareholders meeting of the year 2009 it is planned to compose audit committee.</p>
<p>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</p>	<p>No</p>	<p>There was no formation of the committees from the members of the Supervisory board.</p>

<p>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.</p>		
<p>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.</p>	No	The Company does not follow this recommendation because there was no committee formation practice at the Company. In the future Company plans to follow this recommendation.
<p>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.</p>	No	The Company does not follow this recommendation because there was no committee formation practice at the Company. In the future Company plans to follow this recommendation.
<p>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.</p>	No	The Company does not follow this recommendation because there was no committee formation practice at the Company.
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) 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</p>	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.



<p>collegial body delegated by the shareholders of the company;                  2) 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;                  3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;                  4) Properly consider issues related to succession planning;                  5) 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.</p>		
<p>4.13. Remuneration Committee.                  4.13.1. Key functions of the remuneration committee should be the following:                  1) 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;                  2) 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;                  3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;                  • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);                  4) 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</p>	<p>Not applicable</p>	<p>There is no formation of the committee which would be obligated to carry out functions allotted to carry out for the Remuneration committee, because for the determination of Company's managers, their deputies and chief accountant salaries it is used order schedule of work payment for managers, their deputies and chief accountants of the municipality companies and companies (joint stock and closed-end), controlled by municipality, confirmed by Kaunas city municipality.</p>



<p>incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> <li>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>3) 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.</li> </ol> <p>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.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> <li>1) 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);</li> <li>2) 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;</li> <li>3) 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;</li> <li>4) 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;</li> <li>5) 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 <i>inter alia</i> data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and</li> </ol>	<p>No</p>	<p>There is no formation of the committee which would be obligated to carry out functions allotted to carry out for the Audit committee, but in 2009 it is planned to compose Audit committee from 3 members, which term of the office would correspond to the term of office of the Supervisory board.</p>

<p>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;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit 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.</p> <p>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.</p> <p>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.</p>		
---	--	--

<p>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.</p>	<p>No</p>	<p>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.</p>
---	-----------	--

**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.**

<p>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.</p>	<p>Yes</p>	<p>The Company's Supervisory board and the Management board realize this recommendation.</p>
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>Yes</p>	<p>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.</p>



<p>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.</p>	<p>Yes</p>	
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>  <b>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.</b></p>		
<p>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.</p>	<p>Yes</p>	<p>The ordinary registered shares which make the authorized capital of the Company for all shares owners give equal rights.</p>
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>Yes</p>	
<p>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</p>	<p>Yes</p>	<p>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 Stock Exchange NASDAQ OMX, Vilnius, used information dissemination system, as foreseen in the law on the Joint stock companies.</p>

<p>company or the company's commercial secrets are not revealed.</p>		
<p>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.</p>	<p>Yes</p>	<p>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 holds 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.</p>
<p>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.</p>	<p>Not applicable</p>	<p>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.</p>
<p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b>  <b>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.</b></p>		
<p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his 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.</p>	<p>Yes</p>	
<p>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 personal assets or use them or the information which he/she learns by virtue of his 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.</p>	<p>Yes</p>	
<p>7.3. Any member of the company's supervisory and management body may conclude a transaction with the</p>	<p>Yes</p>	

<p>company, a member of which corporate body 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.</p>		
<p>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.</p>	<p>Yes</p>	
<p><b>Principle VIII: Company's remuneration policy</b>  <b>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.</b></p>		
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>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.</p>



**AB KAUNO ENERGIJA**

**CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2008**

(all amounts are in LTL thousand unless otherwise stated)

<p>8.3. Remuneration statement should leastwise include the following information:  1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;  2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;  3) Sufficient information on the linkage between the remuneration and performance;  4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;  5) A description of the main characteristics of supplementary pension or early retirement schemes for directors.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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:  1) 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;  2) The remuneration and advantages received from any undertaking belonging to the same group;  3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments</p>	<p>No</p>	<p>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).</p>

and/or profit sharing were granted;

4) 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;

5) 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;

6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.

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:

1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;

2) 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;

3) 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;

4) 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:

1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;

2) 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.

<p>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.</p>	<p>No</p>	<p>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.</p>
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:                      1) Grant of share-based schemes, including share options, to directors;                      2) Determination of maximum number of shares and main conditions of share granting;                      3) The term within which options can be exercised;                      4) The conditions for any subsequent change in the exercise of the options, if permissible by law;                      5) 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.</p>		
<p>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.</p>		
<p>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.</p>		
<p>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</p>		



<p>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.</p>		
---	--	--

**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.**

<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>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.</p>
<p>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.</p>		
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>		

**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.**

<p>10.1. The company should disclose information on:          1) The financial and operating results of the company;          2) Company objectives;          3) Persons holding by the right of ownership or in control of a block of shares in the company;          4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;          5) Material foreseeable risk factors;          6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;          7) Material issues regarding employees and other stakeholders;          8) 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.</p> <p>10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when</p>	<p>Yes</p>	<p>Information, provided in this recommendation, Company announces through the Stock Exchange NASDAQ OMX, Vilnius, used information dissemination system and places on the Company's website, daily newsletter "Kauno diena", specialized zone of Baltic News Service (BNS).</p>
--	------------	--

<p>information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>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.</p>		
<p>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.</p>		
<p>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.</p>	<p>Yes</p>	<p>The Company information through the Stock Exchange NASDAQ OMX, Vilnius, 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.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company disseminates information by placing it on the Company's website in Lithuanian language.</p>

<p>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.</p>	<p>Yes</p>	<p>All the information provided in this recommendation is placed on the Company's website, except the information on the changes in the price of the Company's shares on the Stock Exchange because this information is publicly placed on the Stock Exchange NASDAQ OMX, Vilnius, website and it can be reached by all the interested persons.</p>
<p><b>Principle XI: The selection of the company's auditor</b>  <b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b></p>		
<p>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.</p>	<p>Yes</p>	
<p>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.</p>	<p>No</p>	<p>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.</p>
<p>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.</p>	<p>Not applicable</p>	<p>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.</p>