

AB "KAUNO ENERGIJA"

SET OF CONSOLIDATED AND PARENT
COMPANY'S FINANCIAL STATEMENTS FOR
THE YEAR, ENDED 31 DECEMBER 2010,
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING
STANDARDS, AS ADOPTED BY THE
EUROPEAN UNION, PRESENTED TOGETHER
WITH CONSOLIDATED ANNUAL REPORT

Translation note

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

	Page
INDEPENDENT AUDITOR'S REPORT.....	3 - 4
SET OF CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS.....	5 - 51
Balance Sheets.....	5 - 6
Statements of Comprehensive Income.....	7
Statements of Changes in Equity.....	8
Statements of Cash flows.....	9 - 10
Notes to the Financial Statements.....	11 - 51
CONSOLIDATED ANNUAL REPORT.....	52 – 110

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB KAUNO ENERGIJA:

Report on the Financial Statements

We have audited the accompanying financial statements of AB KAUNO ENERGIJA (hereafter – the Company) and the consolidated financial statements of AB KAUNO ENERGIJA and its subsidiary (hereafter – the Group) (pages 5 to 51), which comprise the balance sheet and the consolidated balance sheet as of 31 December 2010, and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The balance of property, plant and equipment of the Group and the Company amounting to LTL 319 million and LTL 317 million respectively as of 31 December 2010 (2009: LTL 305 million and LTL 303 million respectively) includes assets with a carrying value of LTL 134 million (2009: LTL 135 million) received as a contribution in kind from one of the Company's shareholders during the year 2009. The market value of these assets acquired from the shareholder was estimated upon their transfer to the Company by local independent qualified valuers using depreciated replacement cost method and was not subject to adequate profitability test as required by the international valuation standards and therefore, may not be a reliable estimate of their fair value. Following to the provision of IAS 16 "Property, plant and equipment", the cost of property, plant and equipment acquired in exchange for non-monetary assets should be measured at fair value. In the absence of reliable information about the fair value of these assets we were unable to satisfy ourselves as to determine whether the contribution in kind was appropriately accounted for in accordance with the International Financial Reporting Standards as adopted by the European Union.

Opinion

In our opinion, except for the possible effect of the matter described in Basis for Qualified Opinion paragraph, the financial statements and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2010, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other of Matter

The financial statements of the Company and the Group for the year ended 31 December 2009 were audited by another auditor who expressed a modified opinion on those statements on 1 April 2010 due to scope limitation related with the appropriateness of the valuation of contribution in kind.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Consolidated Annual Report for the year ended 31 December 2010 (pages 52 to 110) and have not noted any material inconsistencies between the historical financial information included in it and the financial statements for the year ended 31 December 2010.



Simonas Rimašauskas
General Director, Auditor
Auditor's Certificate No. 000466
UAB Deloitte Lietuva

Vilnius, Lithuania
31 March 2011

Balance Sheets

		Group		Company	
	Notes	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
ASSETS					
Non-current assets					
Intangible assets	3	626	1,242	614	1,222
Property, plant and equipment					
Land and buildings		28,654	29,539	27,184	28,012
Structures and machinery		273,796	251,902	273,819	251,873
Vehicles		466	652	404	526
Equipment and tools		5,548	6,475	5,456	6,404
Construction in progress and prepayments		10,181	16,134	10,181	16,134
Total property, plant and equipment	4	318,645	304,702	317,044	302,949
Non-current financial assets					
Investments into subsidiaries	1	-	-	5,558	6,053
Non-current accounts receivable	5	61	61	61	109
Other financial assets	6	237	433	237	433
Total non-current financial assets		298	494	5,856	6,595
Total non-current assets		319,569	306,438	323,514	310,766
Current assets					
Inventories and prepayments					
Inventories	7	5,270	5,372	5,144	5,226
Prepayments		507	616	598	766
Total inventories and prepayments		5,777	5,988	5,742	5,992
Current accounts receivable	8				
Trade receivables		72,245	59,828	71,989	59,513
Other receivables		5,597	4,361	5,772	4,647
Total accounts receivable		77,842	64,189	77,761	64,160
Cash and cash equivalents	9	3,574	3,131	3,524	3,094
Total current assets		87,193	73,308	87,027	73,246
Total assets		406,762	379,746	410,541	384,012

(cont'd on the next page)

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

Balance Sheets (cont'd)

		Group		Company	
		As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Notes					
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256,392	255,710	256,392	255,710
Legal reserve	10	448	233	448	
Other reserve		-	-	-	-
Retained earnings (deficit)					
Profit for the current year		4,167	6,404	3,737	6,928
Profit (loss) for the prior year		(3,865)	(6,465)	8	(2,883)
Total retained earnings (deficit)		302	(61)	3,745	4,045
Total equity		257,142	255,882	260,585	259,755
Liabilities					
Non-current liabilities					
Non-current borrowings	11	31,811	37,198	31,811	37,198
Financial lease obligations	12	10	44	-	-
Deferred tax liability	21	5,551	2,030	6,220	2,699
Grants (deferred income)	13	16,790	11,832	16,790	11,832
Employee benefit liability	14	1,593	1,820	1,593	1,820
Other non-current liabilities		410	735	410	735
Total non-current liabilities		56,165	53,659	56,824	54,284
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12	13,737	12,935	13,703	12,884
Current borrowings	11	15,023	9,663	15,023	9,663
Trade payables		60,981	41,502	60,977	41,529
Payroll-related liabilities		1,938	1,812	1,712	1,660
Advances received		570	1,216	571	1,216
Taxes payable		128	1,316	73	1,259
Derivative financial instruments	15	479	787	479	787
Current portion of employee benefit liability	14	237	656	237	656
Other current liabilities		362	318	357	319
Total current liabilities		93,455	70,205	93,132	69,973
Total liabilities		149,620	123,864	149,956	124,257
Total equity and liabilities		406,762	379,746	410,541	384,012

(the end)

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

General Manager Rimantas Bakas

31 March 2011

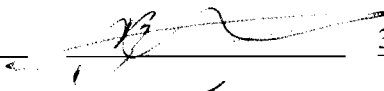

Chief Accountant Violeta Staškūnienė

31 March 2011

Statements of Comprehensive Income

	Notes	Group		Company	
		2010	2009	2010	2009
Operating income					
Sales income	16	306,856	280,411	305,441	279,548
Other operating income	18	2,202	1,114	1,935	1,164
Total operating income		309,058	281,525	307,376	280,712
Operating expenses					
Fuel and heat acquired		(221,932)	(197,698)	(221,932)	(197,698)
Salaries and social security	14	(20,608)	(23,236)	(19,416)	(21,418)
Depreciation and amortization	3,4	(15,788)	(16,688)	(15,709)	(16,510)
Repairs and maintenance		(4,236)	(6,351)	(4,236)	(6,619)
Write-offs and change in allowance for accounts receivable		(17,289)	(6,524)	(17,289)	(6,524)
Taxes other than income tax		(4,350)	(4,238)	(4,309)	(4,177)
Electricity		(2,558)	(2,558)	(2,546)	(2,539)
Petrašiūnai power plant operator expenses	1	(812)	(1,925)	(812)	(1,925)
Materials		(1,674)	(1,758)	(1,484)	(1,507)
Maintenance of heating systems		-	-	(552)	(1,141)
Water		(825)	(692)	(822)	(686)
Change in allowance for inventories	7	30	433	30	433
Other expenses	17	(9,598)	(8,908)	(9,360)	(8,708)
Other activities expenses	18	(1,349)	(825)	(808)	(840)
Total operating expenses		(300,989)	(270,968)	(299,245)	(269,859)
Operating profit		8,069	10,557	8,131	10,853
Finance income	19	2,024	1,576	2,024	1,576
Finance costs	20	(2,405)	(3,611)	(2,897)	(3,606)
Finance cost, net		(381)	(2,035)	(873)	(2,030)
Profit before income tax		7,688	8,522	7,258	8,823
Income tax	21	(3,521)	(2,118)	(3,521)	(1,895)
Net profit		4,167	6,404	3,737	6,928
Other comprehensive income (expenses)		-	-	-	-
Total comprehensive income/					
Profit attributable to the shareholders		4,167	6,404	3,737	6,928
Basic and diluted earnings per share (LTL)	22	0.10	0.22	0.09	0.24

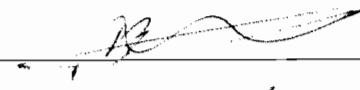

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		31 March 2011
Chief Accountant	Violeta Staškūnienė		31 March 2011

Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of						
31 December 2008		119,510	3,041	-	(9,273)	113,278
Total comprehensive income		-	-	-	6,404	6,404
Transactions with shareholders						
Transferred from reserves	10	-	(2,808)	-	2,808	-
Increase in share capital	1	136,200	-	-	-	136,200
Balance as of						
31 December 2009		255,710	233	-	(61)	255,882
Total comprehensive income		-	-	-	4,167	4,167
Transactions with shareholders						
Transferred from reserves	10	-	215	-	(215)	-
Increase in share capital	1	682	-	-	-	682
Payment of dividends	1	-	-	-	(3,589)	(3,589)
Balance as of						
31 December 2010		256,392	448	-	302	257,142
Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of						
31 December 2008		119,510	2,808	-	(5,691)	116,627
Total comprehensive income		-	-	-	6,928	6,928
Transactions with shareholders						
Transferred from reserves	10	-	(2,808)	-	2,808	-
Increase in share capital	1	136,200	-	-	-	136,200
Balance as of						
31 December 2009		255,710	-	-	4,045	259,755
Total comprehensive income		-	-	-	3,737	3,737
Transactions with shareholders						
Formed reserves	10	-	448	-	(448)	-
Increase in share capital	1	682	-	-	-	682
Payment of dividends	1	-	-	-	(3,589)	(3,589)
Balance as of						
31 December 2010		256,392	448	-	3,745	260,585

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

General Manager	Rimantas Bakas		31 March 2011
Chief Accountant	Violeta Staškūnienė		31 March 2011

Statements of Cash Flows

	Group		Company	
	2010	2009	2010	2009
Cash flows from (to) operating activities				
Net profit	4,167	6,404	3,737	6,928
Adjustments for non-cash items:				
Depreciation and amortization	17,345	17,629	17,173	17,452
Write-offs and change in allowance for accounts receivable	17,321	6,553	17,321	6,553
Interest expenses	2,177	3,269	2,175	3,264
Income tax expenses	3,521	2,118	3,521	1,895
Change employee benefit liability	(362)	456	(362)	456
Change in fair value of derivatives	(308)	220	(308)	220
Loss (profit) from sale and write-off of property, plant and equipment and impairment loss	309	12	309	(52)
Change in allowance for inventories	(30)	(443)	(30)	(443)
(Amortization) of grants (deferred income)	(632)	(630)	(632)	(630)
Impairment of investment in subsidiary	-	-	495	-
Change in accruals	(211)	-	(268)	-
Elimination of other financial and investing activity results	(1,686)	(1,454)	(1,686)	(1,454)
	37,444	27,740	37,708	26,983
Changes in working capital:				
Decrease in inventories	132	642	156	748
(Increase) decrease in prepayments	109	(105)	212	(267)
(Increase) in trade receivables	(29,611)	(11,179)	(29,670)	(10,629)
(Increase) decrease in other receivables	(794)	4,021	(670)	3,843
Increase in other non-current liabilities	3	-	3	-
Increase (decrease) in current trade payables and advances received	18,587	(9,143)	18,557	(9,536)
Increase (decrease) in payroll-related liabilities	126	(242)	52	(273)
(Decrease) increase in other liabilities to budget	(1,188)	541	(1,186)	532
(Decrease) in other current liabilities	(266)	(79)	(272)	(81)
	(12,902)	(15,544)	(12,818)	(15,663)
Net cash flows from operating activities	28,709	18,600	28,627	18,536

(cont'd on the next page)

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

	Group		Company	
	2010	2009	2010	2009
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(30,156)	(20,640)	(30,144)	(20,634)
Proceeds from sale of tangible assets	9	137	9	164
Penalty interest and fines received	1,704	1,571	1,704	1,571
Increase in cash flows from non-current accounts receivable	-	4	4	(44)
Interest received	12	4	12	4
Net cash (used in) investing activities	(28.431)	(18.924)	(28.415)	(18.939)
Cash flows from (to) financing activities				
Proceeds from loans	21,963	19,855	21,963	19,855
(Repayment) of loans	(20,925)	(18,499)	(20,925)	(18,499)
Interest (paid)	(2,215)	(3,279)	(2,213)	(3,274)
Financial lease (payments)	(51)	(86)	-	(37)
Penalties and fines (paid)	(30)	(121)	(30)	(121)
Received grants	5,008	1,969	5,008	1,969
Dividends (paid)	(3,585)	-	(3,585)	-
Net cash flows from (used in) financing activities	(165)	(161)	218	(107)
Net (decrease) increase in cash and cash equivalents	443	(485)	430	(510)
Cash and cash equivalents at the beginning of the year	3,131	3,616	3,094	3,604
Cash and cash equivalents at the end of the year	3,574	3,131	3,524	3,094

(the end)

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

General Manager	Rimantas Bakas		31 March 2011
Chief Accountant	Violeta Staškūnienė		31 March 2011

Notes to the financial statements

1 General information

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

Raudondvario Rd. 84,
Kaunas,
Lithuania.

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

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

As of 31 December 2010 and 2009 the shareholders of the Company were as follows:

	As of 31 December 2010		As of 31 December 2009	
	Number of shares owned (unit)	Percentage of ownership (%)	Number of shares owned (unit)	Percentage of ownership (%)
Kaunas city municipality	39,665,892	92,82	39,654,892	93,05
Kaunas district municipality	1,606,168	3,76	1,606,168	3,77
Jurbarkas district municipality	746,405	1,75	643,810	1,51
Other minor shareholders	713,512	1,67	713,512	1,67
	42,731,977	100,00	42,618,382	100,00

All the shares with a par value of LTL 6 each are ordinary shares. The Company did not hold its own shares in 2010 and 2009.

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

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

All shares were fully paid as of 31 December 2010.

On 13 May 2010 The Annual General Meeting of Shareholders has made a decision to pay LTL 3,589 thousand, i.e. at 8.4 cents a share in dividends from the profit of the year 2009. Dividends were paid in accordance with law. The unpaid part of dividends amounting to LTL 4 thousand which was not paid without a company's fault is accounted for in other current liabilities.

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

The Group consists of the Company and the Subsidiary (hereinafter the Group):

Company	Registration address	Share held by the Group	Cost of investment	Loss for the reporting period	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos	Savanoriai Ave. 347, Kaunas	100%	6,518	(177)	5,558	Maintenance of heating systems

As of 31 December 2010 accumulated impairment loss on investment in UAB Pastatų Priežiūros Paslaugos amounted to LTL 960 thousand (31 December 2009: LTL 465 thousand) in the Company's profit or loss.

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

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

The Company's generation capacity includes a power plant in Petrašiūnai, 3 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 1 regional boiler-house in Jurbarkas city, 14 isolated networks and 37 local gas burning boiler-houses in Kaunas.

Total installed heat and electricity generation capacity is 497.00 MW and 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 27 MW of heat generation capacity is located in Jurbarkas city. The total Company's power generation capacity is 505.75 MW.

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

On 8 June 2006 AB Kauno Energija signed the agreement with UAB Energijos Sistemų Servisas regarding the operation of Petrašiūnai power plant and its assets located at Jėgainės Str. 12, Kaunas. The contract was valid for a period of three years. Starting from 4 July 2006, UAB Energijos Sistemų Servisas started to provide operation services of Petrašiūnai power plant. A new contract valid until 4 August 2010 for a purchase of this

service was signed with UAB Energijos Sistemų Servisas on 3 July 2009. After the end of agreement, the Company did not prolong a term of agreement and operates power plant itself.

In 2010 the average number of employees at the Group was 622 (629 employees in 2009). In 2010 the average number of employees at the Company was 558 (569 employees in 2009).

On 19 April 2010 the College of the Kaunas City Council discussed the issue of establishing of the joint venture and has made a decision to agree in principle and to recommend to the Managing Board of AB Kauno Energija to start the negotiations with UAB Fortum Heat Lietuva regarding the construction of the new local fuel-fired power plant and the establishment of the new joint venture. A working group for negotiations with UAB Fortum Heat Lietuva was formed.

On 24 of September, 2010 a cooperation agreement regarding possibility of use of integrated renewable energy resources with AB Lietuvos Energija was signed.

2. Accounting principles

2.1. Application of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

The following amendments to the existing International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union (hereinafter the EU) are effective for the current period:

- IFRS 1 (revised) "First-time Adoption of IFRS" adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010);
- IFRS 3 (revised) "Business Combinations" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" adopted by the EU on 3 June 2009 (effective for annual periods beginning on or after 1 July 2009).
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009);
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 12 "Service Concession Arrangements" adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009);
- IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009);
- IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

The adoption of these amendments to the existing standards has not led to any changes in the Group and the Company accounting policies.

Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective and the Group and the Company has elected not to adopt these standards, revisions and interpretation in advance of their effective dates:

- IAS 24 "Related party disclosures" (revised in 2009) – modifies the definition of a related party and simplifies disclosures for government-related entities (effective for annual periods beginning on or after 1 January 2011). The Group and the Company does not expect any impact on its financial position or performance as the Group and the Company is not a government-related entity;
- Amendments to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010) address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group and the Company has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group and the Company does enter into any rights issues within the scope of

the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues;

- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010). The Group and the Company does not expect any impact on its financial position or performance from these amendments;
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011). The amendment is deemed to have no impact on the financial statements of the Group and the Company;
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation). The amendments are deemed to have no impact on the financial statement of the Group and the Company;
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" – provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments (effective for annual periods beginning on or after 1 July 2010). To date, the Group and the Company has not entered into transactions of this nature. However, if the Group and the Company does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognized in profit or loss.

Standards and Interpretations issued by the IASB but not yet adopted by the EU

At present, IFRS's as adopted by the EU do not significantly differ from regulations adopted by IASB except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 7 March 2011:

- Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011);
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);

The Group and the Company management anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group and the Company in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by EU, is still unregulated. According to the Group's and the Company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39" Financial Instruments: Recognitions and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

2.2. Statement of compliance

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

2.3. Basis of the preparation of financial statements

The financial statements have been prepared on a cost basis, except for certain financial instruments, which are stated at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial year of the Company and other Group companies coincides with the calendar year.

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

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

2.4. Principles of consolidation

Principles of consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Subsidiary is the company which is directly or indirectly controlled by the parent company. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital or otherwise has power to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.5. Investments in subsidiaries

Investments in subsidiaries in the Company's balance sheet are recognized at cost. The dividend income from the investment is recognized in the profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in a subsidiary. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

2.6. Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Licenses

Amounts paid for licenses are capitalized and then amortized over useful life (3 - 4 years).

Software

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

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

2.7. Accounting for emission rights

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

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

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

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

2.8. Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's and the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment. Depreciation periods were revised as of 1 September 2008, as further described in Note 2.25.

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

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

Freehold land is not depreciated.

The Group and the Company capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above LTL 500.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

Lease hold improvement expenses related to property under rental and/or operating lease agreements which prolong the estimated useful life of the asset are capitalized and depreciated during the term of rental and/or operating lease agreements.

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

2.9. Impairment of property, plant and equipment and intangible assets excluding goodwill

At each statement of financial position date, the Group and the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Group's and Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.10. Financial assets

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

Effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

Financial assets available for sale

Available-for-sale financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Group and the Company that are traded in an active market are classified as available-for-sale and are stated at fair value. The Group and the Company also has investments in unlisted shares that are not traded in an active market but that are also classified as available-for-sale financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's and the Company's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains or losses are recognized in profit or loss when the asset value decreases or it is amortized.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Derecognition of financial assets

The Group and the Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group and the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

2.11. Derivative financial instruments

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

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

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

2.12. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs of inventories are determined on a first-in, first-out (FIFO) basis.

The cost of inventories is net of volume discounts and rebates received from suppliers during the reporting period but applicable to the inventories still held in stock.

2.13. Provisions

Provisions are recognized when the Group and the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group and the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 percent of the greater of the present value of the Group's and the Company's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

2.16. Borrowings

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

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.17. Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group and the Company derecognizes financial liabilities when, and only when, the Group's and the Company's obligations are discharged, cancelled or they expire.

2.18. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group and the Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's and the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's and the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group and the Company as lessee

Assets held under finance leases are initially recognized as assets of the Group and the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The

corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's and the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.19. Grants (deferred income)

Government grants are not recognized until there is reasonable assurance that the Group and the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group and the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group and the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

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

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

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

2.20. Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2010 the income tax applied to the Group and the Company was 15% (2009 – 20%).

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such deferred assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

2.21. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Since there are no instructions reducing earnings per share, there is no difference between the basic and diluted earnings per share.

2.22. Revenue recognition

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

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

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Group and the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group and the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably).

Interest revenue is recognized when it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

The Group's and the Company's policy for recognition of revenue from operating leases is described in Note 2.18 below.

2.23. Expense recognition

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

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

2.24. Foreign currencies

In preparing the financial statements of the individual entities of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The presentation currency is Litas (LTL). All transactions had functional currency other than LTL translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the

prevailing market rates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Gains and losses arising on exchange are included in profit or loss for the period.

As of 31 December the applicable rates used for principal currencies were as follows:

2010		2009	
1 EUR	= 3.4528 Lt	1 EUR	= 3.4528 Lt
1 USD	= 2.6099 Lt	1 USD	= 2.4052 Lt
10 EEK	= 2.2067 Lt	10 EEK	= 2.2067 Lt

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

2.25. Use of estimates in the preparation of financial statements

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

Estimates and assumptions

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

Property, plant and equipment – useful life

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

The Group and the Company has considered the actual useful life of property, plant and equipment and increased a depreciation rate for the heating connections from 20 years to 30 years and for the heating stations from 10 years to 15 years respectively starting from 1 September 2008.

Carrying value of non-current assets received as a contribution in kind

In 2009 for a new shares issue manifolds in Kaunas city were received as a contribution in-kind. Market value of assets estimated upon their transfer by local independent qualified valuers using depreciated replacement costs method amounted to LTL 136 million.

In 2010 a new emission of shares was issued and it was paid by non-monetary contribution: it is building – boiler-house in Kaunas city and networks system in Jurbarkas city. Market value of the asset upon their transfer was determined by the local independent qualified valuers by using depreciated replacement costs method and amounted to LTL 0.682 million.

Management has no information available about possible fair value of these non-current assets if they would be evaluated by using other valuation methods. As of 31 of December 2010, carrying value of all contribution in-kind amounted to LTL 134,345 thousand.

Allowances for accounts receivable

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

In 2010 the Company evaluated historical and anticipatory assumptions of the repayment of doubtful receivables and increased the rates used for valuation for receivables. As of 31 December 2010 the Company accounted valuation allowance for doubtful receivables in amount of LTL 41,886 thousand. According to the methodology applied until 31 December 2010 the valuation allowance for doubtful receivables would be LTL 29,075 thousand.

Deferred Tax Asset

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 21.

Litigations

On 17 February 2010 Vilnius Court of Commercial Arbitration investigated the civil case regarding the fulfillment of the investment agreement between the Company and UAB Kauno Termofikacijos Elektrinė (hereinafter - KTE) and passed the ruling to award a fine of LTL 5,419,809 in favor to the Company. KTE has placed a complaint to Lithuanian Court of Appeal regarding this decision. The Court of Appeal denied this appeal by it's ruling from 19 October 2010 and has left the ruling of the Court of Commercial Arbitration unchanged. On 8 of November, 2010 KTE has applied a cassation complaint to the Lithuanian Supreme Court regarding a repeal of rulings of the Commercial Arbitration court and of the Court of appeal. The issue of the case is described in Note 26.

On 3 of November, 2010 the Company placed a second claim regarding an additional forfeit in amount LTL 12,351,600 from defendant KTE due to the wrong fulfillment of the Investments agreement. The issue of the case is described in Note 26.

As of 31 December 2010 the accrual of awarded sum was not been made in financial statements of the Group and the Company, because the income from fines and from penalties is shown in those statements only when it is paid-in.

On 24 of August, 2010 KTE placed a preventive claim to Vilnius Commercial Arbitration court applying to forbid to the Company to terminate ex-parte a purchase agreement of Power plant, an agreement of purchase of Heat energy and the Investments agreement until defendant will terminate his contrary liability breach according to 14 chapter of Heat energy purchase agreement and the decision regarding a compensation of plaintiff and his shareholders lesion, which could be made by defendant's contrary liability breach, including but not limiting an acceptance and implementation of decision, which can be made by *ad hoc* negotiations or by investment issue order, will be made.

2.26. Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

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

	Group	Company
	Patents, licenses	
Cost:		
Balance as of 31 December 2008	5,671	5,517
Additions	193	193
Disposals and write-offs	(101)	-
Balance as of 31 December 2009	5,763	5,710
Additions	55	55
Disposals and write-offs	(490)	(490)
Transfers to property, plant and equipment	(50)	(50)
Balance as of 31 December 2010	5,278	5,225
Amortization:		
Balance as of 31 December 2008	3,888	3,834
Charge for the year	664	654
Disposals and write-offs	(31)	-
Balance as of 31 December 2009	4,521	4,488
Charge for the year	621	613
Disposals and write-offs	(490)	(490)
Balance as of 31 December 2010	4,652	4,611
Net book value as of 31 December 2008	1,783	1,683
Net book value as of 31 December 2009	1,242	1,222
Net book value as of 31 December 2010	626	614

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

Part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 3,177 thousand as of 31 December 2010 (LTL 2,782 thousand as of 31 December 2009) were fully amortized but were still in active use.

4. Property, plant and equipment

Group	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2008	56,621	351,772	4,713	15,485	8,681	437,272
Additions	35	140,556	1	1,643	14,412	156,647
Disposals and write-offs	-	(1,765)	(52)	(170)	-	(1,987)
Reclassifications	-	5,691	-	1,268	(6,959)	-
Balance as of 31 December 2009	56,656	496,254	4,662	18,226	16,134	591,932
Additions	74	9,648	90	365	20,606	30,783
Disposals and write-offs	(35)	(2,161)	-	(160)	-	(2,356)
Reclassifications	254	25,579	-	726	(26,559)	-
Transfers from intangible assets	-	50	-	-	-	50
Balance as of 31 December 2010	56,949	529,370	4,752	19,157	10,181	620,409
Accumulated depreciation and impairment losses:						
Balance as of 31 December 2008	25,929	234,217	3,604	8,423	-	272,173
Charge for the year	1,188	12,083	438	3,256	-	16,965
Disposals and write-offs	-	(1,716)	(32)	(160)	-	(1,908)
Reclassifications	-	(232)	-	232	-	-
Balance as of 31 December 2009	27,117	244,352	4,010	11,751	-	287,230
Charge for the year	1,191	13,304	276	1,953	-	16,724
Disposals and write-offs	(8)	(2,049)	-	(133)	-	(2,190)
Reclassifications	(5)	(33)	-	38	-	-
Balance as of 31 December 2010	28,295	255,574	4,286	13,609	-	301,764
Net book value as of 31 December 2008	30,692	117,555	1,109	7,062	8,681	165,099
Net book value as of 31 December 2009	29,539	251,902	652	6,475	16,134	304,702
Net book value as of 31 December 2010	28,654	273,796	466	5,548	10,181	318,645

Company	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2008	54,080	351,221	4,085	15,215	8,681	433,282
Additions	35	140,556	-	1,638	14,412	156,641
Disposals and write-offs	-	(1,928)	(634)	(174)	-	(2,736)
Reclassifications	-	5,690	-	1,269	(6,959)	-
Balance as of 31 December 2009	54,115	495,539	3,451	17,948	16,134	587,187
Additions	75	9,648	86	356	20,606	30,771
Disposals and write-offs	(36)	(2,161)	-	(148)	-	(2,345)
Reclassifications	253	25,670	-	636	(26,559)	-
Transfers from intangible assets	-	50	-	-	-	50
Balance as of 31 December 2010	54,407	528,746	3,537	18,792	10,181	615,663
Accumulated depreciation and impairment losses:						
Balance as of 31 December 2008	24,972	233,696	3,148	8,249	-	270,065
Charge for the year	1,131	12,072	371	3,224	-	16,798
Disposals and write-offs	-	(1,870)	(594)	(161)	-	(2,625)
Reclassifications	-	(232)	-	232	-	-
Balance as of 31 December 2009	26,103	243,666	2,925	11,544	-	284,238
Charge for the year	1,133	13,305	208	1,914	-	16,560
Disposals and write-offs	(8)	(2,049)	-	(122)	-	(2,179)
Reclassifications	(5)	5	-	-	-	-
Balance as of 31 December 2010	27,223	254,927	3,133	13,336	-	298,619
Net book value as of 31 December 2008	29,108	117,525	937	6,966	8,681	163,217
Net book value as of 31 December 2009	28,012	251,873	526	6,404	16,134	302,949
Net book value as of 31 December 2010	27,184	273,819	404	5,456	10,181	317,044

The depreciation charge of the Group's and Company's property, plant and equipment for 31 December 2010 amounts to LTL 16,724 thousand and LTL 16,560 thousand, respectively (2009: LTL 16,965 thousand and LTL 16,798 thousand respectively). The amounts of LTL 15,849 thousand and LTL 15,778 thousand (2009: LTL 16,024 thousand and LTL 15,856 thousand respectively) were included into operating expenses in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other operating expenses caption.

Part of the property, plant and equipment of the Group and the Company with acquisition cost of LTL 87,212 thousand were fully depreciated as of 31 December 2010 (LTL 78,905 thousand as of 31 December 2009) but were still in active use.

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

As of 31 December 2010 property, plant and equipment of the Group and the Company with the net book value of LTL 123,319 thousand (LTL 114,153 thousand as of 31 December 2009) was pledged to banks as a collateral for loans (Note 11).

During the year 2010 the amount of capitalized interest equals to LTL 173 thousand. The interest for the year 2009 was not capitalized due to the insignificant influence. The capitalization rate varied from 3.5% to 5.65%.

The assets leased by the Group under finance lease contracts consist of vehicles:

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Vehicles	29	80	-	-

5. Non-current accounts receivable

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

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 are non-interest bearing. These loans are accounted for at discounted value using 10.4% interest rate.

As of 31 of December 2009 and 2010 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

6. Other financial assets

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
<i>Available-for-sale financial assets</i>				
Ordinary shares – unquoted	433	433	433	433
Impairment loss	(196)	-	(196)	-
Fair value of shares	<u>237</u>	<u>433</u>	<u>237</u>	<u>433</u>

The Management of the Group and the Company evaluated the financial condition of the entity that shares were acquired, and determined impairment loss. Impairment loss accounted in the Group's and the Company's profit or loss.

7. Inventories

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Technological fuel	3,409	3,429	3,409	3,429
Spare parts	1,211	1,197	1,211	1,047
Materials	861	987	735	991
	5,481	5,613	5,355	5,467
Less: impairment of realizable value at the end of the period	(211)	(241)	(211)	(241)
Carrying amount of inventories	5,270	5,372	5,144	5,226

The acquisition cost of the Group's and the Company's inventories accounted for at net realizable value as of 31 December 2010 amounted to LTL 211 thousand (LTL 241 thousand as of 31 December 2009).

Changes in the valuation allowance for inventories for the year 2010 and 2009 was included into change in inventories allowance caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Trade receivables, gross	114,131	85,005	113,875	84,690
Less: impairment of doubtful receivables	(41,886)	(25,177)	(41,886)	(25,177)
	72,245	59,828	71,989	59,513

Change in impairment of doubtful receivables in 2010 and 2009 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of comprehensive income.

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

	Impairment loss
Balance as of 31 December 2008	19,480
Additional allowance formed	6,553
Write-off	(856)
Balance as of 31 December 2009	25,177
Additional allowance formed	17,194
Write-off	(485)
Balance as of 31 December 2010	41,886

In 2010 the Group and the Company wrote-off LTL 485 thousand (in 2009 – LTL 856 thousand) of doubtful receivables.

In 2010 the Group and the Company also recovered LTL 32 thousand of doubtful receivables (in 2009 – LTL 29 thousand), which were written off in the previous periods.

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

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2010	60,051	8,991	1,236	1,398	569	-	72,245
2009	38,958	7,951	1,580	2,353	7,243	1,743	59,828

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

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2010	59,795	8,991	1,236	1,398	569	-	71,989
2009	38,643	7,951	1,580	2,353	7,243	1,743	59,513

Trade receivables are non-interest bearing and the terms are usually 30 days or agreed individually.

The major part of the Group's and the Company's trade receivables, past due more than 241 days, comprise the accounts receivable from budget organizations, financed from budgets of the State and municipalities, and from institutions financed by Patient's Funds, for which the value allowances were not made by the Group and the Company in 2009. As of 31 December 2009 this sum amounted to LTL 7,687 thousand. (as of 31 December 2010 – LTL 9,154 thousand). In 2010 the Group and the Company changed the valuation method of amounts receivables (note 2.25) and as of 31 of December 2010 the valuation allowance was formed for all amounts receivables that were past due.

Other Group's and the Company's receivables consisted of:

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Taxes	2,737	2,806	2,737	2,806
Other receivables	3,579	2,147	3,754	2,433
Less: value impairment of doubtful receivables	(719)	(592)	(719)	(592)
	<u>5,597</u>	<u>4,361</u>	<u>5,772</u>	<u>4,647</u>

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

	Impairment loss
Balance as of 31 December 2008	592
Additional allowance formed	-
Balance as of 31 December 2009	592
Additional allowance formed	127
Balance as of 31 December 2010	719

As of 31 December 2010 and 2009, the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold inventories

(metals, heating equipments) and services supplied (transportation and permanent maintenance of collectors and heating systems).

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

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2010	1,850	709	273	20	8	-	2,860
2009	1,490	40	11	8	6	-	1,555

The ageing analysis of the Company's net value of other receivables (excluding taxes) As of 31 December 2010 and 2008 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2010	2,025	709	273	20	8	-	3,035
2009	1,776	40	11	8	6	-	1,841

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

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

9. Cash and cash equivalents

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Cash in transit	1,951	1,557	1,951	1,557
Cash at bank	1,592	1,541	1,542	1,505
Cash on hand	31	33	31	32
	<u>3,574</u>	<u>3,131</u>	<u>3,524</u>	<u>3,094</u>

The Group's and the Company's accounts in national currency in banks amounting to LTL 951 thousand as of 31 December 2010 (31 December 2009 – LTL 1.327 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

Legal and other reserves

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

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

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

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

In 2010 Group's net transfers from retained earnings to legal reserve amount to LTL 215 thousand.

11. Borrowings

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Non-current borrowings				
Non-current borrowings	31,811	37,198	31,811	37,198
Current borrowings				
Current portion of non-current borrowings	13,703	12,884	13,703	12,884
Current borrowings (including credit line)	8,808	5,964	8,808	5,964
Other interest bearing liabilities	6,215	3,699	6,215	3,699
	<u>28,726</u>	<u>22,547</u>	<u>28,726</u>	<u>22,547</u>
	<u>60,537</u>	<u>59,745</u>	<u>60,537</u>	<u>59,745</u>

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

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
2010	-	12,884	-	12,884
2011	13,703	14,338	13,703	14,338
2012	11,174	9,781	11,174	9,781
2013	7,590	4,981	7,590	4,981
2014	7,093	4,932	7,093	4,932
2015	3,471	1,961	3,471	1,961
2016	1,757	850	1,757	850
2017	726	355	726	355
	<u>45,514</u>	<u>50,082</u>	<u>45,514</u>	<u>50,082</u>

Weighted average of interest rates (in %) of borrowings outstanding at the year-end were as follows:

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Current borrowings	3.3	3.6	3.3	3.6
Non-current borrowings	3.3	3.5	3.3	3.5

Borrowings at the end of the year in national and foreign currencies were as follows:

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Currency of the loan:				
EUR	50,485	50,863	50,485	50,863
LTL	10,052	8,882	10,052	8,882
	<u>60,537</u>	<u>59,745</u>	<u>60,537</u>	<u>59,745</u>

On 1 August 2005 the Group and the Company signed a long-term loan agreement with „Swedbank“, AB for the amount of LTL 5,000 thousand. The maturity date of the last portion of the loan is 1 August 2012. As of 31 December 2010 the outstanding balance of the loan amounted to LTL 1,258 thousand of which LTL 832 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month VILIBOR plus 0.77% interest rate.

On 23 August 2005 the Group and the Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 8,776 thousand (the equivalent of LTL 30,300 thousand). The maturity date of the last portion of the loan is 31 December 2014. The outstanding balance of the loan amounted to EUR 2,896 thousand (the equivalent of LTL 10,000 thousand) as of 31 December 2010, of which LTL 2,500 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 1.9% interest rate.

On 1 December 2006 the Group and the Company signed a long-term loan agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2,090 thousand. On 18 April 2007 the loan amount increased up to LTL 6,090 thousand. The maturity date of the last portion of the loan is 31 October 2015. As of 31 December 2010 the outstanding balance of the loan amounted to LTL 4,148 thousand, of which LTL 839 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 3-month VILIBOR plus 0.45% interest rate.

On 21 December 2006 the Group and the Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 2,059 thousand (the equivalent of LTL 7,108 thousand). The maturity date of the last portion of the loan is 30 November 2016. As of 31 December 2010 the outstanding balance of the loan amounted to EUR 601 thousand (the equivalent of LTL 2,076 thousand), of which LTL 395 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 0.4% interest rate.

On 14 November 2007 the Group and the Company signed a long-term loan agreement with AB DnB NORD Bankas for the amount of EUR 576 thousand (the equivalent of LTL 1,989 thousand). The maturity date of the last portion of the loan is 31 December 2016. As of 31 December 2010 the outstanding balance of the loan amounted to EUR 432 thousand (the equivalent of LTL 1,491 thousand), of which LTL 248 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 12-month EUR LIBOR plus 0.59% interest rate.

On 31 July 2008 the Group and the Company signed a long-term investment credit agreement with Danske Bank A/S Lithuania Branch for the amount of EUR 984 thousand (the equivalent of LTL 3,398 thousand). The maturity date of the last portion of the loan is 2018. As of 31 December 2010 the outstanding balance of the investment credit amounted to EUR 523 thousand (the equivalent of LTL 1,807 thousand), of which LTL 350 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 3-month EURIBOR plus 0.385% interest rate.

On 31 July 2008 the Group and the Company signed a long-term investment credit agreement with Danske Bank A/S Lithuania Branch for the amount of EUR 1,158 thousand (the equivalent of LTL 4,000 thousand). The maturity date of the last portion of the loan is 31 December 2017. As of 31 December 2010 the outstanding balance of the investment credit amounted to EUR 1,088 thousand (the equivalent of LTL 3,756 thousand), of which LTL 600 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 3-month EURIBOR plus 0.7% interest rate.

On 22 September 2008 the Group and the Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 3,333 thousand (the equivalent of LTL 11,508 thousand). The maturity date of the last portion of the loan is 31 December 2011. As of 17 September, 2010 the outstanding balance of the loan was refinanced through Lithuanian branch of Nordea Bank Finland Plc. The loan beared 1-month EUR LIBOR plus 0.7% interest rate.

On 25 September 2009 the Group and the Company signed a loan agreement with „Swedbank“, AB for the amount of EUR 2,896 thousand (the equivalent of LTL 10,000 thousand), with the maturity date of 25 September 2012. As of 31 December 2010 the Group and the Company's balance of used loan was EUR 1,876 thousand (the equivalent of LTL 6,478 thousand), of which 3,320 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EURIBOR plus 3.85% interest rate.

On 2 December 2009 the Group and the Company signed a loan agreement with „Swedbank“, AB for the amount of EUR 3,815 thousand (the equivalent of LTL 13,171 thousand), with the maturity date of the last portion of the loan on 2 December 2016. As of 31 December 2010 the balance of used loan was EUR 1,997 thousand (the equivalent of LTL 6,895 thousand), of which LTL 3,597 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EURIBOR plus 4.5% interest rate.

On 9 April 2010 the Group and the Company signed a credit agreement with the Lithuanian Ministry of Finance regarding the loan of EUR 2,410 thousand (LTL 8,323 thousand equivalent). The term of repayment of the last part of the loan is 15 March 2034. As of 31 December 2010 the balance of used loan was EUR 234 thousand (the equivalent of LTL 808 thousand), which was accounted for within non-current borrowings in the financial statements of the Group and the Company. The loan bears 3.948% annual interest rate until 31 March 2019.

On 21 June 2010 the Group and the Company signed a credit agreement with „Swedbank“, AB regarding the loan of EUR 649 thousand (LTL 2,240 thousand equivalent). The term of repayment of the last part of the loan is 21 June 2017. As of 31 December 2010 the outstanding balance of the credit amounted to EUR 417 thousand (the equivalent of LTL 1,440 thousand), of which 33 thousand LTL is accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EURIBOR plus 4% annual interest rate.

On 17 September, 2010 the Group and the Company signed a long-term credit agreement with Nordea Bank Finland Plc Lithuanian Branch for the amount of EUR 1,625 thousand (the equivalent of LTL 5,611 thousand). The maturity date of the last portion of the loan is 31 May, 2016. As of 31 December 2010 the outstanding balance of the credit amounted to EUR 1,551 thousand (the equivalent of LTL 5,357 thousand), of which LTL 989 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 1-month EURIBOR plus 0.7% interest rate.

On 4 June 1999 the Group and the Company signed a credit line agreement with AB SEB Bankas for the amount of LTL 7,000 thousand, with the maturity date of 19 July 2009. As of 31 December 2009 the Group and the Company's balances of used credit line was LTL 1,560 thousand. On 19 August 2009 the agreement was prolonged until 19 July 2010. The credit line bears 1-month VILIBOR plus 2.4% interest rate.

On 8 July 2004, the Group and the Company signed an overdraft agreement with AB DnB NORD Bankas for the amount of LTL 18,000 thousand and for the term expiring on 31 May 2008. On 27 May 2008, the limit of the overdraft line of credit was reduced to the amount of LTL 10,000 thousand and the repayment term was extended until 31 May 2009. On 29 May 2009, the validity term of the agreement was extended until 29 May 2010 by changing the overdraft limit to EUR 2,896 thousand (LTL 9,999 thousand). On 31 May 2010 the validity term of the agreement was extended until 23 June 2010 and on 22 June 2010 the validity term of the agreement was extended until 30 May 2011. As at 31 December 2010 the used amount of the overdraft by the Group and the Company was EUR 1,206 thousand (LTL 4,162 thousand) (31 December 2009: LTL 4,380 thousand). The overdraft bears 1-month EURIBOR plus 3% annual interest.

On 23 August 2010 the Group and the Company signed a credit line agreement with AB SEB Bankas for the amount of LTL 10,000 thousand, with the maturity date of 23 August 2011. As of 31 December 2010 the Group and the Company's balances of used credit line was LTL 4,646 thousand. The credit line bears 1-month VILIBOR plus 1.49% interest rate.

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

On 19 October 2010 the Company signed a trilateral agreement with AB Ūkio bankas for the factoring of UAB Kauno Termofikacijos elektrinė on the deferral of the payment for heat energy for an additional term of 30 days thus amending the original term established in the Heat energy purchase and sale agreement as described in Note 1. The agreement of factoring expires as of 31 July, 2011. As of 31 December 2010 an outstanding factorized balance is EUR 1,800 thousand (LTL 6,215 equivalent). Annual interest of 6-months EURIBOR plus 2.5% but not less than 3.6% is payable on the amount outstanding.

On 9 December, 2010 the Company signed an agreement with AB DnB NORD bank for the factoring of heat selling to the institutions financed from Kaunas municipality. The limit of the factoring is LTL 8,440 thousand. The term of factoring is 9 December 2011. As of 31 December, 2010 the limit of factoring is still unused. Annual interest of 3-months VILIBOR plus 2.85% is payable on the limit amount used.

On 26 October 2010 the Group and the Company signed a credit agreement with the Lithuanian Ministry of Finance regarding the loan of EUR 807 thousand (LTL 2,788 thousand equivalent). The term of repayment of the last part of the loan is 15 March 2034. The loan is still not used as of date of these statements. The loan bears 3.948% annual interest rate until 31 March 2019.

In the year 2010 the Group and the Company did not comply with turnover requirement, determined in the loan agreement with "Swedbank", AB, signed On 21 June 2010, and as of 31 of December 2010 did not receive confirmation from bank, that there will not be any requirements to accelerate the repayment of loans beforehand as it is stated in agreement. Due to this, the part of non-current loans in amount of LTL 1,407 thousand must be disclosed in the current portion of non-current borrowings. Due to the fact, that on the 8 of March 2011 the Company received confirmation from "Swedbank", AB, non-current part of the borrowings was not disclosed in the current portion of non-current borrowings.

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

12. Finance lease obligations

The assets leased by the Group under finance lease contracts mainly consist of vehicles. The terms of financial lease are from 2 to 5 years. As of 31 December 2010 the interest rate on the financial lease obligations is fixed and variable. Fixed interest rate is equal to 3.99%. The variable interest rate varies depending on 6-month EURIBOR plus 1.5%.

All finance lease agreements are in EUR.

Future minimal lease payments were:

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Within one year	35	54	-	-
From one to five years	10	45	-	-
Total financial lease obligations	45	99	-	-
Interest	(1)	(4)	-	-
Present value of financial lease obligations	44	95	-	-

Financial lease obligations are accounted for as:

- current	34	51	-	-
- non-current	10	44	-	-

13. Grants (deferred income)

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Balance at the beginning of the reporting period	11,832	10,253	11,832	10,253
Received during the year	5,590	2,209	5,590	2,209
Amortization	(632)	(630)	(632)	(630)
Balance at the end of the reporting period	16,790	11,832	16,790	11,832

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

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Renovation of Centralized Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at Krėvės Ave. 82 A.118H, Kaunas) according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,566 thousand by 31 December 2010.

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

On 15 October 2009, the Group and the Company signed the agreement on the financing and administration of the project Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 808 thousand by 31 December 2010.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project “The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus pr. 23A to A. Juozapavičiaus pr. 90)” according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2010 financing in amount LTL 844 thousand has been received, LTL 582 thousand was accounted for by the Group and the Company under other accounts receivable caption as of 31 December 2010. As of day of issuing of these statements VŠĮ LAAIF fully settled its liability to the Company.

On 21 July 2010, the Group and the Company signed the agreement on the financing and administration of the project “The modernization of Žaliakalnis main of Kaunas integrated network (4Ž)” according to which the

Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled.

14. Employee benefit liability

According to Lithuanian legislation and the conditions of the collective employment agreement, each employee of the Group and the Company is entitled to 1 - 6 months' salary payment when leaving the job at or after the start of the pension period.

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

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Employee benefit liability at the beginning of the year	2,476	2,020	2,476	2,020
Paid	(284)	(521)	(284)	(521)
Formed	(362)	977	(362)	977
Employee benefit liability at the end of the year	1,830	2,476	1,830	2,476
Employee benefit liability accounted as:				
Non-current employee benefit liability	1,593	1,820	1,593	1,820
Current employee benefit liability	237	656	237	656

During the year, ended 31 December 2010, the total amount of the benefit paid to the employees by the Group and the Company amounted to LTL 284 thousand (LTL 521 thousand for the year, ended 31 December 2009) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

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

	As of 31 December 2010	As of 31 December 2009
Discount rate	7.0%	7.0%
Employee turnover rate	18.9%	18.9%
Expected average annual salary increases	3.0%	3.0%

15. Derivative financial instruments

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

On 24 October 2008 the Group and the Company concluded an interest rate swap agreement. For the period from 22 October 2008 to 23 August 2010 the Group and the Company set a fixed interest rate at 4.24% for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 4,344 thousand (the equivalent of LTL 15,000 thousand) as at 31 December 2008. As of 9 of April, 2009 the agreement was terminated.

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15% for a floating

interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 2,896 thousand (the equivalent of LTL 10,000 thousand) as at 31 December 2010 (EUR 3,620 thousand (the equivalent of LTL 12,500 thousand) as at 31 December 2009). Market value of swap agreement as of 31 December 2010 amounted to LTL 479 thousand (LTL 606 thousand as of 31 December 2009).

16. Sales income

The Group's and the Company's activities are heat energy supply, electricity production, maintenance of heating and hot water supply systems, electricity production and other activities. In the year 2010 a part of inhabitants chose the Company as the hot water supplier. Those activities are inter-related, consequently for management purposes the Group's and the Company's activities are organized as one main segment – heat energy supply. The Group's and the Company's sales by activities are stated below:

	Group		Company	
	2010	2009	2010	2009
Heat energy	302,546	277,001	302,602	277,053
Maintenance of the heating and hot water supply systems of the buildings	2,037	2,365	566	1,450
Hot water supply	1,485	-	1,485	-
Maintenance of manifolds	439	535	439	535
Electric energy	349	393	349	393
Emission rights	-	117	-	117
	<u>306,856</u>	<u>280,411</u>	<u>305,441</u>	<u>279,548</u>

17. Other expenses

	Group		Company	
	2010	2009	2010	2009
Cash collection expenses	2,374	2,471	2,233	2,338
Equipment verification and inspection	2,428	1,548	2,408	1,598
Debts collection expenses	853	731	853	731
Consulting expenses	320	625	316	622
Customer bills issue and delivery expenses	544	541	544	541
Communication expenses	415	567	387	548
Employees related expenses	292	303	278	262
Insurance	230	253	223	237
IT maintenance and related services	154	162	143	174
Membership fee	215	170	215	170
Transport expenses	148	98	131	118
Advertising expenses	133	84	132	83
Audit expenses	73	73	64	67
Stationery and post expenses	43	63	42	61
Rent of equipment and machinery	21	25	5	5
Other expenses	1,355	1,194	1,386	1,153
	<u>9,598</u>	<u>8,908</u>	<u>9,360</u>	<u>8,708</u>

18. Other activities income and expenses

	Group		Company	
	2010	2009	2010	2009
Income from other operating activities				
Miscellaneous services	1,785	977	1,530	903
Materials sold	377	93	377	132
Gain from sale of non-current assets	6	4	6	96
Other	34	40	22	33
	<u>2,202</u>	<u>1,114</u>	<u>1,935</u>	<u>1,164</u>
Expenses from other operating activities				
Cost of miscellaneous services	(1,180)	(567)	(645)	(545)
Cost of materials sold	(29)	(168)	(29)	(208)
Write off of non-current assets	(119)	(81)	(119)	(81)
Loss from sale of non-current assets	-	(5)	-	(6)
Other	(21)	(4)	(15)	-
	<u>(1,349)</u>	<u>(825)</u>	<u>(808)</u>	<u>(840)</u>

19. Finance income

	Group		Company	
	2010	2009	2010	2009
Interest from late payment of accounts receivable	1,704	1,571	1,704	1,571
Bank interest	2	3	2	3
Change in fair value of derivative financial instruments	308	-	308	-
Other	10	2	10	2
	<u>2,024</u>	<u>1,576</u>	<u>2,024</u>	<u>1,576</u>

20. Finance costs

	Group		Company	
	2010	2009	2010	2009
Interest on bank loans and overdrafts	(2,177)	(3,269)	(2,175)	(3,264)
Impairment loss of non-current financial assets	(196)	-	(691)	-
Change in fair value of derivative financial instruments	-	(220)	-	(220)
Penalties	(30)	(121)	(30)	(121)
Other	(2)	(1)	(1)	(1)
	<u>(2,405)</u>	<u>(3,611)</u>	<u>(2,897)</u>	<u>(3,606)</u>

21. Income tax

	Group		Company	
	2010	2009	2010	2009
Components of the income tax expense				
Current income tax for the reporting year	-	-	-	-
Deferred income tax (expenses)	(3,521)	(2,118)	(3,521)	(1,895)
Income tax (expenses) recorded in the statement of comprehensive income	<u>(3,521)</u>	<u>(2,118)</u>	<u>(3,521)</u>	<u>(1,895)</u>

As of 31 of December 2010 and 2009 deferred income tax asset and liability were accounted for by applying 15% rate (refer to Note 2.20.). All changes in deferred tax are reported in the statement of comprehensive income.

Deferred income tax consists of:

	Group		Company	
	2010	2009	2010	2009
Net deferred income tax asset				
Tax loss carry forward	679	1,717	679	1,717
Accruals	369	358	369	358
Differences of depreciation	-	65	-	65
The change in value of financial assets	29	-	29	-
Deferred income tax asset	<u>1,077</u>	<u>2,140</u>	<u>1,077</u>	<u>2,140</u>
Deferred income tax liability				
Differences of depreciation	(6,334)	(2,613)	(6,334)	(2,613)
Investment incentive	(294)	(1,557)	(294)	(1,557)
Revaluation of the assets transferred to subsidiary	-	-	(669)	(669)
Deferred income tax liabilities	<u>(6,628)</u>	<u>(4,170)</u>	<u>(7,297)</u>	<u>(4,839)</u>
Deferred income tax, net	<u>(5,551)</u>	<u>(2,030)</u>	<u>(6,220)</u>	<u>(2,699)</u>

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

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

	Group		Company	
	2010	2009	2010	2009
Profit before tax	7,688	8,522	7,258	8,823
Income tax (expenses) calculated at statutory rate	(1,153)	(1,704)	(1,452)	(1,764)
Change in deferred income tax due to change in tax rate	-	674	-	897
Permanent differences and impact of valuation allowance of deferred income tax asset	(2,368)	(1,088)	(2,069)	(1,028)
Income tax (expenses) reported in the statement of comprehensive income	<u>(3,521)</u>	<u>(2,118)</u>	<u>(3,521)</u>	<u>(1,895)</u>
Effective rate of income tax (%)	45.80	24.85	48.51	21.15

22. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2010	2009	2010	2009
Net profit	4,167	6,404	3,737	6,928
Number of shares (thousand), opening balance	42,618	19,918	42,618	19,918
Number of shares (thousand), closing balance	42,732	42,618	42,732	42,618
Average number of shares (thousand)	42,706	29,376	42,706	29,376
Basic and diluted earnings per share (LTL)	0.10	0.22	0.09	0.24

23. Financial assets and liabilities and risk management

Credit risk

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

Customers number

	31 December 2010	
	Group	Company
Citizens	115,093	114,929
Other	2,130	2,028
Municipalities and other government institutions	362	325
	<u>117,585</u>	<u>117,282</u>

Considering trade and other accounts receivables, the terms of which is still not expired and their depreciation as of date of financial statements is not determined, according to Management opinion there is no indications that debtors will not fulfill their payment liabilities, because a balance of receivables are controlled constantly. The Group and the Company considers that maximum risk is equal to the sum of receivables from buyers and other receivables, less recognized impairment losses as of the balance sheet date (note 8).

Cash and cash equivalents in banks, which were evaluated in accordance with long-term borrowing ratings*):

	31 December 2010		31 December 2009	
	Group	Company	Group	Company
A	1,420	1,370	1,044	1,008
A+	100	100	63	63
AA-	3	3	389	389
B+	7	7	2	2
-	62	62	43	43
	<u>1,592</u>	<u>1,542</u>	<u>1,541</u>	<u>1,505</u>

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

The Group and the Company do not guarantee obligations of the other parties in 2010 and in 2009.

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

Interest rate risk

All of the Group's and the Company's borrowings are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2010 and 2009 to manage variable rate risk the Company has entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

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

	Increase/decrease in basis points	Effect on profit before tax
2010		
LTL	+200	(201)
LTL	-200	201
EUR	+50	(198)
EUR	-50	198
2009		
LTL	+200	(253)
LTL	-200	253
EUR	+50	(155)
EUR	-50	155

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as of 31 December 2010 were 0.93 and 0.88 respectively (1.04 and 0.97 as of 31 December 2009). The Company's liquidity and quick ratios as of 31 December 2010 were 0.93 and 0.88, respectively (1.05 and 0.97 as of 31 December 2009).

To solve all liquidity issues the Group and the Company implement the following action plan:

- The price effective from 1 December 2008 and the price effective from 1 June 2009 include costs for fuel and heat energy purchased that were actually incurred during the previous period but not yet covered. From 1 October 2009, the heat price for consumers is calculated using two components. A constant component of the heat price remains unchanged for the period during which the recalculated heat price is valid. Only a variable component changes depending on changes in fuel prices thus allowing the Company to reduce possible losses in case of rise in fuel prices.
- The Company attempts to receive part of investments funds from the EU Structural Funds. The Company has submitted 9 projects, the support for five of them (50% of the cost of the project, but not more than LTL 6 million) was received as described in note 13;
- Non-priority investments are suspended;
- Considering the current situation the Group and the Company started reduce expenses: the plan of reducing production and supply losses is being currently implemented;
- The analysis of cash flows are done regularly, fulfillment of finance needs is planned and organized.

The table below summarizes the maturity profile of the Group's financial liabilities as of 31 December 2010 and 2009 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	11,054	19,196	31,073	2,525	63,848
Trade payables	60,524	454	3	-	60,981
Balance As of 31 December 2010	71,578	19,650	31,076	2,525	124,829
Interest bearing loans and borrowings	6,731	17,724	36,344	3,240	64,039
Trade payables	39,116	2,334	52	-	41,502
Balance As of 31 December 2009	45,847	20,058	36,396	3,240	105,541

The table below summarizes the maturity profile of the Company's financial liabilities As of 31 December 2010 and 2009 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	4 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	11,045	19,170	31,063	2,525	63,803
Trade payables	60,520	454	3	-	60,977
Balance As of 31 December 2010	71,565	19,624	31,066	2,525	124,780
Interest bearing loans and borrowings	6,731	17,670	36,299	3,240	63,940
Trade payables	39,300	2,224	5	-	41,529
Balance As of 31 December 2009	46,031	19,894	36,304	3,240	105,469

Foreign currency risk

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

Monetary assets and liabilities denominated in local and foreign currencies as of 31 December 2010 were as follows (stated in LTL):

	Group		Company	
	Assets	Liabilities	Assets	Liabilities
LTL	81,357	75,560	81,256	75,226
EUR	90	50,502	90	50,502
	81,447	126,062	81,346	125,728

Fair value of financial instruments

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

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

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

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

Capital management

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2010 and 2009, except for increase in share capital paid by contributions in kind as disclosed in Note 1.

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

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

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Non-current liabilities (including deferred tax and grants (deferred income))	56,165	53,659	56,824	54,284
Current liabilities	93,455	70,205	93,132	69,973
Liabilities	149,620	123,864	149,956	124,257
Equity	257,142	255,882	260,585	259,755
Debt* to equity ratio (%)	58.19	48.41	57.55	47.84

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

Market risk

External risk factors that make influence the Group's and the Company's main activity:

- Economical crisis,
- Increase of fuel prices,
- Unfavorable law and legal acts of Government and other institutions, decisions of local municipality,
- The politics of selling production prices,
- Inflation and common economical recession that reduces the income of heat consumers,
- The cycle of activity,
- Environmental requirements.

More detailed information about risk factors is presented in Annual report.

24. Commitments and contingencies

The Company participates as a third part in the administrative litigation regarding the UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) complaint on the Commission decree "On the KTE heat production base price fixing" annulment on 24 October 2008. KTE claims that the heat production price, calculated on 30 June 2003 according to the terms of Heat energy purchase and sales agreement, should continue to be applied, not the revised price determined by the Commission. Based on the Civil Code of the Republic of Lithuania, decrees of the courts of the Republic of Lithuania and responses of Kaunas city municipality and the Commission, the Company believes that the Heating Law of the Republic of Lithuania which came into force on 1 January 2008 prevails over the Heat energy purchase and sales agreement signed on 30 June 2003 by the Company and KTE, therefore the possibility that the claim will be set by KTE is remote and no provision related to this possible case was recognized in the Group's and the Company's financial statements. At the date of issuance of these financial statements all claims were rejected by Vilnius County

Court and KTE appealed against these decisions. The Lithuanian Supreme Administrative Court investigated all of the claims and rejected them.

On 31 March 2003 the Investment agreement between the Company and KTE was signed. As KTE fails to fulfill obligations assumed with regard to the amount of investments in due time and according to this agreement KTE is committed to pay to the Company a fine of LTL 17.7 million of the amount of unimplemented investments, the parties initiated negotiations with the purpose of amending the investment agreement and the term of investments. As at 31 of December, 2009 an agreement acceptable to both parties regarding the amendment of the investment agreement was not reached. The dispute over the amount of LTL 17.7 million is being solved in the Arbitration Court at the Association International Chamber of Commerce – Lithuania. The decision adopted in these proceedings is described in Note 26.

25. Related parties transactions

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

In 2010 and 2009 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

In 2010 and 2009 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and the balances at the end of the year were as follows:

2010	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	974	30,383	20,231	185
Jurbarkas city municipality	4	2,168	716	-
2009	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	443	24,597	15,063	18
Jurbarkas city municipality	3	1,866	278	37

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

2010	Purchases	Sales	Receivables	Payables
Pastatų priežiūros paslaugos UAB	1,247	133	308	80
2009	Purchases	Sales	Receivables	Payables
Pastatų priežiūros paslaugos UAB	1,546	347	396	94

Remuneration of the management and other payments

As at 31 December 2010 and 2009 the Group's and the Company's management team comprised 6 and 4 persons respectively.

	Group		Company	
	2010	2009	2010	2009
Key management remuneration	450	494	350	338
Post-employment benefits paid	-	93	-	93
	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Calculated post-employment benefits	53	44	53	44

In 2010 and 2009 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

26. Post balance sheet events

On 3 of March 2010 the Company submitted three investment projects before the National Control Commission for Prices and Energy, according to whom the biofuel-fired cogeneration power plant at Petrašiūnai site and biofuel combustion units in Inkaras and Noreikiškės boiler houses are planned to be mounted. The projects were presented to the Commission after Kaunas city municipality Council accepted a partial investment plan of the Company for the period of 2012 – 2015 years. It's assumed, that projects are going to be partially financed from the Company resources, from borrowings and from European Structural funds support.

On 17 of February 2010 Vilnius Commercial Arbitration Court investigated a civil case due to fulfillment of Investment agreement between the Company and UAB Kauno termofikacinė elektrinė (hereinafter - KTE) and has made a decision to award a fine in amount LTL 5,420 thousand from KTE to the Company. Due to this decision KTE had placed a complaint to Lithuanian Court of Appeal, which denied this complaint by its decision from 19 of October 2010 and has left the decision of Vilnius Commercial Arbitration Court unchanged. On 8 of November, 2010 KTE had placed a cassation complaint to Lithuanian Supreme Court regarding cancellation of decisions of Arbitration court and of Court of Appeal. On 14 of March 2011 the Lithuanian Supreme Court has dismissed a cassation complaint of KTE by its final decision and has left unchanged the decision of Vilnius Commercial Arbitration Court from 17 of February 2010 and the decision of Lithuanian Court of Appeal from 19 of October 2010.

On 3 of November 2010 the Company had placed a second claim regarding an additional forfeit in amount LTL 12,352 thousand from defendant KTE due to the wrong fulfillment of the Investments agreement. On 18 of February 2011 a preliminary session of Vilnius Commercial Arbitration Court took place, and the court session in which the case is planned to be investigated substantially, is appointed on 17 of June 2011.

Due to preventive claim, which was placed to Vilnius Commercial Arbitration Court by KTE on 24 of August 2010 applying to forbid the Company to terminate ex-parte a purchase agreement of Power plant, an agreement of purchase of Heat energy and the Investments agreement until defendant will terminate his contrary liability breach according to 14 chapter of Heat energy purchase agreement and the decision regarding a compensation of plaintiff and his shareholders lesion, which could be made by defendant's contrary liability breach, including but not limiting an acceptance and implementation of decision, which can be made by *ad hoc* negotiations or by investment issue order, will be made, a preliminary session of Vilnius Commercial Arbitration Court took place on 21 of January 2011 and the court session in which the case is planned to be investigated substantially, is appointed on 16 of May 2011. On 21 of January 2011 Kaunas city vicinity court by it's decision used interim measures (hereinafter - IM) on behalf of KTE and obligated the Company to restrain from unilateral (not appealing to the court) terminating of above mentioned agreements while investigation of the arbitration case is going on.

Though the decision is appealed against Kaunas district court, but IM are applied since the moment when the decision is made and the Company has already got a bailiffs' order regarding implementation of obligation.

AB KAUNO ENERGIJA CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2010



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

Translation note

This report has been prepared in Lithuanian language and in English language. In all matters of interpretations of information, views or opinions, the Lithuanian language version of this report takes precedence over the English version.

Confirmation by responsible persons to the Company's shareholders and the Lithuanian Securities Commission

Following Article No. 22 of the Law on Securities of the Republic of Lithuania and Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we hereby confirm that, to the best of our knowledge, the Consolidated Annual Report reviewed by auditors and the audited Set of Consolidated Financial Statements for the year 2010 of AB Kauno Energija (hereinafter referred to as the Company) prepared in accordance with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and all the consolidated companies, and that the Consolidated Annual Report for the year 2010 contains a fair disclosure of business development and overview of activities, the state of the Company and the consolidated companies together with the description of exposure to key risks and uncertainties.

Kauno Energija AB General Manager

Rimantas Bakas

Kauno Energija AB Chief Accountant

Violeta Staškūnienė



CONTENTS

1. Reporting period of the Consolidated Annual Report	55
2. Companies composing the group of companies and their contact data	55
3. The nature of core activities of the companies composing the group of companies	55
4. The Issuer's agreements with finance broker companies and (or) credit institutions	56
5. Trade in securities of companies composing the group of companies in regulated markets (the name of regulated market, the amount of securities in trade)	56
6. Objective overview of the state, performance and development of the group of companies, and description of exposure to key risks and uncertainties	56
7. The analysis of financial and non-financial performance results of the group of companies, information related to environmental and personnel issues	60
8. References to and additional explanations of data presented in the annual financial statements, and key features of internal control and risk management systems relating to the preparation of the consolidated financial statements	65
9. Significant events after the end of the financial year	66
10. Plans and forecasts of the activities of the group of companies	66
11. Information on research and development activities of the group of companies	67
12. Information on own shares acquired and held by the Issuer	68
13. Information on financial risk management aims, hedging instruments in use that are subject to hedging accounting, and the scope of exposure of the group of companies to price risk, credit risk, liquidity risk and cash flow risk, provided the group of companies uses financial instruments and it is important for the assessment of assets, equity, liabilities, financial position and performance results of the group of companies	68
14. Information on the Issuer's branch office and subsidiary undertakings	68
15. Structure of authorised share capital	69
16. Data on shares issued by the Issuer	69
17. Information on the Issuer's shareholders	71
18. Employees	72
19. Procedure for amending the Issuer's Articles of Association	74
20. Issuer's bodies	75
21. Members of the collegiate bodies, the company's manager, chief financier	76
22. All significant agreements, where the Issuer is one of the contractual parties, which would come into force, would be subject to amendments or termination in case of changes in controls of the Issuer, also their impact, except for those cases, when due to the nature of agreements, the disclosure of such agreements would cause significant damages to the Issuer	80
23. All agreements of the Issuer and its managerial body members or employees, which provide for compensation in case of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Issuer	80
24. Information on major transactions with related parties	80
25. Information on compliance with the Governance Code of Companies	80
26. Data on publicly declared information	80
27. Appendix 1 – AB Kauno Energija report on the compliance with the Governance Code for the companies listed on the Stock Exchange NASDAQ OMX Vilnius	82



1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Annual Report of AB Kauno Energija has been prepared, is the year 2010.

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

AB Kauno Energija (hereinafter – the Company or the Issuer) prepares both the Company's and the consolidated financial statements. The group (hereinafter – the Group) consists of the Company and its subsidiary undertaking UAB Pastatų Priežiūros Paslaugos, in which the Issuer directly controls 100% of shares.

The main data about the Company:

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

The main data about the subsidiary:

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

3. The nature of core activities of the companies composing the group of companies

The nature of core activities of the Group – production and services. AB Kauno Energija is the parent Company of the Group. The Company produces and sells heat energy to consumers in Kaunas and Jurbarkas cities and in part of Kaunas administrative districts. In addition, in small quantities it produces electric energy in Kaunas city and Kaunas district. Since 1 May 2010 the Company supplies hot water (carry out hot domestic water supplier activities) for part of multifamily residential buildings in Kaunas and Jurbarkas cities and Kaunas region (in March 2011 the number of houses reached 143, including – 3 in Kaunas region and 5 in Jurbarkas). The Group and the Company carry out supervision of indoor heat and (or) hot water supply systems, maintenance of heating substation facilities, repairs of buildings and constructions, repairs of heating substations and other heating facilities, provides rental services of transport and premises, and other services to individuals and legal entities in relation to the supervision and maintenance of heat economy. The Group and the Company are engaged in licensed activity in accordance with the licenses held.



4. The Issuer's agreements with finance broker companies and (or) credit institutions

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

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

As of 31 December 2010, the 20,031,977 of Issuer's ordinary registered shares (twenty million thirty one thousand nine hundred seventy seven) (VP ISIN code LT0000123010) with total nominal value equal to LTL 120,191,862 (one hundred and twenty million one hundred ninety one thousand eight hundred sixty two) were included into NASDAQ OMX Vilnius Stock Exchange Baltic secondary trade list.

6. Objective overview of the state, performance and development of the group of companies, and description of exposure to key risks and uncertainties

Chart 1

At the end of 2010, the Group covered about 90% and 95% of heat supply market in Kaunas and Jurbarkas cities, respectively, and about 15% of maintenance of indoor heating and hot water supply systems and heat substation facilities market in Kaunas city. 2,353 enterprises and organizations, as well as consumers from 114,929 units of residential households were connected to the integrated and local heat supply network of the Company.

In 2010, the Group and the Company earned LTL 4,167 thousand and LTL 3,737 thousand profit (after tax), respectively. The Group's and the Company's income from the main activity amounted to LTL 306,856 thousand and LTL 305,441 thousand, respectively. The major part of income was generated from sales of heat: the Group's – 98.60%, and the Company's – 99.07%.

The mission of the Company is to be a profitable and competitive company engaged in energy production, supply and distribution in Kaunas district. The vision of the Company is to be a company using modern, effective and environmentally friendly technologies and management approach, as well as having a positive image of the Company within the community.

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

In 2010, the Company's revenue from sales of heat reached LTL 302,602 thousand, comparing to 2009, it increased by 9.2%. (see Chart 2).

Distribution of number of the Company's heat consumers by group

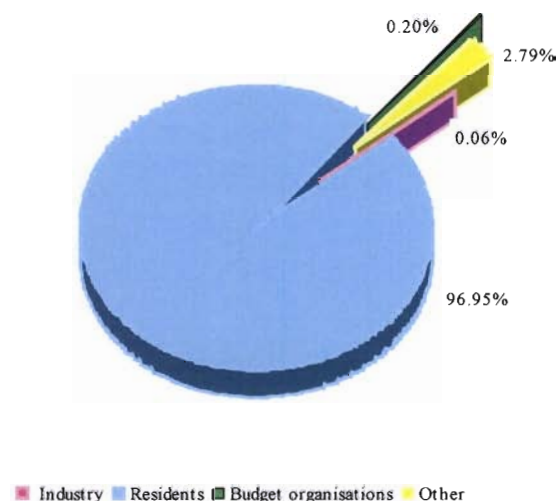
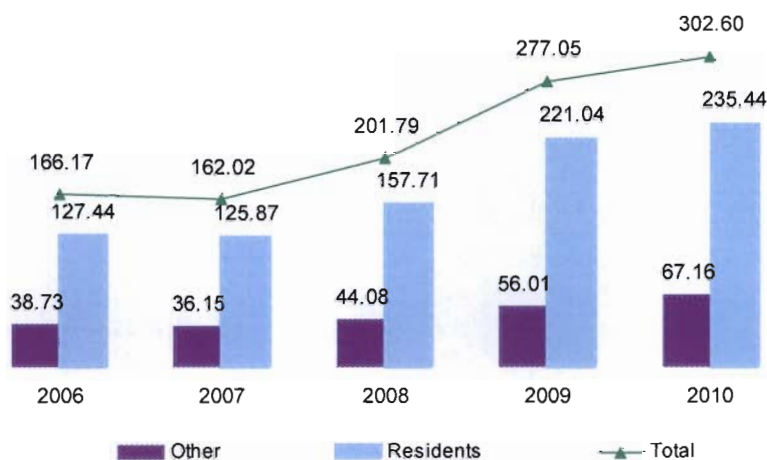


Chart 2

Heat sales income according to the groups of customers
(million LTL)



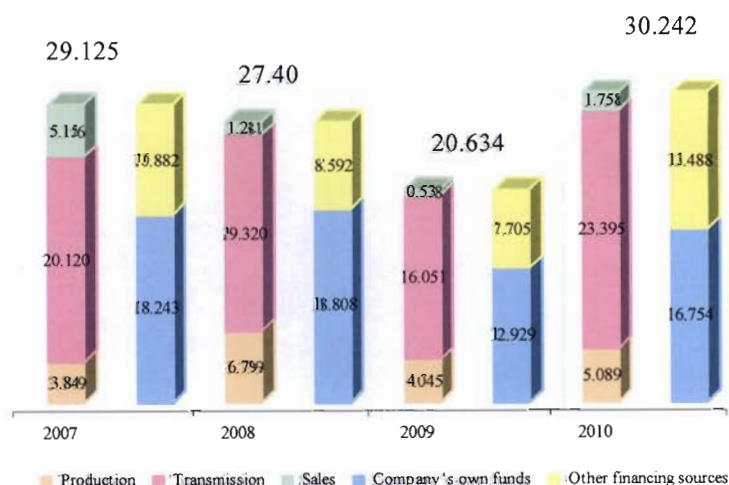
Already today it can be stated that the Group's investments into modern technologies (the automation of isolated and integrated network's boiler houses, automated consumer billing system, distant heat meters' data transfer and processing system, modern customer servicing system based on 'One Call' principle), renewal and development of heat supply pipeline help the Company to quickly adapt to changes in the market and to become an innovative company engaged in heat energy supply and maintenance of indoor engineering systems in Kaunas district.

In 2010, the Company did not implement the planned investment program. During 2010, the Company invested LTL 30,242 thousand (LTL 13,488 thousand from which represent funds from other sources, i.e. loans of commercial banks, contributions of shareholders and financial support from the European Union Structural Funds), from which LTL 682 thousand was allocated to connect 9 new consumers to the centralized heat supply networks with total capacity of 11.076 MW. During 2010, the invested funds were used to build new heat supply networks (2.468 km), and to reconstruct and repair the already existing heat supply networks 5.909 km. The Company's investments are illustrated in Chart 3.

Chart 3

For the period 2007-2010 issuer's used amount of the investment reflects the evolution of national and global macro-economic processes: in 2007 Company used LTL 29.12 million, in 2008, in the beginning of an economical slowdown processes, the amount of investments decreased to LTL 27.4 million, in 2009 investments were slightly above LTL 20 million. In 2010 investment performance increased by 46% (comparing to 2009) amounted to LTL 30.144 million. Such increase of investments can be linked to the growth of profitable Company's activity, sub-

Investment trends and sources in 2007-2010 (LTL million)



investment from the European Union structural funds, the improvement of credit terms (interest rate stabilization), the country's economic recovery following the recession and optimistic expectations.



Under the legislation regulating Company's activities Company's operating expenses are divided into heat production, transfer and sale costs. Therefore pursuing the investment program the investments are classified as investments in the heat production (when the funds are allocated to the production facilities / buildings, new construction and reconstruction projects), the heat transfer (when the funds are allocated to the heat supply networks new construction and renovation, the liquidation of group substations, heat meter installation and replacement, new customer connection projects) and heat sale (when the funds are allocated for remote metering system installation, customer's accounting and management systems, installation and upgrade).

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

Different interpretation of theoretical methodologies (International Financial Accounting and International Valuation Standards) caused a different opinion of the auditors and the Company's management concerning Company's property - the collectors - value and valuation methods. Collectors, which are non-commercial constructions and were installed with heat, hot and cold water supply pipes and other infrastructural communications, which ensure that part of the Kaunas city population have access to use quality services, defined as a public service, that means services to ensure that residents receive heat, hot and cold domestic water. There are pipelines in the collectors, such as: heat supply 61.48 km (supply and return lines), the hot domestic water supply - 56.84 km (supply and return lines), cold domestic water supply - 33.67 km. Without mentioned there are installed 169.5 km communications owned by the company AB TEO LT, 25 km electric cables owned by AB LESTO (earlier VST), 91.23 km other various telecommunication and IT service provider's cables. The purpose of collector construction (when the owner of the building was Kaunas city municipality) was to install infrastructural non-commercial facility, which would be equipped with the communication required for Kaunas city population, and these collectors were not expected to earn revenues from services to recipients of the Kaunas residents. Kaunas City Municipality in 2009 transferred to exploit these public infrastructure facilities (collectors) to AB Kauno Energija (93% of the Company's shares are owned by Kaunas city municipality). The decision indicated that collectors would be transferred to the Company's share capital, as a contribution in kind. As required by law, the property valuation was made for public infrastructural facilities - accounted for in Kaunas city balance sheet. The valuation was performed by UAB "Ober - Haus". The valuation has been carried out in accordance with the "Property valuation method" approved by Government of Lithuania Republic in 14 February 1996 resolution No. 244 "Concerning property valuation methodology", "Property and business assessment base law" 25 May 1999 law No. VIII 1202, resolution of Government of Lithuania Republic 13 December 1999 No. 1389 "On the property and business of Lithuanian Republic valuation base implementation", Property appraiser's professional code of ethics, approved by the Lithuanian Republic Auditing, accounting and valuation Institute Board in 14 September 2000 resolution No. 277, approved by European and International Valuation Standards TVS 2001, 2002, 2003; EVS 2000, 2003. The property (collectors) transferred to AB Kauno Energija were accounted for according to the value, that was determined by valuers. According to the Company, based in the State Enterprise Centre of Registers of real estate data, the value is specified in accordance with the value determined by independent assessors, which amounted to LTL 136,200 thousand, collectors' value is correct, method of determining the property - correct. This property (collectors) is a public facility to ensure the delivery of public services to Kaunas city residents, non-commercial and not for resale and depreciation of this asset is not included in the calculation of heat price. This value is accepted by all financial institutions in Lithuania, from which the Company has received loans for financing investment projects (with or without the European Union Structural Funds). In addition, there are more of examples in Lithuania, where the asset of energy facilities and infrastructure is valued by using this particular value determination method - the depreciated replacement cost method.

Economic factors. The Company engages the major centralized heat supplier's position in Kaunas district and Jurbarkas city. In order to retain it, it is important for the Company to adapt to the changing energy supply conditions, further implementing modern and efficient technologies, focusing on the quality service to the consumers.



The Group's sales directly depend on heat demand, i. e. heat energy consumption, which is mainly affected by average outdoor temperature, the consumers' investments into heat saving and rational consumption, and the growth rate of heat sales market. The dynamics of consumers' connections and disconnections is provided in Table 1.

Table 1

	2006 capacity, MW	2007 capacity, MW	2008 capacity, MW	2009 capacity, MW	2010 capacity, MW	2006–2010 capacity, MW
Consumers' disconnections	4,199	1,917	2,374	1,95	1,10	11,54
Consumers' connections	22,921	11,58	11,82	1,29	10,14	47,611

During the connection of new consumers, attention is paid to heat supply market growth opportunities. The improvement of thermal insulation characteristics of buildings and reconstruction of heating systems reduce heat demand for buildings. Seeking for rational heat consumption the consumers are able to reduce heat consumption by adjusting the necessary level of indoor temperature. Under the circumstances of economic crisis, the consumers tend to save even on the account of their comfort. Currently, economical situation has resulted in lower buying capacity of residents, slower development of commercial and services sector. In case the economical situation becomes even worse, it would affect the consumers' solvency and overall performance of heat supply and buildings' supervision services.

Inflation and overall economic recession, as well as lower incomes of heat consumers increase indebtedness of consumers, consequently, we are focused on improvement of organization of debt supervision.

Natural gas is main fuel used in the process of generation of heat and electricity energy. Increasing prices of fuel influence the heat and electricity energy production cost, as well as the purchase price of heat energy purchased from UAB Kauno Termofikacijos Elektrinė (Kaunas Heat and Power Plant).

The competition between other gas and electricity supply companies and the Group and the Company results in the disconnections of the consumers from the district heating system (during 2010 – 1.1 MW) and choosing alternative heat sources (gas, electricity or other types of fuel). The choice of the fuel type is regulated by Kaunas City Council 9 April 2009 decision No T-244 „Heat consumer facilities disconnection of heat supply system and procedure of change of the heating mode in premises or building initiated by consumer”

The Group's and the Company's management structure was changed in 2009 and adjusted in year 2010, which allowed to optimize and improve the effectiveness of the Company's operations.

The Group's and the Company's activity suffers from seasonality. During the heating season (October to April) the major part of revenue is earned from main activity, whereas during the non-heating season, the Company's heat generation capacity is not used in full, which results in the lowest revenue during this period, however, the Group and the Company have to prepare for the heating season (reconstruction and maintenance works are being implemented in the heat supply networks and boiler-houses, indoor engineering systems).

Political factors. During 2008 to 2009 there were significant changes in the laws regulating the Company's operation (the Lithuanian Law on Heat Economy (Žin., 2003, No. 51-2254; 2007, No. 130-5259; 2009, No. 10-355; 2009, No. 61-2402)) and heat pricing (*Methodology for Setting Heat Prices* (hereinafter – the Methodology) approved on 8 July 2009 by Resolution No. O3-96 of the National Control Commission for Prices and Energy (hereinafter – the Commission). According to heat energy price calculation project provided by the Company the basic price of heat supplied by Company is determined by the Commission every 4 years. The components of the basic heat price are determined in accordance with the procedure described in the Lithuanian Law on Heat for the period not shorter than 3 years and not longer than 5 years, and during the second and subsequent years they are applied by recalculating the components of heat prices. The invariable component is recalculated based on change in the cost of the adjustment factors that are affected by inflation, changes in realized heat volume, investment depreciation (amortization) and other factors that do not depend on the supplier's operation as set out in the Methodology. The invariable component is adjusted when the fuel structure is changed as set out in paragraph 80.2.1.1 of the Methodology, when the provisions of paragraph 87 of the Methodology are applicable or when electricity



generation gives profit (loss) at cogeneration power plant, it is used when reallocating the costs between heat and electricity generation in accordance with the procedure set out in the Methodology for Segregating Heat and Electricity Costs of Cogeneration Power Plants. The variable component of heat price may be adjusted based on changes in fuel structure, changes in operation efficiency tasks determined by the Commission, in accordance with the Description of Comparative Analysis approved by it and with reference to changes in electricity or consumable water prices. Based on paragraph 120 of the Methodology for Setting Heat Prices, heat prices may be set not more than every month with reference to the valid components of heat prices, when the variable component of heat price is expressed as a formula calculated in accordance with respective fuel and heat prices. In case the difference between the heat price calculated and the effective heat price is less than 5%, the latter may remain unchanged.

Hot water pricing methodology approved on 21 July 2009 by Commission Resolution No.O3-106 (Valstybės žinios, 2009, Nr. 93-4012) regulates the principles of hot water price components, pricing requirements and price estimating order.

Key exposures to financial risks and uncertainties of the Group and the Company are disclosed in Note 24 of the Consolidated and the Company's Financial Statements.

Social factors. The activity of the Group and the Company is important to many residents and companies of Kaunas district. The complaints received by the Group and the Company mostly relate to the amounts billed, low quality of services provided, insufficient attention to customers.

Technical-technological factors. The most significant internal risk is caused by the heat supply systems and their current condition. Insufficient automation level in the heat production infrastructure causes greater need of handwork. Heat supply systems maintained by the Group and the Company are reconstructed using the most advanced technologies (polyurethane-foam isolated pipes, for which there is no need for ferro-concrete channels, a simpler drainage system) and equipment aiming to increase the efficiency of those systems.

The local standards and legal acts coordinated with the European Union standards and legal acts in the field of regulation of qualitative and technical data of operation of heat supply systems oblige the Company to make significant investments into modernization of the Company's asset. The economic position of the Group and the Company still condition insufficient investments into reconstruction of heat supply networks, renovation and rehabilitation of the equipment and development of the Group and the Company.

Ecological factors. The Group and the Company follow the requirements of the Helsinki Commission (HELCOM) and the Helsinki Convention for environmental limitations for the emissions of combustion products. The main pollution sources are: pollution of the atmosphere – organic fuel burning, and water pollution. The Group and the Company pay taxes for the atmosphere and water pollution every quarter. According to the Lithuanian Republic laws fines are paid if the allowable norms of permitted pollutions and yearly limits have been exceeded. The main measures adopted by the Group and the Company for the reduction of emissions are as follows: reduction of the heat transmission losses through the installation of pipes with the polyurethane-foam insulation, implementation of new technological equipment and improvement of the existing ones, use of more environmentally friendly fuel and constant monitoring of pollution levels (in the balance of fuel, natural gas dominates – 91.53%, heavy fuel oil – 0.03%, peat – 4.54%, biogas – 0.98%, wood residues (sawdust, cutting) – 2.92%.

Repayment of bank loans: Detailed information is presented in the AB Kauno Energija Consolidated and the Parent Company's Financial Statements for the year 2010, Note 11. The Group and the Company repay loans to banks in due time.

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

It was planned in 2010 sales revenue and sales quantity of heat will be a similar level as in 2009. In 2010 sales revenue compared with 2009 increased 9.2 %. This change was mainly caused by higher sales volumes and the price of heat, which in December 2010 was 22.9% higher than in December 2009.



Heat sale in 2010 was 10% higher due to lower average annual temperatures (-0.68 C°). During the heating season the average temperature was 1.39 C° in 2009, -0.81 C° in 2010.

The comparison of financial ratios for 2010 with the ones for 2009 and 2008 is given in Table 2 below.

							Table 2
No.	Financial ratios	Company 2008	Group 2008	Company 2009	Group 2009	Company 2010	Group 2010
1	Net profitability, % (net profit /sales and services)*100	-2.1	-2.1	2.5	2.3	1.2	1.4
2	Return on tangible assets, % (net profit/average value of tangible assets)*100	-2.7	-2.6	2.9	2.7	1.2	1.3
3	Debt ratio (liabilities /assets)	0.52	0.53	0.32	0.33	0.37	0.37
4	Debt-to-equity ratio (liabilities / equity)	1.1	1.12	0.5	0.5	0.6	0.6
5	General liquidity ratio (short-term assets /short-term liabilities)	0.91	0.91	1.05	1.04	0.93	0.93
6	Asset turnover ratio (sales and services/ assets)	0.84	0.86	0.73	0.74	0.74	0.75
7	EBITDA (earnings before interest, taxes, depreciation and amortization) LTL thousand	16,825	16,987	28,909	28,790	25,974	26,577
8	Gross profit margin (gross profit/sales and services)*100	-1.1	-1.4	3.8	3.7	2.3	2.4
9	Operating margin (operating profit/sales and services)*100	-1.1	-1.4	3.8	3.7	2.3	2.4
10	Return on equity (ROE) % (net profit/average equity)*100	-3.7	-3.7	3.7	3.5	1.4	1.6
11	Return on assets (ROA) % (net profit/ average assets)*100	-1.9	-1.9	2.2	2.1	0.9	1.1
12	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.84	0.84	0.97	0.97	0.88	0.88
13	Cash ratio (cash in hand and at bank / short-term liabilities)	0.04	0.04	0.04	0.04	0.04	0.04
14	Net earnings per share (net profit/average weighted number of shares in issue)	-0.22	-0.21	0.24	0.22	0.09	0.10
15	Net profit, LTL thousand	-4,343	-4,235	6,928	6,404	3,737	4,167
16	Assets, LTL thousand	244,782	240,520	384,012	379,746	410,541	406,762
17	Equity, LTL thousand	116,627	113,277	259,755	255,882	260,585	257,142
18	Equity per share, LTL	5.9	5.7	6.09	6.0	6.1	6.0
19	Revenue from sales and services, LTL thousand	205,233	205,974	279,548	280,411	305,441	306,856
19.1	Heat energy	201,793	201,760	277,053	277,001	302,602	302,546
19.2	Electric energy	506	506	393	393	349	349
19.3	Supervision of indoor heating and hot water supply systems, heating substation facilities	2,934	3,708	1,450	2,365	566	2,037
19.4	Income from emission permits and maintenance of collectors	-	-	535	535	439	439
19.5	Hot water supply	-	-	-	-	1,485	1,485
19.6	Income from Emission Allowances trading	-	-	117	117	-	-
20	P/E ratio (the last share market price of the year /(net profit/number of shares at year-end)	-9.17	-9.41	10.18	11.01	23.68	21.24



21	Share capital, LTL thousand	119,510	119,510	255,710	255,710	256,392	256,392
22	Share capital-to-assets ratio	0.49	0.49	0.67	0.67	0.62	0.63
23	Return on equity (capital) (net profit/ capital and reserves)*100	-3.6	-3.5	2.7	2.5	1.5	1.6

Chart 4

The comparison of the Company's financial results for 2010 (sales revenue, operating profit, net profit) with those for 2006 - 2009 is given in Chart 4.

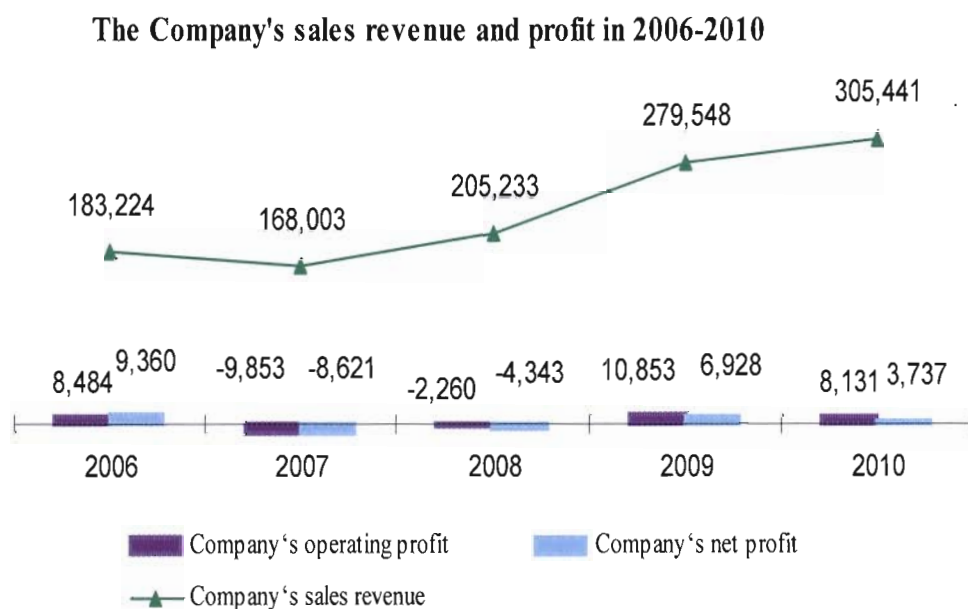
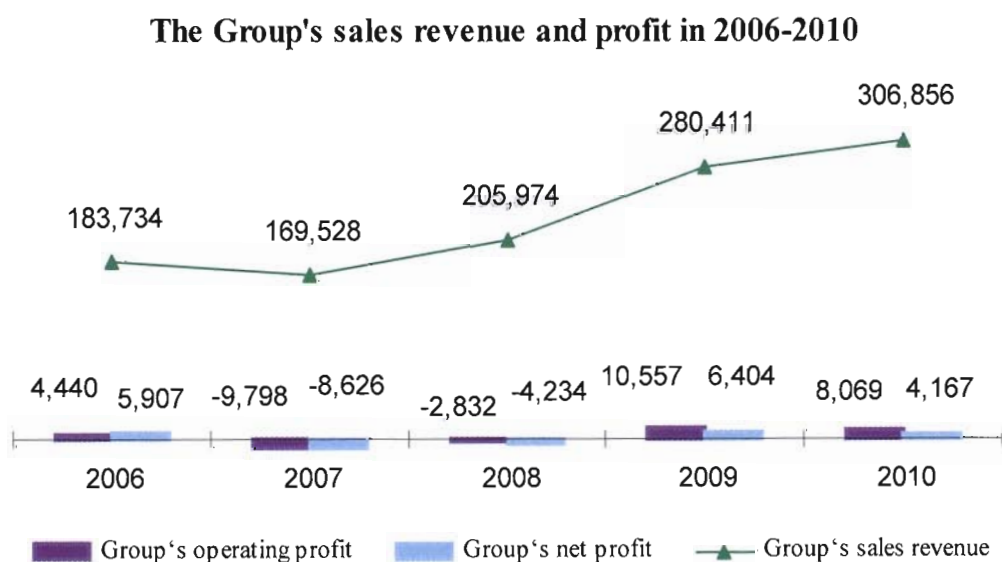


Chart 5

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



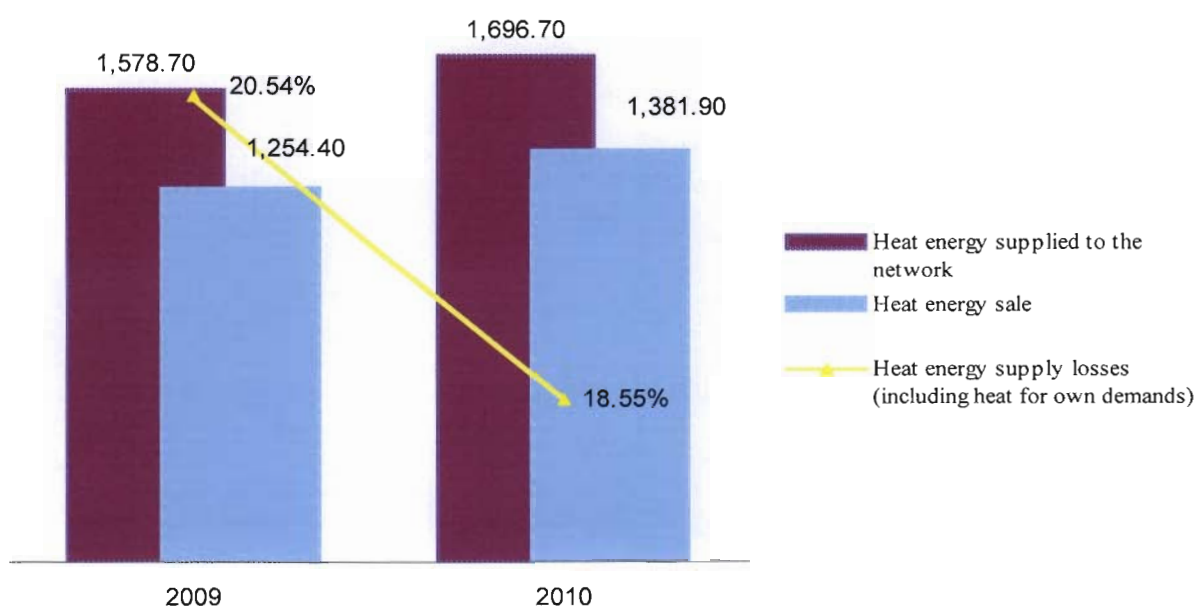
The comparison of non-financial indicators for 2010 with the ones for 2008 - 2009 is given in Table 3 below.

Table 3

No.	Non-financial indicators	Measure units	Company 2008	Group 2008	Company 2009	Group 2009	Company 2010	Group 2010
1.	Energy produced and purchased: from which supplied to the network	thousand MWh	1,631.2	1,631.2	1,601.8	1,601.8	1,698.0	1,698.0
1.1.	Heat energy	thousand MWh	1,607.1	1,607.1	1,578.7	1,578.7	1,696.7	1,696.7
1.2.	electric energy	thousand MWh	2.3	2.3	1.3	1.3	1.3	1.3
2.	Energy sold	thousand MWh	1,280.7	1,280.5	1,255.7	1,255.7	1,383.2	1,382.9
2.1.	Heat energy	thousand MWh	1,278.4	1,278.2	1,254.4	1,254.4	1,381.9	1,381.6
2.2.	Electric energy	thousand MWh	2.3	2.3	1.3	1.3	1.3	1.3
3.	Heat supply networks reconstructed	m	5,068	5,068	3,599	3,599	6,030	6,030
4.	Heat supply networks newly constructed	m	1,861	1,861	340	340	2,470	2,470
5.	Maintenance of indoor heating and hot water supply systems (area maintained)	m ²	898,465	1,133,182	249,823	896,276	235,796	870,780

Chart 6

Heat supply to the network (thousand MWh) and conditional losses (%)
in 2009-2010



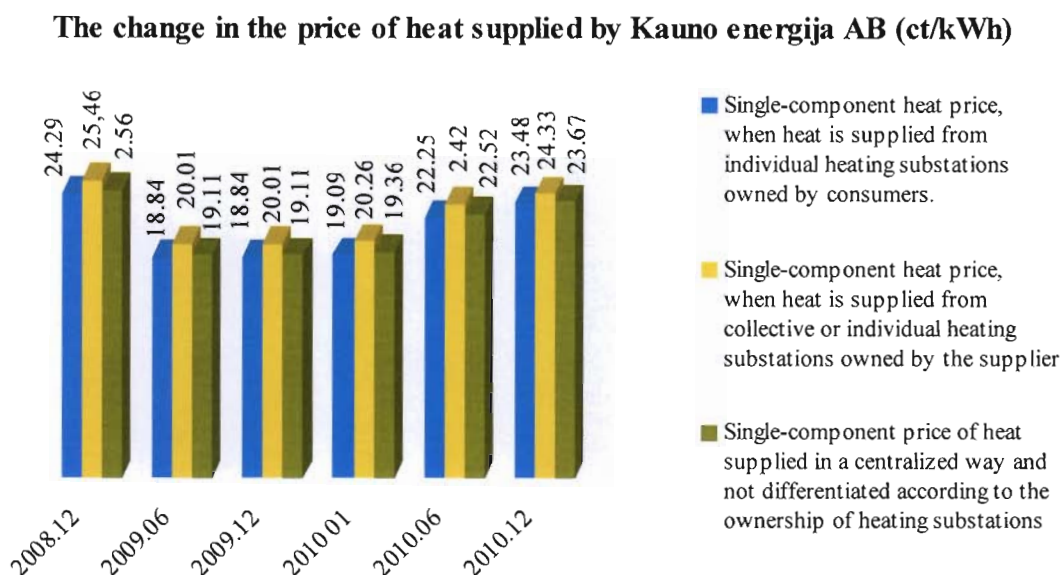
Environmental impact on operation. The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumers' investments into renovation of



buildings, heat saving and rational consumption, average higher of lower outdoor temperature during the heating season, changes in fuel prices, heat purchase price from independent producers.

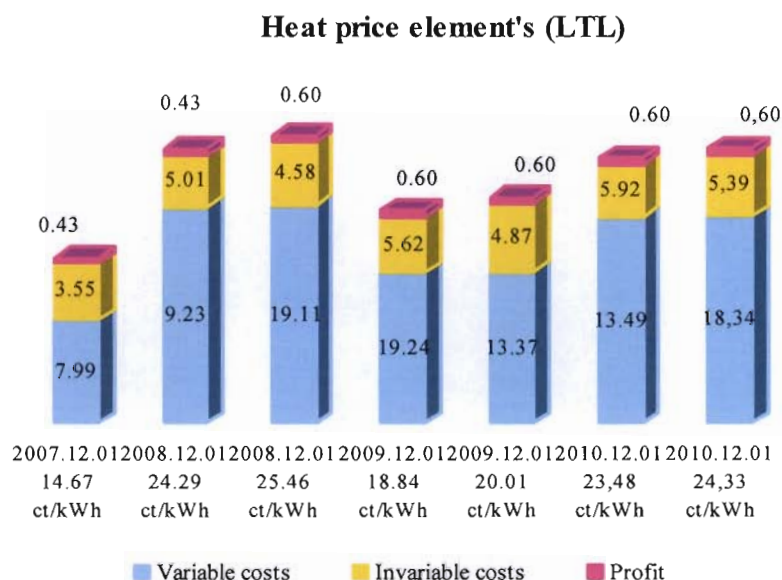
The change in the prices of heat supplied by the Company during 2008 to 2010 is demonstrated in Chart 7.

Chart 7



Structure of the elements of heat price during 2008 - 2010 are given in Chart 8.

Chart 8



The average price of heat purchased by the Company in 2010 compared with 2009 increased by 0.58 ct/kWh (4.6%) and was 13.11 ct/kWh.

Environmental issues: when performing their activities the Group and the Company seek not to waste natural resources, implement more environmentally friendly technologies, follow the requirements of legislation regulating environment protection issues, and apply preventive measures that help mitigate negative impact on environment.



Waste management: the Group and the Company have implemented the processes relating to internally-generated waste collection, sorting and transfer to waste management entities, i. e. companies that have waste management licenses. During 2010, the Group and the Company transferred for recycling 114.501 tones of mixed household waste, 0.283 tones of mercury lamps, 0.18 tones of electric and electronic equipment waste, 2.24 tones of heavy fuel oil and diesel waste, 483.785 tons of scrap and 1.56 tones of used tires.

Waste water management: the Group and the Company continuously monitor whether waste water quantities from stationary pollution sources are in compliance with the established allowable limits as set out in pollution integrated prevention and control permits, in accordance with the Schedule agreed with Kaunas Regional Environment Protection Department.

Atmosphere pollution: the Group's and the Company's stationary air pollution sources measurement laboratory acting under the permit issued by the Environment Protection Agency, continuously monitors whether release of pollutants to atmosphere from stationary pollution sources are in compliance with the established allowable limits as set out in pollution integrated prevention and control permits. Biofuel is burned at Ežerėlis, Girionys and Noreikiškės boiler-houses reducing the atmosphere pollution. Table 4 below contains the comparison of quantities of pollutants released to atmosphere from the Company's stationary air pollution sources during 2010, with 2007 - 2009.

Table 4

Type of pollutant	Solid particulate matters	Nitrogen oxides	Carbon monoxide	Sulphur dioxide	Hydro-carbon	Vanadium pentoxide	Other
Emitted in 2010, t	8.4833	65.8444	146.8925	7.3386	2.6571	0.000	0.4397
Emitted in 2009, t	9.700	72.700	179.800	8.900	3.400	0.000	0.400
Emitted in 2008, t	12.959	67.094	209.778	12.404	27.607	0.007	0.440

The cyclones were installed in Ežerėlis and Girionys boiler-houses in order to remove solid particulate matters from fume, and the efficiency of their operation is checked every year. The Company participates in greenhouse gas emission trading scheme, which encompasses Petrašiūnai Power Station, Pergalė boiler-house, Šilko boiler-house, Garliava boiler-house, Noreikiškės boiler-house together with cogeneration power plant, branch office Jurbarko Heat Networks.

Personnel issues: management pays special attention to the improvement of work efficiency and service of consumers. The levels of professional qualification of management members and specialists correspond to their current duties. The length of service of other employees and practical knowledge of subject matter enable them to retain their current positions. The turnover of employees is not a significant problem in the Group and the Company, however, a certain need for qualified specialists can be identified.

8. References to and additional explanations of data presented in the annual financial statements, and key features of internal control and risk management systems relating to the preparation of the consolidated financial statements

All main financial data has been presented in the financial statements and notes for the year 2010.

Internal control over consolidated financial statements. When preparing its consolidated financial statements, the Company combines the financial statements of the Company and its subsidiary line-by-line, by summing up the items of assets, liabilities, equity, revenue and expenses. Afterwards, it eliminates: the book value of the Company's investment into the subsidiary and the Company's share of equity in the subsidiary; balance sheet balances, transactions, income and expenses inside the group. For this purpose, it prepares a reconciled report of all transactions, income and expenses for the period; difference in depreciation of contribution in kind measured at market value as compared to its book value.

For the purpose of preparing the consolidated financial statements of the group, the financial statements of the Company and the subsidiary are prepared as of and for the same date.

The Company's and the subsidiary's accounting policy is checked to determine whether it is the same when accounting for similar transactions.



The subsidiary's income and expenses are included into the consolidated financial statements as of the date of acquisition.

9. Significant events after the end of the financial year

The Company's audit for year 2010 performs an independent auditing firm, in the Second Ordinary Shareholders Meeting in 13 May 2010 the audit company UAB "Deloitte Lietuva" (Audit Certificate Nr.111473315, J.Jasinskio st. 16B, LT - 01112 Vilnius) have been elected to audit the consolidated and Company's financial statements for the years 2010 – 2012.

In 21 February 2011 a Board meeting of AB Kauno Energija was held, which was the subject of "Concerning the AB Kauno Energija Board 24 November 2010 decision "Concerning the joint venture" change and addition". AB Kauno Energija Board, considering AB Lietuvos Energija board's decision made in 11 February 2011 concerning the acquisition of Project company's shares part, reconsidered and changed the decision, approved earlier on 24 November 2010 No. 2010-33-2 "Concerning the joint venture" in case to make further steps for establishing the joint venture. In the above-mentioned Board meeting it was decided to replace AB Kauno Energija Board's decision's paragraph 2, made in 24 November 2010 No. 2010-33-2 "Concerning the joint venture", changing the Project company's shares number and set that: (i) AB Kauno Energija will acquire 33% and AB "Lietuvos Energija" - 67% of the Project company's shares and voted in general shareholders meeting; (ii) the share capital of the currently established Project company will be LTL 200,000 LTL (two hundred thousand LTL), the cost of the issuance of Project company's shares - LTL 200,000 (two hundred thousand LTL); (iii) the name of the Project company and the other Project company's details (including project company's management structure) will be determined in the Project company's establishment contract and statutes. Also, due to the mentioned decision, it was appointed for a working group (formed by the Company) in the project of the statutes, to foresee, that the majority of qualified general shareholders' votes, required by the Lithuanian Law on Companies Article 28, paragraph 1, shall be not less than 3/4 of all the shareholders, attending in the shareholders meeting with voting rights and decision-making, while according to the Law on Companies of Republic of Lithuania, the 28 article, paragraph 2 requires no less than four 4/5.

31 March 2011 the audit of year 2010 was completed. It was performed by Auditor Simonas Rimašauskas (auditor's certificate No. 000466). Audited financial statements and independent auditor's report concerning year 2010 accompany the Company's annual report.

Lithuanian Business Support Agency on 8 March 2011 reported the completion of valuation of applications fro "heat supply system modernization and development" (Call no. 02) assessment. All four AB "Kauno Energija" applications for more than LTL 6.36 million EU support were assessed as eligible. If requested assistance is approved, it would be used for reconstruction of district heating networks in Kaunas Dainava (1T), Aukštieji Šančiai (2Z), Vilijampole (9K) and Šilainiai (1Z) districts. All four applications met the assessment of administrative compliance, as well as eligibility and benefits, and quality assessment criteria. The support will still have to be approved by the Ministry of Economy.

10. Plans and forecasts of the activities of the group of companies

In their future activity plans, the Group and the Company intend to further increase the efficiency of activity and to improve consumer service. In 2011, there are plans to continue the optimization and efficiency improvement of the Company's performance, carry out supervision of buildings heating and hot water supply systems, maintenance of heating substations and underground collectors - manifolds.

Investments create a strong potential for the sustained business development and profitability. The aim of the Group's and the Company's investment program for the year 2011 is to further develop the Company's heat production, transmission and distribution through increase of heat supply reliability, expansion of maintenance services of engineering systems and improvement of services quality.

The major part of investments in 2011 is planned for the reconstruction and repair of heat supply networks, laying of new networks, closing of collective heating substations. In 2009 - 2010 the Company signed



agreements on financial support from structural funds, and the following projects will be implemented during 2011: (i) Complex reconstruction of Kaunas main heat supply networks 6T (unique No.1998-4014-3019), located at Kuršių str. 49C, Jonavos str. between NA-7 and NA-9, and of the networks under the bridge over the Neris laid through the highway Vilnius–Klaipėda beside Kaunas, for the purpose of improving reliability by implementing modern technologies second stage. Amount of investments is LTL 1.298 million, the EU's financial support contracted for LTL 0.78 million; (ii) Reconstruction of Kaunas city integrated network Centre main (4T). The project value amounts to LTL 12.25 million, the EU's financial support contracted for LTL 5.98 million; (iii) Reconstruction of Kaunas city integrated network Žaliakalnis main (4Ž). The project value amounts to LTL 5.69 million, financial support expected from the EU amounts to LTL 2.78 million.

In addition, there are plans to further develop the project, which was started back in 2004, for the implementation of distant data collection equipment for the existing and new consumers, since the implementation of these systems is further developed in heating substations located in blocks of flats and individual houses, as well as in other objects. This project is further developed to be able to monitor the quantities of heat produced, purchased and consumed in real time, to monitor heat losses and to ensure an effective management of heat networks and performance control, as well as technical parameters necessary to make certain decisions.

The implementation of investment plans in 2011 will involve: further modernization of boiler-houses owned by the Company, making the production process automated and mounting condensing economizers; reconstruction of heat networks; replacement of heat meters; repairs of underground collectors and other important works. Besides it is planned to implement solar heating project - in amount of LTL 90 thousand. The implementation of these measures will allow to reduce heat production, transmission and selling losses and to perform optimization of heat supply to the consumers.

There is prepared Partial investment plan and its financing sources of AB Kauno Energija for the period 2010-2015, implementing the National Renewable Energy Development Strategy action plan provisions, key objectives of the company and attitudes of National Energy Strategy related with heat sources and heat supply network security technical requirements, which guarantee the quality of heat supply to consumers. Kaunas city municipal council approved the projects "Installation of biofuel cogeneration power plants in Noreikiškės and Inkaras boiler houses", "Biomass burning boiler with up to 44 MW heat with 16 MW power steam turbine projection and reconstruction in Petrašiūnai Power Plant" and intended them in mentioned investment plan in amount LTL 168.72 million.

However, it is important to note that the large flow of investment funds targeting acquisition the heat using bio-fuels sources, could lead to ambiguous results (especially if investments are financed with borrowed funds) because there is a real possibility in future increases in demand for biofuel and rising prices. Otherwise an unstable geopolitical situation may cause fossil fuel prices growth scenarios. It is clear that the increasingly expensive fossil fuels will increase the heat production costs (currently in the futures markets prices increase of crude oil and natural gas is observed), and at the same time increase the price for purchased heat. In order to maintain an optimal balance in planning and implementing investment projects the Group pays a great attention to political and market trend forecasting and analysis.

It is planned that the Group's sales revenue and quantity of heat sold to consumers in 2011 will be lower compared to 2010. The Group's revenue and expenses will be mostly affected by changes in fuel price and heat purchase price, since the heat price is recalculated every month as prescribed by relevant regulatory legislation. The Group's profit is expected to be in the same level as in 2010. However, such forecasts may be affected by changes in heat demand, i.e. consumption level, which depends mostly on the average outdoor temperature, the scope of investments by consumers into the renovation of the blocks of flats, heat saving and rational consumption, as well as the changes of economic situation in Lithuania.

11. Information on research and development activities of the group of companies

In 2008, by the order of the Company the Lithuanian Energy Institute accomplished its research project *The Strategy of AB Kauno Energija for the Development of Heat Supply System during the Period from 2007 to 2020*. According to the Terms of Reference prepared by the Company, the Institute assessed the Company's technical, economic and financial condition. These assessments were presented in a study on the



Assessment of AB Kauno Energija Technical and Economic Condition prepared by Energetikos Linijos UAB, as well as in a study on the *Assessment of AB Kauno Energija Financial Condition and Structure, and Recommendations for Further Development* prepared by Savvin UAB.

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

In 2010 on behalf of the Company Kaunas University of Technology has prepared Petrašiūnai Power Business Plan in which Company's heat sources assessment is made, as well as the analysis of the heat supply role of heat sources, made in the Kaunas city integrated network at the moment and in the future. Particular attention in this plan is paid for Petrašiūnai Power Plant study of current state and analysis of perspectives of this Power Plant.

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

Neither the Company, nor its subsidiary had acquired the Company's own shares. During the reporting period, neither the Company, nor its subsidiary had purchased or sold own shares.

13. Information on financial risk management aims, hedging instruments in use that are subject to hedging accounting, and the scope of exposure of the group of companies to price risk, credit risk, liquidity risk and cash flow risk, provided the group of companies uses financial instruments and it is important for the assessment of assets, equity, liabilities, financial position and performance results of the group of companies

All relevant information on this issue is presented in Notes 2.15, 8, 23, 24 to the financial statements for the year 2010.

14. Information on the Issuer's branch office and subsidiary undertakings

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

On 17 October 2007 AB Lietuvos Dujos implemented the provisions of the Agreement signed in 2006 by AB Lietuvos Dujos, Jurbarkas district municipality and the Company for the Performance of Gas-fitting Works in Jurbarkas City, and the adaptation of boiler-house of the Company's branch office Jurbarko Šilumos Tinklai for burning natural gas was finished, which enabled to improve heat production and supply reliability. The Company avoided the need to burn heavy fuel oil with high content of sulphur at the same time avoiding emission of pollutants in excess of permitted emission levels. In 2009 the construction of condensing economizer was completed in the boiler-house of the Company's branch office Jurbarko Šilumos Tinklai.

At the end of 2010, the Company's branch office Jurbarko Šilumos Tinklai had 35 employees.

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

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

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

As at 31 December 2010, the Company's subsidiary had 65 employees.



15. Structure of authorized share capital

As of 31 December 2010 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and nineteen one thousand eight hundred sixty-two).

The Issuer's share capital structure by type of shares is presented in Table 5.

Table 5

Type of shares	Number of shares, units	Par value, LTL	Total nominal value, LTL	Ownership interest of municipalities, %	Ownership interest of individual shareholders, %
Ordinary registered shares	42,731,977	6	256,391,862	98.33	1.67
Total:	42,731,977	6	256,391,862	98.33	1.67

16. Data on shares issued by the Issuer

As of 31 December 2010 the registered authorized capital is LTL 256,391,862 (Two hundred and fifty six million three hundred and nineteen one thousand eight hundred sixty-two) and is divided into 42,731,977 (forty-two million seven hundred thirty one thousand nine hundred and seventy seven) ordinary registered shares of LTL 6 nominal value.

No restrictions exist in respect of transfer of securities.

16.1. The main characteristics of shares issued for public traded securities (31 December 2010).

Securities registration NO.	A01031430
VP ISIN code	LT0000123010
Number of shares	20,031,977 ordinary registered shares
Nominal value	LTL 6
Total nominal value of shares	LTL 120,191,862

16.2. The main characteristics of shares distributed and registered for circulation privately.

VP ISIN code	LT0000128407
Number of shares	22,700,000 PVA
Nominal value	LTL 6
Total nominal value of shares	LTL 136,200,000

Trading history of the Company's securities is presented in Table 6.

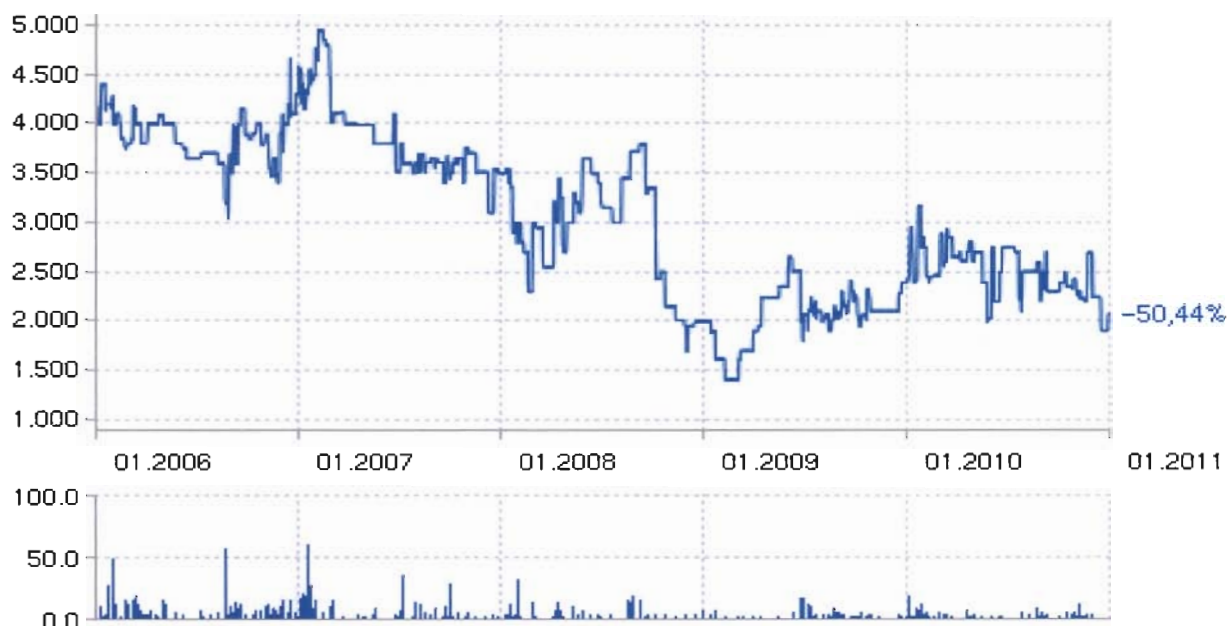
Table 6

Trading history data	2006	2007	2008	2009	2010
Open (litas/euro)	4.18/1.211	4.58/1.327	3.50/1.014	2.00/0.579	2.45/0.710
Highest (litas/euro)	4.67/1.353	4.95/1.434	3.80/1.101	2.650.768	3.18/0.921
Lowest (litas/euro)	3.05/0.883	3.10/0.898	1.70/0.492	1.41/0.408	1.903/0.551
Last (litas/euro)	4.30/1.245	3.50/1.014	2.00/0.579	2.40/0.695	2.072/0.600
Traded , units	183 008	138 163	82 775	92 418	77 729
Turnover million (litas/euro)	0.70/0.203	0.55/0.16	0.26/0.08	0.19/0.05	0.2/0.06
Capitalization million (litas/euro)	81.56/23.62	66.39/19.23	37.94/10.90	102.28/29.62	41.5/12.02



Historical data on share prices and turnovers during 2006 to 2010 is illustrated in Chart 9.

Chart 9



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

Chart 10

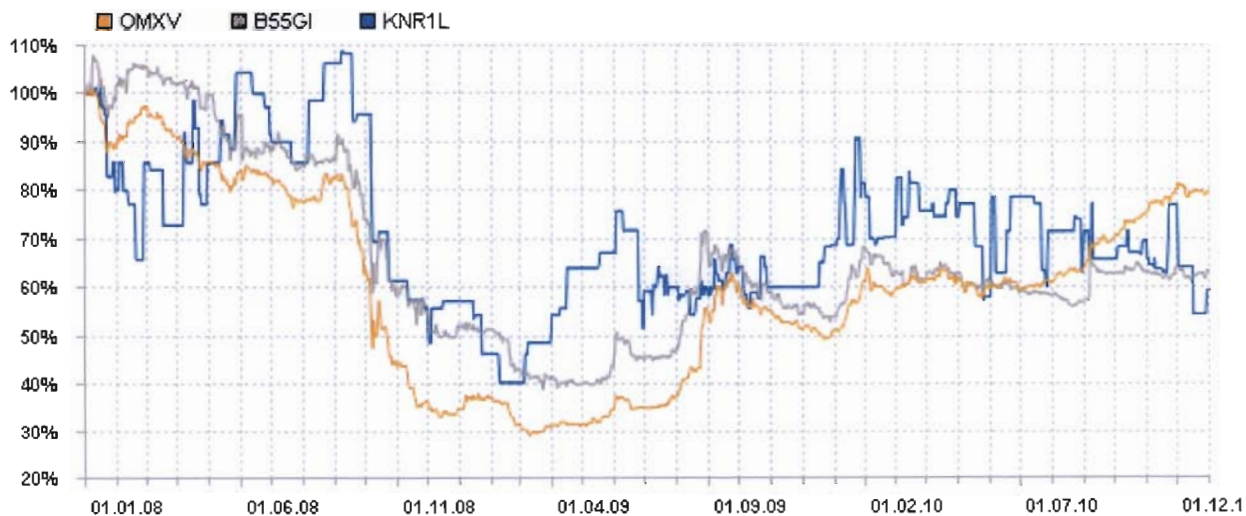


Chart 10 data:

Index/shares	1 Jan 2008	1 Jan 2011	+/-%
OMX Vilnius	514.23	409.65	-20.34
OMX Baltic Utilities GI	1,035.04	718.72	-36.68
KNR1L	1.01 EUR	0,60 EUR	-40.81



17. Information on the Issuer's shareholders

As of 31 December 2010, the total number of shareholders of AB Kauno Energija was 372

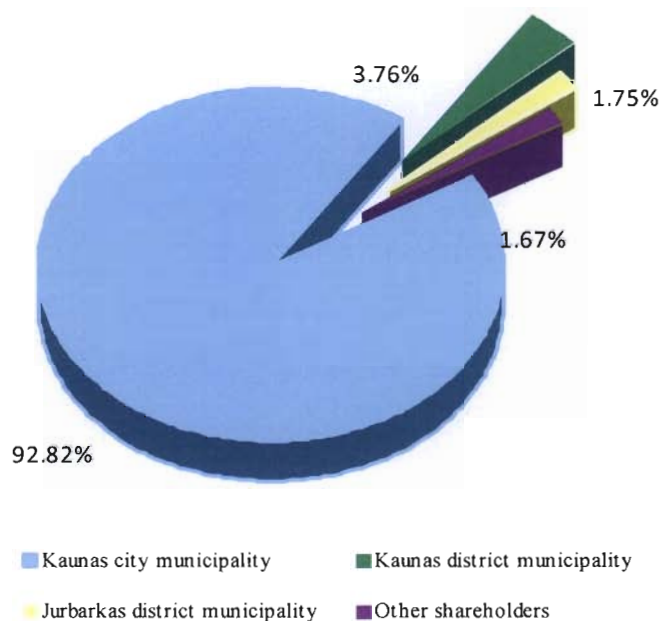
The Issuer's shareholders, whose ownership interest as at 31 December 2009 exceeded 1.5% of the Company's authorized share capital (42,731,977 ordinary registered shares) registered on 26 March 2010, are listed in Table 7 with additional data illustrated in Chart 11.

Table 7

Full name of shareholder (company name, type, registered address, code)	Number of ordinary registered shares owned by the shareholder, units	Ownership interest, %	Share of votes attributed to the shares owned, %	The share of votes owned by shareholders and jointly acting persons, %
Kaunas city municipality Laisvės Ave. 96, 44251 Kaunas Company code 111106319	39,665,892	92.82	92.82	-
Other minority shareholders	3,066,085	7.18	7.18	-
Total	42,731,977	100	100	-

Chart 11

Shareholders structure as at 31 December 2010



17.1. The shareholders, whose ownership interest as of 31 December 2010 exceeded 5% of the Company's shares (20,031,977 ordinary registered shares) issued for public trading (registration No. A01031430; VP ISIN code – LT0000123010), are listed in Table 8.

Table 8

Name	Type of shares	Number of shares, units	Total nominal value of shares, LTL	Portion of shares (%) as a percentage of shares issued for public trading	Ownership interest (%)
Kaunas city municipality Laisvės 96, 3000 Kaunas Company code 111106319	Ordinary registered shares	16,965,892	101,795,352	84.69	39.70
Kaunas district municipality Savanorių Ave. 371, 49500 Kaunas Company code 111100622	Ordinary registered shares	1,606,168	9,637,008	8.02	3.76
Other minority shareholders	Ordinary registered shares	1,459,917	8,759,502	7.29	3.42
TOTAL	Ordinary registered shares	20,031,977	120,191,862	100	46.88

17.2. The shareholders, whose ownership interest as at 31 December 2010 exceeded 5% of the Company's shares (22,700,000 ordinary registered shares) issued for non-public trading (VP ISIN code – LT0000128407), are listed in Table 9.

Table 9

Name	Type of shares	Number of shares, units	Total nominal value of shares, LTL	Portion of shares (%) as a percentage of shares issued for public trading	Ownership interest (%)
Kaunas city municipality Laisvės Ave. 96, 44251 Kaunas Company code 111106319	Ordinary registered shares	22,700,000	136,200,000	100	53.12

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

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

In 2010 Issuer's shareholders received dividends. Earnings per share (dividend rate) – LTL 0.084, total dividends – LTL 3,589,486 (three million five hundred eighty nine thousand four hundred eighty six).

18. Employees

As of 31 December 2010, the Group had 647 employees. The change in the number of employees during 2008 - 2010 is illustrated in Table 10.

Table 10

The actual number of employees	Company 31 12 2008	Group 31 12 2008	Company 31 12 2009	Group 31 12 2009	Company 31 12 2010	Group 31 12 2010
Total:	598	654	531	601	582	647
managers	4	6	4	6	4	6
specialists	295	314	275	301	300	323
workers	299	334	252	294	278	318

In 2009, new management structures were approved for implementation at the Company and its subsidiary. For the optimization and improvement of efficiency of the Group's operations, restructuring processes were started at the Group companies in the middle of 2009. Upon the implementation of management



restructuring process, some functions were discarded (construction, heavy transport), whereas some other functions were combined. All this had impact on change in the number of employees in 2009 as compared to 2008. In order to rationalize the work of the departments, in 2010 the Company's Board's decision was revised the Company's management structure approved in 2009. New divisions which will carry the hot water meter installation and maintenance in this structure are foreseen.

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

Table 11

No.	Education level	Company 31 12 2008	Group 31 12 2008	Company 31 12 2009	Group 31 12 2009	Company 31 12 2010	Group 31 12 2010
1	Secondary (unfinished)	23	27	13	15	10	12
2	Secondary	241	270	207	248	229	264
3	Post-secondary	105	110	86	92	93	97
4	Higher	229	247	225	246	250	269
	Total:	598	654	531	601	582	642

Average relative number of employees and average monthly salary (including taxes at the end of 2010)

Table 12

No.	Employees	Company	Group
1.1.	Average relative number of managers	3.9	5.9
1.2.	Average monthly salary of managers	7,478.3	6,344.5
2.1.	Average relative number of specialists	277.3	297.2
2.2.	Average monthly salary of specialists	2,701.8	2,663.4
3.1.	Average relative number of workers	248.1	286.7
3.2.	Average monthly salary of workers	1,977.3	1,910.5

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

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

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

- For continuous record of service in the Company employees are granted with additional paid vacations:
 - for 5 years of service - 1 calendar day;
 - for 6 to 10 years of service - 2 calendar days;
 - for over 10 years of service - 3 calendar days;
 - for each subsequent 5 years of service - 1 calendar day;
- Record of service is treated as continuous (in which case additional paid vacation days are granted at the Company), provided the employees used to work for the Lithuanian energy system companies and were transferred to work for the Company on the basis of mutual agreement of employers, i.e. when transfer was carried out in accordance with the Lithuanian Labour Code and the Lithuanian Law on Employment Agreement in effect.
- The Company's employees have a right to receive additional paid vacation days in the following cases:
 - establishment of family relations (marriage) - 3 calendar days;
 - death of a close person (one of the parents or one of the spouse's parents, spouse, brother, sister, daughter, son or lawful foster-child) - 3 calendar days;
 - childbirth by wife - 1 calendar day;
 - marriage of the employee's daughter, son or lawful foster-child - 3 calendar days.



3. Employer's obligations:

- to ensure conditions for preventive medical examination of employees and, if necessary, for rehabilitation treatment, to provide free-of-charge services at the health centre of the Company;
- in case of death of employee, to pay allowance equal to two last month's average monthly salaries at the Company or its branch office, to provide with free-of-charge transport or to cover transportation expenses. The allowance is to be paid to the person who was responsible for the burial;
- in case of death of employee's close person (father, mother, husband or wife), to pay allowance equal to one last month's average monthly salary at the Company or its branch office, to provide with free-of-charge transport or to cover transportation expenses;
- in case of birth of one or more children, to pay allowance equal to 25% of last month's average monthly salary at the Company or its branch office for each child;
- in case of marriage, to pay allowance equal to 25% of last month's average monthly salary at the Company or its branch office;
- for employees who raise three or more children under 16 years of age, widowers (widows) or single parents who raise one or more children under 19 years of age (provided they attend secondary school) and under 21 years of age (provided they are full-time students at post-secondary or higher education institutions), and for employees who take care of other family members with heavy or medium level of disability or work capacity lower than 55% and family members who reached retirement age and in respect of whom high or average level of special needs was established in accordance with relative laws, once a year to pay allowance equal to 50% of last month's average monthly salary at the Company or its branch office as at the date, on which the request for such allowance was submitted;
- for employees who reached 50 and 60 years of age with continuous record of service at the Company more than 20 years and good performance of duties, based on the order of top manager to award with monetary gift equal to 50% of last month's average salary at the Company or its branch office;
- on the occasions of celebrating the Day of Energy Specialists in Lithuania or the Company's operation anniversaries, the employees who are honored and worthy to be praised receive a monetary gift of LTL 500;
- in all other cases when material support is required (in case of damages incurred as a result of natural disasters or other reasons that are beyond the employee's control), to pay allowance up to LTL 2,000 based on mutual agreement of authorized representatives who signed the Collective Employment Agreement;
- in case of serious illness of employee or a heavy accident, to pay allowance equal to up to 5 last month's average monthly salaries at the Company or its branch office, based on mutual agreement of authorized representatives who signed the Collective Employment Agreement.

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

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

Amendments to the Company's Articles of Association in 2010

During the extraordinary general meeting of shareholders held on February 2010, the Company's authorized share capital was increased and relative amendments were made to the Company's Articles of Association. The newly amended version of the Company's Articles of Association was registered with the Lithuanian Register of Legal Entities on 26 March 2010.

On 26 October 2010 Extraordinary General Meeting of Shareholders decided to change Company's statute evaluating the changes in legislation. On 11 November 2010 it was registered in Lithuanian Register of Legal Persons. It available to the Company's website at: www.kaunoenergija.lt.



20. Issuer's bodies

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

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

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

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

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

The Supervisory Board approves the rules for the establishment and operation of the audit committee, and elects the members of this committee. Based on the decision of the collegiate supervisory body (the Supervisory Board) dated 31 March 2009, the rules for the establishment and operation of the audit committee of AB Kauno Energija were approved and the following audit committee members were elected: Mrs. Daiva – Birutė Ramanauskienė, Delta Tours UAB chief financier, Mrs. Loreta Miliauskienė, head of the Company's Economy and Planning Unit, Mrs. Nijolė Sakalauskienė, AB Kauno Energija senior economist of the Economy Group). On 13 April 2010 The Board of Supervisors elected a new audit committee members - Valerija Stankūnienė, Deputy Chief Accountant of AB Kauno Energija and Edita Gudišauskienė, current Kaunas City Mayor adviser, member of the Board of Supervisors of AB Kauno Energija instead of AB Kauno Energija audit committee members Loreta Miliauskienė and Nijolė Sakalauskienė. The Board of Supervisors of AB Kauno Energija stated that elected members of audit committee start their job on 14 April 2010. On 16 June 2010 a resignation of audit committee member Daiva Birutė Ramanauskienė was adopted by the decision of the Supervisory Board of AB Kauno Energija. In 2010 the Audit Committee met three times. The audit committee carries out the functions set forth in Article 52 of the Lithuanian Law on Audit. In 2009 the Audit Committee has met three times.



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

The Management Board elects and recalls the General Manager of the Company, determines his/her salary, other employment terms and conditions, confirms his/her job description, motivates or assigns penalties, meets other the decisions related with LR Law on Companies, the Company's statutes or the shareholders meeting decisions, with the competence of the Board.

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

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

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

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

As at 31 December 2010, the members of the Company's Supervisory Board were as follows:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Jonas Koryzna	Supervisory Board chairman	30 July 2007	30 April 2011
Mrs. Jadžė Bartašienė	Supervisory Board member	30 July 2007	30 April 2011
Mr. Stasys Žirgulis	Supervisory Board member	30 July 2007	30 April 2011
Mr. Gediminas Žukauskas	Supervisory Board member	30 July 2007	30 April 2011
Mrs. Edita Gudišauskienė	Supervisory Board member	28 April 2009	30 April 2011
Mr. Arvydas Padėgimas	Supervisory Board member	28 April 2009	30 April 2011
Mr. Vytautas Vasilenko	Supervisory Board member	26 October 2010	30 April 2011

Based on the decision of the extraordinary General Meeting of Shareholders held on 26 October 2010, one member of the Supervisory Board was recalled:

Full name	Job position	Beginning of the term of office	End of the term of office
Ms. Orinta Leiputė	Supervisory Board member	28 April 2009	26 October 2010



Mr. Jonas Koryzna. Doctor of Engineering. Member of Kaunas City Municipality Council. Member of City Economy and Energy Committee, Chairman of Privatisation Commission. Chairman of the Company's Supervisory Board. Vice-president of Kaunas Chamber of Commerce, Industry and Crafts, member of Kaunas Rotary Club. Mr. Koryzna has no shares of the Company. As at 31 December 2010, he had 70 shares with voting rights in Baltijos Paslaugų Brokeris UAB, and 70 shares with voting rights in RINKA PLIUS UAB. These shareholdings in the above-mentioned companies represent 70% of their share capital and votes.

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





Mrs. Edita Gudišauskienė. Director of Administration of Kaunas City Municipality, Member of the Management Board of Kauno Laisvosios Ekonominės Zonos Valdymas, Chairman of Kaunas City Non-governmental Organisations Support Council, Member of the Management Board of Lampėdžių Community Centre. Mrs. Gudišauskienė has no shares of the Company, nor any ownership interest in other companies.

Mr. Arvydas Padegimas. Member of Kaunas City Municipality Council, Member of City Economic and Energy Committee, the Standing Member of the counting of votes Commission, deontologist at Garliava PSPC UAB Makšvilė.

Mr. Padegimas has no shares of the Company, nor any ownership interest in other companies.



Mr. Stasys Žirgulis. Member of Kaunas City Municipality Council, Chairman of the Commission for Conception of Names and Commemoration, Member of the Committee, for Development of Culture, community and municipality, Teacher at Vilnius Art Academy, Kaunas Faculty, Member of the Lithuanian Association of Artists, Member of the Lithuanian Artist Union.

Mr. Žirgulis has no shares of the Company, nor any ownership interest in other companies.

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



Mr. Vytautas Vasilenko. Member of Supervisory Board since 26 October 2010. Member of Kaunas City Municipality Council, Deputy Director of Kaunas football school "Tauras", Member of Education, Sport and Ecology Community, Member of Non-motor vehicle Commission, Member of Traffic Safety Commission.

Mr. Vasilenko has no shares of the Company, nor any ownership interest in other companies.

Ms. Orinta Leiputė. Member of Supervisory Board till 26 October 2010, Member of Kaunas City Municipality Council, Member of the Committee for Development of Culture, community and municipality, Assistant-secretary for the member of the Lithuanian Parliament Ms. B.Vėšaitė, Assistant at the Lithuanian Academy of Physical Education, Member of the Lithuanian Society of Young Researchers, Lithuanian Union of Social Democratic Party - member of the Council and Presidium, Chairman in Kaunas division, Lithuanian Union of Social Democratic Women, Deputy Chairman, member of Kaunas Club of Women Politicians MILDA (Initiative by women to improve democracy in Lithuania); member of the Board of Society *Lietuvos Sakaliukų Sąjunga* (children and youth organisation).

Ms Leiputė has no shares of the Company, nor any ownership interest in other companies.



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



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

As at 31 December 2010, the members of the Company's Management Board were as follows:

Full name	Job position	Beginning of the term of office	End of the term of office
Mr. Vytautas Mikaila	Management Board chairman	3 December 2008	30 April 2011
Mr. Ramūnas Gatautis	Management Board member	27 November 2007	30 April 2011
Mr. Algirdas Vaitiekūnas	Management Board Deputy Chairman	30 April 2004	30 April 2011
Mr. Vykintas Šuksteris	Management Board member	27 November 2007	30 April 2011
Mr. Eugenijus Ušpuris	Management Board member	27 November 2007	30 April 2011
Mr. Juozas Marcalis	Management Board member	21 December 2007	30 April 2011
Mr. Kęstutis Miškinis	Management Board member	28 April 2009	30 April 2011

Based on the decision passed during the meeting of the Company's Supervisory Board, held on 2 December 2010, the new member of the Company's Management Board Mr. Gedvydas Celiešius was elected instead of resigned member of Board Mr. Juozas Marcalis.

Mr. Vytautas Mikaila. Doctor of Engineering. MVE Group UAB, Director. Chairman of the Company's management Board since 16 December 2008. Head of the Company's Development and Analysis Division.

Mr. Mikaila has no shares of the Company, however, he has 55% of shares in MVE Group UAB.

During the reporting period, remuneration amounting to LTL 52 thousand (salary) was paid to the member of the Management Board, however, no bonuses were paid, nor any assets were transferred or guarantees issued



Mr. Ramūnas Gatautis. Kaunas City Municipality Administration, Deputy Director. Lithuanian Energy Institute, Laboratory of Energy Systems Research, Doctor of Engineering. The Chairman of the Company's Management Board until 15 December 2008. Member of International Association of Energy Economists. Member of Management Board at Būsto Valda UAB and Panemunės Butų Ūkis.

Mr. Gatautis has no shares of the Company, nor any ownership interest in other companies.

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

Mr. Algirdas Vaitiekūnas. Kaunas City Municipality Administration, City's Economy Department, head of Energy Division. Deputy Chairman of the Management Board of the Company.

Mr. Vaitiekūnas has no shares of the Company, nor any ownership interest in other companies.

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



Mr. Vykintas Šuksteris. AF – Terma UAB, Director; Doctor of Engineering; member of International Association for Energy Economists; member of the Lithuanian Thermotechnical Engineer's Society; President of the Lithuanian Association of Energy Consultants.

Mr. Šuksteris has no shares of the Company, nor any ownership interest in other companies.

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

Mr. Eugenijus Ušpuras. Lithuanian Energy Institute, Director. Kaunas University of Technology, Thermal and Nuclear Energy Department, professor; Lithuanian Academy of Sciences, Associate Member.

Mr. Ušpuras has no shares of the Company, nor any ownership interest in other companies.

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



Mr. Kęstutis Miškinis. Senior specialist in Energetic branch of the Department of City property of Kaunas city municipality.

Mr. Miškinis has no shares of the Company, nor any ownership interest in other companies. During the reporting period, no remuneration amounts (salary, bonuses) were paid, nor any assets were transferred or guarantees issued to this member of the Management Board.

Mr. Gedvydas Celiešius. Kaunas Region Municipality. Head of Ežerėlis village. Member of Company's Board since 2 December 2010. Mr. Celiešius has no shares of the Company, nor any ownership interest in other companies.

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



Mr. Juozas Marcalis. Assistant of the member of the Lithuanian Parliament Mrs. B.Vėsaitė, Head of Sales and Marketing Department of UAB Pastatų priežiūros paslaugos. Mr. Marcalis was Member of Company's Board till 2 December 2010. Mr. Marcalis has no shares of the Company, nor any ownership interest in other companies.

During the reporting period, remuneration amounting to LTL 12 thousand (salary) was paid to the member of the Management Board, however, no bonuses were paid, nor any assets were transferred or guarantees issued.

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

Mr. Rimantas Bakas. General Manager of the Company since 24 November 2008, Doctor of Engineering. Member of Lithuania heating technique engineers association, Member of Board of Kaunas Regional Energy Agency, Member of Lithuanian District Heating Association Board, Member of Lithuanian Energy Institute's the Scientific Board, the chairman of Master's qualification commission in Kaunas University of Technology Thermal and Nuclear Engineering department, the expert approved by World's Energy Council the PET Committee of Lithuania. Till 9 March 2011 Member of Board of UAB Pastatų Priežiūros Paslaugos. Education: higher, university degree, graduated from Kaunas University of Technology in 1985, industry heat energy engineer. Job positions during the last 10 years were: from January 1999 to February 2001, Terma ir KO UAB Director (from 2000 Lithuanian-Swedish company AF – Terma UAB); from October 2001 to February 2003, Lithuanian Bioenergetics and Energy Saving Association, vice-president and executive director; from 3 January 2001 to 21 November 2008, Head of Strategy Department at the Company. He has no shares of the Company, or ownership interest in of other companies

Mrs. Violeta Staškūnienė. Chief Financier of the Company since 27 July 2000, and chief accountant since 16 January 2003. Education: higher, university degree, graduated from Vilnius University in 1984, work economy, acquired the profession of economist. Work record during the last 10 years and job positions held: Chief Accountant of the Company's branch office Kauno Energijos Paslaugos (22 June 1998); special



purpose public company Kauno Energija, Deputy Chief Financier (10 January 2000); Itvizija UAB, chief accountant (from 1998 to April 2004); Energijos Realizacijos Centras UAB, chief accountant (from January 2003 to June 2004). She holds 2,641 units of the Company's shares, which make less than 5% of the authorized share capital. She has no ownership interest in other companies.

During 2010, total remuneration estimated for the General Manager and Chief Accountant amounted to LTL 222 thousand, average amount per person – LTL 111 thousand; no other assets were transferred, no guarantees provided.

22. All significant agreements, where the Issuer is one of the contractual parties, which would come into force, would be subject to amendments or termination in case of changes in controls of the Issuer, also their impact, except for those cases, when due to the nature of agreements, the disclosure of such agreements would cause significant damages to the Issuer

None.

23. All agreements of the Issuer and its managerial body members or employees, which provide for compensation in case of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Issuer

None.

24. Information on major transactions with related parties

There were no major individual transactions with related parties. Detailed information is presented in Note 26 to the financial statements.

25. Information on compliance with the Governance Code of Companies

Information on compliance with the Governance Code of Companies is presented in Annex 1 to the Annual Report.

26. Data on publicly declared information

To comply with the obligation set forth in the applicable legislation regulating the market of securities, the Issuer during the last 12 months declared in public the following information through OMX news publication system, which is used to report announcements all over the European Union. This information was also placed on the Issuer's website. All information is available on Vilnius Stock Exchange website at address <http://www.baltic.omxgroup.com/?id=3304>, and the Issuer's website at address: <http://www.kel.lt/lt?id=348>.

Heading of announcement	Category of announcement	Language	Time
Due to the final decision of Lithuanian Supreme Court	Other information	En, Lt	14.03.2011 - 17:22
An intermediate unaudited financial statement of 12 months of the year 2010	Interim information	En, Lt	28.02.2011 - 16:36
AB Kauno Energija 2012 - 2015 year partial investment plan and its financing sources	Notification on material event	En, Lt	25.02.2011 - 13:32
The activity result of the 12 months, 2010	Notification on material event	En, Lt	24.01.2011 - 16:12
Prognoses for activity of the AB Kauno Energija at the 2010 year	Notification on material event	En, Lt	20.01.2011 - 10:41
Information on the election of the member of Management board	Notification on material event	En, Lt	03.12.2010 - 14:31
To establish a Joint venture	Notification on material event	En, Lt	24.11.2010 - 15:46
The activity results of the III quarter, 2010	Interim information	En, Lt	29.10.2010 - 14:36



Heading of announcement	Category of announcement	Language	Time
The Decisions of the general shareholders meeting of AB Kauno Energija	Notification on material event	En, Lt	26.10.2010 - 16:09
The change of General meeting agenda of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	12.10.2010 - 11:07
General meeting of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	04.10.2010 - 08:54
Regarding the obligation of the Securities Commission to declare a material event	Notification on material event	En, Lt	17.08.2010 - 13:41
Intermediate information on AB Kauno Energija for the 6 months	Interim information	En, Lt	05.08.2010 - 09:02
A Letter of Intent regarding possible development of energy supply projects in Kaunas FEZ signed	Notification on material event	En, Lt	30.07.2010 - 10:15
The activity results of the per I half, 2010	Notification on material event	En, Lt	29.07.2010 - 14:06
Heat price starting 1 of July, 2010 determined	Notification on material event	En, Lt	22.06.2010 - 16:36
Financial statements with the annual report	Annual information	En, Lt	14.05.2010 - 09:29
The Decisions of the Reconvening General meeting shareholders meeting of AB Kauno Energija	Notification on material event	En, Lt	14.05.2010 - 09:01
The decisions of the general shareholders meeting and activity results of the first quarter, 2010	Interim information	En, Lt	30.04.2010 - 15:21
Reconvening General meeting of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	27.04.2010 - 17:00
General meeting of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	02.04.2010 - 15:38
Information about the new wording of the articles of AB Kauno Energija	Notification on material event	En, Lt	30.03.2010 - 11:12
Due to the Vilnius Commercial Arbitration Court decision	Notification on material event	En, Lt	03.03.2010-13:26
The activity result of the 12 months, 2009	Interim information	En, Lt	18.02.2010 - 13:47
The Decisions of the general shareholders meeting of AB Kauno Energija	Notification on material event	En, Lt	18.02.2010 - 09:46
General meeting of AB Kauno Energija shareholders and decisions projects	Notification on material event	En, Lt	22.01.2010 - 14:17
On heat, supplied by AB Kauno Energija, price application from the 1st February, 2010	Notification on material event.	En, Lt	22.01.2010 - 11:54

General Manager of AB Kauno Energija



Rimantas Bakas

31 March 2011



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

AB 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 APPLIC ABLE	COMMENTARY
Principle I: Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	No	The Company prepares and revises the strategies of production and heat supply system development every year. The provisions of the Company's strategy which contains no confidential information and the decisions-making process, as well as the Company's development policies and objectives of the years 2008, 2009 and 2010 are published in the annual reports and company's website. Periodic reports and notifications are disclosing the directions for Company's growth. Those reports, notification on material event and notifications are presented by the Company's managers and are published in press.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's board has also created a long-term and short-term Company's development strategic objectives. The management of the Company, the heads of the areas concerned are making their every effort in order to implement those objectives – the structure of the Company and of the subdivision of the Group is optimised.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Supervisory Board and the Management Board are formed. The Management Board adopts the strategic decisions and approves Company's business strategy. All the bodies of the Company (Manager, the Management board and the Supervisory board) aim to implement this recommendation, mutual meetings of the Management board and the Supervisory board are held.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's supervisory and managing bodies aim to ensure all interests of the persons concerned. The Company's management and the separate areas managers spend a lot of time communicating with customers, suppliers, representatives of the municipality, in order to find optimal solutions, related to the Company's activities. The specific of the Company ensures that consumers (customers) are periodically invited to attend meetings where the

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

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

2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. ²	Yes	According to the Statute of the Company the Supervisory Board of 7 (seven) members is elected and the Supervisory Board elects the Management Board. It also is formed of 7 (seven) members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Supervisory Board of the Company is elected for the 4 (four) years and according to the Statute of the Company and to the practice it is not forbidden to re-elect the members of the Supervisory Board for the new term (Supervisory Board member's number of terms of office is not limited).
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 hasn't been the General Manager of the Company. His current or past position is not an obstacle for independent and impartial supervision.
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.³</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.	Yes	The mechanism of forming of the Supervisory Board, which corresponds to the requirements of the Law on Joint Stock Companies of the Republic of Lithuania, ensures the objective supervision of the collegial body.

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

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

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

<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 sufficient⁴ number of independent⁵ members.</p>	<p>No</p>	<p>The Company does not make any influence on the composition of the collegial body because the candidates to the members of the Company's collegial body are offered by the main shareholder. Because of that reason we didn't followed the recommendations.</p>
<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"> 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous 	<p>No</p>	<p>The Company does not follow this recommendation because the majority of the Supervisory Board members (six members) represent the controlling shareholder (the members of the board of the Kaunas municipality) having 92.82% of votes except Mrs J.Bartaškienė.</p>

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

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

<p>office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>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);</p> <p>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, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>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;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</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>		
---	--	--

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	Up to now there was no practice of independence consideration of the Supervisory board members and announcement. In the future the Company will strive to realize this provision.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	Up to now in the practice of the Company there was no evaluation of independence of the members of Supervisory Board and that is why there was no practice for the independent members to approve regularly their independence. In the future the Company will strive to realize this provision.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. ⁶ The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company.

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

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring⁷ of the company's management bodies and protection of interests of all the company's shareholders.

4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. ⁸	Yes	The Supervisory Board presents to the general shareholders meeting their opinions and proposals about the set of the Company's annual financial statements, profit allocation project, the Company's annual report, the activity of the Company's general manager and the Management Board, and also carries out other functions allotted to the Supervisory Board competence regarding the Company's and its managing bodies activity
---	-----	--

⁶ It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

⁷ See Footnote 3.

⁸ See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

		supervision. The Chairman of the Supervisory Board regularly meets the Chairman of the Management Board and the General Manager to discuss the events or changes of the Company that have taken place, also the essential questions of the Company's activity.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the knowledge of the Company all the members of the Supervisory Board are acting in good faith in the interests of the Company following the Company's but not the own interests or interests of the third persons.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half ⁹ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The members of the Company's Supervisory Board devote enough time and pay enough attention individually and collectively for the functions assigned to the competence of the Supervisory Board to carry properly.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's Supervisory Board in its work aim to behave honestly and impartially with all of the Company's shareholders and by the knowledge of the Company, there was no such kind of the contrary case. The Chairman of the Company's Supervisory Board and the Chairman of the Management Board communicate with shareholders, inform the shareholders about the Company's strategy, activity and other essential questions.

⁹ It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

<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. 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>Yes</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 bodies¹⁰. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</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.</p> <p>Based on the Company's opinion, the collegial management body and the Audit Committee are provided with sufficient resources, including their right to get all the necessary information, especially from the employees of the Company.</p> <p>Salary committee is not set up in the Company because the salaries of the managers of the Company, their deputies and of the chief accountant are determined according to the schedule approved by Kaunas municipality used in the municipality enterprises.</p> <p>In the annex of the Company's collective job agreement, there are statutes, which describe the determination of the salary of the Company's executive heads and their deputies and the fixed part of salary of the specialists and workers.</p>

¹⁰ In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

<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 committees¹¹. 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>As of 31 March 2009 the Supervisory Board formed an Audit Committee which has three members. The Nomination and the Remuneration Committees are not formed in the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No. 4.6. In the future, the Company will seek to implement this provision.</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 interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>Yes</p>	<p>Audit committee is formed in the Company. One member of this Committee is independent. The Committee acts independently and principally.</p>

¹¹The Law of the Republic of Lithuania on Audit (*Official Gazette*, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Audit Committee of three members is formed in the Company. Term of office of this Committee coincides with the term of office of the Company's Supervisory Board.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. Other recommended disclosures are also not published in this annual report. The Company will seek to implement this provision in the future. Also the information about the composition of the Audit Committee, the number of meetings and attendance in the year 2010 is being published in the Annual Report.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. The Company will seek to implement this provision in the future.

<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ul style="list-style-type: none"> • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. <p>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>	No	The Company does not form the committee which would be obligated to perform all of the tasks that were designated for the Nomination Committee.
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <ul style="list-style-type: none"> • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the 	Not applicable	The Committee of Remuneration is not formed according to the circumstances shown in the article No 4.6.

<p>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;</p> <ul style="list-style-type: none"> • Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; • Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ul style="list-style-type: none"> • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. <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>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
---	--	--

<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 	<p>Yes</p>	<p>Till 2009, the Audit Committee was not formed in the Company which would be obligated to perform all functions designated for the Audit Committee. However, as of 31 March 2009 the Audit Committee of three members was formed by the Supervisory Board. The term of office of this committee coincides with the term of office of the Company's Supervisory Board. This committee will seek to fully implement functions assigned to it by this recommendation.</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.

4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.

4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.

4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.

4.14.7. The audit committee should report on its

activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	There was no practice of assessment of the activity of Supervisory Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Supervisory Board exhaustively knows the experiences and competences of each member. The Company will seek to implement this provision in the future.
Principle V: The working procedure of the company's collegial bodies The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company fully implements this recommendation. The Company's Supervisory Board and Management Board are run by the Chairman de jure and de facto. In accordance with the work regulations of the Supervisory Board the Chairman convokes meetings of the Supervisory Board, organises the work of the Supervisory Board. This recommendation is implemented by the Supervisory Board and by the Management Board.
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 ¹² .	Yes	This recommendation is implemented by the Supervisory Board and by the Management Board.

¹² The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The Company follows the order foreseen in the work regulations of the Supervisory Board and the Management Board and the information about the convened meeting is presented in advance together with all the information related to the meeting agenda. The Supervisory Board and the Board meeting agenda may be changed or added during the meeting, in the presence of all members of the collegial body, or when there is an urgent need to deal with Company's certain key issues.
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-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The chairmen of Company's supervisory and management bodies coordinate dates of the meetings, their agendas and cooperate in solving other issues of corporate governance.
Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The ordinary registered shares which make the authorized capital of the Company give the equal rights for all share owners.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. ¹³ All shareholders	No	In compliance with the Law on the Joint Stock Companies and the Company's statutes the transactions confirmation issues foreseen in this recommendation are ascribed to the competence of the Management Board but in individual cases for the asset disposal transactions

body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

¹³ The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set

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.		the Company applies to the shareholders meeting.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	There is a possibility for shareholders to vote in advance by filling up a general vote bulletin.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Information about the draft shareholders decisions and the decisions taken by the shareholders meeting the Company publicly places on the Company's website and disseminates it through the Stock Exchange NASDAQ OMX, Vilnius GlobeNewswire used information dissemination system, as it is foreseen in the Law on the Joint Stock Companies not only in Lithuanian, but also in English.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the Company can implement the right to participate in the general shareholders meeting personally or through their representatives if the person has a proper authorization or the voting right delegation agreement is made with him in compliance with the legal acts order. The Company also makes conditions for the shareholders to vote by completing the general voting bulletin as it is foreseen by the Law on the Joint Stock Companies.

out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	Not applicable	According to the order of the Company's shareholders meetings and the lists of shareholders, there was no need to implement this recommendation in the Company up to now.
--	----------------	---

Principle VII: The avoidance of conflicts of interest and their disclosure

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Company's Supervisory and of the managing bodies act in according with the interests of the Company and their competences and individual features suggest that they behave so as to avoid conflicts of interests and they were not observed in practice. The members of the Company's Supervisory and of the managing bodies did not conclude deals with the Company, including high value deals or ones made in not standard conditions.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	

7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The members of the Company's supervisory and management body are not entered into transactions with the Company, including those consisting of high value or non-standard conditions.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	In accordance with the provisions of the Law on Joint Stock companies of the Republic of Lithuania, the members of the Company's Supervisory and of the managing bodies must abstain from voting when decisions on deals or other questions in which they have a personal or professional interest.
Principle VIII: Company's remuneration policy Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	Not applicable	The Company does not announce the report on the Company's remuneration policy. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not demanded by the legal acts. The remuneration for the Supervisory Board and the Management Board of the Company is determined by the shareholders meeting and there were no payments up to now. The remuneration of the managing director is determined by the Management Board in compliance with the Lithuanian Republic Government decision "For the state enterprises and joint stock, closed-end companies controlled by the state administration managers, their deputies and chief accountants' remuneration". According to this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information on the termination payments and loans for the members of the Supervisory Board, the Management Board and administration (General Manager, Chief accountant) in the annual report.

<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>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • An explanation how the choice of performance criteria contributes to the long-term interests of the company; • An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; • Sufficient information on deferment periods with regard to variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • Sufficient information on the policy regarding termination payments; • Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; • Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; • Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; • A description of the main characteristics of supplementary pension or early retirement schemes for directors; • Remuneration statement should not include commercially sensitive information. 	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</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>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company, but the information on the termination and other payments is publicly announced in the Company's annual report.</p>
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>

<ul style="list-style-type: none"> • All changes in the terms and conditions of existing share options occurring during the financial year. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.		
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.		
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.		
8.11. Termination payments should not be paid if the termination is due to inadequate performance		

8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.		
8.13. Shares should not vest for at least three years after their award.		
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.		
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).		
8.16. Remuneration of non-executive or supervisory directors should not include share options.		
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	

<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company. Nevertheless, the Company publishes information on the remuneration of the members of the Supervisory Board, Management Board, General Manager, his deputies and to the chief accountant in it's annual reports in accordance with the legislation. The Company does not use schemes under which the directors can be paid with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 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. <p>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>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the Company does not use schemes under which the directors can be remunerated with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>		
<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>		

8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.

9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.

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

Yes

The Company follows all the requirements foreseen by the laws for the stakeholders' opportunities to participate in the management of the Company, but at this moment no stakeholders group, having the right determined by the laws to participate in the management of the Company, are created by the order determined in the law.

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:</p> <ol style="list-style-type: none"> 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. <p>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 to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</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>Yes</p>	<p>The Company discloses information, provided in this recommendation, in the reports, the annual and interim information, the Company's website and Centre of Registers electronic publication, in which the public information of legal persons are announced, except the report of remuneration policy determined in VIII principle. This report is not prepared in the Company because of the reasons foreseen in the article No. 8.1., and it is not approved, as it is not required by the law. The remuneration for the members of the Company's Supervisory Board and of the Management Board is determined by the shareholders meeting, but it has not yet been assigned up to now (all of this is described in detail in annotation of VIII recommendations). The company also is attempting not to disclose the information that can affect the price of Securities issued by the Company in the comments, interviews or other means, as long as such information will be publicly announced at the NASDAQ stock exchange OMX Vilnius used GlobeNewswire dissemination system on the Company's website.</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.	Yes	The Company simultaneously presents the information through the Stock Exchange NASDAQ OMX, Vilnius used information dissemination system GlobeNewswire in Lithuanian and English languages as it possible. The Stock Exchange NASDAQ OMX, Vilnius places received information on its website and in trading system assuring simultaneous presentation of this information to all. In addition, the Company strives to announce the information before or after a trading session on the Stock Exchange NASDAQ OMX Vilnius and to present it to all the markets in which there is trade in the Company's stocks at the same time. The Company does not provide the information which can have an influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced through the Stock Exchange NASDAQ OMX Vilnius used dissemination system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Company's information is published on its website in Lithuanian.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information provided in this recommendation is placed on the Company's website, except the information on the changes in the price of the Company's shares on the Stock Exchange because this information is publicly placed on the Stock Exchange NASDAQ OMX, Vilnius, website and it can be reached by all the interested persons.
Principle XI: The selection of the company's auditor		
The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements	Yes	The set of annual financial statements and the annual report of the Company is verified by the independent audit company.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The candidature of the Company's audit company for the shareholders meeting if offered by the Management board in compliance with the results of the public competition.

11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The information provided in the recommendation was not presented to the shareholders because the audit company did not provide non-audit services for the Company in the year 2010.
---	----------------	---