# JSC „KAUNO ENERGIJA“

CONSOLIDATED AND COMPANY'S
FINANCIAL STATEMENTS FOR THE I HALF,
2009 PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS
ADOPTED BY THE EUROPEAN UNION

(thousand litas, if not otherwise stated)

**Balance sheets**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Non-current intangible assets | | 1.407 | 1.783 | 1.401 | 1.683 |
| Non-current tangible assets | 3 | | | | |
| Land and buildings | | 30.135 | 30.692 | 28.579 | 29.108 |
| Structures and machinery | | 119.940 | 117.555 | 119.925 | 117.525 |
| Vehicles | | 837 | 1.109 | 725 | 937 |
| Equipment and tools | | 6.177 | 7.062 | 6.090 | 6.966 |
| Construction in progress and prepayments | | 7.557 | 8.681 | 7.557 | 8.681 |
| Total tangible assets | | 164.646 | 165.099 | 162.876 | 163.217 |
| Non-current financial assets | | | | | |
| Investments into daughter companies | 1 | - | - | 6.053 | 6.053 |
| Non-current accounts receivable | 4 | 65 | 65 | 65 | 65 |
| Deferred tax income | | 88 | 88 | - | - |
| Other financial assets | 5 | 433 | 433 | 433 | 433 |
| Total non-current financial assets | | 586 | 586 | 6.551 | 6.551 |
| **Total non-current assets** | | **166.639** | **167.468** | **170.828** | **171.451** |
| | | | | | |
| **Current assets** | | | | | |
| Inventories and prepayments | | | | | |
| Inventories | | 6.082 | 5.581 | 5.925 | 5.541 |
| Prepayments | | 696 | 511 | 700 | 499 |
| Total inventories and prepayments | | 6.778 | 6.092 | 6.625 | 6.040 |
| Current accounts receivable | 6 | | | | |
| Trade receivables | | 44.608 | 54.797 | 44.488 | 55.032 |
| Other receivables | | 7.731 | 8.547 | 7.763 | 8.655 |
| Total accounts receivable | | 52.339 | 63.344 | 52.251 | 63.687 |
| Cash and cash equivalents | 7 | 2.048 | 3.616 | 2.043 | 3.604 |
| **Total current assets** | | **61.165** | **73.052** | **60.919** | **73.331** |
| | | | | | |
| Total assets | | **227.804** | **240.520** | **231.747** | **244.782** |

*(cont'd on the next page)*
**The accompaying notes are an integral part of these financial statements.**

(thousand litas, if not otherwise stated)

**Balance sheets (cont'd)**

| | Notes | Group 30 June, 2009 | Group 31 December, 2008 | Company 30 June, 2009 | Company 31 December, 2008 |
|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Share capital | 1 | 119.510 | 119.510 | 119.510 | 119.510 |
| Legal reserve | 8 | 233 | 3.041 | - | 2.808 |
| Other reserve | | - | - | - | - |
| Retained earnings (deficit) | | | | | |
| Profit (loss) for the current year | | 21.237 | (4.235) | 21.375 | (4.343) |
| Profit (loss) for the previous year | | (6.466) | (5.039) | (2.883) | (1.348) |
| Total retained earnings (deficit) | | 14.771 | (9.274) | 18.492 | (5.691) |
| **Total equity** | | **134.514** | **113.277** | **138.002** | **116.627** |
| | | | | | |
| **Payables and liabilities** | | | | | |
| Non-current payables and liabilities | | | | | |
| **Non-current financial debts** | 9 | 37.869 | 33.921 | 37.869 | 33.921 |
| **Lease (financial lease)** | 10 | 95 | 95 | - | - |
| **Deferred tax liability** | | - | - | 805 | 805 |
| **Grants (deferred income)** | 11 | 9.875 | 10.253 | 9.875 | 10.253 |
| **Employee benefit liability** | 12 | 1.605 | 1.612 | 1.605 | 1.612 |
| **Other non-current liabilities** | | 795 | 824 | 795 | 824 |
| Total non-current payables and liabilities | | **50.239** | **46.705** | **50.949** | **47.415** |
| | | | | | |
| **Current payables and liabilities** | | | | | |
| Non-current portion of financial debts and lease (financial lease) of the current year | 9, 10 | 4.828 | 8.834 | 4.803 | 8.785 |
| Current financial debts | 9 | 28.479 | 15.720 | 28.479 | 15.720 |
| Trade payables | 13 | 6.185 | 50.929 | 6.199 | 51.361 |
| Payroll related liabilities | | 1.319 | 2.054 | 1.107 | 1.933 |
| Advances received | | 892 | 932 | 892 | 920 |
| Taxes payable | | 40 | 775 | 10 | 727 |
| Derivative financial instruments | 14 | 864 | 567 | 864 | 567 |
| Other current payables and liabilities | | 444 | 727 | 442 | 727 |
| **Total current payables and liabilities** | | **43.051** | **80.538** | **42.796** | **80.740** |
| | | | | | |
| Total payables and liabilities | | **93.290** | **127.243** | **93.745** | **128.155** |
| | | | | | |
| Total equity and liabilities | | **227.804** | **240.520** | **231.747** | **244.782** |

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

AB „Kauno energija"
Generalinio direktoriaus pavaduotojas-pardavimų ir rinkodaros departamento direktorius
Stanislovas Karčiauskas

| | | | |
|---|---|---|---|
| General director | Rimantas Bakas | | 20 July, 2009 |
| Chief accountant | Violeta Staškūnienė | | 20 July, 2009 |

(thousand litas, if not otherwise stated)

## Income (loss) statements

| | Notes | Group<br>II quater, 2009 | I half, 2009 | II quater, 2008 | I half, 2008 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|
| **Operating income** | | | | | | | |
| Sales income | 15 | 31.108 | 178.039 | 26.864 | 112.660 | 205.974 | 169.528 |
| Other operating income | 16 | 293 | 554 | 126 | 401 | 1.337 | 1.319 |
| **Total operating income** | | **31.401** | **178.593** | **26.990** | **113.061** | **207.311** | **170.847** |
| **Operating expenses** | | | | | | | |
| Fuel and heat purchased | | (21.524) | (124.374) | (17.920) | (67.689) | (137.604) | (112.195) |
| Salaries and social security | 12 | (5.777) | (9.985) | (6.351) | (10.568) | (24.999) | (23.121) |
| Raw materials | | (417) | (860) | (683) | (1.272) | (2.404) | (2.356) |
| Taxes other than income tax | | (873) | (1.859) | (825) | (1.682) | (3.462) | (3.409) |
| Electricity | | (442) | (1.468) | (529) | (1.523) | (2.891) | (3.976) |
| Depreciation and amortisation | 3 | (4.115) | (8.365) | (4.683) | (9.994) | (18.982) | (20.540) |
| Repairs and maintenance | | (649) | (1.028) | (2.208) | (2.732) | (5.160) | (2.807) |
| Water | | (187) | (257) | (94) | (178) | (517) | (801) |
| Change in allowance for accounts receivable | 6 | (1.126) | (1.466) | 144 | 582 | 1 | 1.133 |
| Change in allowance for inventories | | | | | | 181 | 8 |
| Petrašiūnai power plant operator expenses | 1 | (585) | (1.170) | (522) | (1.037) | (2.184) | (2.193) |
| Other expenses | | (2.219) | (4.731) | (3.186) | (6.244) | (10.760) | (9.363) |
| Other operating expenses | 16 | (224) | (373) | (490) | (860) | (1.363) | (1.025) |
| **Total operating expenses** | | **(38.138)** | **(155.936)** | **(37.347)** | **(103.197)** | **(210.144)** | **(180.645)** |
| **Operating profit** | | **(6.737)** | **22.657** | **(10.357)** | **9.864** | **(2.833)** | **(9.798)** |
| Income from financial and investment activity | 17 | 426 | 692 | 353 | 656 | 1.281 | 1.314 |
| Expenses from financial and investment activity | 18 | (1.050) | (2.112) | (571) | (1.267) | (3.343) | (2.008) |
| **Net profit for financial and investment activity** | | **(624)** | **(1.420)** | **(218)** | **(611)** | **(2.062)** | **(694)** |
| **Profit before tax** | | **(7.361)** | **21.237** | **(10.575)** | **9.253** | **(4.895)** | **(10.492)** |
| Income tax | | | | | | -660 | -1.866 |
| **Net profit** | | **(7.361)** | **21.237** | **(10.575)** | **9.253** | **(4.235)** | **(8.626)** |
| Basic earnings per share (LTL) | 19 | (0,37) | 1,07 | (0,54) | 0,47 | (0,21) | (0,44) |

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

AB "Kauno energija"
Generalinio direktoriaus pavaduotojas-
pardavimų ir rinkodaros departamento
direktorius
*Stanislovas Karčiauskas*

| | | |
|---|---|---|
| General director | Rimantas Bakas | 20 July, 2009 |
| Chief accountant | Violeta Staškūnienė | 20 July, 2009 |

(thousand litas, if not otherwise stated)

| | Notes | Company<br>II quater, 2009 | I half, 2009 | II quater, 2008 | I half, 2008 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|
| **Operating income** | | | | | | | |
| Sales income | 15 | 31.051 | 177.930. | 26.699 | 112.150. | 205.233 | 168.003 |
| Other operating income | 16 | 269 | 515 | 122 | 401 | 1.322 | 1.370 |
| **Total operating income** | | **31.320** | **178.445** | **26.821** | **112.551** | **206.555** | **169.373** |
| **Operating expenses** | | | | | | | |
| Fuel and heat purchased | | (21.524) | (124.374) | (17.920) | (67.689) | (137.604) | (112.195) |
| Salaries and social security | 12 | (5.358) | (9.155) | (5.627) | (9.158) | (22.396) | (20.098) |
| Raw materials | | (286) | (791) | (521) | (987) | (1.991) | (2.013) |
| Taxes other than income tax | | (861) | (1.836) | (813) | (1.659) | (3.402) | (3.354) |
| Electricity | | (438) | (1.457) | (523) | (1.508) | (2.863) | (3.956) |
| Depreciation and amortisation | 3 | (4.072) | (8.279) | (4.632) | (9.896) | (18.784) | (20.389) |
| Repairs and maintenance | | (649) | (1.028) | (2.208) | (2.732) | (5.181) | (2.804) |
| Water | | (185) | (253) | (90) | (170) | (502) | (787) |
| Change in allowance for accounts receivable | 6 | (1.126) | (1.466) | 144 | 582 | 1 | 1.133 |
| Change in allowance for inventories | | | | | | 181 | 8 |
| Heating and hot water systems supervision expenses | 1 | (399) | (852) | (688) | (1.417) | (2.485) | (2.801) |
| Petrašiūnai power plant operator expenses | 1 | (585) | (1.170) | (522) | (1.037) | (2.184) | (2.193) |
| Other expenses | | (2.166) | (4.630) | (3.001) | (5.922) | (10.248) | (8.791) |
| Other operating expenses | 16 | (220) | (362) | (489) | (858) | (1.357) | (986) |
| **Total operating expenses** | | **(37.969)** | **(155.653)** | **(36.890)** | **(102.451)** | **(208.815)** | **(179.226)** |
| **Operating profit** | | **(6.649)** | **22.792** | **(10.069)** | **10.100** | **(2.260)** | **(9.853)** |
| Income from financial and investment activity | 17 | 426 | 692 | 353 | 656 | 1.281 | 1.364 |
| Expenses from financial and investment activity | 18 | (1.049) | (2.109) | (569) | (1.263) | (3.800) | (2.003) |
| **Net profit for financial and investment activity** | | **(623)** | **(1.417)** | **(216)** | **(607)** | **(2.519)** | **(639)** |
| **Profit before tax** | | **(7.272)** | **21.375** | **(10.285)** | **9.493** | **(4.779)** | **(10.492)** |
| Income tax | | | | | | **-436** | **-1.871** |
| **Net profit** | | **(7.272)** | **21.375** | **(10.285)** | **9.493** | **(4.343)** | **(8.621)** |
| Basic earnings per share (LTL) | | (0,37) | 1,07 | (0,52) | 0,48 | (0,22) | (0,44) |

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

AB „Kauno energija"
Generalinio direktoriaus pavaduotojas-pardavimų ir rinkodaros departamento direktorius
Stanislovas Karčiauskas

| | | | |
|---|---|---|---|
| General director | Rimantas Bakas | | 20 July, 2009 |
| Chief accountant | Violeta Staškūnienė | | 20 July, 2009 |

(thousand litas, if not otherwise stated)

**Statements of changes in equity**

| Group | Notes | Share capital | Legal reserve | Other reserve | Retained (deficit) | Total |
|---|---|---|---|---|---|---|
| **Balance as of 31 December, 2007** | | **118.310** | **11.373** | **163** | **(13.534)** | **116.312** |
| Net profit (loss) for the year | | - | - | - | 9.253 | 9.253 |
| Transferred to reserves | 8 | - | (8.332) | (163) | 8.495 | - |
| **Balance as of 30 June, 2008** | | **118.310** | **3.041** | **-** | **4.214** | **125.565** |
| Increase in share capital | 1 | 1.200 | - | - | - | 1.200 |
| Net profit (loss) for the year | | - | - | - | (13.488) | (13.488) |
| **Balance as of 31 December, 2008** | | **119.510** | **3.041** | **-** | **(9.274)** | **113.277** |
| Transferred to reserves | 8 | | (2.808) | | 2.808 | |
| Net profit (loss) for the year | | - | | - | 21.237 | 21.237 |
| **Balance as of 30 June, 2009** | | **119.510** | **233** | **-** | **14.771** | **134.514** |

| Company | Notes | Share capital | Legal reserve | Other reserves | Retained (deficit) | Total |
|---|---|---|---|---|---|---|
| **Balance as of 31 December, 2007** | | **118.310** | **11.323** | | **(9.863)** | **119.770** |
| Net profit (loss) for the year | | - | - | - | 9.493 | 9.493 |
| Transferred to reserves | 8 | - | (8.515) | | 8.515 | - |
| **Balance as of 30 June, 2008** | | **118.310** | **2.808** | **-** | **8.145** | **129.263** |
| Increase in share capital | 1 | 1.200 | - | - | - | 1.200 |
| Net profit (loss) for the year | | - | - | - | (13.836) | (13.836) |
| **Balance as of 31 December, 2008** | | **119.510** | **2.808** | **-** | **(5.691)** | **116.627** |
| Transferred to reserves | 8 | | (2.808) | | 2.808 | |
| Net profit (loss) for the year | | | | - | 21.375 | 21.375 |
| **Balance as of 30 June, 2009** | | **119.510** | | **-** | **18.492** | **138.002** |

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

Generalinio direktoriaus pavaduotojas-
pardavimų ir rinkodaros departamento
direktorius
Stanislovas Karčiauskas

| | | | |
|---|---|---|---|
| General director | Rimantas Bakas | | 20 July, 2009 |
| Chief accountant | Violeta Staškūnienė | | 20 July, 2009 |

(thousand litas, if not otherwise stated)

**Cash flow statements**

| | Group I half, 2009 | I half, 2008 | Company I half, 2009 | I half, 2008 |
|---|---|---|---|---|
| **Cash flows from 9to) operating activities** | | | | |
| Net (loss) | **21.237** | **9.253** | **21.375** | **9.493** |
| **Adjustments for non-cash items** | **9.922** | **9.116** | **9.812** | **9.027** |
| Depreciation and amortisation | 8.792 | 10.686 | 8.706 | 10.585 |
| Write-offs and change in allowance for accounts receivable | 1.466 | (582) | 1.466 | (582) |
| Loss from sale and write-off of non-current assets | 75 | 457 | 73 | 457 |
| Accruals | (1.443) | (1.519) | (1.462) | (1503) |
| Grants (amortisation) | 378) | (659) | (378) | (659) |
| Derivative financial instruments | 297 | | 297 | |
| Interest expenses | 1.695 | 1.266 | 1.692 | 1.262 |
| Elimination of other financial and investment activity results | (582) | (533) | (582) | (533) |
| **Changes in working capital** | **(36.277)** | **2.308** | **(36.207)** | **1.998** |
| Decrease in inventories | (501) | 393 | (384) | 333 |
| (increase) in prepayments | (185) | (186) | (201) | (152) |
| (increase) in trade receivables | 8.723 | 18.453 | 9.078 | 18.009 |
| (increase) decrease in other receivables | 816 | (1) | 892 | (76) |
| Increase (decrease) in non-current liabilities | (36) | - | (36) | |
| Increase (decrease) in current trade payables and advances received | (44.784) | (16.088) | (45.190) | (15.783) |
| Increase in payroll related liabilities | 708 | 627 | 636 | 530 |
| (decrease) in other liabilities to budget | (735) | (831) | (717) | (803) |
| Increase in other current liabilities | (283) | (59) | (285) | (60) |
| **Net cash flows from operating activities** | **(5.118)** | **20.677** | **(5.020)** | **20.518** |
| (acquisition) of tangible and intangible assets | (8.125) | (9.755) | (8.112) | (9.636) |
| Proceeds from sale of tangible assets | 87 | 75 | (44) | 75 |
| Interest for delayed receivables | 688 | 623 | 688 | 623 |
| Increase in cash flows from non-current accounts receivable | | (5) | | (5) |
| Interest received | 4 | - | 4 | |
| **Net cash flows from investment activities** | **(7.346)** | **(9.062)** | **(7.464)** | **(8.943)** |
| Proceeds from loans | 16.732 | 4.305 | 16.732 | 4.305 |
| (repayment) of loans | (3.987) | (16.873) | (3.987) | (16.873) |
| (paid) interest | (1.685) | (1.355) | (1.682) | (1.351) |
| (payments) lease (financial lease) | (44) | (42) | (20) | (19) |
| (paid) penalty interest and fines | (120) | (1) | (120) | (1) |
| **Net cash flows from financing activity** | **10.896** | **(13.966)** | **10.923** | **(13.939)** |
| **Net (decrease) increase in cash and cash equivalents** | **(1.568)** | **(2.351)** | **(1.561)** | **(2.364)** |
| **Cash and cash equivalents at the beginning of the year** | **3.616** | **4.886** | **3.604** | **4.864** |
| **Cash and cash equivalents at the end of the year** | **2.048** | **2.535** | **2.043** | **2.500** |

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

| | | | |
|---|---|---|---|
| General director | Rimantas Bakas | | 20 July, 2009 |
| Chief accountant | Violeta Staškūnienė | | 20 July, 2009 |

AB „Kauno energija" Generalinio direktoriaus pavaduotojas direktorius Stanislovas Karčiauskas

(thousand litas, if not otherwise stated)

## Notes to the financial statements

### General information

JSC "Kauno energija" (hereinafter the Company) is joint stock 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 subsidiary "Jurbarko šilumos tinklai".

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

As of 31 December, 2008 and 30 June, 2009 the shareholders of the Company were as follows:

| | Number of shares owned (units) | Percentage of ownership |
|---|---|---|
| Kaunas city municipality administration | 16.954.892 | 85,12 |
| Kaunas district municipality administration administracija | 1.606.168 | 8,07 |
| Jurbarkas district municipality administration administracija | 643.810 | 3,23 |
| Other minor shareholders | 713.512 | 3,58 |
| | 19.918.382 | 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 2008 and on 30 June, 2009.

On 26 June, 2008 in the Company's shareholders meeting it was decided to increase the share capital by issuing 200,000 ordinary shares with the par value LTL 6 each. Priority right to acquire issued shares was granted to Jurbarkas district municipality council. The issue price of shares is equal to their nominal value. 100,000 from 200,000 shares were not paid as of 31 December, 2008. All shares were fully paid as of 30 June, 2009.

On 11 June, 2009 Council of Kaunas city municipality made the decision in the extraordinary shareholders meeting of the Company to vote for the increase of share capital by issueing 22.700.000 ordinary shares with the par value LTL 6 each, paying for them by Kaunas city municipality asset input. For this issue extraordinary shareholders meeting, which will be held on 23 July, 2009, is convened.

The Company is also involved in maintenance of heating systems. On 1 July, 2006 on the basis of Kaunas Energy Services Department Company established daughter company closed-end company "Pastatų priežiūros paslaugos" (hereinafter the daughter company). The main activity of the daughter company 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 closed-end company "Pastatų priežiūros paslaugos". From 1 July, 2006 the Company is contracting closed-end company "Pastatų priežiūros paslaugos" for permanent technical maintenance of heating and hot water supply systems.

(thousand litas, if not otherwise stated)

The Group consists of the Company JSC „Kauno energija" and it's daughter company closed-end company "Pastatų priežiūros paslaugos" (hereinafter– Group):

| **Company** | **Registration address** | **Shares of the stock held by the Group** | **Cost investment** | **Profit (loss) for the reporting period** | **Total equity** | **Main activity** |
|---|---|---|---|---|---|---|
| Closed-end company „Pastatų priežiūros paslaugos" | Savanorių ave. 347, Kaunas | 100 % | 6.518 | (196) | 5.857 | Maintenan-ce of heating systems |

As of 31 December, 2008 impairment loss of investment in closed-end company "Pastatų priežiūros paslaugos" in amount of LTL 465 thousand was recognised in the Parent's financial statements.

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

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

In 2003 the Company sold part of the assets of the subdivision Kauno Elektrinė to closed-end company 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 21 the Company participates as a third party in administrative litigation between KTE and the Commission. After the reduction of KTE heat sales price, the Commission coordinated new heat price for the Company 22,2 percent lower that was valid, which came into effect from the 1 June, 2009.

On 8 June, 2006 the Company signed the agreement with closed-end company Energijos Sistemų Servisas regarding the operation of Petrašiūnai power plant and its assets located at Jėgainės str. 12, Kaunas. The contract is valid for a period of three years. Starting from 4 July, 2006, closed-end company "Energijos sistemų servisas" started to provide operation services of Petrašiūnai power plant. The employees of the Company that used to work at a subdivision of Petrašiūnai power plant were dismissed from the Company and hired by closed-end company "Energijos sistemų servisas". On 22 June 2006 the Company signed a lease agreement with closed-end company KTE regarding the equipment used in production of heating energy operated by closed-end company "Energijos sistemų servisas". For the purchase of this service on 2 July, 2009 with the closed-end company "Energijos sistemų servisas" was signed new agreement, valid till the 3 August, 2010.

The Company's generation capacity includes a power plant in Petrašiūnai, 3 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 14 isolated networks and 50 local gas burning boiler-houses. On 25 June, 2008 the Company sold Paliai boiler house, located in Marijampolė district, to Marijampolė city municipality.

The Company's total heat and electricity generation capacity is 534.2 MW and 8.75 MW, respectively, out of which 265.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. The total Company's power generation capacity is 542.95 MW.

On 30 June, 2009 Group's average number of employees was 641 (663 employees in 2008). On 30 June, 2009 the average number of employees in the Company was 592 (609 employees in 2008).

(thousand litas, if not otherwise stated)

**2.1.Financial statements form**

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

**2.2. Financial statements currency**

Group managers accounting and in the amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, litas (LTL) and all values are rounded to the nearest thousand, except when otherwise indicated.

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

**2.3. Principles of consolidation**

The consolidated financial statements of the Group include Company and it's daughter 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 and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement.

**2.4. Non-current tangible assets**

Property, plant and equipment of the Group and the Company are stated at cost less accumulated depreciation and impairment losses.

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

| | **Years** |
|---|---|
| Buildings | 7 - 50 |
| Structures and machinery | 5 - 60 |
| Vehicles | 3 - 10 |
| Equipment and tools | 2 - 20 |

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. Group and Company evaluated non-current tangible asset useful life and from the 1 September, 2008 increased heating networks depreciation period from 20 years up to 30 years, for heat exchangers and other special equipments from 10 years up to 15 years. If the Group and Company further would use 20 years and 10 years depreciation periods, in the year 2008 depreciation expenses would amounted to LTL 1.200 thousand higher and the balance of non-current tangible asset would be LTL 1.200 thousand lower.

**2.5. Segments**

Group and Company implements activity in one business and geographical segment.

**3. Non-current tangible assets**

Group's and Company's depreciation of non-current tangible asset on 30 June, 2009 amounts to LTL 8.736 thousand and LTL 8.656 thousand respectively (in 2008 – LTL 19.207 thousand and LTL 18.971 thousand respectively). LTL 8.309 thousand and LTL 8.229 thousand sums (in 2008 – LTL 19.050 thousand and LTL 18.894 thousand) in Group's and Company's profit (loss) statement are included in the operating expenses.

(thousand litas, if not otherwise stated)

Acquisition value of Company's non-current tangible asset, which acquisition value on 30 June, 2009 amounted to LTL 48.469 thousand respectively was fully depreciated (LTL 50.828 thousand as of 31 December, 2008), but still used in the activity.

On 30 June, 2009 and on 31 December, 2008 Group's and Company's large portion of not finished construction consists of heat supply networks capital repair works.

On 30 June, 2009 Group's and Company's non-current tangible asset which balance value amounted to LTL 68.479 thousand (LTL 73.691 thousand as of 31 December, 2008), was pledged for the banks as collateral for the loans (9 note).

**4. Non-current accounts receivable**

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| Long-term loans granted to the Company's employees | 56 | 56 | 56 | 56 |
| Other | 9 | 9 | 9 | 9 |
| | 65 | 65 | 65 | 65 |

Long-term loans granted to the employees of the Company are non-interest bearing and mature from 2008 to 2023. These loans are accounted for at discounted value using 8.0 % interest rate.

All non-current accounts receivable as of 31 December, 2008 and 30 June, 2009 are neither past due nor impaired.

**5. Other financial assets**

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| Ordinary shares - unquoted | 433 | 433 | 433 | 433 |

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

**6. Current accounts receivable**

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| Trade receivables, gross | 65.558 | 74.277 | 65.438 | 74.512 |
| Less: impairment of doubtful receivables | (20.950) | (19.480) | (20.950) | (19.480) |
| Trade receivables, net | 44.608 | 54.797 | 44.488 | 55.032 |

Change in impairment of doubtful receivables on 30 June, 2009 and 31 December, 2008 is included into the change in allowance for doubtful receivables caption in the Group's and the Company's income statement.

As of 30 June, 2009 trade receivables with the nominal value of LTL 20.950 thousand (LTL 19.480 thousand aso f 31 December, 2008), were impaired and fully provided for.

(thousand litas, if not otherwise stated)

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

| | Total |
|---|---|
| **Balance as of 31 December, 2006** | **22.370** |
| Unused amounts reversed | (1.014) |
| Utilized | (957) |
| **Balance as of 31 December, 2007** | **20.399** |
| Unused amounts reversed | (241) |
| Utilized | (678) |
| **Balance as of 31 December, 2008** | **19.480** |
| Depreciation | 1.470 |
| **Balance as of 30 June, 2009** | **20.950** |

In I half, 2009. Group and Company received LTL 9 thousand (in 2008 – LTL 67 thousand) of bad debts, which were written off in the previous periods.
The ageing analysis of the Group's trade receivables as of 31 December and 30 June, 2009 is:

| | Trade receivables neither past due nor impaired | Trade receivables past due but not impaired: Less than 60 days | 60 - 150 days | 151 - 240 days | 241 - 360 days | More than 360 days | Total |
|---|---|---|---|---|---|---|---|
| **2009-06-30** | 6.512 | 14.299 | 19.323 | 2.513 | 312 | 1.649 | 44.608 |
| **2008-12-31** | 43.602 | 6.338 | 1.569 | 1.612 | 817 | 859 | 54.797 |

The ageing analysis of the Company's trade receivables as of 31 December, 2008 and 30 June, 2009 is as follows:

| | Trade receivables neither past due nor impaired | Trade receivables past due but not impaired: Less than 60 days | 60 - 150 days | 151 - 240 days | 241 - 360 days | More than 360 days | Total |
|---|---|---|---|---|---|---|---|
| **2009-06-30** | 6.452 | 14.239 | 19.323 | 2.513 | 312 | 1.649 | 44.488 |
| **2008-12-31** | 43.851 | 6.336 | 1.557 | 1.612 | 817 | 859 | 55.032 |

Trade receivables are non-interest bearing and are generally on 30 days terms or individually agreed.

The Group's and the Company's trade receivables, past due more than 360 days, comprise the accounts receivable from budget organisations, financed from budgets of the State and municipalities, and from institutions financed by Patient's Funds, for which the allowance is not accrued by the Group and the Company.

On June, 2009 Group's and Company's other receivables amounted to LTL 7.731 thousand and LTL 7.763 thousand (LTL 8.547 thousand and LTL 8.655 thousand as of 31 December, 2008), which larger portion makes debt of municipalities for the compensations for low income families, receivable value added tax, receivable sums for sold inventories (metal, heating systems equipments) and provided services (transportation and permenent heating systems supervision services).

(thousand litas, if not otherwise stated)

The ageing analysis of the other Group's trade receivables (except receivable taxes) as of 31 December, 2008 and 30 June, 2009 is as follows:

| | | Trade receivables past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|
| | **Trade receivables neither past due nor impaired** | **Less than 60 days** | **60 - 150 days** | **151 - 240 days** | **241 - 360 days** | **More than 360 days** | **Total** |
| **2009-06-30** | 392 | 3.701 | 507 | 28 | 8 | 301 | 4.937 |
| **2008-12-31** | 2.305 | 63 | 39 | - | 2 | 242 | 2.651 |

The ageing analysis of the other Company's trade receivables (except receivable taxes) as of 31 December, 2008 and 30 June, 2009 is as follows:

| | | Trade receivables past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|
| | **Trade receivables neither past due nor impaired** | **Less than 60 days** | **60 - 150 days** | **151 - 240 days** | **241 - 360 days** | **More than 360 days** | **Total** |
| **2009-06-30** | 390 | 3.701 | 507 | 28 | 8 | 336 | 4.970 |
| **2008-12-31** | 2.413 | 63 | 39 | - | 2 | 242 | 2.759 |

Group's and Company's other receivables are without interest and usuallu their term is 30 - 45 days.

From buyers and other receivable sums, which period is not passed and for which there is not calculated value reduction at the balance day their wer no any features that debtors would not can to implement their liabilities.

### 7. Cash and cash equivalents

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **30 June, 2009 m.** | **31 December, 2008** | **30 June, 2009** | **31 December, 2008** |
| Cash in transit | 1.034 | 2.158 | 1.034 | 2.158 |
| Cash at bank | 966 | 1.437 | 962 | 1.426 |
| Cash on hand | 48 | 21 | 47 | 20 |
| | 2.048 | 3.616 | 2.043 | 3.604 |

Group's and Company's accounts in litas, which balance on 30 June, 2009 amounted to LTL 779 thousand (LTL 801 thousand as of 31 December, 2008), is pledged for the banks as collateral for the loans (9 note).

### 8. Reserves

Legal and other reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 % of net profit calculated in accordance with IFRS are compulsory until the reserve reaches 10 % of the share capital. The legal reserve cannot be distributed as dividends but can be used to cover any future losses. On 29 April 2008, based on the decision of the shareholders the Group and the Company transferred an amount of LTL 8,515 thousand from legal reserve to cover losses of 2007. On 14 May 2007 the Group and the Company transferred LTL 7,689 thousand to the legal reserve. On 7 March, 2008 based on the decision of the shareholders the Subsidiary transferred an amount of LTL 183 thousand from other reserve and retained earnings to the legal reserve. On 14 March 2007 based on the decision of the shareholders the Subsidiary transferred an amount of LTL 50 thousand to the legal reserve and an amount of LTL 163 thousand to the other reserve for the purpose of investment. On 28 April, 2009 Company by the decision of shareholders transferred LTL 2.808 thousand from the compulsory reserve to cover losses of the year 2008.

(thousand litas, if not otherwise stated)

**9. Financial debts**

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| **Non-current financial debts** | | | | |
| Non-current loans | 37.869 | 33.921 | 37.869 | 33.921 |
| **Current loans** | | | | |
| Non-current portion of current year loans | 4.786 | 8.748 | 4.786 | 8.748 |
| Current bank loans (included credit line) | 16.129 | 15.720 | 16.129 | 15.720 |
| Factorised trade debts | 12.350 | 15.720 | 12.350 | 15.720 |
| | 33.265 | 24.468 | 33.265 | 24.468 |
| **Total** | 71.134 | 58.389 | 71.134 | 58.389 |

Non-current loans payment periods (all loans are with variable interest norm):

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| 2009 | 4.786 | 8.748 | 4.786 | 8.748 |
| 2010 | 9.570 | 9.570 | 9.570 | 9.570 |
| 2011 | 9.940 | 9.940 | 9.940 | 9.940 |
| 2012 | 4.682 | 4.682 | 4.682 | 4.682 |
| 2013 | 3.987 | 3.987 | 3.987 | 3.987 |
| 2014 | 3.987 | 3.987 | 3.987 | 3.987 |
| 2015 | 3.987 | 1.406 | 3.987 | 1.406 |
| 2016 | 1.716 | 349 | 1.716 | 349 |
| | 42.655 | 42.669 | 42.655 | 42.669 |

At the end of the period not paid loans balance in litas and foreign currency is:

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| **Loan currency** | | | | |
| EUR | 55.298 | 32.913 | 55.298 | 32.913 |
| LTL | 15.836 | 25.476 | 15.836 | 25.476 |
| | 71.134 | 58.389 | 71.134 | 58.389 |

On 1 August, 2005 the Group and the Company signed a long-term loan agreement with AB Bankas Hansabankas for the amount of LTL 5,000 thousand. The maturity date of the last portion of the loan is 1 August 2012. As of 30 June, 2009 the outstanding balance of the loan amounted to LTL 2,505 thousand of which LTL 416 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month VILIBOR plus 0.77 % interest rate.

On 23 August, 2005 the Group and the Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 8,776 thousand (the equivalent of LTL 30,300 thousand). The maturity date of the last portion of the loan is 31 December, 2014. The outstanding balance of the loan amounted to EUR 3.982

thousand (the equivalent of LTL 13.750 thousand) as of 30 June, 2009, of which LTL 1.250 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 1.9 % interest rate.

On 1 December 2006 the Group and the Company signed a long-term loan agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2,090 thousand. On 18 April 2007 the loan amount increased up to LTL 6,090 thousand. The maturity date of the last portion of the loan is 31 October, 2015. As of 31 March, 2009 the outstanding balance of the loan amounted to LTL 5,406 thousand, of which LTL 424 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 3-month VILIBOR plus 0.45 % interest rate.

On 21 December 2006 the Group and the Company signed a long-term loan agreement with AB SEB Bankas for the amount of EUR 2,059 thousand (the equivalent of LTL 7,108 thousand). The maturity date of the last portion of the loan is 30 November 2016. As of 30 June, 2009 the outstanding balance of the loan amounted to EUR 773 thousand (the equivalent of LTL 2,668 thousand), of which LTL 198 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 6-month EUR LIBOR plus 0.4 % interest rate.

On 14 November 2007 the Group and the Company signed a long-term loan agreement with AB DnB NORD Bankas for the amount of EUR 576 thousand (the equivalent of LTL 1,989 thousand). The maturity date of the last portion of the loan is 31 December 2016. As of 30 June, 2009 the outstanding balance of the loan amounted to EUR 540 thousand (the equivalent of LTL 1,864 thousand), of which LTL 124 thousand was accounted for as the current portion of non-current borrowings in the financial statements of the Group and the Company. The loan bears 12-month EUR LIBOR plus 0.59 % interest rate.

On 20 April 2007 the Group and the Company signed an overdraft agreement with Danske Bank A/S Lithuania Branch for the amount of LTL 1,010 thousand, with the maturity date of 20 October 2009. As of 30 June, 2009 the Group's and the Company's balance of used overdraft was LTL 991 thousand (LTL 1.010 thousand as of 31 December 2007). The overdraft bears 3-month VILIBOR plus 0.44 % interest rate.

On 31 July 2008 the Group and the Company signed a long-term investment credit agreement with Danske Bank A/S Lithuania Branch for the amount of EUR 984 thousand (the equivalent of LTL 3,398 thousand). The maturity date of the last portion of the loan is 2018. As of 30 June, 2009 the outstanding balance of the investment credit amounted to EUR 552 thousand (the equivalent of LTL 1,907 thousand), of which LTL 175 thousand with maturity date 31 December 2012 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 30 September 2017. As of 30 June, 2009 the outstanding balance of the investment credit amounted to EUR 1.146 thousand (the equivalent of LTL 3.955 thousand). All amount with maturity date 31 December 2011 was accounted for as the non-current borrowing 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 Group and Company signed non-current loan agreemet with JSC SEB bank for EUR 3.333 thousand (LTL 11.508 thousand equivalent) sum. Last portion of loan repayment period is 31 December, 2011. Loan balance on 30 June, 2009 is EUR 2.783 thousand (LTL 9.609 thousand equivalent), from which LTL 1.208 thousand in Group's and Company's financial statements accounted in non-current loans current year portion article. The loan bears 1 month EUR LIBOR + 0,7 % interest rate.

On 5 September, 2008 Group and Company had signed current loan agreement with JSC SEB bank for EUR 174 thousand (LTL 601 thousand equivalent) sum. Loan portion repayment period is 31 May, 2009. Loan is repayed.

On 4, 1999 Group and Company signed credit line agreement with JSC SEB bank for the LTL 7.000 thousand sum. Agreement term is 19 July, 2009. Company's used credit line funds on 30 June, 2009 amounted to LTL 6.934 thousand (LTL 6.960 thousand as of 31 December, 2008). For the credit line OVER'N VILIBOR + 1,9 percent interest are payed. Agreement validity term if foreseen to change for the calendar year period.

(thousand litas, if not otherwise stated)

On 8 July, 2004 Group and Company signed overdraft agreement with JSC AB DnB NORD bank for LTL 18.000 thousand. Overdraft limit validity term is 31 May, 2008. On 27 May, 2008 overdraft sum was reduced to LTL 10.000 and the payment period prolonged to 31 May, 2009. On 29 May, 2009 agreement validity prolonged to 29 May, 2010, by changing it's amount to EUR 2.896 thousand (LTL 9.999 thousand equivalent). Group's and Company's used overdraft sum on 30 June, 2009 amounted to LTL 9.194 thousand (LTL 8.760 thousand as of 31 December, 2008). For the overdraft are payed 1-months EURIBOR + 3 percent annual interest.

On 26 February, 2009 Company, JSC Nordea Finance Lithuania and closed-end company Kauno termofikacijos elektrinė had signed the agreement on the settlement for the heat energy period delay for the additional 30 days period than determined in heat purchase-sale agreement (as described in 1 paragraph). This agreement is signed according to that on 26 February, 2009 JSC Nordea Finance Lithuania and closed-end company Kauno termofikacijos elektrinė signed Factoring agreement for the to the Company provided bills for the heat energy. Liability amount on 30 June, 2009 is EUR 3.577 thousand (LTL 12.350 thousand equivalent).

Group's and Company's non-current tangible asset (3 note) and accounts in bank (7 note) were pledged to banks as collateral for the loans.

**10. Lease (financial lease)**

According to the financial lease agreements leased Group's asset consists of vehicles. Financial lease terms are from 2 till 5 years. Further is provided asset balance value acquired by the way of financial lease:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **30 June, 2009** | **31 December, 2008** | **30 June, 2009** | **31 December, 2008** |
| Vehicles | 155 | 186 | 50 | 55 |
| | 155 | 186 | 50 | 55 |

On 30 June, 2009 financial lease interest norm is variable and fixed. Fixed interest norm is equal 3,99 percent and 5,77 percent. Variable interest norm fluctuates from 6 months VILIBOR + 1,5 percent.

Financial lease balance is denominated in litas.

Financial lease payments in the future according to the lease agreements on 30 June, 2009 consists of:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **30 June, 2009** | **31 December, 2008** | **30 June, 2009** | **31 December, 2008** |
| Per one year | 46 | 93 | 18 | 38 |
| From one to five years | 101 | 101 | - | - |
| Total financial lease liabilities | 147 | 194 | 18 | 38 |
| Interest | (10) | (13) | (1) | (1) |
| Current value of financial lease liabilities | 137 | 181 | 17 | 37 |
| Financial lease liabilities as | | | | |
| -current | 42 | 86 | 17 | 37 |
| -non current | 95 | 95 | - | - |

(thousand litas, if not otherwise stated)

### 11. Grants (deferred income)

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| **Balance at the beginning of the period** | **10.253** | **10.503** | **10.253** | **10.503** |
| **Received per year** | | | | |
| Non-current asset received without payments | 0 | 889 | 0 | 889 |
| | 0 | 889 | 0 | 889 |
| Amortisation and write-offs | (378) | (1.139) | (378) | (1.139) |
| **Balance at the end of the period** | **9.875** | **10.253** | **9.875** | **10.253** |

In the year 2008 Group and Company received heat networks without payments in Žemgalių str. and Raudondvario rd., which vale at the moment of transfer amounted to LTL 149 thousand. Also in the year 2008 Group and Company received telecommunication equipment, which value is at the moment of transfer LTL 140 thousand. On 10 October, 2008 Company's subsidiary „Jurbarko šilumos tinklai" received LTL 600 thousand subsidy for the change of boiler burned by mazut into burned by gas from public institution Lietuvos aplinkos apsaugos investicijų fondas (LAAIF). On 31 December, 2008 public institution LAAIF transferred to the Company LTL 360 thousand and remained LTL 240 thousand portion was recognised in Group's and Company's other receivables article. On 30 June, 2009 public institution LAAIF fully settled with the Company.

### 12. Employee benefits liability

Every employee, leaving work and who reached pension age according to the laws of the Republic of Lithuania and collective agreement has to receive compensation of 2 - 6 months salaries.

Compensation liability for the Group and Company employees were:

| | Group | | Company | |
|---|---|---|---|---|
| | 30 June, 2009 | 31 December, 2008 | 30 June, 2009 | 31 December, 2008 |
| Non-current employee benefits | 1605 | 1.612 | 1605 | 1.612 |
| Non-current portion of employee benefits for the current year | | 408 | | 408 |
| | 1.605 | 2.020 | 1.605 | 2.020 |

On 30 June, 2009 at the finished half of the year Group's and Company's paid benefits for the employees were LTL 415 thousand (LTL 335 thousand as of 31 December, 2008) and are recognised in salaries and social security costs in Group's and Company's profit (loss) statement.

Main presumptions used for the Group and Company planned payments liabilities are provided below:

| | 30 June, 2009 | 31 December, 2008 |
|---|---|---|
| Discount norm, percent | 7,0 | 7,0 |
| Employee change index, percent | 18,9 | 18,9 |
| Planned annual increase of salaries, percent | 3,0 | 3,0 |

(thousand litas, if not otherwise stated)

### 13. Trade debts

Trade debts are without interest and usually for them 30 - 90 days period is set.

### 14. Derivative financial instruments

On 29 October, 2008 Group and Company made the transaction on interest exchange. From 24 November, 2008 till 22 November, 2010 Group and Company set 3.86 percent fixed interrest norm for the variable 1-month EURIBOR interest norm. On 30 June, 2009 nominal transaction value is LTL 2.958 thousand EUR (LTL 10.213 thousand equivalent), LTL 3.133 thousand EUR as of 31 December, 2008 (LTL 10.818 thousand equivalent). Transaction market value pn 30 June, 2009 – LTL 277 thousand.
On 24 October, 2008 Group and Company set interest exchange transaction. From 22 October, 2008 till 23 August, 2010 Group and Company set 4.24 percent fixed interest norm for the variable 6-months EURIBOR interest norm. On 30 June, 2009 nominal transaction value is LTL 4.163 thousand EUR (LTL 14.375 thousand equivalent), as of 31 December, 2008 nominal transaction value is LTL 4.344 thousand EUR (LTL 15.000 thousand equivalent). Company has broken off this transaction on the state of 9 April, 2009.
On 9 April, 2009 Group and Company set interest exchange transaction. From 24 August, 2009 till 22 August, 2014 Group and Company set 4.15 percent fixed interest norm for the variable 6-months EUR LIBOR interest norm. On 30 June, 2009 nominal transaction value is LTL 3.862 thousand EUR (LTL 13.333 thousand equivalent). Transaction market value on 30 June, 2009 – LTL 587 thousand.

### 15. Sales income

Group and Company makes heat energy supply, buildings heating and hot water supplu systems supervision, electricity production and supervision of collectors. These activities are related, thats why for the management aims it is considered that Group and Company organizes activity in the one segment – heat energy supply. Sales income according to the Group's and Company's activities are provided below:

| | Group | | Company | |
|---|---|---|---|---|
| | I half, 2009 | 2008 | I half, 2009 | 2008 |
| Heat energy | 176.684 | 201.760 | 176.719 | 201.793 |
| Buildings heating and hot water supply supervision | 1.183 | 3.708 | 1.039 | 2.934 |
| Electricity | 171 | 506 | 171 | 506 |
| Supervision of collectors | 1 | - | 1 | - |
| | 178.039 | 205.974 | 177.930 | 205.233 |

### 16. Other activity income and costs

| | Group | | Company | |
|---|---|---|---|---|
| | I half, 2009 | 2008 | I half, 2009 | 2008 |
| **Other activity income** | | | | |
| Company's services | 497 | 1.003 | 460 | 992 |
| Sold tangible asset | 26 | 111 | 26 | 112 |
| Non-current asset sales income | 1 | 162 | 1 | 157 |
| Other | 30 | 61 | 28 | 61 |
| | 554 | 1.337 | 515 | 1.322 |
| **Other activity costs** | | | | |
| Cost of company's services | (275) | (631) | (266) | (625) |
| Sold tangible asset | (22) | (253) | (22) | (253) |
| Non-current asset sales losses | (76) | (475) | (73) | (475) |
| Other | | (4) | (1) | (4) |
| | (373) | (1.363) | (362) | (1.357) |
| **Net profit: profit (losses)** | 181 | (26) | 153 | (35) |

## 17. Financial activity income

| | Group I half, 2009 | 2008 | Company I half, 2009 | 2008 |
|---|---|---|---|---|
| **Financial and investment activity income** | | | | |
| Interest for delayed receivables | 675 | 1.230 | 675 | 1.230 |
| Bank interest | 2 | 18 | 2 | 18 |
| Dividends | - | - | - | - |
| Other | 15 | 33 | 15 | 33 |
| | 692 | 1.281 | 692 | 1.281 |

## 18. Financial activity costs

| | Group I half, 2009 | 2008 | Company I half, 2009 | 2008 |
|---|---|---|---|---|
| Bank loans and overdrafts interest receivables | (1.695) | (2.772) | (1692) | (2.764) |
| Net loss on financial liabilities at fair value through profit or loss | (297) | (567) | (297) | (567) |
| Investments into daughter company value decrease losses | - | - | | (465) |
| Interest from late payment of accounts receivable | (120) | | (120) | |
| **Other** | | (4) | | (4) |
| | (2.112) | (3.343) | (2.109) | (3.800) |

## 19. Basic and diluted (loss) per share

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

| | Group I half, 2009 | 2008 |
|---|---|---|
| Net profit (loss) | 21.237 | (4.235) |
| Number of shares (thousand) at the beginning of the period | 19.918 | 19.718 |
| Number of shares (thousand) at the end of the period | 19.918 | 19.918 |
| Average number of shares (thousand) | 19.918 | 19.818 |
| Basic and diluted (loss) per share (LTL) | 1.07 | (0,21) |

## 20. Financial asset, 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.

The Group and the Company do not guarantee obligations of the other parties, except as described in Note 21.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payments obligations since receivables balances are monitored on an ongoing basis. The Group and the Company consider that their maximum exposure to credit risk is reflected by the amount of trade receivables and other receivables, net of allowance for doubtful accounts recognised at the balance sheet date (Note 6).

(thousand litas, if not otherwise stated)

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 2009 and 2008 to manage variable rate risk the Company has entered into interest rate swaps agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 14, calculated by the reference to an agreed upon notional principal amount. In 2007 the Group and the Company did not have financial instruments for managing the interest rate risk.

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as of 30 June, 2008 were 1,42 and 1,28, respectively (0,91 and 0,84 as of 31 December, 2008). The Company's liquidity and quick ratios as of 30 June, 2009 were 1,42 and 1,29 respectively (0,91 and 0,84 as of 31 December, 2008).

The Group and the Company expects to overcome liquidity issues implementing the following action plan:
(1) the heat price 24,56 ct/kWh is effective starting from 1 December, 2008 till 31 May, 2009. Fuel and purchased heat price change let the Company by 23,5 percent to reduce heat price till 19,11 ct/kWh, in which it is evaluated and realized heat amount and investment depreciation change, which conditioned price increase by 1,3 percent. From 1 December, 2008 and from 1 June, 2009 in the valid heat price there are calculated experienced costs for the fuel and purchased heat. From the 1 October, 2009 heat price for the consumers will be calculated according to 2 heat price indexes. Constant heat price index during the calculation period will be constant, variable would change according to the fuel process changes, what would let Company to reduce possible loss, when fuel prices would rise.
(2) the Company attempts to receive part of investments funds from the EU Structural Funds. The Company has submitted 5 projects, the support for three of them (50 % of the cost of the project, but not more than LTL 6 million) is expected to be received in 2009; (4) in addition, the Group and the Company implements the cost reduction means: temporary termination of membership in various associations, implementation of production and transfer loss reduction plan; etc.(5) considering the increase in heat price, decrease in gas prices and other cost reducing plans, the Group and the Company expects to gain net profit for 2009 which could cover accumulated losses of prior periods.

Risk of foreign currency

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company are denominated in LTL and EUR. Therefore, the foreign currency risk is not incurred.

Monetary assets and liabilities denominated in national and foregin currency on 30 June, 2009, were (stated in LTL):

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **Asset** | **Liabilities** | **Asset** | **Liabilities** |
| LTL | 54.387 | 24.638 | 54.294 | 24.383 |
| EUR | 0 | 56.162 | 0 | 56.162 |
| | 54.387 | 80.800 | 54.294 | 80.545 |

(thousand litas, if not otherwise stated)

Fair value of financial asset and liabilities

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

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

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:
a)The carrying amount of current trade accounts receivable, current trade accounts payable, other receivables and other payables and current borrowings approximate their fair value.
b)The fair value of trade and other payables, long-term and short-term borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

Capital management

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December, 2008 and 30 June, 2009.

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

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **30 June, 2009** | **31 December, 2008** | **30 June, 2009** | **31 December, 2008** |
| **Non-current liabilities (including deferred tax and grants)** | 50.239 | 46.705 | 50.949 | 47.415 |
| **Current liabilities** | 43.051 | 80.538 | 42.796 | 80.740 |
| Total liabilities | **93.290** | **127.243** | **93.745** | **128.155** |
| Equity | **134.514** | **113.277** | **138.002** | **116.627** |
| Debt to equity ratio | **69,35 proc.** | **112,33 proc.** | **67,93 proc.** | **109,88 proc.** |

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

(thousand litas, if not otherwise stated)

## 21. Commitments and contingencies

On 10 October, 2008 the Company has given a guarantee for the public enterprise Krepšinio Perspektyvos for a credit line agreement with AB DnB Nord Bankas in the amount of LTL 5 million for a period till 30 June, 2009. In addition the Company has signed the agreement with Kaunas city municipality, in accordance to which Kaunas city municipality is liable to repay the liabilities to the Company, in case the Company will have to make payments to the bank on behalf of the public enterprise. On the day of these statements issuing public enterprise Krepšinio Perspektyvos fulfilled it's liabilities to the bank. Guarantee agreement stopped to be valid.

The Company participates as a third party in the administrative litigation regarding the closed-end company Kauno Termofikacijos Elektrinė complaint on the Commission decree "On the closed-end company Kauno Termofikacijos Elektrinė heat production base price fixing" annulment on 24 October, 2008. KTE claims that the heat production price, calculated on 31 March, 2003 according to the terms of Heat energy purchase and sales agreement, should continue to be applied, not the revised price determined by the Commission. Based on the Civil Code of the Republic of Lithuania, decrees of the courts of the Republic of Lithuania and responses of Kaunas city municipality and the Commission, the Company believes that the Heating Law of the Republic of Lithuania which came into force on 1 January 2008 prevails over the Heat energy purchase and sales agreement signed on 31 March, 2003 by the Company and KTE, therefore the possibility that the claim will be set by KTE is remote and no provision related to this possible case was recognized in the Group's and the Company's financial statements. If the court's verdict is opposite, and KTE decides to bring the claim against the Company due to the incurred losses, this exposure would amount to the difference between the heat production price calculated in accordance with methodology agreed in Heat energy purchase and sales agreement and the price determined by the Commission to KTE.
On 31 March, 2003 Company and KTE signed the Investment agreement. Considering that KTE does not making investment liabilities based on the agreement, KTE must pay LTL 17,7 million claim for the not implemented investments for the Company, there was negotiations between the parties concerning Investment agreement change and investment terms change. On 30 June, 2009 there was not made any decision suitable to both parties concerning Investment agreement change. LTL 17,7 million claim will be discussed in Arbitration to the Association International trade chamber – Lithuania.

## 22. 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 I half, 2009 and 2008 the Group and the Company did not have any significant transactions with the other companies owned by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the companies owned by the Kaunas city municipality were executed at market prices.

In I half, 2009 and 2008 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, controlled by Kaunas city municipality and the balances at the end of the year were as follows:

| **I half, 2009** | **Purchases** | **Sales** | **Receivables** | **Payables** |
|---|---|---|---|---|
| Entities controlled and financed by Kaunas city municipality | 40 | 16.826 | 19.895 | 10 |

| **2008** | **Purchases** | **Sales** | **Receivables** | **Payables** |
|---|---|---|---|---|
| Kaunas city municipality | 125* | 2.587 | 839 | - |
| Budgetary institutions under control of Kaunas city municipality | - | 13.205 | 6.236 | |
| Jurbarkas district municipality | - | - | 600** | - |
| Entities controlled by Kaunas city municipality | 1.254 | 4.878 | 1.108 | 100 |

(thousand litas, if not otherwise stated)

* represents real estate taxes paid to Kaunas city municipality.
** represents receivable amount from shareholder for issued, but not paid capital, as described in Note 1.

In I half, 2009 and 2008 the Company's transactions with the daughter company and the balances at the end of the year were as follows:

| **I half, 2009** | **Purchases** | **Sales** | **Receivables** | **Payables** |
|---|---|---|---|---|
| Closed-end company „Pastatų priežiūros paslaugos“ | 885 | 106 | 35 | 131 |

| **2008** | **Purchases** | **Sales** | **Receivables** | **Payables** |
|---|---|---|---|---|
| Closed-end company „Pastatų priežiūros paslaugos“ | 2.569 | 261 | 51 | 157 |

Remuneration of the management and other payments

Per I half, 2009 the Group's and Company's management remuneration amounted to LTL 404 thousand and LTL 322 thousand respectively (LTL 775 thousand and LTL 582 thousand in 2008). Post-employment benefits liability for the Group's and the Company's management amounted to LTL 75 thousand on 30 June, 2009 (LTL 103 thousand as of 31 December, 2008). To the Group's and Company's management per I half, 2009 post employment benefits amounted to LTL 93 thousand (there was no such payments in the 2008). Per I half, 2009 and 2008 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.

## 23. Subsequent events

On 2 June, 2009 Kaunas city municipality administration obliged Company to implement engineering constructions (collectors) – tunnels supervision. On 23 July, 2009 extraordinary shareholders meeting is convened, in which it is hoped to confirm decision that Kaunas city municipality would transfer to the ownership of the Company engineering constructions (collectors) – tunnels, which market value is LTL 136.200 thousand. This decision would let Company to provide additional collectors supervision service to Kaunas city companies.

In order to manage Company's activity more efficiently and to reduce management and production costs, it was made the decision from 1 August, 2009 to change the management structure of the Company by separating from the Company some it's divisions, related to the not main production or services provision.