

JSC „KAUNO ENERGIJA“

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
FOR **THE 9 MONTHS OF THE YEAR 2008**
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 9 MONTHS OF THE YEAR 2008

(all amounts are in LTL thousand unless otherwise stated)

Balance sheets

		Group		Company	
		30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Notes					
ASSETS					
Non-current assets					
Intangible assets		2.048	2.511	1.942	2.448
Non-current tangible assets					
Land and buildings		28.540	29.112	26.942	27.469
Structures and machinery		111.179	110.136	111.144	110.094
Vehicles		1.239	1.348	1.050	1.113
Equipments and tools		7.023	8.035	6.921	7.939
Other property, plant and equipment		1.866	2.016	1.866	2.016
Construction in progress and prepayments		9.410	8.204	9.410	8.204
Total property, plant and equipment	3	159.275	158.851	157.333	156.835
Non-current financial assets					
Investments into daughter companies	1	-	-	6.518	6.518
Non-current accounts receivable	4	127	117	127	117
Other financial assets		433	433	433	433
Total non-current financial assets		560	550	7.078	7.068
Total non-current assets		161.865	161.912	166.353	166.351
Current assets					
Inventories and prepayments					
Inventories		5.764	6.531	5.694	6.364
Prepayments		510	463	490	446
Total inventories and prepayments		6.274	6.994	6.184	6.810
Current accounts receivable					
Trade receivables	5	16.019	37.884	16.168	37.606
Other receivables		3.836	3.551	3.868	3.567
Total accounts receivable		19.855	41.435	20.036	41.173
Cash and cash equivalents	6	1.678	4.886	1.671	4.864
Total current assets		27.807	53.315	27.891	52.847
Total assets		189.672	215.227	194.244	219.198

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

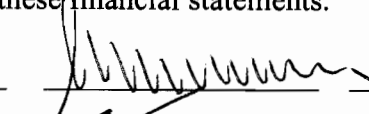
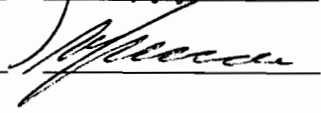
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 9 MONTHS OF THE YEAR 2008

(all amounts are in LTL thousand unless otherwise stated)

Balance sheets (continued)

		Group		Company	
		30	31	30	31
		September,	December,	September,	December,
Notes		2008	2007	2008	2007
EQUITY AND LIABILITIES					
Equity					
Share capital	1	118.310	118.310	118.310	118.310
Legal reserve	7	3.041	11.373	2.808	11.323
Other reserve	7		163	-	-
Retained earnings (deficit)					
Profit for the current year (loss)		(6.770)	(8.520)	(6.432)	(8.515)
Profit (loss) for the previous year		(3.691)	(3.666)		-
Total retained earnings (deficit)		(10.461)	(12.186)	(6.432)	(8.515)
Total equity		110.890	117.660	114.686	121.118
Liabilities					
Non-current liabilities					
Non-current financial borrowings	8	41.404	23.039	41.404	23.039
Lease (financial lease)	9	181	181	37	37
Other accounts payable		824	824	824	824
Deferred income tax liability		909	909	1.578	1.578
Grants (deferred income)	10	9.890	10.503	9.890	10.503
Total non-current liabilities		53.208	35.456	53.733	35.981
Current liabilities					
Non-current financial borrowings and lease (financial lease) portion of current year	8,9	1.183	8.772	1.171	8.726
Current financial borrowings	8	6.915	21.020	6.915	21.020
Trade payables	11	14.948	28.181	15.473	28.424
Advances received		1.036	753	1.036	753
Payroll-related liabilities		1.212	2.087	992	1.936
Taxes payable		53	994	11	936
Income tax payable		-	-	-	-
Other current liabilities		227	304	227	304
Total current liabilities		25.574	62.111	25.825	62.099
Total liabilities		78.782	97.567	79.558	98.080
Total equity and liabilities		189.672	215.227	194.244	219.198

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

General Director	Aleksandras Sigitas Matelionis		21 October, 2008
Chief Accountant	Violeta Staškūnienė		21 October, 2008

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 9 MONTHS OF THE YEAR 2008

(all amounts are in LTL thousand unless otherwise stated)

Income (loss) statements

	Notes	Group		2007	2006
		III quarter, 2008	I-III quarter, 2008	III quarter, 2007	I-III quarter, 2007
Operating income					
Income from sales	8	14.548	127.208	14.927	108.124
Other operating income	9	480	881	294	828
Total operating income		15.028	128.089	15.221	108.952
Operating expenses					
Fuel and heat acquired		(12.505)	(80.194)	(11.177)	(73.074)
Salaries and social security		(6.187)	(16.755)	(5.458)	(15.139)
Raw materials		(527)	(1.799)	(523)	(1.628)
Taxes other than income tax		(816)	(2.498)	(789)	(2.419)
Electricity		(590)	(2.113)	(1.708)	(3.169)
Depreciation and amortization		(4.932)	(14.926)	(5.204)	(15.285)
Repairs and maintenance		(2.108)	(4.840)	(177)	(903)
Water		(195)	(373)	(118)	(686)
Change in allowance for accounts receivable	3	(73)	509	(981)	1.142
Change in allowance for inventories		9	9		6
Petrašiūnai power plant operator expenses	1	(562)	(1.599)	(700)	(1.675)
Other expenses		(2.025)	(8.269)	(1.858)	(6.851)
Other operating expenses	9	(222)	(1.082)	(282)	(731)
Total operating expenses		(30.733)	(133.930)	(28.975)	(120.412)
Financial and investing activities		(15.705)	(5.841)	(13.754)	(11.460)
					(9.666)
Income from financial and investing activities	10	331	987	301	1.033
Expenses from financial and investing activities	10	(649)	(1.916)	(521)	(1.287)
Financial and investing activities, net		(318)	(929)	(220)	(254)
Profit before tax		(16.023)	(6.770)	(13.974)	(11.714)
					(10.360)
Income tax					1.840
Net profit		(16.023)	(6.770)	(13.974)	(11.714)
					(8.520)
Basic earnings per share (LTL)		(0,81)	(0,34)	(0,71)	(0,59)
					(0,43)

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

General Director

Aleksandras Sigitas Matelionis

21 October, 2008

Chief Accountant

Violeta Staškūnienė

21 October, 2008

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 9 MONTHS OF THE YEAR 2008

(all amounts are in LTL thousand unless otherwise stated)

	Notes	Company			I-III quarter, 2008	2007	2006
		III quarter, 2008	I-III quarter, 2008	III quarter, 2007			
Operating income							
Income from sales	8	14.414	126.564	14.550	106.979	168.003	183.224
Other operating income	9	473	874	387	977	1.370	8.464
Total operating income		14.887	127.438	14.937	107.956	169.373	191.688
Operating expenses							
Fuel and heat acquired		(12.505)	(80.194)	(11.177)	(73.074)	(112.195)	(112.894)
Salaries and social security		(5.558)	(14.716)	(4.796)	(12.848)	(19.966)	(24.543)
Raw materials		(478)	(1.465)	(434)	(1.383)	(2.013)	(3.352)
Taxes other than income tax		(803)	(2.462)	(760)	(2.388)	(3.354)	(4.066)
Electricity		(585)	(2.093)	(1.704)	(3.158)	(3.956)	(3.804)
Depreciation and amortization		(4.882)	(14.778)	(5.160)	(15.184)	(20.389)	(18.497)
Repairs and maintenance		(2.129)	(4.861)	(177)	(900)	(2.804)	(755)
Water		(193)	(363)	(115)	(676)	(787)	(1.069)
Change in allowance for accounts receivable		(73)	509	(981)	1.142	1.133	847
Change in allowance for inventories		9	9		6	8	324
Heat and hot water systems supervision costs	1,12	(546)	(1.963)	(682)	(2.094)	(2.801)	(1.995)
Petrašiūnai power plant operator expenses	1	(562)	(1.599)	(700)	(1.675)	(2.193)	(967)
Other expenses		(1.973)	(7.895)	(1.764)	(6.487)	(8.791)	(10.942)
Other operating expenses	9	(219)	(1.077)	(281)	(705)	(986)	(1.491)
Total operating expenses		(30.497)	(132.948)	(28.731)	(119.424)	(179.094)	(183.204)
Operating profit		(15.610)	(5.510)	(13.794)	(11.468)	(9.721)	8.484
Income from financial and investing activities	10	331	987	302	1.075	1.364	1.946
Expenses from financial and investing activities	10	(646)	(1.909)	(518)	(1.284)	(2.003)	(1.347)
Financial and investing activities, net		(315)	(922)	(216)	(209)	(639)	599
Profit before tax		(15.925)	(6.432)	(14.010)	(11.677)	(10.360)	9.083
Income tax						1.845	277
Net profit		(15.925)	(6.432)	(14.010)	(11.677)	(8.515)	9.360
Basic earnings per share (LTL)		(0.81)	(0.33)	(0,71)	(0,59)	(0,43)	0,47
The accompanying notes are an integral part of these financial statements.							
General Director		Aleksandras Sigitas Matelionis				21 October, 2008	
Chief Accountant		Violeta Staškūnienė				21 October, 2008	

JSC KAUNO ENERGIJA, code 235014830, Raudondvario pl. 84, Kaunas, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 9 MONTHS OF THE YEAR 2008

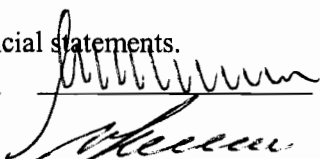
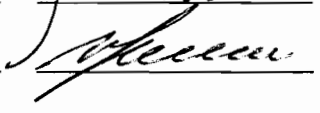
(all amounts are in LTL thousand unless otherwise stated)

Statements of change in equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings	Total
Balance as of 31 December, 2006		118.310	3.634	-	4.236	126.180
Dividends					(8)	(8)
Net profit (loss) for the period	7	-	7739	163	(7.902)	-
Reserve		-	-	-	(11.714)	(11.714)
Balance as of 30 September, 2007		118.310	11.373	163	(15.388)	114.458
Dividends	7	-			8	8
Net profit (loss) for the period		-	-	-	3.194	3.194
Balance as of 31 December, 2007		118.310	11.373	163	(12.186)	117.660
Transferred to the legal reserve	7	-	(8.332)	(163)	8.495	-
Net profit (loss) for the period		-			(6.770)	(6.770)
Balance as of 30 September, 2008		118.310	3.041		(10.461)	110.890

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings	Total
Balance as of 31 December, 2006		118.310	3.634	-	7.689	129.633
Transferred to the legal reserve			7.689		(7.689)	
Net profit (loss) for the period				-	(11.677)	(11.677)
Balance as of 30 September, 2007		118.310	11.323	-	(11.677)	117.956
Net profit (loss) for the period		-	-	-	3.162	3.162
Transferred to the legal reserve						
Balance as of 31 December, 2007		118.310	11.323	-	(8.515)	121.118
Transferred to the legal reserve		-	(8.515)		8.515	-
Net profit (loss) for the period		-	-	-	(6.432)	(6.432)
Balance as of 30 September, 2008		118.310	2.808	-	(6.432)	114.686

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General Director	Aleksandras Sigita Matelionis		21 October, 2008
Chief Accountant	Violeta Staškūnienė		21 October, 2008

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 9 MONTHS OF THE YEAR 2008

(all amounts are in LTL thousand unless otherwise stated)

Cash flow statements

	Group		Company	
	I-III quarter, 2008	I-III quarter, 2007	I-III quarter, 2008	I-III quarter, 2007
Cash flows from (to) operating activities				
Net profit (loss)	(6.770)	(11.714)	(6.432)	(11.677)
Adjustments for non-cash items:	14.295	13.279	14.153	13.122
Depreciation and amortization	15.931	15.987	15.779	15.860
Change in allowance for accounts receivable	(509)	(1.142)	(509)	(1.142)
Loss (gain) from sale and written off property, plant and equipment and shares	318	(17)	318	(17)
Change in allowance for inventories	(9)	(6)	(9)	(6)
Dividends				
Profit tax costs (income)				
Accruals	(1.519)	(1.271)	(1503)	(1.271)
Amortization of grants	(950)	(547)	(950)	(547)
Interest expenses	1.915	1.271	1.908	1.269
Elimination of other financial and investing activity results	(882)	(996)	(881)	(1.024)
Changes in working capital:	9.494	10.816	9.170	10.845
(Increase) decrease in inventories	776	1.770	679	1.820
Decrease (increase) in prepayments	(48)	2	(44)	36
Decrease (increase) in trade receivables	22.375	19.460	21.947	19.371
Decrease (increase) in other receivables	(285)	1.058	(301)	1.070
Decrease (increase) in trade receivables	-	-	-	-
Decrease (increase) in other receivables				
(Decrease) in non-current trade payable	(12.950)	(11.240)	(12.668)	(11.146)
Increase (decrease) in payroll-related liabilities	644	557	559	452
Increase (decrease) in other budget liabilities	(941)	(1.317)	(925)	(1.291)
(Decrease) in other liabilities	(77)	526	(77)	533
Net cash flows from operating activities	17.019	12.381	16.891	12.290

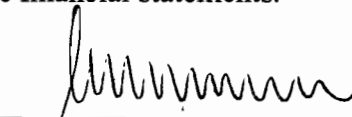
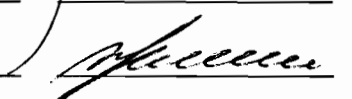
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Cash flow statements (cont'd)

	Group		Company	
	I-III quarter, 2008	I-III quarter, 2007	I-III quarter, 2008	I-III quarter, 2007
Cash flows from (to) investing activities				
(Acquisition) of tangible and intangible assets	(16.117)	(19.874)	(15.978)	(19.846)
(Acquisition) on non-current investments	-	-	-	-
Proceeds from sale of tangible and intangible assets and investments	262	40	226	40
Interest (received) for delayed sums	953	1.022	953	1.022
Dividends	-	-	-	-
Increase in cash flows from (to) non-current accounts receivable	(10)	(32)	(10)	(32)
Interest	34	9	34	9
Net cash flows (to) from investing activities	(14.878)	(18.835)	(14.775)	(18.807)
Cash flows from (to) financing activities				
Proceeds from loans	16.802	10.103	16.802	10.103
(Repayment) of loans	(20.069)	(5.120)	(20.069)	(5.120)
Interest (paid)	(2.019)	(1.262)	(2.013)	(1.260)
Financial lease (payments)	(62)	(38)	(28)	-
Penalty interest and fines (paid)	(1)	(16)	(1)	(16)
Net cash flows from (to) financing activities	(5.349)	(3.667)	(5.309)	3.707
Net (decrease) increase in cash and cash equivalents	(3.208)	(2.787)	(3.193)	(2.810)
Cash and cash equivalents at the beginning of the year	4.886	4.466	4.864	4.436
Cash and cash equivalents at the end of the year	1.678	1.679	1.671	1.626

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

General Director	Aleksandras Sigitas Matelionis		21 October, 2008
Chief Accountant	Violeta Staškūnienė		21 October, 2008

Notes to the financial statements

1 General information

JSC "Kauno energija" (hereinafter "the Company") is joint stock company registered in the Republic of Lithuania. The address of it's registered office is as follows:

Raudondvaris pl. 84,
Kaunas,
Lithuania

The Company is involved in heat, electricity generation and distribution and maintenance of the heating and hot water systems. The Company was registered on 1 July, 1997 after the reorganization of JSC "Lietuvos energija". The Company's shares are traded on the Vilnius Stock Exchange Additional Baltic trading list.

On 30 September, 2008 and on 31 December, 2007 the shareholders of the Company were:

	Number of shares (units)	Ownership portion (percent)
Kaunas city municipality	16.954.892	85,99
Kaunas district municipality	1.606.168	8,14
Jurbarkas district municipality	443.810	2,25
Other small shareholders	713.512	3.62
	19.718.382	100,00

All the shares, the nominal value of each is 6 LTL, are ordinary registered shares and on 30 September, 2008 and on 31 December, 2007 were fully paid. Authorized capital in 2008 and 2007 didn't changed. In 2008 and 2007 Company hadn't it's own shares.

On 30 July, 2008 the agreement for ordinary registered shares was signed with shareholder Jurbarkas district municipality, because on 14 February, 2008 Jurbarkas district municipality's Council decided to enlarge Company's authorized capital by 1.200 thousand Litas, which will be used for investments in subsidiary „Jurbarko šilumos tinklai“. On 26 June, 2008 the Company's shareholders decided to increase company's authorized capital in amount of 1.200 thousand litas by 200 thousand share issue - the nominal value of each is 6 LTL. The share emission price is equal to the nominal value. The maturity date of the last portion of the payment is 19 December, 2009.

JSC "Kauno energija" consists of Company's central office and subsidiary „Jurbarko šilumos tinklai“.

On 1 July, 2006 JSC „Kauno energija" on the base of Kaunas energy services department established daughter company closed-end company „Pastatų priežiūros paslaugos" (further – „daughter company“). The main activity of the daughter company is the exploitation and maintenance of building heating networks and heating consumption equipments, internal engineering networks and systems as well as building structures.

After the establishment of a daughter company company's employees after the releasement from Services department were employed in closed-end company „Pastatų priežiūros paslaugos". From 1 July, 2006 Company is contracting for permanent technical maintenance of heating and hot water supply systems.

On 30 August, 2006 Company increased authorized capital of closed-end company „Pastatų priežiūros paslaugos“ up to 6.518 thousand LTL. The value of the asset brought in the Company's balance made 2.046 thousand LTL. After the evaluation of Company's brought in asset by market value made by independent asset evaluators, the difference between asset value and real value is equal 4.462 thousand LTL.

The Group consists of JSC „Kauno energija“ and it's daughter company closed-end company „Pastatų priežiūros paslaugos“ (further „Group“):

Daughter company	Registration address	Share of the stock held by the Group	Cost of investment	Profit (loss) for the reporting period	Total equity	Main activity
Closed-end company „Pastatų priežiūros paslaugos“	Savanorių av. 347, Kaunas	100%	6.518	155	6.951	Maintenance of heating and hot water supply systems.

Operations of JSC „Kauno energija“ are regulated by the Law on Heat No IX-1565 of 20 May, 2003 of the Republic of Lithuania. From 1 January, 2008 Law on Heat change law No. X-1329 of 20 November, 2007 came into force.

According to the Law on Heat of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Prices and Energy Control Commission (hereinafter “the Commission”). On 26 February, 2004 the Commission granted the Company the heat distribution license. By the decision taken on 12 September, 2008 in the new territory was confirmed in licence, where Company can keep its activity, because Paliiai boiler house in Marijampolė District was sold. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply.

In 2003 the Company sold part of the assets of the subdivision Kauno Elektrinė to the closed-end company Kauno Termofikacijos Elektrinė (KTE) and committed to purchase at least 80% of the annual demand of the integrated heating network in Kaunas from this company. The contract is valid for 15 years from the sales agreement date. The contract establishes that the purchase price of heat energy from KTE will not increase during the first 5 years from the date of signing the contract. According to Law on Heat of the Republic of Lithuania Law Change No. X-1329 of 20 November, 2007 from May, 2008 the heat sale price of KTE has to be confirmed by the State Prices and Energy

Control Commission, correspondingly Company would buy heat energy from KTE at the price confirmed by the Commission. On the day of this financial statement for the future heat season Commission didn't yet confirmed new heat sale price for KTE and Company. It is estimated the heat price to be approved and it will come into force on 1 December, 2008.

On 8 June, 2006 JSC "Kauno energija" signed the agreement with closed-end company "Energijos sistemų servisas" regarding the operation of Petrašiūnai power plant and its assets located at Jėgainės st. 12, Kaunas. The contract is valid for a period of three years. Also on 22 June, 2006 the Company signed a lease agreement with closed-end company Kauno Termofikacijos Elektrinė regarding the equipment used in production of heating energy operated by closed-end company "Energijos sistemų servisas". Company's employees after the releasement from Petrašiūnai CHP department were employed in JSC "Energijos sistemų servisas". On 22 September, 2006 Company signed lease contract with KTE for equipment used in heat production exploited by closed-end company "Energijos sistemų servisas". The contract is valid for a period of three years.

The Company's generation capacity includes a power plant in Petrašiūnai, 3 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 14 isolated network and 50 local gas burning boiler-houses. In Marijampolė district Company sold previous boiler house asset.

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. Total Company's power generation capacity is 542,95 MW.

In I-III quarter, 2008, the average number of employees at the Group was 691 (721 employees in 2007). In I-III quarter, 2008, the average number of employees at the Company was 612 (624 employees in 2007).

2. Summary of financial principles

2.1. Financial accounting form

These financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2. Measurement and presentation currency

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

Starting from 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.

3. Non-current asset

Depreciation of Group's and Company's non-current asset on I-III quarter, 2008 makes correspondingly 14.140 thousand LTL and 14.017 thousand LTL (2007 – 20.676 thousand LTL and 20.507 thousand LTL). 14.084 thousand LTL and 13.966 thousand LTL (2007 – 19.672 thousand LTL and 19.531 thousand LTL) in Group's and Company's profit (loss) report are included into activity costs. Other sums - into other activity sums.

On 30 September, 2008 the largest portion of not finished construction of Group and Company makes heat supply networks reconstruction works and boiler house construction in Petrašiūnai CHP.

On 20 September, 2008 non-current asset of Group's and Company's, which value was 76.188 thousand LTL (on 31 December, 2007 – 79.042 thousand LTL), is pledged as collateral for the loans (8 note).

4. Receivables after one year

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Long term loans for the Company's employees	104	104	104	104
Other	23	13	23	13
	127	117	127	117

Long term loans for the Company's employees are without interest and their term is from 2009 up to 2023. These loans are calculated by discount value using 6 percent interest rate.

On 30 September, 2008 and on 31 December, 2007 for the sums received after one year payment period didn't passed and for them value decrease is not determined.

5. Receivables during one year

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Trade receivables, general value	35.932	58.283	36.081	58.005
Minus: decrease of receivables	(19.913)	(20.399)	(19.913)	(20.399)
Trade receivables, net value	16.019	37.884	16.168	37.606

Decrease of receivables change in I-III quarter, 2008 and 2007 in Group's and Company's profit (loss) reports is included into receivables realization value decrease change costs.

Trade receivables are without interest and their term 30-45 days.

For trade receivables, which nominal value on 30 September, 2008 was 18.392 thousand LTL (on 31 December, 2007 – 18.732 thousand LTL), was calculated 100 percent value decrease.

Group's and Company's trade receivables depreciation movement is:

	Individually determined value decrease	Generally determin ed value decrease	Total
31 December, 2006	1.392	20.978	22.370
Rehabilitation of not used sums	-	(1.971)	(1.971)
31 December, 2007	1.392	19.007	20.399
Rehabilitation of not used sums		(486)	(486)
30 September, 2008	1.392	18.521	19.913

In 2007 Group and Company had written off 957 thousand LTL debts. Also Group and Company during I-III quarter, 2008 received 54 thousand LTL (2007 – 119 thousand LTL) debts, which in previous periods were written off.

6. Cash and cash equivalents

	Group		Company	
	30 September , 2008	31 December, 2007	30 September, 2008	31 December, 2007
Cash at bank	891	1.472	884	1.450
Cash on hand	24	13	24	13
Cash in transit	763	3.401	763	3.401
	<u>1.678</u>	<u>4.886</u>	<u>1.671</u>	<u>4.864</u>

The Company's accounts in LTL, which balance on 30 September, 2008 amounting to 884 thousand LTL (31 December, 2007 - 865 thousand LTL) are pledged as collateral to for the loans (8 note).

7. Reserve

Legal and other reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 percent of net profit calculated in accordance with IFRS are compulsory until the reserve

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE 9 MONTHS OF THE YEAR 2008

(all amounts are in LTL thousand unless otherwise stated)

reaches 10 percent of the share capital. Legal reserve can't be transferred for dividends, but can be used to cover future losses. On 14 May, 2007 based on the decision of the Company's shareholders 7.689 thousand LTL (on 29 April, 2006 – 3.634 thousand LTL) were transferred to the legal reserve. Group on 14 March, 2007 based on the decision of shareholders 50 thousand LTL transferred to the legal reserve and 163 thousand LTL to other reserve and on 7 March, 2008 based on the decision of the Company's shareholders to legal reserve – 183 thousand LTL, before transfer to profit 163 thousand LTL from other reserve. On 29 April, 2008 based on the decision of the Company's shareholders from legal reserve transferred 8515 thousand LTL to cover activity loss of 2007.

8. Financial debts

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Non-current financial debts				
Non-current loans	41.404	23.039	41.404	23.039
	41.059	23.039	41.059	23.039
Current loans				
Portion of non-current loans of current year	1.161	8.688	1.161	8.688
Current bank loans (including credit line)	6.915	21.020	6.915	21.020
	8.076	29.708	8.076	29.708
	49.480	52.747	49.480	52.747

Payment period of non-current loans (all loans are with variable interest rate):

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
2008	1.161	8.688	1.161	8.688
2009	8.640	15.607	8.640	15.607
2010	9.352	2.319	9.352	2.319
2011	9.270	1.910	9.270	1.910
2012	4.414	1.163	4.414	1.163
2013	3.988	668	3.988	668
2014	3.988	667	3.988	667
2015	1.403	604	1.403	604
2016	349	101	349	101
	42.565	31.727	42.565	31.727

Used interest rates are close to efficient interest rates.

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

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Currency of loan:				
euros	32.550	23.610	32.550	23.610
litas	16.930	29.137	16.930	29.137
	49.480	52.747	49.480	52.747

On 1 August, 2005 the Company signed a long-term loan agreement with JSC bank "Hansabankas" for the amount of 5.000 thousand LTL. The maturity date of the last portion of the loan is 1 August 2012. As of 30 September, 2008 the outstanding balance of the loan amounted to 3.129 thousand LTL of which 207 thousand LTL was accounted for as the current portion of non-current borrowings in the financial statement of the Company. For the loan there is payment of 6 months VILIBOR+ 0,77 percent annual interest.

On 23 August, 2005 the Company signed a long-term loan agreement with JSC SEB Bankas for the amount of 30.300 thousand LTL (EUR 8.776 thousand). The maturity date of the last portion of the loan is 31 December, 2014. As of 30 September, 2008 the outstanding balance of the loan amounted to LTL 15.096 thousand (EUR 4.372 thousand) of which 96 thousand LTL was accounted for as the current portion of non-current borrowings in the financial statements of the Company. For the loan there is payment of 6 months EUR LIBOR+1,9 percent annual interest.

On 1 December, 2006 the Company signed a long-term loan agreement with Nordea Bank Finland Plc. Lithuanian branch for the amount of LTL 2.090 thousand. On 18 April, 2007 loan sum increased up to 6.090 thousand LTL. The maturity date of the last portion of the loan is 31 December, 2015. As of 30 September, 2008 the outstanding balance of the loan amounted to 5.893 thousand LTL of which 69 thousand LTL was accounted for as the current portion of non-current borrowings in the financial statements of the Group and Company. For the loan there is payment of 3 months VILIBOR+ 0,45 percent annual interest.

On 21 December, 2006 the Company signed a long-term loan agreement with JSC SEB Bankas for the amount of 7.108 thousand LTL (2.059 thousand EUR). The maturity date of the last portion of the loan is 30 November, 2016. As of 30 September, 2008 the outstanding balance of the loan amounted to 2.964 thousand LTL (858 thousand EUR) of which 99 thousand LTL is accounted for as the current portion of non-current borrowings in the financial statements of the Company. For the loan there is payment of 6 months EUR LIBOR+ 0,4 percent annual interest.

On 14 November, 2007 the Company signed a long-term loan agreement with JSC DnB NORD Bankas for the amount of 1.989 thousand LTL (576 thousand EUR). The maturity date of the last portion of the loan is 31 December, 2016. As of 30 September, 2008 the outstanding balance of the loan amounted to 1.988 thousand LTL (576 thousand EUR). All balance of the loan is accounted for as the current portion of non-current borrowings in the financial statements of the Group and Company. For the loan there is payment of 12 months EUR LIBOR+ 0,59 percent annual interest.

On 20 April, 2007 the Company signed a overdraft agreement with JSC SAMPO Bankas for the amount of 1.010 thousand LTL. The maturity date of the overdraft limit is 20 October, 2009. As of 30 September, 2008 the used sum of overdraft amounted to 993 thousand LTL. For the overdraft there is payment of 3 months VILIBOR+ 0,44 percent annual interest.

On September 4, 1999 the Company signed a long-term loan agreement with JSC SEB Bankas for the amount of 7.000 thousand LTL. The maturity date of the last portion of the loan is 19 July, 2008. As of 30 September, 2008 the not used credit line funds amounted to 758 thousand LTL, which repayment is foreseen – 19 July, 2008. For the loan there is payment of 6 months VILIBOR+ 0,6 percent annual interest.

On 8 July, 2004 the Company signed an overdraft agreement with JSC DnB NORD Bankas for the amount of 18.000 thousand LTL. The maturity date of the last portion of the overdraft limit was 31 May, 2008. On 27 May, 2008 Company signed the agreement for the reduction of overdraft limit up to 10.000 thousand LTL and for the maturity term up to 31 May, 2009. As of 30 September, 2008 the outstanding balance of the overdraft amounted to 5.664 thousand LTL. For the overdraft there is payment of 6 months VILIBOR+ 0,78 percent annual interest.

On 31 July, 2008 Company signed long-term loan agreement with Danske Bank A/S Lithuanian Subsidiary for the amount of 3.399 thousand LTL (984 thousand EUR). The maturity date of the last portion of the loan is 31 December, 2018. As of 30 September, 2008 the outstanding balance of the loan amounted to 544 thousand LTL (158 thousand EUR). All balance of the loan is accounted for as the current portion of non-current borrowings in the financial statements of the Group and Company. For the loan there is payment of 3 months EURIBOR+ 0,385 percent annual interest.

On 31 July, 2008 Company signed long-term loan agreement with Danske Bank A/S Lithuanian Subsidiary for the amount of 4.000 thousand LTL (1.158 thousand EUR). The maturity date of the last portion of the loan is 30 September, 2017. As of 30 September, 2008 the outstanding balance of the loan amounted to 450 thousand LTL (130 thousand EUR). All balance of the loan is accounted for as the current portion of non-current borrowings in the financial statements of the Group and Company. For the loan there is payment of 3 months EURIBOR+ 0,7 percent annual interest.

On 22 September, 2008 the Company signed a long-term agreement with JSC SEB Bankas for the amount of 11.508 thousand LTL (3.333 thousand EUR). The maturity date of the last portion of the loan is 31 December, 2011. As of 30 September, 2008 the outstanding balance of the loan amounted to 11.508 thousand LTL (3.333 thousand EUR) of which 690 thousand LTL is accounted for as the current portion of non-current borrowings in the financial statements of the Company. For the loan there is payment of 1 month EUR LIBOR + 0,7 percent annual interest.

Group's and Company's non-current asset (3 note) and accounts at bank (6 note) were pledged for banks as collateral for the loans.

9. Lease (financial lease)

According to financial lease agreements leased Group's asset consists of transport mains. Financial lease terms are from 2 to 5 years. Below presented asset balance value acquired by financial lease:

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Transport mains	201	265	58	75
	<u>201</u>	<u>265</u>	<u>58</u>	<u>75</u>

As of 30 September, 2008 financial lease interest rate was variable and fixed. Fixed interest rate was 3,99 percent and 5,77 percent. Variable interest rate fluctuates from 6 months EURIBOR + 1,5 percent.

All financial lease balance is denominated in euros.

Financial lease payments in the future according to the mentioned lease agreements as of 30 September, 2008 consists of:

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Per one year	27	96	11	41
From one up to 5 years	192	192	38	38
Financial lease liabilities, total	<u>219</u>	<u>288</u>	<u>49</u>	<u>79</u>
Interest	(16)	(23)	(2)	(4)
Financial lease liabilities current value	<u>203</u>	<u>265</u>	<u>47</u>	<u>75</u>
Financial lease liabilities calculated as:				
- current	22	84	10	38
- non-current	181	181	37	37

10. Grants (delayed income)

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Balance at the beginning of period	10.503	7.935	10.503	7.935
Received per year				
Without payment received non-current asset	289	3.370	289	3.370
Subsidy for services	48	3.370	48	3.370
Amortization and written off	(950)	(802)	(950)	(802)
Balance at the end of period	9.890	10.503	9.890	10.503

In the year 2007 Group and Company without payment received heat networks in Draugystė str., Elektrėnai str. and Partizanai str. in Kaunas, which value at the moment of transfer was 3.370 thousand LTL. In the year 2008 – heat network in Žiemgaliai str., Raudondvaris str., which value is 149 thousand LTL and telecommunication equipment, which value is 140 thousand LTL.

In the year 2008 48 thousand LTL subsidy was received for specialist qualification improvement in foreign countries.

11. Trade debts

Trade debts are without interest and generally for them there is period of 30 days.

12. Sales income

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

Sales income	Group		Company	
	I-III quarter, 2008	I-III quarter, 2007	I-III quarter, 2008	I-III quarter, 2007
Heat energy	123.805	102.045	123.822	102.062
Maintenance of buildings heating and hot water supply systems	1.033	1.832	718	672
Electricity	435	2.464	435	2.464
Revenue from sale of emission rights		15		15
Constant technical supervision	1.935	1768	1.589	1.766
	<u>127.208</u>	<u>108.124</u>	<u>126.564</u>	<u>106.979</u>

13. Other activity

Other operating income	Group		Company	
	I-III quarter, 2008	I-III quarter, 2007	I-III quarter, 2008	I-III quarter, 2007
Provided services	719	442	713	591
Materials sold	94	139	93	139
Reselled services	119	236	119	236
Other	(51)	11	(51)	11
	<u>881</u>	<u>828</u>	<u>874</u>	<u>977</u>
Other operating costs				
	I-III quarter, 2008	I-III quarter, 2007	I-III quarter, 2008	I-III quarter, 2007
The cost of provided services	(467)	(391)	(463)	(366)
Cost of materials sold	(238)	(111)	(238)	(110)
Cost of reselled services	(476)	(229)	(475)	(229)
Other	99		99	
	<u>(1.082)</u>	<u>(731)</u>	<u>(1.077)</u>	<u>(705)</u>
	<u>(201)</u>	<u>97</u>	<u>(203)</u>	<u>272</u>

Non-current asset sale loss is from the sale of Paliiai boiler house for the Marijampolė district municipality – 470 thousand LTL.

14. Financial and investment activity income (costs) - net result

	Group		Company	
	I-III quarter, 2008	I-III quarter, 2007	I-III quarter, 2008	I-III quarter, 2007
Income from financial and investment activities				
Interest for delayed receivables	953	1.021	953	1.021
Interest	7	12	7	11
Profit from currency exchange change	-	-	-	-
Dividends	-	-	-	43
Other financial income	27	-	27	-
	987	1.033	987	1.075
Expenses of financial and investment activities				
Penalty interest and fines	(1)	(16)	(1)	(15)
Interest	(1.915)	(1.271)	(1.908)	(1.269)
Other financial expenses	-	-	-	-
	(1.916)	(1.287)	(1.909)	(1.284)
	(929)	(254)	(922)	(209)

15. Profit (loss) for one share

Below are presented Group's profit portion for one share calculation:

	Group	
	30 September, 2008	31 December, 2007
Net profit (loss)	(6.770)	(8.520)
Number of shares (thousand), at the beginning of period	19.718	19.718
Number of shares (thousand), at the end of period	19.718	19.718
Issued ordinary shares average (thousand)	19.718	19.718
Profit (loss) for one share (in litas)	(0,34)	(0,43)

16. Financial assets and liabilities and risk management

Credit risk

Group and Company does not suffer credit risk concentration because are working with large number of buyers.

From trade and other receivables, which term didn't passed and no value decrease determined, on financial statement day there are no any features that debtors would not implement their payment liabilities because receivables balance is always controlled.

Group and Company thinks that maximal risk is equal from trade receivables sum minus recognized value decrease losses on balance day.

For the credit risk arising for the Group's and Company's other financial asset, which is made of cash and cash equivalents and for the sale devoted financial investments, Group's and Company's credit risk arises for the partners liabilities unfulfilment and the biggest possible risk is equal for these instruments balance value.

Interest risk

All Group's and Company's non-current loans are with variable interest rate, that's why Group and Company suffer some kind of interest rate risk. On 30 September, 2008 Group and Company had no any financial mains, which purpose would be to manage interest rate fluctuation 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 (current asset, total/receivables per one year and liabilities, total) and quick ratios ((current asset, total – storage)/receivables per one year and liabilities, total) as of 30 September, 2008 were 1,09 and 0,86 (0,86 and 0,75 as of 31 December, 2007). The Company's liquidity and quick ratios as of 30 September, 2008 were 1,08 and 0,86 respectively (0,85 and 0,75 as of 31 December, 2007).

Foreign currency risk

All Group's and Company's purchases, sale and financial debts are denominated in litas and euros, that's why there is no foreign currency risk.

As of 30 September, 2008 cash asset and cash liabilities in national and foreign currency were:

	Group	Company	Group	Company
	Asset		Liabilities	
LTL	22.039	22.193	34.609	34.716
EUR	4	4	32.550	32.550
Total	22.043	22.197	67.159	67.266

17. 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-III quarter, 2008 and 2007 the Group and Company had no significant transactions with the other companies owned by municipality of Kaunas city except for the purchases or sales of the utility services. The services provided to the companies owned by the municipality of Kaunas City were executed at market prices.

In I-III quarter, 2008 and 2007 the related party of the Company was closed-end company "Pastatų priežiūros paslaugos".

In I-III quarter, 2008 Company's transactions with the related parties and the at the end of the year were the follows:

I-III quarter, 2008	Purchases	Sales	Receivables	Payables
Closed-end company "Pastatų priežiūros paslaugos"	2.023	195	47	270

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

2007	Purchases	Sales	Receivables	Payables
Closed-end company "Pastatų priežiūros paslaugos"	2.955	310	63	299

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to 528 thousand LTL and 344 thousand LTL in I-III quarter, 2008, respectively (Company's 778 thousand LTL and 390 thousand LTL in 2007). In I-III quarter, 2008 and 2007 the management of the Company did not received any loans, guarantees; no other payments or property transfers were made or accrued.

18. Capital management

The main goal of capital management is to guarantee that Group and Company would correspond external capital requirements and that would hold capital indexes aiming to hold their business and maximize benefits for the shareholders.

Group and Company manages their capital structure and changes it according to the economical conditions changes and to activity risk features. Aiming to hold and change capital structure group and company can issue new shares, change dividends payment to the shareholders, repay capital to shareholders. On 30 September, 2008 and on 31 December, 2007 there were no changes of capital management aims, politics or process.

The Law on Enterprises of the Republic of Lithuania demands that Group's and Company's own capital would make not less than 50 percent of it's capital. There are no other determined requirements for the capital of Group and Company.

Group and Company values capital by using liabilities and own capital relation. Own capital consists of ordinary shares, reserve, not allocated profit devoted to patron enterprise capital holders. Group and Company management didn't determined concrete liabilities and own capital relation coefficient, but presented below indexes are valued as sufficiently good activity indexes:

	Group		Company	
	30 September, 2008	31 December, 2007	30 September, 2008	31 December, 2007
Non-current liabilities (including put by taxes and subsidies)	53.208	35.456	53.733	35.981
Current liabilities	25.574	62.111	25.825	62.099
Total liabilities	78.782	97.567	79.558	98.080
Own capital	110.890	117.660	114.686	121.118
Relation of liabilities* and own capital	71,05%	82,92%	69,37%	80,98%

* Liabilities cover all non-current (including put by profit tax liability and subsidies (put by income)) and current liabilities.

19. Subsequent events

On 14 October, 2008 Company signed bail contract for Public institution „Krepšinio perspektyvos“ commitment for JSC DnB NORD Bankas under Credit line contract in amount of 2.500 thousand litas. The maturity date of the last portion of the loan is 31 March, 2009. Company also signed an agreement with Kaunas city municipality for direct settlement, if Company as guarantor will meet it's commitment for the bank.