

AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT
COMPANY'S FINANCIAL STATEMENTS FOR
THE 9 MONTHS OF THE YEAR 2013,
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING
STANDARDS, AS ADOPTED BY THE
EUROPEAN UNION

Statements of Financial Position

		Group		Company	
	Notes	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
ASSETS					
Non-current assets					
Intangible assets	3	220	204	194	204
Property, plant and equipment	4				
Land and buildings		25,537	26,577	24,224	25,220
Structures and machinery		308,401	307,592	308,408	307,602
Vehicles		471	413	499	441
Equipment and tools		11,414	11,605	11,390	11,563
Construction in progress and prepayments		16,401	2,198	16,401	2,198
Total property, plant and equipment		362,224	348,385	360,922	347,024
Non-current financial assets					
Investments into subsidiary	1	-	-	4,602	4,754
Non-current accounts receivable	5	45	45	45	45
Other financial assets	6	433	433	433	433
Total non-current financial assets		478	478	5,080	5,232
Total non-current assets		362,922	349,067	366,196	352,460
Current assets					
Inventories and prepayments					
Inventories	7	3,889	4,246	3,879	4,155
Prepayments		491	396	583	409
Total inventories and prepayments		4,380	4,642	4,462	4,564
Current accounts receivable					
Trade receivables	8	28,835	82,086	28,803	81,981
Other receivables	23	8,140	6,094	8,133	6,094
Total accounts receivable		36,975	88,180	36,936	88,075
Cash and cash equivalents	9,23	2,555	5,332	2,517	5,308
Total current assets		43,910	98,154	43,915	97,947
Total assets		406,832	447,221	410,111	450,407

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Statements of Financial Position (cont'd)

		Group		Company	
		As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Notes					
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256,392	256,392	256,392	256,392
Legal reserve	10	6,845	1,307	6,845	1,307
Other reserve	10	250	2,584	250	2,584
Retained earnings (deficit)					
Profit for the current year		5,621	1,196	5,300	837
Profit (loss) for the prior year		(2,292)	(284)	694	3,061
Total retained earnings (deficit)		3,329	912	5,994	3,898
Total equity		266,816	261,195	269,481	264,181
Liabilities					
Non-current liabilities					
Non-current borrowings	11,23	46,761	33,746	46,761	33,746
Financial lease obligations	12,23	160	67	160	67
Deferred tax liability	21	8,110	8,110	8,798	8,798
Grants (deferred income)	13	28,218	26,546	28,218	26,546
Employee benefit liability	14	2,098	2,173	2,021	1,996
Non-current trade liabilities	23	128	23	128	23
Total non-current liabilities		85,475	70,665	86,086	71,176
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12,23	2,211	8,533	2,211	8,533
Current borrowings	11,23	11,738	27,631	11,738	27,631
Trade payables	23	35,505	72,865	35,547	72,897
Payroll-related liabilities		2,383	2,011	2,348	1,825
Advances received		1,457	878	1,457	878
Taxes payable		163	1,071	159	1,038
Derivative financial instruments	15	81	204	81	204
Current portion of employee benefit liability	14	515	1,124	515	1,003
Other current liabilities		488	1,044	488	1,041
Total current liabilities		54,541	115,361	54,544	115,050
Total liabilities		140,016	186,026	140,630	186,226
Total equity and liabilities		406,832	447,221	410,111	450,407

(the end)

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Statements of Comprehensive Income

		Group 2013	2013	2012	2012	2012	2011
	Notes	III quarter	3 quarters	III quarter	3 quarters		
Income							
Sales income	16	22,116	230,134	28,027	245,024	369,723	309,345
Other operating income	18	1,198	2,971	1,031	2,002	2,091	2,343
Total income		23,314	233,105	29,058	247,026	371,814	311,688
Expenses							
Fuel and heat acquired		(23,873)	(186,019)	(28,473)	(200,888)	(296,717)	(233,756)
Salaries and social security		(4,933)	(15,473)	(5,444)	(16,366)	(22,827)	(22,334)
Depreciation and amortisation	3,4	(3,911)	(11,900)	(3,983)	(11,900)	(15,879)	(15,888)
Repairs and maintenance		(916)	(1,946)	(3,627)	(4,758)	(5,948)	(5,703)
Write-offs and change in allowance for accounts receivable	5,8	2,363	(3,368)	(3,524)	(7,558)	(5,896)	(2,189)
Taxes other than income tax		(1,212)	(3,663)	(1,329)	(3,688)	(5,073)	(4,312)
Electricity		(515)	(2,172)	(473)	(1,780)	(2,574)	(2,515)
Raw materials and consumables		(299)	(1,336)	(438)	(1,341)	(1,857)	(1,962)
Maintenance of heating and hot water systems		-	(2)	-	-	-	(463)
Water		(487)	(1,502)	(169)	(745)	(1,172)	(1,160)
Change in write-down to net realisable value of inventories	7	(95)	(167)	(390)	(509)	(644)	(999)
Other expenses	17	(2,148)	(7,116)	(2,267)	(7,888)	(10,252)	(10,661)
Other activities expenses	18	(844)	(1,342)	(243)	(953)	(1,193)	(1,334)
Total expenses		(36,870)	(236,006)	(50,360)	(258,374)	(370,032)	(303,276)
Profit		(13,556)	(2,901)	(21,302)	(11,348)	1,782	8,412
Finance income	19	606	9,707	578	1,624	2,463	8,001
Finance costs	20	(309)	(1,185)	(258)	(1,299)	(1,710)	(1,653)
Finance cost, net		297	8,522	320	325	753	6,348
Profit before income tax		(13,259)	5,621	(20,982)	(11,023)	2,535	14,760
Income tax		-	-	-	-	(1,339)	(1,220)
Net profit		(13,259)	5,621	(20,982)	(11,023)	1,196	13,540
Basic and diluted earnings per share (LTL)	22	(0.31)	0.13	(0.49)	(0.26)	0.03	0.32

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Statements of Comprehensive Income

		Company 2013	2013	2012	2012	2012	2011
	Notes	III quarter	3 quarters	III quarter	3 quarters		
Income							
Sales income	16	22,371	230,110	27,981	244,919	369,462	308,622
Other operating income	18	893	2,859	934	1,771	1,908	1,846
Total income		23,264	232,969	28,915	246,690	371,370	310,468
Expenses							
Fuel and heat acquired		(23,873)	(186,019)	(28,473)	(200,888)	(296,717)	(233,756)
Salaries and social security		(5,101)	(15,315)	(5,314)	(15,825)	(22,078)	(21,412)
Depreciation and amortisation	3,4	(4,013)	(11,957)	(3,978)	(11,912)	(15,879)	(15,842)
Repairs and maintenance		(916)	(1,946)	(3,627)	(4,758)	(5,948)	(5,703)
Write-offs and change in allowance for accounts receivable	5,8	2,363	(3,453)	(3,524)	(7,558)	(6,210)	(2,189)
Taxes other than income tax		(1,221)	(3,663)	(1,323)	(3,674)	(5,043)	(4,286)
Electricity		(522)	(2,172)	(472)	(1,775)	(2,565)	(2,504)
Raw materials and consumables		(384)	(1,347)	(424)	(1,298)	(1,766)	(1,847)
Maintenance of heating and hot water systems		(8)	(86)	(54)	(300)	(388)	(1,026)
Water		(487)	(1,501)	(168)	(743)	(1,170)	(1,156)
Change in write-down to net realisable value of inventories	7	(95)	(167)	(390)	(509)	(644)	(999)
Other expenses	17	(2,252)	(7,213)	(2,258)	(7,866)	(10,210)	(10,541)
Other activities expenses	18	(325)	(1,045)	(149)	(432)	(723)	(677)
Total expenses		(36,834)	(235,884)	(50,154)	(257,538)	(369,341)	(301,938)
Profit		(13,570)	(2,915)	(21,239)	(10,848)	2,029	8,530
Finance income	19	606	9,707	578	1,624	2,463	8,001
Finance costs	20	(310)	(1,492)	(258)	(1,724)	(2,297)	(1,869)
Finance cost, net		296	8,215	320	(100)	166	6,132
Profit before income tax		(13,274)	5,300	(20,919)	(10,948)	2,195	14,662
Income tax						(1,358)	(1,220)
Net profit		(13,274)	5,300	(20,919)	(10,948)	837	13,442
Basic and diluted earnings per share (LTL)	22	(0.31)	0.12	(0.49)	(0.26)	0.02	0.31

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2011		256,392	635	3,468	10,187	270,682
Transferred from reserves	10	-	-	(3,468)	3,468	-
Transferred to reserves	10	-	672	2,584	(3,256)	-
Dividends	1	-	-	-	(10,683)	(10,683)
Total comprehensive income		-	-	-	(11,023)	(11,023)
Balance as of 30 September 2012		256,392	1,307	2,584	(11,307)	248,976
Total comprehensive income		-	-	-	12,219	12,219
Balance as of 31 December 2012		256,392	1,307	2,584	912	261,195
Transferred from reserves	10	-	-	(2,584)	2,584	-
Transferred to reserves	10	-	5,538	250	(5,788)	-
Total comprehensive income		-	-	-	5,621	5,621
Balance as of 30 September 2013		256,392	6,845	250	3,329	266,816

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2011		256,392	635	3,468	13,532	274,027
Transferred from reserves	10	-	-	(3,468)	3,468	-
Transferred to reserves	10	-	672	2,584	(3,256)	-
Dividends	1	-	-	-	(10,683)	(10,683)
Total comprehensive income		-	-	-	(10,948)	(10,948)
Balance as of 30 September 2012		256,392	1,307	2,584	(7,887)	252,396
Total comprehensive income		-	-	-	11,785	11,785
Balance as of 31 December 2012		256,392	1,307	2,584	3,898	264,181
Shareholder (contribution) to cover losses	1	-	-	-	(45)	(45)
Transferred from reserves	10	-	-	(2,584)	2,584	-
Transferred to reserves	10	-	5,538	250	(5,788)	-
Total comprehensive income		-	-	-	5,345	5,345
Balance as of 30 September 2013		256,392	6,845	250	5,994	269,481

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Statements of Cash Flows

	Group		Company	
	2013 3 quarters	2012 3 quarters	2013 3 quarters	2012 3 quarters
Cash flows from (to) operating activities				
Net profit	5,621	(11,023)	5,300	(10,948)
Adjustments for non-cash items:				
Depreciation and amortisation	13,943	13,761	13,856	13,695
Write-offs and change in allowance for accounts receivable	3,377	7,572	3,462	7,572
Interest expenses	1,028	1,149	1,028	1,149
Change in fair value of derivatives	(123)	(81)	(123)	(81)
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	34	(76)	35	(75)
(Amortisation) of grants (deferred income)	(960)	(862)	(960)	(862)
Change in write-down to net realisable value of inventories	167	509	167	509
Change employee benefit liability	26	-	25	-
Change in accruals	(154)	(8)	(154)	(317)
Impairment of investment in subsidiary	-	-	152	426
Elimination of other financial and investing activity results	(9,427)	(1,393)	(9,272)	(1,394)
Total adjustments for non-cash items:	7,911	20,571	8,216	20,622
Changes in working capital:				
(Increase) in inventories	129	(229)	110	(262)
Decrease in prepayments	(95)	(26)	(174)	(34)
(Increase) decrease in trade receivables	49,898	24,409	49,778	24,370
(Increase) in other receivables	(2,070)	1,958	(2,101)	1,966
(Decrease) increase in other non-current liabilities	105	358	105	358
Increase in current trade payables and advances received	(36,781)	(24,368)	(36,771)	(24,363)
(Decrease) increase in payroll-related liabilities	(338)	556	35	537
Increase (decrease) in other liabilities to budget	(908)	(79)	(879)	(68)
Increase (decrease) in other current liabilities	(97)	217	(94)	191
Total changes in working capital:	9,843	2,796	10,009	2,695
Net cash flows from operating activities	23,375	12,344	23,525	12,369

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

	Group		Company	
	2013 3 quarters	2012 3 quarters	2013 3 quarters	2012 3 quarters
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(27,702)	(24,607)	(27,708)	(24,621)
Proceeds from sale of tangible assets	207	153	204	152
Interest received for overdue accounts receivable	2,529	1,531	2,529	1,531
Penalties received	7,054	-	7,054	-
Decrease of non-current accounts receivable	-	-	-	-
Interest received	1	12	1	12
Net cash (used in) investing activities	(17,911)	(22,911)	(17,920)	(22,926)
Cash flows from (to) financing activities				
Proceeds from loans	12,833	23,380	12,833	23,380
(Repayment) of loans	(22,191)	(9,028)	(22,191)	(9,028)
Interest (paid)	(1,261)	(1,236)	(1,261)	(1,236)
Financial lease (payments)	(97)	(47)	(97)	(36)
Penalties and fines (paid)	(157)	(150)	(157)	(149)
Shareholder (contributions) to a subsidiary	-	-	(155)	-
Dividends (paid)	-	(10,670)	-	(10,670)
Received grants	2,632	5,403	2,632	5,403
Net cash flows from (used in) financing activities	(8,241)	7,652	(8,396)	7,664
Net (decrease) increase in cash and cash equivalents	(2,777)	(2,915)	(2,791)	(2,893)
Cash and cash equivalents at the beginning of the period	5,332	5,936	5,308	5,899
Cash and cash equivalents at the end of the period	2,555	3,021	2,517	3,006

(the end)

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Notes to the financial statements

1. General information

AB Kauno Energija (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Raudondvario Rd. 84, Kaunas, Lithuania.

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

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

As of 30 September 2013 and of 31 December 2012 the shareholders of the Company were as follows:

	As of 30 September 2013		As of 31 December 2012	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
Kaunas city municipality	39,665,892	92.82	39,665,892	92.82
Kaunas district municipality	1,606,168	3.76	1,606,168	3.76
Jurbarkas district municipality	746,405	1.75	746,405	1.75
Other minor shareholders	713,512	1.67	713,512	1.67
	42,731,977	100.00	42,731,977	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 2013 and 2012.

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

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

All shares were fully paid as of 30 September 2013 and as of 31 December 2012.

On 30 April 2012 the Annual General Meeting of Shareholders has made a decision to pay LTL 10,683 thousand, i.e. at 25 cents a share in dividends from the profit of the year 2011. The dividends were started to pay in the end of June 2012, as soon as the permissions under credit agreements from credit institutions were received. The unpaid part of dividends amounting to LTL 12 thousand as of 30 September 2013 (31 December 2012 – LTL 13 thousand) is accounted for in other current liabilities.

The Group and the Company are also involved in maintenance of heating systems. On 1 July 2006 on the basis of Kaunas Energy Services Department the Company established the subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter – PPP). The main activity of the PPP is exploitation and maintenance of building heating network and heating consumption equipment, internal engineering networks and systems as well as building structures. Starting from July 1, 2006 the Company contracted the PPP for permanent technical maintenance of heating and hot water supply systems of the buildings maintained by the Company. Whereas, according to the changes in the Law on Heat Sector, the PPP is not able to provide heating and hot water supply systems maintenance services starting from 1 July 2012, reorganization of the PPP in the way of separation was approved by the decision of the Company's Management Board of 6 April 2012. On 16 April, 2013 the Company completed procedures of reorganization of PPP in the way of separation. On 16 April, 2013 the new statutes of activity continuing PPP and newly established subsidiary UAB Kauno Energija NT (hereinafter – KENT) were registered in Register of Legal Entities. On 22 April, 2013 the Company announced a tender of sale of PPP. On 19 June, 2013 Company's Management Board decided not to sell block of shares of PPP at the price bid. On 24 September 2013 the Company's Management Board assigned Company's administration by protocol decision to pursue procedures of the end of PPP as of a legal entity in the way chosen by administration.

The Group consists of the Company and the Subsidiaries PPP and KENT (hereinafter – the Group):

Company	Principal place of business	Share held by the Group	Cost of investment	Writing-off cost of investment reducing the capital	Loss reported after capital reduction and shareholder contribution	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos*	Savanorių Ave. 347, Kaunas	100 percent	6,518	(1,916)	107	4,709	Maintenance of heating and hot water systems
UAB Pastatų Priežiūros Paslaugos**	Savanorių Ave. 347, Kaunas	100 percent	10	-	67	77	Maintenance of heating and hot water systems
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	4,592	-	63	4,655	Rent

- *The data presented as of 31 March, 2013 – until company's separation;
- ** The data presented as of 30 September, 2013 – after company's separation.

As of 30 September 2013 accumulated impairment loss on investment in PPP amounted to LTL 1,916 thousand (31 December 2012 - LTL 1,764 thousand) in the Company's profit or loss in article of financial activity expenses (Note 20).

It has been decided by the decision of the meeting of PPP shareholders of 28th of May, 2012 to reduce authorised capital to LTL 4,915 thousand by adjusting accumulated loss of LTL 1,603 thousand. The new Articles of Association of PPP were registered on 13th of June, 2012. It has been decided by the decision of the meeting of shareholders of 16th of November, 2012 to reduce authorised capital to LTL 4,754 thousand by withdrawing accumulated loss of LTL 161 thousand. The new Articles of Association of PPP were registered on 7th of December, 2012. It has been decided by the decision of the meeting of shareholders of 21 February 2013 to reduce authorised capital to LTL 4,602 thousand by withdrawing accumulated loss of LTL 152 thousand. The new Articles of Association of PPP were registered on 6 March, 2013.

It has been decided by the decision of the meeting of PPP's shareholders of 22th of March, 2013 to transfer to PPP LTL 45 thousand shareholder's contribution in, and LTL 110 thousand targeted shareholder contributions, that were transferred in 22 March 2013

Legal Regulations

Operations of the Company are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. Starting from 1 January 2008, the Law amending the Heating Law No. X-1329 of 20 November 2007 of the Republic of Lithuania came in to force. On 13 of October, 2011 the change in Heating Law has been announced. It determines that heating and hot water systems as well as heat points of blocks of flats must be supervised by the supervisor unrelated to the supplier of heat and hot water, who must be chosen by inhabitants of this block of flats, without reference to ownership of these heat points. This prohibition, provided by the law, is not applied to the maintenance of heating and hot water systems of buildings which appear in populated localities with less than 50 000 inhabitants according to the data of the Lithuanian Department of Statistics, if the municipal council doesn't make a different decision. This change in the Law on Heat Sector of the Republic of Lithuania No XI-1613 came into force starting November 1, 2011. Any expenses, related to maintenance of the heat points are not included in a heat price since that date.

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 the 14 December 2012 the Commission determined by its decision No. O3-413 a new basic heat rates force components for the period from 1 January 2013 till 31 December 2016.

Operational Activity

The Company's generation capacity includes a power plant in Petrašiūnai, 4 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 1 regional boiler-house in Jurbarkas city, 13 isolated networks and 31 local gas burning boiler-houses in Kaunas.

On March 21, 2012 the new bio-fuel powered boiler with condensation economizer with total power of 6.5 MW started to function in AB Kauno Energija Garliava boiler-house, in Kaunas district. The heat produced in this boiler is supplied to the consumers of Garliava borough. This boiler is one of the first bio-fuel powered devices in Lithuania, the construction of which was financed under an Energy Service Company (ESCO) financing model.

Total installed heat generation capacity is 443.4 MW and electricity - 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 27 MW of heat generation capacity is located in Jurbarkas city. The total Company's power generation capacity is 452.15 MW.

In the year 2003 the Company sold a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) and committed to purchase at least 80 percent of the annual demand of Kaunas integrated heating network from this company. The contract is valid for 15 years from the signing day. It was determined in this contract that heat purchase price from KTE will not increase in 5 years from the day of contract signing. Starting from 1 December 2008 a new basic heat prices for each 4 years period are being approved by the Commission for KTE and for the Company according to valid legal acts.

The Company received an official note on 13th of April, 2012 confirming the decision of Gazprom OAO to sell its shares to the smaller shareholder "Clement Power Venture Inc.", and the provision, that Gazprom OAO as the main shareholder of KTE must ensure that during the term of agreement, i. e. until 30th of March, 2018 it will own the main block of shares and adequate (not less than 51 percent) number of votes in General meeting of shareholders, is confirmed in heat purchase agreement signed in 2003 between the Company and KTE, Company's Management Board decided on 10th of July, 2012 to approve the selling of all the shares of Kauno Termofikacijos Elektrinė UAB owned by Gazprom OAO to Clement Power Venture Inc., regularizing terms of change of contracts agreements signed with Kauno Termofikacijos Elektrinė UAB and seeking the best for the Company from this selling. On 13 March 2013 KTE adduced to Company an evidence, i.e. an extract from securities account, saying that ownership of the shares of KTE

owned by Gazprom OAO is transferred to Clement Power Venture Inc. since 7 March 2013. The changes of Agreement on Investments and of Heat Sales Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and Gazprom OAO on 13 August 2013 came into force since that date. Following changes of Heat Sales Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of LTL 350 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of LTL 10 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 percent forfeit from the value of unfulfilled investments. Notwithstanding agreements reached, on 30 April, 2013 KTE placed a claim to Vilnius Court of Commercial Arbitration. KTE seeks to argue obligations, determined by chapters 2 and 3 of Investments Agreement of 13 August, 2013 by this claim regarding investments in Company heat economy in amount of LTL 10 million and the terms of implementation as well as forfeit (penalties) determined if those investments would not be implemented. The session in this case is appointed on 5 December 2013.

In 3 quarters of 2013 the average number of employees at the Group was 585 (626 employees in 2012). In 3 quarters of 2013 the average number of employees at the Company was 570 (589 employees in 2012).

Strategic Decisions

On 6 June, 2013 the Kaunas city council approved Company's investment plans for the years 2012 – 2015, according to which investments in amount of LTL 173,934 million are intended to invest into Company's assets during the period of the years 2012 – 2015. The Group and the Company invested LTL 27,978 and 27,984 thousand in the own property during 2012 (during 2012 – LTL 30,620 thousand and 30,661 thousand).

Estimating conditionally high price of the heat bought from KTE, which owns a main Kaunas heat production source, and seeking to contribute to the international liabilities of Lithuania to increase usage of renewable energy sources in heat production, to reduce Lithuania's dependence from imported fossil fuel and to provide the heat energy at a competitive price, the Company initiated reconstruction projects of existing boiler-houses, fitting them to work on wood fuel (wooden chips, waste of deforestation, sawdust).

In the end of 2011 the Company applied to Lithuanian Environmental Investment Fund (hereinafter – LEIF) for the partial financing of the projects "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler" (value of the project amounts to LTL 5,3 million, planned to produce heat amount – 16500 MWh per year), "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3,5 MW capacity water boiler" (value of the project amounts to LTL 4,6 million, planned to produce heat amount – 6710 MWh per year) and "Reconstruction of Pergalė boiler-house equipping it with condensational smoke economizer" (value of the project amounts to LTL 2,3 million, the sum of support asked is LTL 0,6 million). The projects of reconstruction of Noreikiškės and Ežerėlis boiler-houses are planned to implement in 2013. Implementation of these projects would not only contribute to reduction of Greenhouse Gas Emission but also would have an influence on heat price reduction to the consumers. Further progress of the projects is described in note 13.

The Company plans to reconstruct on its own the Petrašiūnai power plant where the total heat power of new equipment will reach 30 MW, changing currently used fuel to bio-fuel. It is planned to produce approximately 244 GWh of heat energy with these new equipment. It is also planned to use approximately 93 thousand tons of wooden fuel for heat production annually. Estimated value of the project is LTL 25 million.

The Company plans to install a fully automatic bio-fuel burned 8 MW capacity water boiler in Šilkas boiler house and a 4 MW capacity condensational economizer in order to increase effectiveness of boiler house. The total heat capacity of installed equipment will be 12 MW. 96 GWh of heat is planned to produce with these new equipment annually. Planned annual usage of bio-fuel for production of this quantity of heat is approximately 40 – 45 thousand tons. Estimated value of the project is LTL 8 million.

It's planned to equip Inkaras boiler-house with two new bio-fuel burned water boilers in complement with furnaces and condensational economizer in 2013. The heat capacity of boilers will be 8 MW each and of condensational economizer - 4 MW. 160 GWh of heat is planned to produce with these new equipment annually. Planned annual usage of bio-fuel for production of this quantity of heat is approximately 75 – 80 thousand tons. Estimated value of the project is LTL 12 million.

On 8 July 2013 the Company placed three applications to Lithuanian business support agency (hereinafter – LBSA) reaching to get partly financing from European Union Structural Funds for reconstruction of Petrašiūnai power-plant and Šilkas and Inkaras boiler-houses changing fuel currently used in them with bio-fuel. The total sum asked is LTL 16 million. The sum of LTL 6 million is asked from European Union Structural Funds for the project “Reconstruction of Petrašiūnai power-plant, changing currently used fuel with bio-fuel (I stage)”, LTL 4 million is asked for the project “Reconstruction of Šilkas boiler-house, changing currently used fuel with bio-fuel (II stage)” and LTL 6 million is asked for the project “Reconstruction of Inkaras boiler-house, changing currently used fuel with bio-fuel”. Financing for these projects is asked under the call No 3 of the measure VP3-3.4-ŪM-02-K “Use of renewable Energy Sources for Energy Production” of the 3 priority “Environment and Sustainable Development” of Operational Programme for Promotion of Cohesion for 2007–2013.

It is planned that these projects will be implemented in the years 2013 – 2015 and it will possibly have an influence on heat prices reduction for consumers.

Further progress of reconstruction projects of Petrašiūnai power-plant, Šilkas and Inkaras boiler-houses is described in note 26.

The Company plans to reconstruct its' proprietary mains 5T and 6Ž of integrated heat supply network. The total estimated value of these projects is LTL 6.12 million. On 26 June 2013 the Company placed two applications to LBSA reaching to get partly financing from European Union Structural Funds for projects “Modernization of main 5T of Kaunas integrated heat supply network” and “Modernization of main 6Ž of Kaunas integrated heat supply network”. The total sum asked is LTL 2.739 million. Financing for these projects is asked under the measure “Modernization and Development of Heat Supply System” of the Operational Programme for Promotion of Cohesion for 2007–2013. Both applications were satisfied. Further progress in described in note 26.

Currently the Company has applications from 15 potential independent heat producers (the total capacity – 400 MW) regarding the connection to the Company's integrated heat supply network.

Two independent heat producers with total capacity of 30 MW supply heat, produced using bio-fuel, to the Company at the moment.

On 12 October 2012 the heat purchase agreement between the Company and UAB GECO Kaunas has been signed. The new UAB GECO Kaunas boiler-house will produce up to 140 MWh heat per year. Its project capacity reaches up to 20 MW. The amount of heat produced by boiler-house will reach up to 10 percent of whole Kaunas heat demand. Agreement is valid until 31 December 2015 and carries the possibility to prolong the term.

On 14 December 2012 the heat purchase agreement between the Company and UAB Lorizon Energy has been signed. This company built a 10 MW capacity boiler-house, which will supply approximately 5 percent of heat, consumed in Kaunas integrated network. Agreement is valid until 31 December 2015 and carries the possibility to prolong the term.

2. Accounting principles

2.1. Adoption of new and revised International Financial Reporting Standards

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

2.2. Statement of Compliance

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and interpretations of them. The standards are issued by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

2.3. Basis of the preparation of financial statements

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

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

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

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

2.4. Principles of consolidation

Principles of consolidation

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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

2.5. Investments in subsidiaries

Investments in subsidiaries in the Company's Statements of Financial Position are recognized at cost. The dividend income from the investment is recognized in the profit (loss).

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

2.6. Intangible assets

Intangible assets acquired separately

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

Derecognition of intangible assets

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

Licenses

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

Software

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

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

2.7. Accounting for emission rights

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

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

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

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

2.8. Property, plant and equipment

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

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

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

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

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

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

Freehold land is not depreciated.

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

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

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

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

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

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

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

2.10. Financial assets

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

Effective interest rate method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

Available-for-sale financial assets (AFS financial assets)

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

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

Derecognition of financial assets

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

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

2.11. Derivative financial instruments

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

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

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

2.12. Inventories

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

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

2.13. Provisions

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

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

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

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

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

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

unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

2.16. Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.17. Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

2.18. Leasing

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

The Group and the Company as lessor

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

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

The Group and the Company as lessee

Assets held under finance leases are initially recognised as assets of the Group and the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

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

2.20. Income tax

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

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

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

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

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

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

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

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

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

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

The presentation currency is Litas (LTL). All transactions had functional currency other than LTL translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Gains and losses arising on exchange are included in profit or loss for the period.

The applicable rates used for principal currencies were as follows:

As of 30 September 2013		As of 31 December 2012	
1 EUR	= 3,4528 LTL	1 EUR	= 3,4528 LTL
1 USD	= 2,5588 LTL	1 USD	= 2,6060 LTL
1 GBP	= 4,1177 LTL	1 GBP	= 4,2015 LTL

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

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

2.25. Use of estimates in the preparation of financial statements

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

Estimates and assumptions

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

Property, plant and equipment – useful life

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

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

Realisable value of inventory

Starting from 2011, the management of the Company forms a 100 per cent adjustment to the net realizable value for inventory bought more than one year ago.

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

In 2009 a new shares issue was paid by contribution in-kind - manifolds situated in Kaunas city: i.e. market value of assets determined upon their transfer by local qualified valuers using depreciated replacement costs method amounted to LTL 136 million.

In 2010 a new shares issue was paid by contribution in-kind: i.e. building – boiler-house situated in Kaunas city and by networks system situated in Jurbarkas city. Market value of assets estimated upon their transfer by local qualified valuers by using depreciated replacement costs method amounted to LTL 0.616 million.

Following decision of 12 August 2012 of the Commission stated in 2012, the Company performed an additional valuations of contribution in-kind, i. e. manifolds in 2012. It's emphasized in the valuation report, that in this particular case a value of manifolds calculated in the method of income is not correct market value of the asset and the value of the manifolds, determined under the replacement cost method, is considered to be the market value of the assets.

As of 30 September 2013 carrying value of total contribution in-kind amounted to LTL 128,916 thousand, including the manifolds, which amounted to LTL 128 326 thousand (31 December 2012: LTL 130,395 thousand and LTL 129,785 thousand respectively).

Allowances for accounts receivable

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

Deferred Tax Asset

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

Litigations

The Group and the Company reviews all legal cases for the end of the reporting period and disclose all relevant information in the Note 24.

2.26. Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

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

As of 30 September 2013 part of the non-current intangible assets of the Group with the acquisition cost of LTL 4,771 thousand (LTL 4,909 thousand as of 31 December 2012) and the Company – LTL 4,720 thousand (LTL 4,858 thousand as of 31 December 2012) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for the half ended as of 30 September 2013 amounts to LTL 13,853 thousand and LTL 13,802 thousand, respectively (as of 31 December 2012: LTL 18,178 thousand and LTL 18,099 thousand respectively). The amounts of LTL 12,930 thousand and LTL 12,930 thousand (as of 31 December 2012: LTL 16,844 thousand and LTL 16,764 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other activity expenses.

As of 30 September 2013 part of the property, plant and equipment of the Group with acquisition cost of LTL 110,030 thousand (LTL 105,177 thousand as of 31 December 2012) and the Company – LTL 109,668 thousand were fully depreciated (LTL 104,726 thousand as of 31 December 2012), but were still in active use.

As of 30 September 2013 and as of 31 December 2012 the major part of the Group's and Company's construction in progress consisted of heat supply networks, boiler-houses reconstruction and repair works.

As of 30 September 2013 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to LTL 27,880 thousand (As of 31 December 2012 – LTL 2,020 thousand).

As of 30 September 2013 property, plant and equipment of the Group and the Company with the net book value of LTL 181,416 thousand (LTL 80,886 thousand as of 31 December 2012) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal to LTL 112 thousand in 3 quarters 2013 (as of 31 December 2012: LTL 295 thousand). The capitalization rate varied from 1.66 percent to 2.96 percent in 3 quarters 2013 (in 2012 – from 1.99 percent to 2.8 percent).

As of 30 September 2013 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 1,273 thousand in the category Equipment and tools (LTL 917 thousand As of 31 December 2012).

5. Non-current accounts receivable

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Long-term loans granted to the Company's employees	45	45	45	45

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 are non-interest bearing. These loans are accounted for at discounted value as of 30 September 2013 and as of 31 December 2012 using 3.47 percent interest rate. In 2012 effect of reversed discounting amounted to LTL 9 thousand. The reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statement of comprehensive income

As of 30 September 2013 and as of 31 December 2012 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

6. Other financial assets

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
<i>Available-for-sale financial assets</i>				
Fair value of shares	433	433	433	433

Valuators performed the valuation of the assets of UAB Šilumos Ūkio Servisas, less than 19 percent of shares of which is owned by the Company, and determined a market value of the shares. As of the 31st of December, 2012 a profit of change in fair value of shares was LTL 338 thousand. Impairment loss is accounted in the Group's and the Company's profit (loss).

7. Inventories

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Technological fuel	3,476	3,461	3,476	3,461
Spare parts	1,224	1,292	1,224	1,292
Materials	1,210	1,347	1,200	1,256
	5,910	6,100	5,900	6,009
Less: write-down to net realisable value of inventory at the end of the period	(2,021)	(1,854)	(2,021)	(1,854)
Carrying amount of inventories	3,889	4,246	3,879	4,155

As of 30 September 2013 Group's and Company's amounted to LTL 2,021 thousand (as of 31 December 2012 - LTL 1,854 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2013 and for the year 2012 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Trade receivables, gross	79,943	129,841	80,080	129,858
Less: impairment of doubtful receivables	(51,108)	(47,755)	(51,277)	(47,877)
	28,835	82,086	28,803	81,981

Of 30 September 2013 Group's and Company's receivables as include the factored receivables amounting to LTL 88 thousand, under the agreement with UAB Swedbank Lizingas, described in Note 11.

Change in impairment of doubtful receivables in 2013 and 2012 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of comprehensive income.

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

	Group Impairment loss	Company Impairment loss
Balance as of 31 December 2011	43,315	43,315
Additional allowance formed	5,827	5,949
Write-off	(1,387)	(1,387)
Balance as of 31 December 2012	47,755	47,877
Additional allowance formed	3,353	3,400
Balance as of 30 September 2013	51,108	51,277

In 2012 the Group and the Company wrote off LTL 1,387 thousand of bad debts. In 3 quarters 2013 the Group and the Company also recovered LTL 9 thousand (2012 - LTL 17 thousand) of doubtful receivables, which were written off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 30 September 2013 and 31 December 2012 is as follows:

	Trade receivables neither	Trade receivables past due					
	past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2013	8,147	1,827	1,665	2,330	743	14,123	28,835
2012	61,676	6,026	1,243	712	1,594	10,835	82,086

The ageing analysis of the Company's net value of trade receivables as of 30 September 2013 and 31 December 2012 is as follows:

	Trade receivables neither	Trade receivables past due					
	past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2013	8,115	1,827	1,665	2,330	743	14,123	28,803
2012	61,571	6,026	1,243	712	1,594	10,835	81,981

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

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

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Taxes	3,969	3,535	3,969	3,535
Other receivables	4,762	3,126	4,985	3,318
Less: value impairment of doubtful receivables	(591)	(567)	(821)	(759)
	8,140	6,094	8,133	6,094

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

	Group Impairment loss	Company Impairment loss
Balance as of 31 December 2011	481	481
Additional allowance formed	113	305
Write-off	(27)	(27)
Balance as of 31 December 2012	567	759
Additional allowance formed	24	62
Balance as of 30 September 2013	591	821

As of 30 September 2013 and 31 December 2012 the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold

inventories (metals, heating equipment) and services supplied (maintenance of manifolds and similar services).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 30 September 2013 and 31 December 2012 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2013	857	203	18	3,092	1	-	4,171
2012	2,451	44	51	11	2	-	2,559

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 30 September 2013 and 31 December 2012 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2013	850	203	18	3,092	1	-	4,164
2012	2,451	44	51	11	2	-	2,559

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

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

9. Cash and cash equivalents

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Cash in transit	911	4,181	911	4,181
Cash at bank	1,596	1,141	1,560	1,117
Cash on hand	48	10	46	10
	2,555	5,332	2,517	5,308

The Group's and the Company's accounts in banks amounting to LTL 1,545 thousand as of 30 September 2013 (31 December 2012 – LTL 459 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

Legal and other reserves

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

The Company allocated LTL 672 thousand from profit brought forward to legal reserve by the decision of shareholders of 30th of April, 2012 and LTL 2,584 thousand from profit brought forward to other reserves. The reserve has been formed for investments.

On 30 April, 2013 the Company annulled other reserves (LTL 2,584 thousand) by the decision of shareholders, LTL 5,538 thousand transferred from retained earnings to legal reserve and LTL 250 thousand to other reserves. Reserve was formed for investments.

11. Borrowings

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Non-current borrowings	46,579	33,746	46,579	33,746
Current portion of non-current borrowings (except leasing which is disclosed in Note 12)	2,191	8,489	2,191	8,489
Current borrowings (including credit line)	11,650	24,563	11,650	24,563
Factoring with recourse agreement	88	3,068	88	3,068
Current borrowings	13,929	36,120	13,929	36,120
	60,508	69,866	60,508	69,866

Terms of repayment of non-current borrowings are as follows:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
2013	2,191	8,489	2,191	8,489
2014	19,639	8,761	19,639	8,761
2015	6,181	5,908	6,181	5,908
2016	4,389	4,188	4,389	4,188
2017	2,539	2,439	2,539	2,439
2018	2,140	1,944	2,140	1,944
2019	988	913	988	913
2020	713	640	713	640
2021	714	639	714	639
2022	713	640	713	640
2023	714	639	714	639
2024	713	640	713	640
2025	714	640	714	640
2026	713	640	713	640
2027	714	639	714	639
2028	713	640	713	640
2029	714	639	714	639
2030	713	640	713	640
2031	714	639	714	639
2032	713	640	713	640
2033	714	639	714	639
2034	714	639	714	639
	48,770	42,235	48,770	42,235

Average of interest rates (in percent) of borrowings weighted outstanding at the year-end were as follows:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Current borrowings	0.96	1.01	0.96	1.01
Non-current borrowings	2.74	2.78	2.74	2.78

Balance of borrowings (except factoring) at the end of the term in national and foreign currencies was as follows:

Currency of the loan:	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
EUR	35,899	39,765	35,899	39,765
LTL	24,521	27,033	24,521	27,033
	60,420	66,798	60,420	66,798

Detailed information on loans as of 30 September 2013:

Credit institution	Date of contract	Currency	Currency sum, thousand	Sum LTL thousand	Term of maturity	Balance as of 30.09.2013	A part of 2013, LTL
						LTL thousand	LTL thousand
1. AB SEB Bank	2005.08.23	EUR	8,776	30,300	2014.12.31	3,125	625
2. Nordea Bank Finland Plc. Lithuanian branch	2006.12.01	LTL	6,090	6,090	2015.12.31	1,842	210
3. AB SEB Bank	2006.12.21	EUR	2,059	7,108	2016.11.30	990	99
4. AB DNB bankas	2007.11.14	EUR	576	1,989	2016.12.31	808	62
5. Danske Bank A/S Lithuania branch	2008.07.31	EUR	984	3,398	2018.12.31	1,823	87
6. Danske Bank A/S Lithuania branch	2008.07.31	EUR	1,158	4,000	2017.09.30	2,105	149
7. Swedbank, AB	2009.12.02	EUR	3,815	9,819	2016.12.02	3,537	301
8. Lithuanian Ministry of Finance	2010.04.09	EUR	2,410	8,323	2034.03.15	6,139	-
9. Swedbank, AB	2010.06.21	EUR	649	2,240	2017.06.21	700	101
10. Nordea Bank Finland Plc. Lithuanian branch.	2010.09.17	EUR	1,625	5,611	2016.05.31	2,637	247
11. Lithuanian Ministry of Finance	2010.10.26	EUR	807	2,788	2034.03.15	2,526	-
12. AB SEB Bank	2011.02.11	EUR	1,031	3,560	2019.02.10	2,967	137
13. Nordea Bank Finland Plc. Lithuanian branch	2011.04.19	EUR	921	3,180	2019.04.30	3,044	137
14. Lithuanian Ministry of Finance	2011.09.02	EUR	1,672	5,773	2034.09.01	4,893	-
15. AB SEB Bank	2011.10.13	EUR	290	1,000	2019.11.30	484	36
16. AB SEB bankas	2013.05.23	LTL	10,567	10,567	2014.11.30	10,567	-
17. AB DNB bank	2013.06.28	LTL	15,000	15,000	2014.06.27	11,650	11,650
18. AB SEB Bank	2013.08.22	LTL	10,000	10,000	2014.08.22	-	-
19. AB SEB Bank	2013.09.10	LTL	5,200	5,200	2020.09.30	454	-
20. Nordea Bank Finland Plc. Lithuanian branch.	2013.09.27	LTL	1,300	1,300	2020.09.30	8	-
21. Nordea Bank Finland Plc. Lithuanian branch	2013.09.27	EUR	655	2,261	2020.09.30	121	-
						60,420	13,841

On 24 October 2012 the Group and the Company signed a factoring with recourse agreement with Swedbank Lizingas, UAB amounted to the limit LTL 8,500 thousand. Factoring advance is 90 percent. The term of validity of agreement is 31 December 2013. Liability the factoring with recourse, amounting to LTL 88 thousand as of 30 September 2013 is accounted within the caption of current borrowings.

The immovable property (Note 4), bank accounts (Note 9) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

12. Finance lease obligations

The assets leased by the Group and the Company under finance lease contracts mainly consist of vehicles. The terms of financial lease are 3 years. The finance lease agreement is in EUR.

Future minimal lease payments were:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Within one year	22	48	22	48
From one to five years	160	67	160	67
Total financial lease obligations	182	115	182	115
Interest	(7)	(6)	(7)	(6)
Present value of financial lease obligations	175	109	175	109
Financial lease obligations are accounted for as:				
- current	20	44	20	44
- non-current	155	65	155	65

13. Grants (deferred income)

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Balance at the beginning of the reporting period	26,546	22,211	26,546	22,211
Received during the year	2,632	5,498	2,632	5,498
Amortisation	(960)	(1,163)	(960)	(1,163)
Balance at the end of the reporting period	28,218	26,546	28,218	26,546

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at V. Krėvės Ave. 82 A, 118 H, Kaunas)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,843 thousand by 30 September 2013. The project is completed.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Modernisation of Kaunas City Integrated Network Centre Main (4T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 5,990 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 4,414 thousand by 30 September 2013. The project is completed.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 1,725 thousand by 30 September 2013. The project is completed.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financing in amount of LTL 1,426 thousand has been received. The project is completed.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financing in amount of LTL 2,526 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Dainava area main of Kaunas integrated network (1T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,560 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 1,489 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Aukštieji Šančiai area main of Kaunas integrated network (2Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,618 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 1,188 thousand has been received.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Viliampolė area heating network of Kaunas integrated network (9K)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 595 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 217 thousand has been received.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Pramonė area main of Kaunas integrated network (1Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,000 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financing in amount of LTL 2,000 thousand has been received. The project is completed.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water boiler", according to which the financing in amount of LTL 1,791 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 537 thousand has been received.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler", according to which the financing in amount of LTL 2,299 thousand is provided for the Company from the

funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 690 thousand has been received.

On 8 July 2013 the Group and the Company signed a financing agreement of the project "Reconstruction of Pergalė boiler-house equipping it with condensational economizer", under which financing in amount of LTL 638 thousand is provided for the Company from Lithuanian Environmental Investment Fund after the terms of agreement are fulfilled.

14. Employee benefit liability

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

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

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Employee benefit liability at the beginning of the year	3,297	2,406	2,999	2,406
Paid	(710)	(202)	(488)	(198)
Formed	26	1,093	25	791
Employee benefit liability at the end of the year	2,613	3,297	2,536	2,999
Non-current employee benefit liability	2,098	2,173	2,021	1,996
Current employee benefit liability	515	1,124	515	1,003

During the 3 quarters 2013 total amount of the benefit paid to the employees by the Group amounted to LTL 710 thousand (in 2012 – LTL 202 thousand), and by the Company – LTL 488 thousand (in 2012 – LTL 198 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

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

	As of 30 September 2013	As of 31 December 2012
Discount rate	4.0 percent	4.0 percent
Employee turnover rate	18.9 percent	18.9 percent
Expected average annual salary increases	3.0 percent	3.0 percent

15. Derivative financial instruments

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15 percent for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 965 thousand (the equivalent of LTL 3,333 thousand) as at 30 September 2013 (EUR 1,508 thousand (the equivalent of LTL 5,208 thousand) as at 31 December 2012). Market value of swap agreement as of 30 September 2013 amounted to LTL 81 thousand (LTL 204 thousands as of 31 December 2012). This transaction does not have material impact on the future cash flows of the Group and the Company.

16. Sales income

The Group's and the Company's activities are heat supplies, maintenance of manifolds, electricity production and other activities. Starting from the year 2010 a part of inhabitants chose the Company as the hot water supplier. Those activities are inter-related, so consequently for management purposes the Group's and the

Company's activities are organised as one main segment – heat energy supply. The Group's and the Company's sales income according to the activities are stated below.

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Heat supplies	222,413	362,667	222,456	362,728
Hot water supplies	6,188	4,818	6,188	4,818
Maintenance of manifolds	583	775	583	775
Maintenance of heat and hot water systems	224	721	157	399
Electric energy	476	460	476	460
Maintenance of hot water meters	250	282	250	282
	<u>230,134</u>	<u>369,723</u>	<u>230,110</u>	<u>369,462</u>

17. Other expenses

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Cash collection expenses	1,487	2,217	1,486	2,203
Equipment verification and inspection	1,221	1,490	1,221	1,487
Maintenance of manifolds	1,392	1,883	1,392	1,883
Debts collection expenses	161	917	159	917
Sponsorship	155	503	155	503
Consulting expenses	136	285	136	283
Customer bills issue and delivery expenses	344	455	341	455
Communication expenses	142	193	142	182
Employees related expenses	256	234	256	228
Insurance	255	223	255	213
IT maintenance and related services	215	173	215	161
Membership fee	238	281	238	281
Transport expenses	77	52	76	115
Advertising expenses	138	111	138	109
Audit expenses	36	56	36	52
Rent of equipment and machinery	24	32	21	18
Other expenses	839	1,147	946	1,120
	<u>7,116</u>	<u>10,252</u>	<u>7,213</u>	<u>10,210</u>

18. Other activities income and expenses

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Income from other operating activities				
Miscellaneous services	2,621	1,575	2,530	1,416
Materials sold	218	260	201	251
Gain from sale of non-current assets	12	92	11	91
Other	120	164	117	150
	<u>2,971</u>	<u>2,091</u>	<u>2,859</u>	<u>1,908</u>
Expenses from other operating activities				
Cost of miscellaneous services	(1,295)	(1,139)	(998)	(691)
Cost of materials sold	(1)	(29)	(1)	(7)
Write off of non-current assets	(15)	(12)	(15)	(12)
Loss from sale of non-current assets	(31)	(5)	(31)	(5)
Other	-	(8)	-	(8)
	<u>(1,342)</u>	<u>(1,193)</u>	<u>(1,045)</u>	<u>(723)</u>

19. Finance income

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Interest from late payment of accounts receivable	2,529	1,984	2,529	1,984
Fines	7,054	-	7,054	-
Impairment of non-current financial assets	-	338	-	338
Change in fair value of derivative financial instruments	123	129	123	129
Bank interest	1	11	1	11
Other	-	1	-	1
	9,707	2,463	9,707	2,463

20. Finance costs

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Interest on bank loans and overdrafts	(1,028)	(1,496)	(1,028)	(1,496)
Impairment of non-current financial assets	-	-	(152)	(587)
Penalties	(157)	(214)	(157)	(214)
Shareholder's contributions in subsidiary	-	-	(155)	-
	(1,185)	(1,710)	(1,492)	(2,297)

21. Income tax

As of 30 September, 2013 and as of 31 December, 2012 deferred income tax asset and liability were accounted for by applying 15 percent rates. All changes in deferred tax are reported in the statement of comprehensive income.

22. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2013	2012	2013	2012
Net profit	5,621	1,196	5,300	837
Number of shares (thousand), opening balance	42,732	42,732	42,732	42,732
Number of shares (thousand), closing balance	42,732	42,732	42,732	42,732
Average number of shares (thousand)	42,732	42,732	42,732	42,732
Basic and diluted earnings per share (LTL)	0.13	0.03	0.12	0.02

23. Financial assets and liabilities and risk management

Credit risk

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

Number of customers

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Individuals	114,337	114,711	114,337	114,499
Other legal entities	2,105	2,110	2,070	2,055
Legal entities financed from municipalities' and state budget	347	365	336	333
	116,789	117,186	116,743	116,887

Trade receivables of the Group and the Company by the customer groups:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Individuals	20,282	57,211	20,281	57,208
Other legal entities	3,465	10,387	3,439	10,330
Legal entities financed from municipalities' and state budget	5,088	14,488	5,083	14,443
	28,835	82,086	28,803	81,981

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

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

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
A	281	407	245	383
A+	1,146	674	1,146	674
AA-	130	29	130	29
Bank with no rating attributed	39	31	39	31
	1,596	1,141	1,560	1,117

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

The Group and the Company do not guarantee obligations of the other parties in 2013 and in 2012.

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 borrowings of the Group and the Company, except those loans signed with Ministry of Finance of the Republic of Lithuania, are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2013 and 2012 to manage variable rate risk the Company has entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

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

	<u>Increase/decrease in basis points</u>	<u>Effect on income tax</u>
2013		
LTL	+200	(74)
LTL	-200	74
EUR	+50	(14)
EUR	-50	14
2012		
LTL	+200	(81)
LTL	-200	81
EUR	+50	(21)
EUR	-50	21

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 September 2013 were 0.81 and 0.73, respectively (0.85 and 0.81 as of 31 December 2012). The Company's liquidity and quick ratios as of 30 September 2013 were 0.81 and 0.73, respectively (0.85 and 0.82 as of 31 December 2012).

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

- Since 1 October 2009, the heat price for consumers is calculated using two components. A constant component of the heat price remains unchanged for the period during which the recalculated heat price is valid. Only a variable component changes depending on changes in fuel prices thus allowing the Company to reduce possible losses in case of rise in fuel prices;
- Considering the current situation the Group and the Company started to reduce its expenses;
- The new measures of reducing losses in production and supply are being implemented.

Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 30	As of 31	As of 30	As of 31
	September 2013	December 2012	September 2013	December 2012
Amount used	11,650	24,563	11,650	24,563
Amount unused	13,350	437	13,350	437
	25,000	25,000	25,000	25,000

The table below summarises the maturity profile of the Group's financial liabilities as of 30 September 2013 and as of 31 December 2012 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,570	47,535	17,862	67,967
Trade payables	35,505	128	-	35,633
Balance as of 30 September 2013	38,075	47,663	17,862	103,600

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,422	31,900	24,038	16,061	74,421
Trade payables	72,592	273	23	-	72,888
Balance as of 31 December 2012	75,014	32,173	24,061	16,061	147,309

The table below summarises the maturity profile of the Company's financial liabilities, as of 30 September 2013 and as of 31 December 2012 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,570	47,535	17,862	67,967
Trade payables	35,547	128	-	35,675
Balance as of 30 September 2013	38,117	47,663	17,862	103,642

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,422	31,900	24,038	16,061	74,421
Trade payables	72,624	273	23	-	72,920
Balance as of 31 December 2012	75,046	32,173	24,061	16,061	147,341

Trade payables

Trade payables of the Group and the Company by supplier groups:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
For heat purchased	9,481	55,308	9,481	55,308
Contractors	20,257	9,689	20,257	9,689
Other suppliers	5,895	7,891	5,937	7,923
	35,633	72,888	35,675	72,920

30 day settlement period is set with KTE for purchased heat energy, 90-180 day settlement period – with contractors, 5-30 day settlement period – with other suppliers,

As of 30 September 2013 the Group had an LTL 763 thousand (31 December 2012 – LTL 9,828 thousand) of overdue trade creditors, and the Company – LTL 763 thousand (31 December 2012 – LTL 9,817 thousand).

Foreign currency risk

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

Fair value of financial instruments

The Group and 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:

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

with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

The Group and the Company's categories of financial instruments:

Financial assets:

	Group			Company		
	As of 30 September 2013	As of 31 December 2012	As of 31 December 2011	As of 30 September 2013	As of 31 December 2012	As of 31 December 2011
Cash and bank balances	2,555	5,332	5,936	4,679	5,308	5,899
Loans and receivables	37,020	88,225	64,639	43,271	88,120	64,690
Financial assets	433	433	95	433	433	95
	40,008	93,990	70,670	48,383	93,861	70,684

Financial liabilities:

	Group			Company		
	As of 30 September 2013	As of 31 December 2012	As of 31 December 2011	As of 30 September 2013	As of 31 December 2012	As of 31 December 2011
Carried at fair value through profit or loss (level 2 in the fair value hierarchy)	81	204	333	81	204	333
Carried at amortised cost	82,635	142,842	106,203	82,677	142,874	106,266
	82,716	143,046	106,536	82,758	143,078	106,599

The carrying amounts of financial assets and financial liabilities approximate their fair values.

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 economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, reconsider the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management as of 30 September 2013 and 31 December 2012.

The Group and the Company is obliged to upkeep its equity of not less than 50 percent 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, earnings retained 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: as satisfactory performance indicators and as creditable performance indicators:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Non-current liabilities (including deferred tax and grants (deferred income))	85,475	70,665	86,086	71,176
Current liabilities	54,541	115,361	54,544	115,050
Liabilities	140,016	186,026	140,630	186,226
Equity	266,816	261,195	269,481	264,181
Debt* to equity ratio (percent)	52.48	71.22	52.19	70.49

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

Market risk

External risk factors that make influence to the Group's and the Company's main activity: increase in fuel prices, unfavourable law and legal acts of Government and other institutions, decisions of local municipality, decrease of number of consumers, the cycle of activity, environmental requirements.

24. Commitments and contingencies

Litigations

On 3 of November, 2010 the Company placed claim to Vilnius Commercial Arbitration Court (hereafter – VCAC) regarding additional forfeit in amount LTL 12,352 thousand from defendant KTE due to the improper fulfilment of the Investments agreement. VCAC satisfied Company's claim partly by its decision of 19 of December, 2011: a fine in amount of LTL 7,054 thousand, 6 percent annual interest for the period from 4 of November, 2010 until the day of fulfilment of this decision from the sum awarded, LTL 37 thousand and LTL 42 thousand of compensation expenses were awarded from the defendant KTE in favour of the Company. On 23 December, 2011 KTE placed a claim to Lithuanian Court of Appeal in order to discharge a decision of VCAC, also an application to stop prosecution of this decision until the case will be investigated. KTE agreed to refuse the appeal in Vilnius Commercial Arbitration Court case No 203, and with no further litigation to pay to Company a fine in amount of a little bit more than LTL 7 million, adjudged from KTE in this case. On 11 April, 2013 the Company and KTE signed the internecine indebtedness harmonization act regarding inclusion of sums adjudged (LTL 8,164 thousand).

As of 31 December, 2012 the accrual for the sum of claims was not made in financial statements of the Group and the Company, because the income from fines and penalties is shown in those statements only when it is paid-in.

On 15 April, 2013 the Company applied to Vilnius Regional Court with the claim "Due to the defendant's UAB GEKO Kaunas claim to recalculate AB Kauno Energija heat purchase prices of November and December 2012 according to comparative expenditures of heat production". A session in this case is appointed on 22 November 2013.

On 17 April, 2013 the Company got a message from Vilnius Court of Commercial Arbitration (hereinafter – Arbitration) saying that KTE claim to the Company regarding LTL 1,340 thousand has been received in Arbitration on 12 April, 2013. According to KTE allegation, the debt formed due to the Company's lower neither it was determined by KTE payment for heat amount in December 2012 and January 2013. Considering Company's comparative expenditures of heat production and following provision of chapter 10 of the Law on Heat Sector of the Republic of Lithuania, that in all occasions the heat, purchased from independent heat producers cannot be more expensive than heat supplier's comparative expenditures of heat production, the Company purchased heat from KTE following provision of the law. On 17 May, 2013 the Company placed an objection to the Court regarding the claim. Session in this case is not assigned.

On September 2013 the Company has been incorporated as a third party in the civil case under claimant's UAB KTE claim to defendant BAB Ūkio Bankas regarding the termination of factoring contract and regarding the recognizing as a property of UAB KTE a sum of LTL 3,063 thousand, which were transferred by the Company when implementing its liability and which are now on hand of notary deposit account. A session in this case is still not appointed.

On September 2013 a preliminary court decision under the specified claim of claimant BAB Ūkio Bankas to the Company regarding adjudgement of debt in amount of LTL 3,063 thousand, penalty, process interest and litigation expenses was delivered to the Company. The Company placed an objection to the Court regarding this preliminary decision and regarding rejection of specified claim of claimant BAB Ūkio Bankas. A session in this case is still not appointed.

Leasing and construction work purchase arrangements

On 18 March, 2010 The Company entered into the lease arrangements with KTE for the real estate. Under this lease arrangement the Company leases to KTE the boiler with technological pipelines for heat production, located in Petrašiūnai power plant territory. The term of lease is 5 years.

On 20 December, 2010 the Company entered into the lease arrangements with UAB ENG for the real estate. Under this lease arrangement the Company leases to UAB ENG Garliava boiler-house for building of heat production equipment. The Company undertakes obligations to procure heat produced in this equipment. The term of lease is 20 years.

Future liabilities of Group and the Company under valid purchase arrangements as of 30 September 2013 amounted to LTL 93,702 thousand.

25. Related parties transactions

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

In 2013 and 2012 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

In 2013 and 2012 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and amounts of receivables from and liabilities to them at the end of the year were as follows:

2013	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	2,024	34,903	14,453	751
Jurbarkas city municipality	-	1,867	133	-
2012	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,351	41,896	20,312	440
Jurbarkas city municipality	4	2,947	427	1

The Group's and the Company's as of 30 September 2013 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 10,442 thousand (As of 31 December 2012 – LTL 10,905 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

In 2013 and 2012 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

Pastatų Priežiūros Paslaugos UAB	Purchases	Sales	Receivables	Payables
2013	636		65	-
2012	1,204		87	-
				60
				143

Kauno Energija NT UAB	Purchases	Sales	Receivables	Payables
2013	1		-	92
				-

As of 30 September, 2013 the Company has formed an LTL 383 thousand (as of 31 December 2012 - LTL 314 thousand) of common postponements for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 30 September 2013 the Group's and the Company's management team comprised 7 and 4 persons respectively (as at 31 December 2012 – 6 and 4).

	Group		Company	
	2013	2012	2013	2012
Key management remuneration	337	528	298	417

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Calculated post-employment benefits	97	97	90	90

In 3 quarters of the year 2013 and 2012 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

26. Post balance sheet events

On 2 October 2013 the Minister of the Economy of the Republic of Lithuania approved by his decision No 4-871 a financial EU Structural Funds support for three biofuel projects of AB Kauno Energija: for reconstruction of boilers of Petrašiūnai power-plant, as well as of "Šilkas" and "Inkaras" boiler-houses, changing used fuel to bio-fuel. The sum of EU Structural Funds financial support is LTL 15.99 million.

The Company also plans to reconstruct its owned heat supply mains of integrated network 1Ž, 3Ž and 4Ž. The total prospective value of the projects is LTL 8,043 million. On 4 October 2013 the Company placed three applications to LBSA reaching to get partial financing from EU Structural Funds for the projects "Reconstruction of Kaunas city main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12 in Chemijos str.", "Reconstruction of Kaunas city main 3Ž between heat cameras 3Ž-9 and 3Ž-9-5 in A. Baranausko str." and "Reconstruction of Kaunas city main 4Ž between heat cameras 4Ž-10 and 4Ž-15 in Taikos str.". The total sum asked is LTL 3,868 million. Financing for these projects is asked under the measure "Modernization and Development of Heat Supply System" of the Operational Programme for Economic Growth for 2007–2013.

On 11 October 2013 the Minister of the Economy of the Republic of Lithuania approved by his decision No 4-914 a financial EU Structural Funds support for modernisation of mains 5T and 6Ž. The sum of EU Structural Funds financial support is LTL 2.739 million.

AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT
COMPANY'S FINANCIAL STATEMENTS FOR
THE 9 MONTHS OF THE YEAR 2013,
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING
STANDARDS, AS ADOPTED BY THE
EUROPEAN UNION

Statements of Financial Position

		Group		Company	
	Notes	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
ASSETS					
Non-current assets					
Intangible assets	3	220	204	194	204
Property, plant and equipment	4				
Land and buildings		25,537	26,577	24,224	25,220
Structures and machinery		308,401	307,592	308,408	307,602
Vehicles		471	413	499	441
Equipment and tools		11,414	11,605	11,390	11,563
Construction in progress and prepayments		16,401	2,198	16,401	2,198
Total property, plant and equipment		362,224	348,385	360,922	347,024
Non-current financial assets					
Investments into subsidiary	1	-	-	4,602	4,754
Non-current accounts receivable	5	45	45	45	45
Other financial assets	6	433	433	433	433
Total non-current financial assets		478	478	5,080	5,232
Total non-current assets		362,922	349,067	366,196	352,460
Current assets					
Inventories and prepayments					
Inventories	7	3,889	4,246	3,879	4,155
Prepayments		491	396	583	409
Total inventories and prepayments		4,380	4,642	4,462	4,564
Current accounts receivable					
Trade receivables	8	28,835	82,086	28,803	81,981
Other receivables	23	8,140	6,094	8,133	6,094
Total accounts receivable		36,975	88,180	36,936	88,075
Cash and cash equivalents	9,23	2,555	5,332	2,517	5,308
Total current assets		43,910	98,154	43,915	97,947
Total assets		406,832	447,221	410,111	450,407

(cont'd on the next page)

Statements of Financial Position (cont'd)

		Group		Company	
		As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Notes					
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256,392	256,392	256,392	256,392
Legal reserve	10	6,845	1,307	6,845	1,307
Other reserve	10	250	2,584	250	2,584
Retained earnings (deficit)					
Profit for the current year		5,621	1,196	5,300	837
Profit (loss) for the prior year		(2,292)	(284)	694	3,061
Total retained earnings (deficit)		3,329	912	5,994	3,898
Total equity		266,816	261,195	269,481	264,181
Liabilities					
Non-current liabilities					
Non-current borrowings	11,23	46,761	33,746	46,761	33,746
Financial lease obligations	12,23	160	67	160	67
Deferred tax liability	21	8,110	8,110	8,798	8,798
Grants (deferred income)	13	28,218	26,546	28,218	26,546
Employee benefit liability	14	2,098	2,173	2,021	1,996
Non-current trade liabilities	23	128	23	128	23
Total non-current liabilities		85,475	70,665	86,086	71,176
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12,23	2,211	8,533	2,211	8,533
Current borrowings	11,23	11,738	27,631	11,738	27,631
Trade payables	23	35,505	72,865	35,547	72,897
Payroll-related liabilities		2,383	2,011	2,348	1,825
Advances received		1,457	878	1,457	878
Taxes payable		163	1,071	159	1,038
Derivative financial instruments	15	81	204	81	204
Current portion of employee benefit liability	14	515	1,124	515	1,003
Other current liabilities		488	1,044	488	1,041
Total current liabilities		54,541	115,361	54,544	115,050
Total liabilities		140,016	186,026	140,630	186,226
Total equity and liabilities		406,832	447,221	410,111	450,407

(the end)

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Statements of Comprehensive Income

		Group 2013	2013	2012	2012	2012	2011
	Notes	III quarter	3 quarters	III quarter	3 quarters		
Income							
Sales income	16	22,116	230,134	28,027	245,024	369,723	309,345
Other operating income	18	1,198	2,971	1,031	2,002	2,091	2,343
Total income		23,314	233,105	29,058	247,026	371,814	311,688
Expenses							
Fuel and heat acquired		(23,873)	(186,019)	(28,473)	(200,888)	(296,717)	(233,756)
Salaries and social security		(4,933)	(15,473)	(5,444)	(16,366)	(22,827)	(22,334)
Depreciation and amortisation	3,4	(3,911)	(11,900)	(3,983)	(11,900)	(15,879)	(15,888)
Repairs and maintenance		(916)	(1,946)	(3,627)	(4,758)	(5,948)	(5,703)
Write-offs and change in allowance for accounts receivable	5,8	2,363	(3,368)	(3,524)	(7,558)	(5,896)	(2,189)
Taxes other than income tax		(1,212)	(3,663)	(1,329)	(3,688)	(5,073)	(4,312)
Electricity		(515)	(2,172)	(473)	(1,780)	(2,574)	(2,515)
Raw materials and consumables		(299)	(1,336)	(438)	(1,341)	(1,857)	(1,962)
Maintenance of heating and hot water systems		-	(2)	-	-	-	(463)
Water		(487)	(1,502)	(169)	(745)	(1,172)	(1,160)
Change in write-down to net realisable value of inventories	7	(95)	(167)	(390)	(509)	(644)	(999)
Other expenses	17	(2,148)	(7,116)	(2,267)	(7,888)	(10,252)	(10,661)
Other activities expenses	18	(844)	(1,342)	(243)	(953)	(1,193)	(1,334)
Total expenses		(36,870)	(236,006)	(50,360)	(258,374)	(370,032)	(303,276)
Profit		(13,556)	(2,901)	(21,302)	(11,348)	1,782	8,412
Finance income	19	606	9,707	578	1,624	2,463	8,001
Finance costs	20	(309)	(1,185)	(258)	(1,299)	(1,710)	(1,653)
Finance cost, net		297	8,522	320	325	753	6,348
Profit before income tax		(13,259)	5,621	(20,982)	(11,023)	2,535	14,760
Income tax		-	-	-	-	(1,339)	(1,220)
Net profit		(13,259)	5,621	(20,982)	(11,023)	1,196	13,540
Basic and diluted earnings per share (LTL)	22	(0.31)	0.13	(0.49)	(0.26)	0.03	0.32

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Statements of Comprehensive Income

		Company 2013	2013	2012	2012	2012	2011
	Notes	III quarter	3 quarters	III quarter	3 quarters		
Income							
Sales income	16	22,371	230,110	27,981	244,919	369,462	308,622
Other operating income	18	893	2,859	934	1,771	1,908	1,846
Total income		23,264	232,969	28,915	246,690	371,370	310,468
Expenses							
Fuel and heat acquired		(23,873)	(186,019)	(28,473)	(200,888)	(296,717)	(233,756)
Salaries and social security		(5,101)	(15,315)	(5,314)	(15,825)	(22,078)	(21,412)
Depreciation and amortisation	3,4	(4,013)	(11,957)	(3,978)	(11,912)	(15,879)	(15,842)
Repairs and maintenance		(916)	(1,946)	(3,627)	(4,758)	(5,948)	(5,703)
Write-offs and change in allowance for accounts receivable	5,8	2,363	(3,453)	(3,524)	(7,558)	(6,210)	(2,189)
Taxes other than income tax		(1,221)	(3,663)	(1,323)	(3,674)	(5,043)	(4,286)
Electricity		(522)	(2,172)	(472)	(1,775)	(2,565)	(2,504)
Raw materials and consumables		(384)	(1,347)	(424)	(1,298)	(1,766)	(1,847)
Maintenance of heating and hot water systems		(8)	(86)	(54)	(300)	(388)	(1,026)
Water		(487)	(1,501)	(168)	(743)	(1,170)	(1,156)
Change in write-down to net realisable value of inventories	7	(95)	(167)	(390)	(509)	(644)	(999)
Other expenses	17	(2,252)	(7,213)	(2,258)	(7,866)	(10,210)	(10,541)
Other activities expenses	18	(325)	(1,045)	(149)	(432)	(723)	(677)
Total expenses		(36,834)	(235,884)	(50,154)	(257,538)	(369,341)	(301,938)
Profit		(13,570)	(2,915)	(21,239)	(10,848)	2,029	8,530
Finance income	19	606	9,707	578	1,624	2,463	8,001
Finance costs	20	(310)	(1,492)	(258)	(1,724)	(2,297)	(1,869)
Finance cost, net		296	8,215	320	(100)	166	6,132
Profit before income tax		(13,274)	5,300	(20,919)	(10,948)	2,195	14,662
Income tax						(1,358)	(1,220)
Net profit		(13,274)	5,300	(20,919)	(10,948)	837	13,442
Basic and diluted earnings per share (LTL)	22	(0.31)	0.12	(0.49)	(0.26)	0.02	0.31

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2011		256,392	635	3,468	10,187	270,682
Transferred from reserves	10	-	-	(3,468)	3,468	-
Transferred to reserves	10	-	672	2,584	(3,256)	-
Dividends	1	-	-	-	(10,683)	(10,683)
Total comprehensive income		-	-	-	(11,023)	(11,023)
Balance as of 30 September 2012		256,392	1,307	2,584	(11,307)	248,976
Total comprehensive income		-	-	-	12,219	12,219
Balance as of 31 December 2012		256,392	1,307	2,584	912	261,195
Transferred from reserves	10	-	-	(2,584)	2,584	-
Transferred to reserves	10	-	5,538	250	(5,788)	-
Total comprehensive income		-	-	-	5,621	5,621
Balance as of 30 September 2013		256,392	6,845	250	3,329	266,816

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2011		256,392	635	3,468	13,532	274,027
Transferred from reserves	10	-	-	(3,468)	3,468	-
Transferred to reserves	10	-	672	2,584	(3,256)	-
Dividends	1	-	-	-	(10,683)	(10,683)
Total comprehensive income		-	-	-	(10,948)	(10,948)
Balance as of 30 September 2012		256,392	1,307	2,584	(7,887)	252,396
Total comprehensive income		-	-	-	11,785	11,785
Balance as of 31 December 2012		256,392	1,307	2,584	3,898	264,181
Shareholder (contribution) to cover losses	1	-	-	-	(45)	(45)
Transferred from reserves	10	-	-	(2,584)	2,584	-
Transferred to reserves	10	-	5,538	250	(5,788)	-
Total comprehensive income		-	-	-	5,345	5,345
Balance as of 30 September 2013		256,392	6,845	250	5,994	269,481

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Statements of Cash Flows

	Group		Company	
	2013	2012	2013	2012
	3 quarters	3 quarters	3 quarters	3 quarters
Cash flows from (to) operating activities				
Net profit	5,621	(11,023)	5,300	(10,948)
Adjustments for non-cash items:				
Depreciation and amortisation	13,943	13,761	13,856	13,695
Write-offs and change in allowance for accounts receivable	3,377	7,572	3,462	7,572
Interest expenses	1,028	1,149	1,028	1,149
Change in fair value of derivatives	(123)	(81)	(123)	(81)
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	34	(76)	35	(75)
(Amortisation) of grants (deferred income)	(960)	(862)	(960)	(862)
Change in write-down to net realisable value of inventories	167	509	167	509
Change employee benefit liability	26	-	25	-
Change in accruals	(154)	(8)	(154)	(317)
Impairment of investment in subsidiary	-	-	152	426
Elimination of other financial and investing activity results	(9,427)	(1,393)	(9,272)	(1,394)
Total adjustments for non-cash items:	7,911	20,571	8,216	20,622
Changes in working capital:				
(Increase) in inventories	129	(229)	110	(262)
Decrease in prepayments	(95)	(26)	(174)	(34)
(Increase) decrease in trade receivables	49,898	24,409	49,778	24,370
(Increase) in other receivables	(2,070)	1,958	(2,101)	1,966
(Decrease) increase in other non-current liabilities	105	358	105	358
Increase in current trade payables and advances received	(36,781)	(24,368)	(36,771)	(24,363)
(Decrease) increase in payroll-related liabilities	(338)	556	35	537
Increase (decrease) in other liabilities to budget	(908)	(79)	(879)	(68)
Increase (decrease) in other current liabilities	(97)	217	(94)	191
Total changes in working capital:	9,843	2,796	10,009	2,695
Net cash flows from operating activities	23,375	12,344	23,525	12,369

(cont'd on the next page)

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

	Group		Company	
	2013 3 quarters	2012 3 quarters	2013 3 quarters	2012 3 quarters
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(27,702)	(24,607)	(27,708)	(24,621)
Proceeds from sale of tangible assets	207	153	204	152
Interest received for overdue accounts receivable	2,529	1,531	2,529	1,531
Penalties received	7,054	-	7,054	-
Decrease of non-current accounts receivable	-	-	-	-
Interest received	1	12	1	12
Net cash (used in) investing activities	(17,911)	(22,911)	(17,920)	(22,926)
Cash flows from (to) financing activities				
Proceeds from loans	12,833	23,380	12,833	23,380
(Repayment) of loans	(22,191)	(9,028)	(22,191)	(9,028)
Interest (paid)	(1,261)	(1,236)	(1,261)	(1,236)
Financial lease (payments)	(97)	(47)	(97)	(36)
Penalties and fines (paid)	(157)	(150)	(157)	(149)
Shareholder (contributions) to a subsidiary	-	-	(155)	-
Dividends (paid)	-	(10,670)	-	(10,670)
Received grants	2,632	5,403	2,632	5,403
Net cash flows from (used in) financing activities	(8,241)	7,652	(8,396)	7,664
Net (decrease) increase in cash and cash equivalents	(2,777)	(2,915)	(2,791)	(2,893)
Cash and cash equivalents at the beginning of the period	5,332	5,936	5,308	5,899
Cash and cash equivalents at the end of the period	2,555	3,021	2,517	3,006

(the end)

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

General Manager	Rimantas Bakas		23 October 2013
Chief Accountant	Violeta Staškūnienė		23 October 2013

Notes to the financial statements

1. General information

AB Kauno Energija (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Raudondvario Rd. 84, Kaunas, Lithuania.

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

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

As of 30 September 2013 and of 31 December 2012 the shareholders of the Company were as follows:

	As of 30 September 2013		As of 31 December 2012	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
Kaunas city municipality	39,665,892	92.82	39,665,892	92.82
Kaunas district municipality	1,606,168	3.76	1,606,168	3.76
Jurbarkas district municipality	746,405	1.75	746,405	1.75
Other minor shareholders	713,512	1.67	713,512	1.67
	42,731,977	100.00	42,731,977	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 2013 and 2012.

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

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

All shares were fully paid as of 30 September 2013 and as of 31 December 2012.

On 30 April 2012 the Annual General Meeting of Shareholders has made a decision to pay LTL 10,683 thousand, i.e. at 25 cents a share in dividends from the profit of the year 2011. The dividends were started to pay in the end of June 2012, as soon as the permissions under credit agreements from credit institutions were received. The unpaid part of dividends amounting to LTL 12 thousand as of 30 September 2013 (31 December 2012 – LTL 13 thousand) is accounted for in other current liabilities.

The Group and the Company are also involved in maintenance of heating systems. On 1 July 2006 on the basis of Kaunas Energy Services Department the Company established the subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter – PPP). The main activity of the PPP is exploitation and maintenance of building heating network and heating consumption equipment, internal engineering networks and systems as well as building structures. Starting from July 1, 2006 the Company contracted the PPP for permanent technical maintenance of heating and hot water supply systems of the buildings maintained by the Company. Whereas, according to the changes in the Law on Heat Sector, the PPP is not able to provide heating and hot water supply systems maintenance services starting from 1 July 2012, reorganization of the PPP in the way of separation was approved by the decision of the Company's Management Board of 6 April 2012. On 16 April, 2013 the Company completed procedures of reorganization of PPP in the way of separation. On 16 April, 2013 the new statutes of activity continuing PPP and newly established subsidiary UAB Kauno Energija NT (hereinafter – KENT) were registered in Register of Legal Entities. On 22 April, 2013 the Company announced a tender of sale of PPP. On 19 June, 2013 Company's Management Board decided not to sell block of shares of PPP at the price bid. On 24 September 2013 the Company's Management Board assigned Company's administration by protocol decision to pursue procedures of the end of PPP as of a legal entity in the way chosen by administration.

The Group consists of the Company and the Subsidiaries PPP and KENT (hereinafter – the Group):

Company	Principal place of business	Share held by the Group	Cost of investment	Writing-off cost of investment reducing the capital	Loss reported after capital reduction and shareholder contribution	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos*	Savanorių Ave. 347, Kaunas	100 percent	6,518	(1,916)	107	4,709	Maintenance of heating and hot water systems
UAB Pastatų Priežiūros Paslaugos**	Savanorių Ave. 347, Kaunas	100 percent	10	-	67	77	Maintenance of heating and hot water systems
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	4,592	-	63	4,655	Rent

- *The data presented as of 31 March, 2013 – until company's separation;
- ** The data presented as of 30 September, 2013 – after company's separation.

As of 30 September 2013 accumulated impairment loss on investment in PPP amounted to LTL 1,916 thousand (31 December 2012 - LTL 1,764 thousand) in the Company's profit or loss in article of financial activity expenses (Note 20).

It has been decided by the decision of the meeting of PPP shareholders of 28th of May, 2012 to reduce authorised capital to LTL 4,915 thousand by adjusting accumulated loss of LTL 1,603 thousand. The new Articles of Association of PPP were registered on 13th of June, 2012. It has been decided by the decision of the meeting of shareholders of 16th of November, 2012 to reduce authorised capital to LTL 4,754 thousand by withdrawing accumulated loss of LTL 161 thousand. The new Articles of Association of PPP were registered on 7th of December, 2012. It has been decided by the decision of the meeting of shareholders of 21 February 2013 to reduce authorised capital to LTL 4,602 thousand by withdrawing accumulated loss of LTL 152 thousand. The new Articles of Association of PPP were registered on 6 March, 2013.

It has been decided by the decision of the meeting of PPP's shareholders of 22th of March, 2013 to transfer to PPP LTL 45 thousand shareholder's contribution in, and LTL 110 thousand targeted shareholder contributions, that were transferred in 22 March 2013

Legal Regulations

Operations of the Company are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. Starting from 1 January 2008, the Law amending the Heating Law No. X-1329 of 20 November 2007 of the Republic of Lithuania came in to force. On 13 of October, 2011 the change in Heating Law has been announced. It determines that heating and hot water systems as well as heat points of blocks of flats must be supervised by the supervisor unrelated to the supplier of heat and hot water, who must be chosen by inhabitants of this block of flats, without reference to ownership of these heat points. This prohibition, provided by the law, is not applied to the maintenance of heating and hot water systems of buildings which appear in populated localities with less than 50 000 inhabitants according to the data of the Lithuanian Department of Statistics, if the municipal council doesn't make a different decision. This change in the Law on Heat Sector of the Republic of Lithuania No XI-1613 came into force starting November 1, 2011. Any expenses, related to maintenance of the heat points are not included in a heat price since that date.

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 the 14 December 2012 the Commission determined by its decision No. O3-413 a new basic heat rates force components for the period from 1 January 2013 till 31 December 2016.

Operational Activity

The Company's generation capacity includes a power plant in Petrašiūnai, 4 district boiler-houses in Kaunas integrated network, 7 regional boiler-houses in Kaunas region, 1 regional boiler-house in Jurbarkas city, 13 isolated networks and 31 local gas burning boiler-houses in Kaunas.

On March 21, 2012 the new bio-fuel powered boiler with condensation economizer with total power of 6.5 MW started to function in AB Kauno Energija Garliava boiler-house, in Kaunas district. The heat produced in this boiler is supplied to the consumers of Garliava borough. This boiler is one of the first bio-fuel powered devices in Lithuania, the construction of which was financed under an Energy Service Company (ESCO) financing model.

Total installed heat generation capacity is 443.4 MW and electricity - 8.75 MW, respectively, out of which 254.8 MW of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 27 MW of heat generation capacity is located in Jurbarkas city. The total Company's power generation capacity is 452.15 MW.

In the year 2003 the Company sold a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) and committed to purchase at least 80 percent of the annual demand of Kaunas integrated heating network from this company. The contract is valid for 15 years from the signing day. It was determined in this contract that heat purchase price from KTE will not increase in 5 years from the day of contract signing. Starting from 1 December 2008 a new basic heat prices for each 4 years period are being approved by the Commission for KTE and for the Company according to valid legal acts.

The Company received an official note on 13th of April, 2012 confirming the decision of Gazprom OAO to sell its shares to the smaller shareholder "Clement Power Venture Inc.", and the provision, that Gazprom OAO as the main shareholder of KTE must ensure that during the term of agreement, i. e. until 30th of March, 2018 it will own the main block of shares and adequate (not less than 51 percent) number of votes in General meeting of shareholders, is confirmed in heat purchase agreement signed in 2003 between the Company and KTE, Company's Management Board decided on 10th of July, 2012 to approve the selling of all the shares of Kauno Termofikacijos Elektrinė UAB owned by Gazprom OAO to Clement Power Venture Inc., regularizing terms of change of contracts agreements signed with Kauno Termofikacijos Elektrinė UAB and seeking the best for the Company from this selling. On 13 March 2013 KTE adduced to Company an evidence, i.e. an extract from securities account, saying that ownership of the shares of KTE

owned by Gazprom OAO is transferred to Clement Power Venture Inc. since 7 March 2013. The changes of Agreement on Investments and of Heat Sales Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and Gazprom OAO on 13 August 2013 came into force since that date. Following changes of Heat Sales Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of LTL 350 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of LTL 10 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 percent forfeit from the value of unfulfilled investments. Notwithstanding agreements reached, on 30 April, 2013 KTE placed a claim to Vilnius Court of Commercial Arbitration. KTE seeks to argue obligations, determined by chapters 2 and 3 of Investments Agreement of 13 August, 2013 by this claim regarding investments in Company heat economy in amount of LTL 10 million and the terms of implementation as well as forfeit (penalties) determined if those investments would not be implemented. The session in this case is appointed on 5 December 2013.

In 3 quarters of 2013 the average number of employees at the Group was 585 (626 employees in 2012). In 3 quarters of 2013 the average number of employees at the Company was 570 (589 employees in 2012).

Strategic Decisions

On 6 June, 2013 the Kaunas city council approved Company's investment plans for the years 2012 – 2015, according to which investments in amount of LTL 173,934 million are intended to invest into Company's assets during the period of the years 2012 – 2015. The Group and the Company invested LTL 27,978 and 27,984 thousand in the own property during 2012 (during 2012 – LTL 30,620 thousand and 30,661 thousand).

Estimating conditionally high price of the heat bought from KTE, which owns a main Kaunas heat production source, and seeking to contribute to the international liabilities of Lithuania to increase usage of renewable energy sources in heat production, to reduce Lithuania's dependence from imported fossil fuel and to provide the heat energy at a competitive price, the Company initiated reconstruction projects of existing boiler-houses, fitting them to work on wood fuel (wooden chips, waste of deforestation, sawdust).

In the end of 2011 the Company applied to Lithuanian Environmental Investment Fund (hereinafter – LEIF) for the partial financing of the projects "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler" (value of the project amounts to LTL 5,3 million, planned to produce heat amount – 16500 MWh per year), "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3,5 MW capacity water boiler" (value of the project amounts to LTL 4,6 million, planned to produce heat amount – 6710 MWh per year) and "Reconstruction of Pergalė boiler-house equipping it with condensational smoke economizer" (value of the project amounts to LTL 2,3 million, the sum of support asked is LTL 0,6 million). The projects of reconstruction of Noreikiškės and Ežerėlis boiler-houses are planned to implement in 2013. Implementation of these projects would not only contribute to reduction of Greenhouse Gas Emission but also would have an influence on heat price reduction to the consumers. Further progress of the projects is described in note 13.

The Company plans to reconstruct on its own the Petrašiūnai power plant where the total heat power of new equipment will reach 30 MW, changing currently used fuel to bio-fuel. It is planned to produce approximately 244 GWh of heat energy with these new equipment. It is also planned to use approximately 93 thousand tons of wooden fuel for heat production annually. Estimated value of the project is LTL 25 million.

The Company plans to install a fully automatic bio-fuel burned 8 MW capacity water boiler in Šilkas boiler house and a 4 MW capacity condensational economizer in order to increase effectiveness of boiler house. The total heat capacity of installed equipment will be 12 MW. 96 GWh of heat is planned to produce with these new equipment annually. Planned annual usage of bio-fuel for production of this quantity of heat is approximately 40 – 45 thousand tons. Estimated value of the project is LTL 8 million.

It's planned to equip Inkaras boiler-house with two new bio-fuel burned water boilers in complement with furnaces and condensational economizer in 2013. The heat capacity of boilers will be 8 MW each and of condensational economizer - 4 MW. 160 GWh of heat is planned to produce with these new equipment annually. Planned annual usage of bio-fuel for production of this quantity of heat is approximately 75 – 80 thousand tons. Estimated value of the project is LTL 12 million.

On 8 July 2013 the Company placed three applications to Lithuanian business support agency (hereinafter – LBSA) reaching to get partly financing from European Union Structural Funds for reconstruction of Petrašiūnai power-plant and Šilkas and Inkaras boiler-houses changing fuel currently used in them with bio-fuel. The total sum asked is LTL 16 million. The sum of LTL 6 million is asked from European Union Structural Funds for the project “Reconstruction of Petrašiūnai power-plant, changing currently used fuel with bio-fuel (I stage)”, LTL 4 million is asked for the project “Reconstruction of Šilkas boiler-house, changing currently used fuel with bio-fuel (II stage)” and LTL 6 million is asked for the project “Reconstruction of Inkaras boiler-house, changing currently used fuel with bio-fuel”. Financing for these projects is asked under the call No 3 of the measure VP3-3.4-ŪM-02-K “Use of renewable Energy Sources for Energy Production” of the 3 priority “Environment and Sustainable Development” of Operational Programme for Promotion of Cohesion for 2007–2013.

It is planned that these projects will be implemented in the years 2013 – 2015 and it will possibly have an influence on heat prices reduction for consumers.

Further progress of reconstruction projects of Petrašiūnai power-plant, Šilkas and Inkaras boiler-houses is described in note 26.

The Company plans to reconstruct its' proprietary mains 5T and 6Ž of integrated heat supply network. The total estimated value of these projects is LTL 6.12 million. On 26 June 2013 the Company placed two applications to LBSA reaching to get partly financing from European Union Structural Funds for projects “Modernization of main 5T of Kaunas integrated heat supply network” and “Modernization of main 6Ž of Kaunas integrated heat supply network”. The total sum asked is LTL 2.739 million. Financing for these projects is asked under the measure “Modernization and Development of Heat Supply System” of the Operational Programme for Promotion of Cohesion for 2007–2013. Both applications were satisfied. Further progress in described in note 26.

Currently the Company has applications from 15 potential independent heat producers (the total capacity – 400 MW) regarding the connection to the Company's integrated heat supply network.

Two independent heat producers with total capacity of 30 MW supply heat, produced using bio-fuel, to the Company at the moment.

On 12 October 2012 the heat purchase agreement between the Company and UAB GECO Kaunas has been signed. The new UAB GECO Kaunas boiler-house will produce up to 140 MWh heat per year. Its project capacity reaches up to 20 MW. The amount of heat produced by boiler-house will reach up to 10 percent of whole Kaunas heat demand. Agreement is valid until 31 December 2015 and carries the possibility to prolong the term.

On 14 December 2012 the heat purchase agreement between the Company and UAB Lorizon Energy has been signed. This company built a 10 MW capacity boiler-house, which will supply approximately 5 percent of heat, consumed in Kaunas integrated network. Agreement is valid until 31 December 2015 and carries the possibility to prolong the term.

2. Accounting principles

2.1. Adoption of new and revised International Financial Reporting Standards

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

2.2. Statement of Compliance

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and interpretations of them. The standards are issued by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

2.3. Basis of the preparation of financial statements

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

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

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

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

2.4. Principles of consolidation

Principles of consolidation

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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

2.5. Investments in subsidiaries

Investments in subsidiaries in the Company's Statements of Financial Position are recognized at cost. The dividend income from the investment is recognized in the profit (loss).

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

2.6. Intangible assets

Intangible assets acquired separately

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

Derecognition of intangible assets

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

Licenses

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

Software

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

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

2.7. Accounting for emission rights

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

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

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

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

2.8. Property, plant and equipment

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

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

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

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

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

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

Freehold land is not depreciated.

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

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

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

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

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

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

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

2.10. Financial assets

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

Effective interest rate method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

Available-for-sale financial assets (AFS financial assets)

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

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

Derecognition of financial assets

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

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

2.11. Derivative financial instruments

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

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

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

2.12. Inventories

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

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

2.13. Provisions

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

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

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

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

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

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

unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

2.16. Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.17. Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

2.18. Leasing

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

The Group and the Company as lessor

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

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

The Group and the Company as lessee

Assets held under finance leases are initially recognised as assets of the Group and the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

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

2.20. Income tax

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

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

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

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

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

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

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

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

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

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

The presentation currency is Litas (LTL). All transactions had functional currency other than LTL translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Gains and losses arising on exchange are included in profit or loss for the period.

The applicable rates used for principal currencies were as follows:

As of 30 September 2013		As of 31 December 2012	
1 EUR	= 3,4528 LTL	1 EUR	= 3,4528 LTL
1 USD	= 2,5588 LTL	1 USD	= 2,6060 LTL
1 GBP	= 4,1177 LTL	1 GBP	= 4,2015 LTL

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

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

2.25. Use of estimates in the preparation of financial statements

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

Estimates and assumptions

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

Property, plant and equipment – useful life

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

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

Realisable value of inventory

Starting from 2011, the management of the Company forms a 100 per cent adjustment to the net realizable value for inventory bought more than one year ago.

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

In 2009 a new shares issue was paid by contribution in-kind - manifolds situated in Kaunas city: i.e. market value of assets determined upon their transfer by local qualified valuers using depreciated replacement costs method amounted to LTL 136 million.

In 2010 a new shares issue was paid by contribution in-kind: i.e. building – boiler-house situated in Kaunas city and by networks system situated in Jurbarkas city. Market value of assets estimated upon their transfer by local qualified valuers by using depreciated replacement costs method amounted to LTL 0.616 million.

Following decision of 12 August 2012 of the Commission stated in 2012, the Company performed an additional valuations of contribution in-kind, i. e. manifolds in 2012. It's emphasized in the valuation report, that in this particular case a value of manifolds calculated in the method of income is not correct market value of the asset and the value of the manifolds, determined under the replacement cost method, is considered to be the market value of the assets.

As of 30 September 2013 carrying value of total contribution in-kind amounted to LTL 128,916 thousand, including the manifolds, which amounted to LTL 128 326 thousand (31 December 2012: LTL 130,395 thousand and LTL 129,785 thousand respectively).

Allowances for accounts receivable

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

Deferred Tax Asset

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

Litigations

The Group and the Company reviews all legal cases for the end of the reporting period and disclose all relevant information in the Note 24.

2.26. Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

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

As of 30 September 2013 part of the non-current intangible assets of the Group with the acquisition cost of LTL 4,771 thousand (LTL 4,909 thousand as of 31 December 2012) and the Company – LTL 4,720 thousand (LTL 4,858 thousand as of 31 December 2012) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for the half ended as of 30 September 2013 amounts to LTL 13,853 thousand and LTL 13,802 thousand, respectively (as of 31 December 2012: LTL 18,178 thousand and LTL 18,099 thousand respectively). The amounts of LTL 12,930 thousand and LTL 12,930 thousand (as of 31 December 2012: LTL 16,844 thousand and LTL 16,764 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other activity expenses.

As of 30 September 2013 part of the property, plant and equipment of the Group with acquisition cost of LTL 110,030 thousand (LTL 105,177 thousand as of 31 December 2012) and the Company – LTL 109,668 thousand were fully depreciated (LTL 104,726 thousand as of 31 December 2012), but were still in active use.

As of 30 September 2013 and as of 31 December 2012 the major part of the Group's and Company's construction in progress consisted of heat supply networks, boiler-houses reconstruction and repair works.

As of 30 September 2013 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to LTL 27,880 thousand (As of 31 December 2012 – LTL 2,020 thousand).

As of 30 September 2013 property, plant and equipment of the Group and the Company with the net book value of LTL 181,416 thousand (LTL 80,886 thousand as of 31 December 2012) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal to LTL 112 thousand in 3 quarters 2013 (as of 31 December 2012: LTL 295 thousand). The capitalization rate varied from 1.66 percent to 2.96 percent in 3 quarters 2013 (in 2012 – from 1.99 percent to 2.8 percent).

As of 30 September 2013 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 1,273 thousand in the category Equipment and tools (LTL 917 thousand As of 31 December 2012).

5. Non-current accounts receivable

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Long-term loans granted to the Company's employees	45	45	45	45

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 are non-interest bearing. These loans are accounted for at discounted value as of 30 September 2013 and as of 31 December 2012 using 3.47 percent interest rate. In 2012 effect of reversed discounting amounted to LTL 9 thousand. The reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statement of comprehensive income

As of 30 September 2013 and as of 31 December 2012 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

6. Other financial assets

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
<i>Available-for-sale financial assets</i>				
Fair value of shares	433	433	433	433

Valuators performed the valuation of the assets of UAB Šilumos Ūkio Servisas, less than 19 percent of shares of which is owned by the Company, and determined a market value of the shares. As of the 31st of December, 2012 a profit of change in fair value of shares was LTL 338 thousand. Impairment loss is accounted in the Group's and the Company's profit (loss).

7. Inventories

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Technological fuel	3,476	3,461	3,476	3,461
Spare parts	1,224	1,292	1,224	1,292
Materials	1,210	1,347	1,200	1,256
	5,910	6,100	5,900	6,009
Less: write-down to net realisable value of inventory at the end of the period	(2,021)	(1,854)	(2,021)	(1,854)
Carrying amount of inventories	3,889	4,246	3,879	4,155

As of 30 September 2013 Group's and Company's amounted to LTL 2,021 thousand (as of 31 December 2012 - LTL 1,854 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2013 and for the year 2012 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Trade receivables, gross	79,943	129,841	80,080	129,858
Less: impairment of doubtful receivables	(51,108)	(47,755)	(51,277)	(47,877)
	28,835	82,086	28,803	81,981

Of 30 September 2013 Group's and Company's receivables as include the factored receivables amounting to LTL 88 thousand, under the agreement with UAB Swedbank Lizingas, described in Note 11.

Change in impairment of doubtful receivables in 2013 and 2012 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of comprehensive income.

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

	Group Impairment loss	Company Impairment loss
Balance as of 31 December 2011	43,315	43,315
Additional allowance formed	5,827	5,949
Write-off	(1,387)	(1,387)
Balance as of 31 December 2012	47,755	47,877
Additional allowance formed	3,353	3,400
Balance as of 30 September 2013	51,108	51,277

In 2012 the Group and the Company wrote off LTL 1,387 thousand of bad debts. In 3 quarters 2013 the Group and the Company also recovered LTL 9 thousand (2012 - LTL 17 thousand) of doubtful receivables, which were written off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 30 September 2013 and 31 December 2012 is as follows:

	Trade receivables neither	Trade receivables past due					
	past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2013	8,147	1,827	1,665	2,330	743	14,123	28,835
2012	61,676	6,026	1,243	712	1,594	10,835	82,086

The ageing analysis of the Company's net value of trade receivables as of 30 September 2013 and 31 December 2012 is as follows:

	Trade receivables neither	Trade receivables past due					
	past due nor impaired	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2013	8,115	1,827	1,665	2,330	743	14,123	28,803
2012	61,571	6,026	1,243	712	1,594	10,835	81,981

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

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

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Taxes	3,969	3,535	3,969	3,535
Other receivables	4,762	3,126	4,985	3,318
Less: value impairment of doubtful receivables	(591)	(567)	(821)	(759)
	8,140	6,094	8,133	6,094

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

	Group Impairment loss	Company Impairment loss
Balance as of 31 December 2011	481	481
Additional allowance formed	113	305
Write-off	(27)	(27)
Balance as of 31 December 2012	567	759
Additional allowance formed	24	62
Balance as of 30 September 2013	591	821

As of 30 September 2013 and 31 December 2012 the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold

inventories (metals, heating equipment) and services supplied (maintenance of manifolds and similar services).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 30 September 2013 and 31 December 2012 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2013	857	203	18	3,092	1	-	4,171
2012	2,451	44	51	11	2	-	2,559

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 30 September 2013 and 31 December 2012 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2013	850	203	18	3,092	1	-	4,164
2012	2,451	44	51	11	2	-	2,559

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

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

9. Cash and cash equivalents

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Cash in transit	911	4,181	911	4,181
Cash at bank	1,596	1,141	1,560	1,117
Cash on hand	48	10	46	10
	2,555	5,332	2,517	5,308

The Group's and the Company's accounts in banks amounting to LTL 1,545 thousand as of 30 September 2013 (31 December 2012 – LTL 459 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

Legal and other reserves

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

The Company allocated LTL 672 thousand from profit brought forward to legal reserve by the decision of shareholders of 30th of April, 2012 and LTL 2,584 thousand from profit brought forward to other reserves. The reserve has been formed for investments.

On 30 April, 2013 the Company annulled other reserves (LTL 2,584 thousand) by the decision of shareholders, LTL 5,538 thousand transferred from retained earnings to legal reserve and LTL 250 thousand to other reserves. Reserve was formed for investments.

11. Borrowings

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Non-current borrowings	46,579	33,746	46,579	33,746
Current portion of non-current borrowings (except leasing which is disclosed in Note 12)	2,191	8,489	2,191	8,489
Current borrowings (including credit line)	11,650	24,563	11,650	24,563
Factoring with recourse agreement	88	3,068	88	3,068
Current borrowings	13,929	36,120	13,929	36,120
	60,508	69,866	60,508	69,866

Terms of repayment of non-current borrowings are as follows:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
2013	2,191	8,489	2,191	8,489
2014	19,639	8,761	19,639	8,761
2015	6,181	5,908	6,181	5,908
2016	4,389	4,188	4,389	4,188
2017	2,539	2,439	2,539	2,439
2018	2,140	1,944	2,140	1,944
2019	988	913	988	913
2020	713	640	713	640
2021	714	639	714	639
2022	713	640	713	640
2023	714	639	714	639
2024	713	640	713	640
2025	714	640	714	640
2026	713	640	713	640
2027	714	639	714	639
2028	713	640	713	640
2029	714	639	714	639
2030	713	640	713	640
2031	714	639	714	639
2032	713	640	713	640
2033	714	639	714	639
2034	714	639	714	639
	48,770	42,235	48,770	42,235

Average of interest rates (in percent) of borrowings weighted outstanding at the year-end were as follows:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Current borrowings	0.96	1.01	0.96	1.01
Non-current borrowings	2.74	2.78	2.74	2.78

Balance of borrowings (except factoring) at the end of the term in national and foreign currencies was as follows:

Currency of the loan:	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
EUR	35,899	39,765	35,899	39,765
LTL	24,521	27,033	24,521	27,033
	60,420	66,798	60,420	66,798

Detailed information on loans as of 30 September 2013:

Credit institution	Date of contract	Currency	Currency sum, thousand	Sum LTL thousand	Term of maturity	Balance as of 30.09.2013	A part of 2013, LTL
						LTL thousand	LTL thousand
1. AB SEB Bank	2005.08.23	EUR	8,776	30,300	2014.12.31	3,125	625
2. Nordea Bank Finland Plc. Lithuanian branch	2006.12.01	LTL	6,090	6,090	2015.12.31	1,842	210
3. AB SEB Bank	2006.12.21	EUR	2,059	7,108	2016.11.30	990	99
4. AB DNB bankas	2007.11.14	EUR	576	1,989	2016.12.31	808	62
5. Danske Bank A/S Lithuania branch	2008.07.31	EUR	984	3,398	2018.12.31	1,823	87
6. Danske Bank A/S Lithuania branch	2008.07.31	EUR	1,158	4,000	2017.09.30	2,105	149
7. Swedbank, AB	2009.12.02	EUR	3,815	9,819	2016.12.02	3,537	301
8. Lithuanian Ministry of Finance	2010.04.09	EUR	2,410	8,323	2034.03.15	6,139	-
9. Swedbank, AB	2010.06.21	EUR	649	2,240	2017.06.21	700	101
10. Nordea Bank Finland Plc. Lithuanian branch.	2010.09.17	EUR	1,625	5,611	2016.05.31	2,637	247
11. Lithuanian Ministry of Finance	2010.10.26	EUR	807	2,788	2034.03.15	2,526	-
12. AB SEB Bank	2011.02.11	EUR	1,031	3,560	2019.02.10	2,967	137
13. Nordea Bank Finland Plc. Lithuanian branch	2011.04.19	EUR	921	3,180	2019.04.30	3,044	137
14. Lithuanian Ministry of Finance	2011.09.02	EUR	1,672	5,773	2034.09.01	4,893	-
15. AB SEB Bank	2011.10.13	EUR	290	1,000	2019.11.30	484	36
16. AB SEB bankas	2013.05.23	LTL	10,567	10,567	2014.11.30	10,567	-
17. AB DNB bank	2013.06.28	LTL	15,000	15,000	2014.06.27	11,650	11,650
18. AB SEB Bank	2013.08.22	LTL	10,000	10,000	2014.08.22	-	-
19. AB SEB Bank	2013.09.10	LTL	5,200	5,200	2020.09.30	454	-
20. Nordea Bank Finland Plc. Lithuanian branch.	2013.09.27	LTL	1,300	1,300	2020.09.30	8	-
21. Nordea Bank Finland Plc. Lithuanian branch	2013.09.27	EUR	655	2,261	2020.09.30	121	-
						60,420	13,841

On 24 October 2012 the Group and the Company signed a factoring with recourse agreement with Swedbank Lizingas, UAB amounted to the limit LTL 8,500 thousand. Factoring advance is 90 percent. The term of validity of agreement is 31 December 2013. Liability the factoring with recourse, amounting to LTL 88 thousand as of 30 September 2013 is accounted within the caption of current borrowings.

The immovable property (Note 4), bank accounts (Note 9) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

12. Finance lease obligations

The assets leased by the Group and the Company under finance lease contracts mainly consist of vehicles. The terms of financial lease are 3 years. The finance lease agreement is in EUR.

Future minimal lease payments were:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Within one year	22	48	22	48
From one to five years	160	67	160	67
Total financial lease obligations	182	115	182	115
Interest	(7)	(6)	(7)	(6)
Present value of financial lease obligations	175	109	175	109
Financial lease obligations are accounted for as:				
- current	20	44	20	44
- non-current	155	65	155	65

13. Grants (deferred income)

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Balance at the beginning of the reporting period	26,546	22,211	26,546	22,211
Received during the year	2,632	5,498	2,632	5,498
Amortisation	(960)	(1,163)	(960)	(1,163)
Balance at the end of the reporting period	28,218	26,546	28,218	26,546

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at V. Krėvės Ave. 82 A, 118 H, Kaunas)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,843 thousand by 30 September 2013. The project is completed.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Modernisation of Kaunas City Integrated Network Centre Main (4T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 5,990 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 4,414 thousand by 30 September 2013. The project is completed.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 1,725 thousand by 30 September 2013. The project is completed.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financing in amount of LTL 1,426 thousand has been received. The project is completed.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financing in amount of LTL 2,526 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Dainava area main of Kaunas integrated network (1T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,560 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 1,489 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Aukštieji Šančiai area main of Kaunas integrated network (2Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,618 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 1,188 thousand has been received.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Viliampolė area heating network of Kaunas integrated network (9K)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 595 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 217 thousand has been received.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Pramonė area main of Kaunas integrated network (1Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,000 thousand after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financing in amount of LTL 2,000 thousand has been received. The project is completed.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water boiler", according to which the financing in amount of LTL 1,791 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 537 thousand has been received.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler", according to which the financing in amount of LTL 2,299 thousand is provided for the Company from the

funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 30 September 2013 financial support in amount of LTL 690 thousand has been received.

On 8 July 2013 the Group and the Company signed a financing agreement of the project "Reconstruction of Pergalė boiler-house equipping it with condensational economizer", under which financing in amount of LTL 638 thousand is provided for the Company from Lithuanian Environmental Investment Fund after the terms of agreement are fulfilled.

14. Employee benefit liability

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

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

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Employee benefit liability at the beginning of the year	3,297	2,406	2,999	2,406
Paid	(710)	(202)	(488)	(198)
Formed	26	1,093	25	791
Employee benefit liability at the end of the year	2,613	3,297	2,536	2,999
Non-current employee benefit liability	2,098	2,173	2,021	1,996
Current employee benefit liability	515	1,124	515	1,003

During the 3 quarters 2013 total amount of the benefit paid to the employees by the Group amounted to LTL 710 thousand (in 2012 – LTL 202 thousand), and by the Company – LTL 488 thousand (in 2012 – LTL 198 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

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

	As of 30 September 2013	As of 31 December 2012
Discount rate	4.0 percent	4.0 percent
Employee turnover rate	18.9 percent	18.9 percent
Expected average annual salary increases	3.0 percent	3.0 percent

15. Derivative financial instruments

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15 percent for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 965 thousand (the equivalent of LTL 3,333 thousand) as at 30 September 2013 (EUR 1,508 thousand (the equivalent of LTL 5,208 thousand) as at 31 December 2012). Market value of swap agreement as of 30 September 2013 amounted to LTL 81 thousand (LTL 204 thousands as of 31 December 2012). This transaction does not have material impact on the future cash flows of the Group and the Company.

16. Sales income

The Group's and the Company's activities are heat supplies, maintenance of manifolds, electricity production and other activities. Starting from the year 2010 a part of inhabitants chose the Company as the hot water supplier. Those activities are inter-related, so consequently for management purposes the Group's and the

Company's activities are organised as one main segment – heat energy supply. The Group's and the Company's sales income according to the activities are stated below.

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Heat supplies	222,413	362,667	222,456	362,728
Hot water supplies	6,188	4,818	6,188	4,818
Maintenance of manifolds	583	775	583	775
Maintenance of heat and hot water systems	224	721	157	399
Electric energy	476	460	476	460
Maintenance of hot water meters	250	282	250	282
	<u>230,134</u>	<u>369,723</u>	<u>230,110</u>	<u>369,462</u>

17. Other expenses

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Cash collection expenses	1,487	2,217	1,486	2,203
Equipment verification and inspection	1,221	1,490	1,221	1,487
Maintenance of manifolds	1,392	1,883	1,392	1,883
Debts collection expenses	161	917	159	917
Sponsorship	155	503	155	503
Consulting expenses	136	285	136	283
Customer bills issue and delivery expenses	344	455	341	455
Communication expenses	142	193	142	182
Employees related expenses	256	234	256	228
Insurance	255	223	255	213
IT maintenance and related services	215	173	215	161
Membership fee	238	281	238	281
Transport expenses	77	52	76	115
Advertising expenses	138	111	138	109
Audit expenses	36	56	36	52
Rent of equipment and machinery	24	32	21	18
Other expenses	839	1,147	946	1,120
	<u>7,116</u>	<u>10,252</u>	<u>7,213</u>	<u>10,210</u>

18. Other activities income and expenses

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Income from other operating activities				
Miscellaneous services	2,621	1,575	2,530	1,416
Materials sold	218	260	201	251
Gain from sale of non-current assets	12	92	11	91
Other	120	164	117	150
	<u>2,971</u>	<u>2,091</u>	<u>2,859</u>	<u>1,908</u>
Expenses from other operating activities				
Cost of miscellaneous services	(1,295)	(1,139)	(998)	(691)
Cost of materials sold	(1)	(29)	(1)	(7)
Write off of non-current assets	(15)	(12)	(15)	(12)
Loss from sale of non-current assets	(31)	(5)	(31)	(5)
Other	-	(8)	-	(8)
	<u>(1,342)</u>	<u>(1,193)</u>	<u>(1,045)</u>	<u>(723)</u>

19. Finance income

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Interest from late payment of accounts receivable	2,529	1,984	2,529	1,984
Fines	7,054	-	7,054	-
Impairment of non-current financial assets	-	338	-	338
Change in fair value of derivative financial instruments	123	129	123	129
Bank interest	1	11	1	11
Other	-	1	-	1
	9,707	2,463	9,707	2,463

20. Finance costs

	Group		Company	
	2013 3 quarters	2012	2013 3 quarters	2012
Interest on bank loans and overdrafts	(1,028)	(1,496)	(1,028)	(1,496)
Impairment of non-current financial assets	-	-	(152)	(587)
Penalties	(157)	(214)	(157)	(214)
Shareholder's contributions in subsidiary	-	-	(155)	-
	(1,185)	(1,710)	(1,492)	(2,297)

21. Income tax

As of 30 September, 2013 and as of 31 December, 2012 deferred income tax asset and liability were accounted for by applying 15 percent rates. All changes in deferred tax are reported in the statement of comprehensive income.

22. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2013	2012	2013	2012
Net profit	5,621	1,196	5,300	837
Number of shares (thousand), opening balance	42,732	42,732	42,732	42,732
Number of shares (thousand), closing balance	42,732	42,732	42,732	42,732
Average number of shares (thousand)	42,732	42,732	42,732	42,732
Basic and diluted earnings per share (LTL)	0.13	0.03	0.12	0.02

23. Financial assets and liabilities and risk management

Credit risk

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

Number of customers

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Individuals	114,337	114,711	114,337	114,499
Other legal entities	2,105	2,110	2,070	2,055
Legal entities financed from municipalities' and state budget	347	365	336	333
	116,789	117,186	116,743	116,887

Trade receivables of the Group and the Company by the customer groups:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Individuals	20,282	57,211	20,281	57,208
Other legal entities	3,465	10,387	3,439	10,330
Legal entities financed from municipalities' and state budget	5,088	14,488	5,083	14,443
	28,835	82,086	28,803	81,981

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

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

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
A	281	407	245	383
A+	1,146	674	1,146	674
AA-	130	29	130	29
Bank with no rating attributed	39	31	39	31
	1,596	1,141	1,560	1,117

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

The Group and the Company do not guarantee obligations of the other parties in 2013 and in 2012.

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 borrowings of the Group and the Company, except those loans signed with Ministry of Finance of the Republic of Lithuania, are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2013 and 2012 to manage variable rate risk the Company has entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

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

	<u>Increase/decrease in basis points</u>	<u>Effect on income tax</u>
2013		
LTL	+200	(74)
LTL	-200	74
EUR	+50	(14)
EUR	-50	14
2012		
LTL	+200	(81)
LTL	-200	81
EUR	+50	(21)
EUR	-50	21

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 September 2013 were 0.81 and 0.73, respectively (0.85 and 0.81 as of 31 December 2012). The Company's liquidity and quick ratios as of 30 September 2013 were 0.81 and 0.73, respectively (0.85 and 0.82 as of 31 December 2012).

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

- Since 1 October 2009, the heat price for consumers is calculated using two components. A constant component of the heat price remains unchanged for the period during which the recalculated heat price is valid. Only a variable component changes depending on changes in fuel prices thus allowing the Company to reduce possible losses in case of rise in fuel prices;
- Considering the current situation the Group and the Company started to reduce its expenses;
- The new measures of reducing losses in production and supply are being implemented.

Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 30	As of 31	As of 30	As of 31
	September 2013	December 2012	September 2013	December 2012
Amount used	11,650	24,563	11,650	24,563
Amount unused	13,350	437	13,350	437
	25,000	25,000	25,000	25,000

The table below summarises the maturity profile of the Group's financial liabilities as of 30 September 2013 and as of 31 December 2012 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,570	47,535	17,862	67,967
Trade payables	35,505	128	-	35,633
Balance as of 30 September 2013	38,075	47,663	17,862	103,600

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,422	31,900	24,038	16,061	74,421
Trade payables	72,592	273	23	-	72,888
Balance as of 31 December 2012	75,014	32,173	24,061	16,061	147,309

The table below summarises the maturity profile of the Company's financial liabilities, as of 30 September 2013 and as of 31 December 2012 based on contractual undiscounted payments (scheduled payments including interest).

	Less than 3 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,570	47,535	17,862	67,967
Trade payables	35,547	128	-	35,675
Balance as of 30 September 2013	38,117	47,663	17,862	103,642

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,422	31,900	24,038	16,061	74,421
Trade payables	72,624	273	23	-	72,920
Balance as of 31 December 2012	75,046	32,173	24,061	16,061	147,341

Trade payables

Trade payables of the Group and the Company by supplier groups:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
For heat purchased	9,481	55,308	9,481	55,308
Contractors	20,257	9,689	20,257	9,689
Other suppliers	5,895	7,891	5,937	7,923
	35,633	72,888	35,675	72,920

30 day settlement period is set with KTE for purchased heat energy, 90-180 day settlement period – with contractors, 5-30 day settlement period – with other suppliers,

As of 30 September 2013 the Group had an LTL 763 thousand (31 December 2012 – LTL 9,828 thousand) of overdue trade creditors, and the Company – LTL 763 thousand (31 December 2012 – LTL 9,817 thousand).

Foreign currency risk

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

Fair value of financial instruments

The Group and 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:

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

with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

The Group and the Company's categories of financial instruments:

Financial assets:

	Group			Company		
	As of 30 September 2013	As of 31 December 2012	As of 31 December 2011	As of 30 September 2013	As of 31 December 2012	As of 31 December 2011
Cash and bank balances	2,555	5,332	5,936	4,679	5,308	5,899
Loans and receivables	37,020	88,225	64,639	43,271	88,120	64,690
Financial assets	433	433	95	433	433	95
	40,008	93,990	70,670	48,383	93,861	70,684

Financial liabilities:

	Group			Company		
	As of 30 September 2013	As of 31 December 2012	As of 31 December 2011	As of 30 September 2013	As of 31 December 2012	As of 31 December 2011
Carried at fair value through profit or loss (level 2 in the fair value hierarchy)	81	204	333	81	204	333
Carried at amortised cost	82,635	142,842	106,203	82,677	142,874	106,266
	82,716	143,046	106,536	82,758	143,078	106,599

The carrying amounts of financial assets and financial liabilities approximate their fair values.

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 economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, reconsider the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management as of 30 September 2013 and 31 December 2012.

The Group and the Company is obliged to upkeep its equity of not less than 50 percent 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, earnings retained 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: as satisfactory performance indicators and as creditable performance indicators:

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Non-current liabilities (including deferred tax and grants (deferred income))	85,475	70,665	86,086	71,176
Current liabilities	54,541	115,361	54,544	115,050
Liabilities	140,016	186,026	140,630	186,226
Equity	266,816	261,195	269,481	264,181
Debt* to equity ratio (percent)	52.48	71.22	52.19	70.49

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

Market risk

External risk factors that make influence to the Group's and the Company's main activity: increase in fuel prices, unfavourable law and legal acts of Government and other institutions, decisions of local municipality, decrease of number of consumers, the cycle of activity, environmental requirements.

24. Commitments and contingencies

Litigations

On 3 of November, 2010 the Company placed claim to Vilnius Commercial Arbitration Court (hereafter – VCAC) regarding additional forfeit in amount LTL 12,352 thousand from defendant KTE due to the improper fulfilment of the Investments agreement. VCAC satisfied Company's claim partly by its decision of 19 of December, 2011: a fine in amount of LTL 7,054 thousand, 6 percent annual interest for the period from 4 of November, 2010 until the day of fulfilment of this decision from the sum awarded, LTL 37 thousand and LTL 42 thousand of compensation expenses were awarded from the defendant KTE in favour of the Company. On 23 December, 2011 KTE placed a claim to Lithuanian Court of Appeal in order to discharge a decision of VCAC, also an application to stop prosecution of this decision until the case will be investigated. KTE agreed to refuse the appeal in Vilnius Commercial Arbitration Court case No 203, and with no further litigation to pay to Company a fine in amount of a little bit more than LTL 7 million, adjudged from KTE in this case. On 11 April, 2013 the Company and KTE signed the internecine indebtedness harmonization act regarding inclusion of sums adjudged (LTL 8,164 thousand).

As of 31 December, 2012 the accrual for the sum of claims was not made in financial statements of the Group and the Company, because the income from fines and penalties is shown in those statements only when it is paid-in.

On 15 April, 2013 the Company applied to Vilnius Regional Court with the claim "Due to the defendant's UAB GEKO Kaunas claim to recalculate AB Kauno Energija heat purchase prices of November and December 2012 according to comparative expenditures of heat production". A session in this case is appointed on 22 November 2013.

On 17 April, 2013 the Company got a message from Vilnius Court of Commercial Arbitration (hereinafter – Arbitration) saying that KTE claim to the Company regarding LTL 1,340 thousand has been received in Arbitration on 12 April, 2013. According to KTE allegation, the debt formed due to the Company's lower neither it was determined by KTE payment for heat amount in December 2012 and January 2013. Considering Company's comparative expenditures of heat production and following provision of chapter 10 of the Law on Heat Sector of the Republic of Lithuania, that in all occasions the heat, purchased from independent heat producers cannot be more expensive than heat supplier's comparative expenditures of heat production, the Company purchased heat from KTE following provision of the law. On 17 May, 2013 the Company placed an objection to the Court regarding the claim. Session in this case is not assigned.

On September 2013 the Company has been incorporated as a third party in the civil case under claimant's UAB KTE claim to defendant BAB Ūkio Bankas regarding the termination of factoring contract and regarding the recognizing as a property of UAB KTE a sum of LTL 3,063 thousand, which were transferred by the Company when implementing its liability and which are now on hand of notary deposit account. A session in this case is still not appointed.

On September 2013 a preliminary court decision under the specified claim of claimant BAB Ūkio Bankas to the Company regarding adjudgement of debt in amount of LTL 3,063 thousand, penalty, process interest and litigation expenses was delivered to the Company. The Company placed an objection to the Court regarding this preliminary decision and regarding rejection of specified claim of claimant BAB Ūkio Bankas. A session in this case is still not appointed.

Leasing and construction work purchase arrangements

On 18 March, 2010 The Company entered into the lease arrangements with KTE for the real estate. Under this lease arrangement the Company leases to KTE the boiler with technological pipelines for heat production, located in Petrašiūnai power plant territory. The term of lease is 5 years.

On 20 December, 2010 the Company entered into the lease arrangements with UAB ENG for the real estate. Under this lease arrangement the Company leases to UAB ENG Garliava boiler-house for building of heat production equipment. The Company undertakes obligations to procure heat produced in this equipment. The term of lease is 20 years.

Future liabilities of Group and the Company under valid purchase arrangements as of 30 September 2013 amounted to LTL 93,702 thousand.

25. Related parties transactions

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

In 2013 and 2012 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

In 2013 and 2012 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and amounts of receivables from and liabilities to them at the end of the year were as follows:

2013	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	2,024	34,903	14,453	751
Jurbarkas city municipality	-	1,867	133	-
2012	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,351	41,896	20,312	440
Jurbarkas city municipality	4	2,947	427	1

The Group's and the Company's as of 30 September 2013 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 10,442 thousand (As of 31 December 2012 – LTL 10,905 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

In 2013 and 2012 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

Pastatų Priežiūros Paslaugos UAB	Purchases	Sales	Receivables	Payables
2013	636		65	-
2012	1,204		87	-
				60
				143

Kauno Energija NT UAB	Purchases	Sales	Receivables	Payables
2013	1		-	92
				-

As of 30 September, 2013 the Company has formed an LTL 383 thousand (as of 31 December 2012 - LTL 314 thousand) of common postponements for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 30 September 2013 the Group's and the Company's management team comprised 7 and 4 persons respectively (as at 31 December 2012 – 6 and 4).

	Group		Company	
	2013	2012	2013	2012
Key management remuneration	337	528	298	417

	Group		Company	
	As of 30 September 2013	As of 31 December 2012	As of 30 September 2013	As of 31 December 2012
Calculated post-employment benefits	97	97	90	90

In 3 quarters of the year 2013 and 2012 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

26. Post balance sheet events

On 2 October 2013 the Minister of the Economy of the Republic of Lithuania approved by his decision No 4-871 a financial EU Structural Funds support for three biofuel projects of AB Kauno Energija: for reconstruction of boilers of Petrašiūnai power-plant, as well as of "Šilkas" and "Inkaras" boiler-houses, changing used fuel to bio-fuel. The sum of EU Structural Funds financial support is LTL 15.99 million.

The Company also plans to reconstruct its owned heat supply mains of integrated network 1Ž, 3Ž and 4Ž. The total prospective value of the projects is LTL 8,043 million. On 4 October 2013 the Company placed three applications to LBSA reaching to get partial financing from EU Structural Funds for the projects "Reconstruction of Kaunas city main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12 in Chemijos str.", "Reconstruction of Kaunas city main 3Ž between heat cameras 3Ž-9 and 3Ž-9-5 in A. Baranausko str." and "Reconstruction of Kaunas city main 4Ž between heat cameras 4Ž-10 and 4Ž-15 in Taikos str.". The total sum asked is LTL 3,868 million. Financing for these projects is asked under the measure "Modernization and Development of Heat Supply System" of the Operational Programme for Economic Growth for 2007–2013.

On 11 October 2013 the Minister of the Economy of the Republic of Lithuania approved by his decision No 4-914 a financial EU Structural Funds support for modernisation of mains 5T and 6Ž. The sum of EU Structural Funds financial support is LTL 2.739 million.
