



AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS
FOR THE FIRST HALF 2016,
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING
STANDARDS,
AS ADOPTED BY THE EUROPEAN UNION

Confirmation of the persons responsible for the shareholders of the AB Kauno Energija and the Bank of Lithuania

Following the provisions of article 22 of the Law on Securities Market of the Republic of Lithuania and the Regulations of Preparation and Presentation of Periodical and Additional Information, approved by the Board of the Bank of Lithuania, we – General Manager of AB Kauno Energija Rimantas Bakas and Chief Accountant Violeta Staškūnienė hereby approve, that according to our knowledge the AB Kauno Energija interim financial report of the first half of the year 2016 is prepared according to the International Financial Reporting Standards, generally accredited for use in European Union, and satisfies actuality and correctly indicate assets, liabilities, financial state, profit (loss) and cash flows.

General Manager



Rimantas Bakas

Chief Accountant



Violeta Staškūnienė

Statements of Financial Position

		Group		Company	
	Notes	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
ASSETS					
Non-current assets					
Intangible assets	3	116	116	116	116
Property, plant and equipment	4				
Land and buildings		8,010	8,175	7,676	7,832
Structures		83,772	84,833	83,772	84,833
Machinery and equipment		22,944	24,469	22,944	24,472
Vehicles		358	383	358	410
Devices and tools		3,094	2,790	3,092	2,790
Construction in progress and prepayments		1,139	304	1,139	304
Total property, plant and equipment		119,317	120,954	118,981	120,641
Non-current financial assets					
Investments into subsidiary	1	-	-	923	1,074
Non-current accounts receivable	5	1	1	1	1
Other financial assets	6	1	1	1	1
Total non-current financial assets		2	2	925	1,076
Total non-current assets		119,435	121,072	120,022	121,833
Current assets					
Inventories and prepayments					
Inventories	7	366	289	366	285
Prepayments		603	716	603	716
Total inventories and prepayments		969	1,005	969	1,001
Current accounts receivable	8				
Trade receivables	23;25	3,174	8,975	3,174	8,975
Other receivables		627	859	606	846
Total accounts receivable		3,801	9,834	3,780	9,821
Cash and cash equivalents	9;23	8,268	2,531	8,263	2,518
Total current assets		13,038	13,370	13,012	13,340
Total assets		132,473	134,442	133,034	135,173

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Statements of Financial Position (cont'd)

		Group		Company	
	Notes	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
EQUITY AND LIABILITIES					
Equity					
Share capital	1	74,476	74,476	74,476	74,476
Legal reserve	10	2,922	2,695	2,922	2,695
Other reserve	10	2,977	713	2,977	713
Retained earnings (deficit)					
Profit for the current year	1	7,185	4,509	7,017	4,528
Profit (loss) for the prior year	1	(313)	(533)	239	-
Total retained earnings (deficit)		6,872	3,976	7,256	4,528
Total equity		87,247	81,860	87,631	82,412
Liabilities					
Non-current liabilities					
Non-current borrowings	11;23	19,521	19,481	19,521	19,481
Financial lease obligations	12;23	35	35	35	35
Deferred tax liability	21	3,503	3,503	3,695	3,695
Grants (deferred income)	13	16,247	16,761	16,247	16,761
Employee benefit liability	14;25	585	585	585	585
Other non-current liabilities	23	-	-	-	-
Non-current trade liabilities	23	28	26	28	26
Total non-current liabilities		39,919	40,391	40,111	40,583
Current liabilities					
Current portion of non-current borrowings and financial lease	11;12;23	1,415	2,436	1,415	2,436
Current borrowings	11;23	-	-	-	-
Trade payables	23	2,055	7,778	2,053	7,777
Payroll-related liabilities		783	604	776	601
Advances received		381	499	381	499
Taxes payable		59	282	59	280
Liabilities payable for companies of the Group	25	-	-	-	-
Current portion of employee benefit liability	14	248	306	248	306
Other current liabilities		366	286	360	279
Total current liabilities		5,307	12,191	5,292	12,178
Total liabilities		45,226	52,582	45,403	52,761
Total equity and liabilities		132,473	134,442	133,034	135,173

(the end)

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

General Manager Rimantas Bakas

22 July 2016

Chief Accountant Violeta Staškūnienė

22 July 2016

Statements of Profit (loss) and other comprehensive income

Group	Notes	2016 II quarter	2016 I half	2015 II quarter	2015 I half
Operating revenue					
Sales income	16	5,794	36,184	7,741	37,468
Other operating income	18	107	2,070	144	303
Total income		5,901	38,254	7,885	37,771
Expenses					
Fuel and heat acquired		(3,561)	(20,709)	(4,067)	(22,956)
Salaries and social security		(1,924)	(3,537)	(1,610)	(3,187)
Depreciation and amortisation	3;4	(1,518)	(3,044)	(1,480)	(2,813)
Repairs and maintenance		(181)	(257)	(224)	(373)
Write-offs and change in allowance for accounts receivable	5;8	715	286	1,116	28
Taxes other than income tax		(347)	(722)	(332)	(671)
Electricity		(270)	(624)	(278)	(594)
Raw materials and consumables		(156)	(300)	(168)	(283)
Maintenance of heating and hot water systems		-	-	-	-
Water		(202)	(415)	(195)	(407)
Change in write-down to net realisable value of inventories and non-current assets	7	26	33	12	22
Other expenses	17	(586)	(1,462)	(588)	(1,256)
Other activities expenses	18	(38)	(156)	(137)	(230)
Total expenses		(8,042)	(30,907)	(7,951)	(32,720)
Operating profit (losses)		(2,141)	7,347	(66)	5,051
These investments of the parent, subsidiaries and associated companies' shares income	19	-	-	-	-
Other long-term investments and loan income	19	-	-	-	-
Other interest and similar income	19	67	114	68	133
Financial assets and short-term investments impairment	20	-	-	-	-
Interest and other similar expenses	20	(136)	(276)	(171)	(411)
Finance cost, net		(69)	(162)	(103)	(278)
Profit before income tax		(2,210)	7,185	(169)	4,773
Income tax	21	-	-	-	-
Net profit		(2,210)	7,185	(169)	4,773
Basic and diluted earnings per share (EUR)	22	(0.05)	0.17	0.00	0.11

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

General Manager

Rimantas Bakas

22 July 2016

Chief Accountant

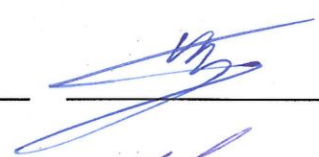
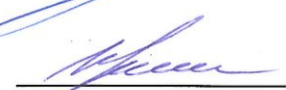
Violeta Staškūnienė

22 July 2016

Statements of Profit (loss) and other comprehensive income

Company	Notes	2016 II quarter	2016 I half	2015 II quarter	2015 I half
Operating revenue					
Sales income	16	5,795	36,189	7,741	37,473
Other operating income	18	82	2,016	127	266
Total income		5,877	38,205	7,868	37,739
Expenses					
Fuel and heat acquired		(3,561)	(20,709)	(4,067)	(22,956)
Salaries and social security		(1,924)	(3,537)	(1,610)	(3,187)
Depreciation and amortisation	3;4	(1,524)	(3,050)	(1,480)	(2,813)
Repairs and maintenance		(181)	(257)	(224)	(373)
Write-offs and change in allowance for accounts receivable	5;8	725	298	1,120	35
Taxes other than income tax		(347)	(722)	(332)	(671)
Electricity		(270)	(624)	(278)	(594)
Raw materials and consumables		(156)	(300)	(168)	(283)
Maintenance of heating and hot water systems		-	-	-	-
Water		(202)	(415)	(195)	(407)
Change in write-down to net realisable value of inventories and non-current assets	7	26	33	12	22
Other expenses	17	(586)	(1,462)	(588)	(1,256)
Other activities expenses	18	(43)	(130)	(122)	(197)
Total expenses		(8,043)	(30,875)	(7,932)	(32,680)
Operating profit (losses)		(2,166)	7,330	(64)	5,059
These investments of the parent, subsidiaries and associated companies' shares income	19	-	-	-	-
Other long-term investments and loan income	19	-	-	-	-
Other interest and similar income	19	67	114	68	133
Financial assets and short-term investments Impairment	20	(151)	(151)	-	-
Interest and other similar expenses	20	(136)	(276)	(171)	(411)
Finance cost, net		(220)	(313)	(103)	(278)
Profit before income tax		(2,386)	7,017	(167)	4,781
Income tax	21	-	-	-	-
Net profit		(2,386)	7,017	(167)	4,781
Basic and diluted earnings per share (EUR)	22	(0.06)	0.16	0.00	0.11


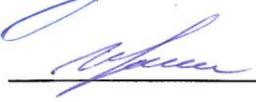
The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		22 July 2016
Chief Accountant	Violeta Staškūnienė		22 July 2016

Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2014		74,378	2,082	521	401	77,382
Total comprehensive income		98	-	-	4,773	4,871
Transferred to reserves	10	-	613	713	(1,326)	-
Transferred from reserves	10	-	-	(521)	521	-
Dividends	1	-	-	-	(129)	(129)
Balance as of 30 June 2015		74,476	2,695	713	4,240	82,124
Total comprehensive income		-	-	-	(264)	(264)
Balance as of 31 December 2015		74,476	2,695	713	3,976	81,860
Total comprehensive income		-	-	-	7,185	7,185
Transferred to reserves	10	-	227	2,977	(3,204)	-
Transferred from reserves	10	-	-	(713)	713	-
Dividends	1	-	-	-	(1,798)	(1,798)
Balance as of 30 June 2016		74,476	2,922	2,977	6,872	87,247

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

General Manager	Rimantas Bakas		22 July 2016
Chief Accountant	Violeta Staškūnienė		22 July 2016

Statement of Changes in Equity

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2014		74,378	2,082	521	934	77,915
Total comprehensive income		98	-	-	4,781	4,879
Transferred to reserves	10	-	613	713	(1,326)	-
Transferred from reserves	10	-	-	(521)	521	-
Dividends	1	-	-	-	(129)	(129)
Balance as of 30 June 2015		74,476	2,695	713	4,781	82,665
Total comprehensive income		-	-	-	(253)	(253)
Balance as of 31 December 2015		74,476	2,695	713	4,528	82,412
Total comprehensive income		-	-	-	7,017	7,017
Transferred to reserves	10	-	227	2,977	(3,204)	-
Transferred from reserves	10	-	-	(713)	713	-
Dividends	1	-	-	-	(1,798)	(1,798)
Balance as of 30 June 2016		74,476	2,922	2,977	7,256	87,631

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

General Manager

Rimantas Bakas

22 July 2016

Chief Accountant

Violeta Staškūnienė

22 July 2016

Statements of Cash Flows



	Group		Company	
	I half 2016	I half 2015	I half 2016	I half 2015
Cash flows from (to) operating activities				
Net profit	7,185	4,773	7,017	4,781
Adjustments for non-cash items:				
Depreciation and amortisation	3,728	3,357	3,749	3,348
Write-offs and change in allowance for accounts receivable	(282)	(23)	(295)	(30)
Interest expenses	276	285	276	285
Change in fair value of derivatives	-	-	-	-
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	-	29	-	29
(Amortisation) of grants (deferred income)	(522)	(355)	(522)	(355)
Change in write-down to net realisable value of inventories and non-current assets	(33)	32	(33)	32
Change employee benefit liability	-	-	-	-
Calculation of the value of shares	-	98	-	98
Income tax expenses	-	-	-	-
Change in accruals	27	-	27	-
Impairment of investment in subsidiary	-	-	151	-
Elimination of other financial and investing activity results	(114)	(105)	(114)	(105)
Total adjustments for non-cash items:	3,080	3,318	3,239	3,302
Changes in working capital:				
(Increase) in inventories	(61)	(61)	(65)	(62)
(Increase) decrease in prepayments	113	13	113	17
(Increase) decrease in trade receivables	6,067	11,294	6,076	11,296
(Increase) in other receivables	256	5,151	268	5,155
(Decrease) increase in other non-current liabilities	2	5	2	5
Increase in current trade payables and advances received	(5,841)	(15,873)	(5,842)	(15,873)
(Decrease) increase in payroll-related liabilities	121	119	117	118
Increase (decrease) in other liabilities to budget	(223)	29	(221)	26
Increase (decrease) in other current liabilities	(47)	(226)	(46)	(225)
Total changes in working capital:	387	451	402	457
Net cash flows from operating activities	10,652	8,542	10,658	8,540

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	Group		Company	
	I half 2016	I half 2015	I half 2016	I half 2015
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(2,073)	(2,711)	(2,071)	(2,711)
Proceeds from sale of tangible assets	2	55	2	55
Interest received for overdue accounts receivable	114	133	114	133
Penalties received	-	-	-	-
Decrease of non-current accounts receivable	-	6	-	6
Interest received	-	-	-	-
Net cash (used in) investing activities	(1,957)	(2,517)	(1,955)	(2,517)
Cash flows from (to) financing activities				
Proceeds from loans	42	4,631	42	4,631
(Repayment) of loans	(1,033)	(10,729)	(1,033)	(10,729)
Interest (paid)	(151)	(225)	(151)	(225)
Financial lease (payments)	(19)	(44)	(19)	(44)
Penalties and fines (paid)	-	(28)	-	(28)
Shareholder (contributions) to a subsidiary	-	-	-	-
Dividends (paid)	(1,797)	(128)	(1,797)	(128)
Received grants	-	1,892	-	1,892
Net cash flows from (used in) financing activities	(2,958)	(4,631)	(2,958)	(4,631)
Net (decrease) increase in cash and cash equivalents	5,737	1,394	5,745	1,392
Cash and cash equivalents at the beginning of the period	2,531	389	2,518	384
Cash and cash equivalents at the end of the period	8,268	1,783	8,263	1,776

(the end)

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

General Manager	Rimantas Bakas		22 July 2016
Chief Accountant	Violeta Staškūnienė		22 July 2016

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 AB Nasdaq Vilnius.

As of 30 June 2016 and of 31 December 2015 the shareholders of the Company were as follows:

	As of 30 June 2016		As of 31 December 2015	
	Number of shares owned (unit)	Percentage of ownership (per cent)	Number of shares owned (unit)	Percentage of ownership (per cent)
Kaunas city municipality	39,736,058	92.84	39,736,058	92.84
Kaunas district municipality	1,606,168	3.75	1,606,168	3.75
Jurbarkas district municipality	746,405	1.74	746,405	1.74
Other minor shareholders	713,512	1.67	713,512	1.67
	42,802,143	100.00	42,802,143	100.00

All the shares are ordinary shares. The Company did not hold its own shares.

According to the Law on the Euro Adoption in the Republic of Lithuania No XII-828 of 17 April 2014 that determines order of adoption of Euro in Lithuania starting from 1 January 2015, the value of one Company's share has been recalculated to 1.74 Euro (on 31 December 2014 it was 1.73772 Euro). Result of recalculation of value of the share is EUR 98 thousand and it is reflected in Expenses of financial and investing activities of Group's and Company's Statements of Profit (loss) and other comprehensive income. Company's Statutes are newly registered on 18 May 2015.

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 EUR 1.73772 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 EUR 39,446 thousand which was established by the independent property valuers 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 EUR 197 thousand (from EUR 74,059 thousand to EUR 74,256 thousand) issuing 113,595 ordinary shares with the par value EUR 1.73772 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 valuers under the replacement cost method.

It was decided at the Company's Extraordinary meeting of shareholders held on 6 January 2014 to increase Company's authorised capital with EUR 122 thousand from EUR 74,256 thousand to EUR 74,378 thousand by issuing 70,166 ordinary shares at a nominal value of EUR 1.73772, whose emission price is equal to nominal value of the share, enabling Kaunas city municipality to purchase those shares, seeking that Kaunas city municipality would dispose its own heat supply pipeline – heat network, situated in Karaliaus Mindaugo av. 50, Kaunas. A newly issued Company's Statutes were registered on 20 March 2014 after increase of authorised capital.

All shares were fully paid as of 30 June 2016 and as of 31 December 2015.

On 28 April 2016 the Annual General Meeting of Shareholders has made a decision to pay EUR 1.798 thousand, i.e. at 4.2 cents a share in dividends and EUR 32 thousand tantiemes for the members of the Company's board from the profit of the year 2015. Annual payments are accounted in salaries and social security line of Statements of Profit (loss) and other comprehensive income.

On 28 April 2015 the Annual General Meeting of Shareholders has made a decision to pay EUR 129 thousand, i.e. at 0.3 cents a share in dividends.

The unpaid part of dividends amounting to EUR 4 thousand as of 30 June 2016 (31 December 2015 – EUR 4 thousand) is accounted for in other current liabilities.

The Group and the Company are also involved in maintenance of heating systems.

As of 30 June 2016 the Group consists of the Company and the subsidiary 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	Profit (loss) for the year	Total equity	Main activities
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 per cent	1,330	(407)	(34)	1,243	Rent

Accumulated impairment loss of investment in subsidiary amounted to EUR 407 thousand as of 30 June, 2016 (as of 31 December, 2015 – EUR 256 thousand) and they were accounted in article of financial activity expenses of Company's profit or loss.

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. Starting from 1 November, 2011 the change in Heating Law came in to force. 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. Starting from 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.

In 2016 the average number of employees at the Group was 531 (543 employees in 2015). In 2016 the average number of employees at the Company was 527 (540 employees in 2015).

Operational Activity

Company's generation capacities include Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 regional boiler-house in Jurbarkas city, 13 boiler-houses

in isolated networks and 28 local gas burned boiler-house in Kaunas city and 8 water heating boiler-houses in Sargėnai catchment.

Total installed heat generation capacities amount to 551.379 MW (including 37.5 MW of condensing economizers). Electricity generation capacities amount up to 8.75 MW. 294.8 MW of heat generation capacities (including 16 MW condensing economizer) and 8 MW of electricity generation capacities are located in Petrašiūnai power plant. 29.8 MW of heat generation capacities (including 2.8 MW condensing economizer) are located in Jurbarkas city. Total Company's power generation capacities amount to 560.129 MW (including 37.5 MW of condensing economizers).

By selling a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) the Company committed in Heat purchase contract of 31 March 2003 to purchase at least 80 per cent of the annual heat demand of Kaunas integrated heating network. 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 the 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 Heat Energy Purchase agreement, i. e. until the 30th of March, 2018 it will own the main block of shares and adequate (not less than 51 per cent) 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 the 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 Energy Purchase 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 2012 came into force since that date. Following changes of Heat Energy Purchase 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 EUR 101 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 EUR 3 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 per cent 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 Change of Investments Agreement of 13 August, 2012 by this claim regarding investments in Company heat economy in amount of EUR 3 million and the terms of implementation as well as forfeit (penalties) determined if those investments would not be implemented. According 19th February, 2014 Arbitration decision Company and KTE began negotiations for a peaceful settlement of investment dispute, however on 26th May Company has informed Arbitration court that compromise has not been reached. KTE specified it's claim requisitions in the case, by which alternatively asks Arbitration court to terminate Investment agreement. Arbitration court conjoined this case with the case in which the Company placed a claim seeking that KTE would pay to the Company EUR 0.94 million for inappropriate implementation of its obligations to finance in the years 2012 – 2013 Company's investments according to 31 March 2003 Investment agreement changes, signed on 13 August 2012 and 28 September 2012. The case is still pending and a decision is not taken. As KTE continuously did not implement its obligations, the Company applied to Arbitration on 30 January 2015 with specified requirements to adjudge in addition EUR 652 thousand for non financed Company's investments of the year 2014. Total requirements – EUR 1,593 thousand. On 30 April 2015 KTE offered in written the renewal of negotiations regarding peaceful settlement of the case and the Arbitration continued investigation of the case. Both sides agreed project of peaceful agreement in pursuance of negotiations, considering negotiable guidelines, determined on 11 June, 2015 during the meeting in Kaunas city municipality, in which the Mayor of Kaunas city municipality and Director of Administration took part. On 9 October, 2015 Company's Board decided to approve project of

peaceful agreement with KTE regarding termination of Investment agreement of 31 March, 2003 and dismissal of litigation in court. Kaunas City Municipality Council approved by the decision No T-568 of 20 October, 2015 the essential terms of peaceful agreement and dismissal of litigation in court. On 17 December 2015 the Extraordinary General Meeting of Shareholders approved the project of peaceful agreement with KTE. On 28 December 2015 the Company and KTE signed a peaceful agreement. On 4 January 2016 the Company placed the peaceful agreement with KTE for Arbitration approval. Arbitration approved on 29 January 2016 a peaceful agreement concluded between the Company and KTE on 23 December 2015 by which a litigation in case No. 268 regarding noncompliance of Investment agreement of 31 March 2003 was terminated. The litigation continued since April 2013. Following essential terms of peaceful agreement:

- Investment agreement between both sides is being terminated.
- KTE obliges to pay compensation for the Company in amount of EUR 2,317 thousand following this order: KTE immediately acknowledges sum in amount of EUR 1,593 thousand suspended by the Company as a part of the compensation paid by KTE and resigns any claims and the remaining amount EUR 724 thousand KTE obliges to pay to the Company in equal parts yearly until 28 February 2018. First contribution must be paid until 28 February 2016.
- KTE disposes part of Kaunas critical centralized heat supplies infrastructure to the Company for proprietorship as a non-financial compensation, i.e. immovable property (manifolds building and coherent pipelines) as well as part of technological circuit equipment, necessary to the Company (hereinafter together – the Assets).
- The Company leases technological circuit equipment taken from KTE for KTE for the 25 years period, manifolds building – for 15 years period and subleases land for the 15 year period holding the right for bargain regarding additional term until KTE performs its activity and remains able to pay.
- KTE obliges to make certain a proper maintenance and upkeep of the Assets as well as a proper functioning of the whole centralized heat supplies system in so far as it is coherent to the Assets, and the Company holds the right for modernization of manifolds building and other assets taken at the discretion of its own and at its own expenses, not changing their functionality.
- The Company gains the lease right to the part of land plot, coherent with the Assets taken and (or earlier if KTE will not continue cogeneration activities, or later if the sides will agree regarding additional term of lease of manifolds building and of sublease of the land plot) is able to develop this land plot at the discretion of its own according to the legislation after 15 years period.

Strategic Decisions

In the year 2012 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).

On 8 September, 2015 the Kaunas city council approved corrected Company's investment plan for the years 2012 – 2015, according to which investments in amount of EUR 92.08 million were intended to invest in Company's assets during the period of the years 2012 – 2015. The Company invested EUR 4,981 thousand in the own assets during the year 2015. EUR 46.46 million were invested during the 2012 – 2015 years period in total.

On 24 May, 2016 the Kaunas city council approved corrected Company's investment plan for the year 2016, according to which investments in amount of EUR 44.536 million were intended to invest in Company's assets during the years 2016. The Company invested EUR 2,074 thousand in the own assets during the year 2016.

On April 2015 the Company accomplished the project of reconstruction of Petrašiūnai power-plant performing the installation of two biofuel water heating boilers at capacity of 12 MW each and combined condensational economizer at capacity of 6 MW. Total value of the project with the support from LBSA (EUR 1.52 million) is EUR 6.30 million. 191 GWh of heat energy were produced with this new equipment in the year 2015.

On April 2015 the Company accomplished the second stage of reconstruction of Šilkas boiler-house where the new biofuel burned 8 MW capacity water heating boiler and 4 MW capacity condensational economizer, common for boilers No. 5 and No. 6, were installed instead of old 9 MW capacity water heating boiler DKVR 10-13 No 5. The total value of the project with the support from LBSA (EUR 1.15 million) is EUR 2.33 million.

On 10 December 2015 a new biofuel burned 9 MW capacity boiler was installed in Company's Šilkas boiler-house instead of DKVR type boiler No. 6. It was connected to the biofuel burned furnace, built in the year 2013. New boiler will be 10 per cent more effective than the old one. Ministry of Environment of the Republic of Lithuania assigned support in amount of EUR 141 thousand from Lithuanian Environmental Investment Fund for the project of replacement of biofuel burned boiler No. 6. Total value of the project is EUR 691 thousand. Šilkas boiler-house produced 76 GWh of heat energy in the year 2015.

In March 2016 the Company started the project of installation of gas burned 15 MW capacity boiler No 2 together with 1,5 MW capacity condensational economizer. Total value of the project amounts to EUR 659 thousand. This new installed equipment will increase reliability of heat production and supply and also decrease Company's comparable production expenditures and price of heat for consumers.

Performing replacement of used fuel to biofuel the Company accomplished on April 2015 a reconstruction project of Inkaras boiler-house installing here two biofuel burned water heating boilers at capacity of 8 MW each along with furnaces and combined condensational economizer at capacity of 4 MW. Total value of the project with the support from LBSA (EUR 1.74 million) is EUR 5.71 million. 140 GWh of heat energy were produced in Inkaras boiler-house in the year 2015.

National Commission for Energy Control and Prices (hereinafter – Commission) approved on 29 September 2015 corrected Company's Investment Plan. In accordance to this Plan the Company plans to install a 5 MW capacity biofuel burned water heating boiler together with 1 MW capacity condensational economizer for more than EUR 2.1 million in Jurbarkas boiler-house. Technical project for EUR 54 thousand is already prepared and agreed. This project will be implemented in several stages and it is planned to accomplish in the years 2017 – 2018. Accomplishment of first stage of the project, i.e. instalment of 5 MW heat capacity biofuel burned boiler together with pertinent is planned on IV quarter of the year 2016. The heat will be generated using biofuel will amount up to 60 % in total fuel balance after the reconstruction. It is planned that approximately 34 GWh of heat energy will be produced in Jurbarkas boiler-house per year.

A reconstruction of nine heat supplies pipelines in Kaunas city is being planned in 2016 – 2018 according to Investment Plan agreed with Commission as well. Heat energy supplies to consumers will be more reliable and qualitative after the reconstruction of these pipelines; new possibilities of connecting new consumers to centralized heat supplies network will be created. A total of EUR 21 million are being planned for these purposes. A part of necessary funds are being anticipated from European Union Structural Funds.

The Company renewed a total of 3 km of own main pipelines of integrated network using its own funds in 2015.

On 1 September 2015 the Company, Kaunas city municipality and UAB Litesko signed a triangular agreement on acquisition of Sargėnai heat economy. UAB Litesko sold to the Company 8 completely automated gas burned water heating boiler-houses, installed in the year 1998, located in Sargėnai catchment according to this agreement. Total power capacity of these boiler-houses is 3.484 MW. They serve to 14 houses and an average of 4.40 GWh of heat is being produced in them per year. Starting from 1 October 2015 the Company started to perform a heat and hot water supplies activity in Sargėnai following the legislation.

On 5 October 2015 the Company concluded a heat supplies agreement for a three years period after winning a public tender for heat supplies of Kaunas Clinical Hospital. The Company started heat supplies for this – one of the biggest consumers in the city on 30 December 2015. The Company plans to supply approximately a 5 GWh of heat energy for this consumer per year.

The Company produced a total of 522 GWh of heat energy with its own production capacities during the year 2015 (426 GWh were produced using biofuel). This is a 80 per cent more than in the year 2014 respectively (292 GWh (80 GWh of them were produced using biofuel)). Usage of biofuel had a significant influence in the heat price reduction for heat and hot water consumers.

In the year 2015 the common index of Company's fuel usage was approx. 82 kgne/MWh, i.e. at 8 per cent lower than in the year 2014 and at more than 10 per cent lower than as compared to the index used in a base heat price accounting.

Company's annual technological heat losses in centralized heat supplies network in the year 2015 were 221 GWh, i.e. at 10 per cent lower than in the year 2014 and at more than 20 per cent lower as compared to the index used in a base heat price accounting.

Company's annual water consumption for technological purposes in the year 2015 was 177 thousand tons, i.e. at 30.5 per cent lower than in the year 2014 and at more than 65 per cent lower as compared to the index used in a base heat price accounting.

Intensity of biofuel burned water heating boiler-houses, installed in the year 2015 reached more, than 90 per cent.

On March 2015 after UAB Ekopartneris biofuel burned boiler house with total capacity of 17.5 MW was connected to Company's heat supply network the total maximum capacity of biofuel burned boiler houses of all independent heat producers (hereinafter – IHP) amounts to 153 MW. In total AB Kauno Energija purchases heat from nine IHP (eight of them sell heat, produced using biofuel).

The Company has applications from 11 potential IHP at the moment (with total capacity of approximately 500 MW) for connection of their equipment to Company's integrated heat supply network. Together with coming of IHP, new issues arose, such as network management and balancing of IHP capacities in the case of emergency stop, maintaining of optimum working parameters, regulation of order of heat purchase from IHP and its vicissitude and appliance.

Company's implemented projects, effective and rational development of production sources as well as the competition between heat producers made an impact on decrease of heat price for consumers. Heat price for consumers in December 2015 decreased by 22.4 per cent as compared to the heat price in December 2014.

On 2 October 2015 the Extraordinary General Meeting of Shareholders of AB Kauno Energija made the decision to purchase Palemonas settlement heat economy, which is situated in the territory of Kaunas city municipality for the price, bargained with UAB Fortum Heat Lietuva and the other terms of acquisition and to accomplish procedures of acquisition of Palemonas settlement heat economy, after the additional approval from the main shareholder of AB Kauno Energija – Director of Kaunas City Municipality Administration will be obtained.

UAB Fortum Heat Lietuva identified in its official position, that co-financing from Lithuanian Business Support Agency (hereinafter – LBSA) for renovation of Palemonas heat economy has been used and it would be necessary to return a part of co-financing if the economy is disposed to other proprietor less, than 5 years after allocation of co-financing. Company's management bodies received on 13 January 2016 an alternative offer of UAB Fortum Heat Lietuva regarding renewal of discussions regarding potential acquisition of Company's shares. The decision on this issue is still not made as at the date of the Statements.

On 23 June 2016 the Company signed an agreement with UAB E Energija regarding acquisition of 100 per cent of the shares of UAB Petrašiūnų Katilinė. The agreement became valid from 30 June 2016. The transaction will be considered as accomplished if the approval of General Meeting of Shareholders and the permission from The Competition Council of the Republic of Lithuania will be received.

The Company submitted to Lithuanian Business Support Agency 9 applications regarding European Union Structural Funds support for co-financing of reconstructions of heat supplies pipelines. The total sum requested is almost EUR 9.91 million. According to applications submitted and intended projects, the Company plans reconstructions of heat supply pipelines in Savanorių av., Jotvingių str., Šilainiai and Eiguliai neighbourhoods, G. Landsbergio – Žemkalnio str., Kalniečiai neighbourhood, Pramonės av., city centre, P. Lukšio str. and Aukštieji Šančiai neighbourhood. The total value of the projects would consist of more, than EUR 20 million. If the support would be collected, a total of 9.7 km of heat supply pipelines would be reconstructed according to these projects. The support is being requested under the invitation 04.3.2-LVPA-K-102-01 of 4 priority "Promoting energy efficiency and production and use of renewable energy" of the measure "Modernization and development of heat supply networks" of the 2014–2020 Operational Programme for the European Union funds' investments.

2. Accounting principles

2.1. Adoption of new and/or amended IFRS

In the current year, the Group and the Company has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB as adopted by the EU that are relevant to the Company and the Group operations.

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, Euro (EUR) 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 1 January 2015 the local currency of the Republic of Lithuania is Euro, the rate of which in regard of other currencies is set daily by European Central Bank. Starting from 2002 till 31 December 2014 local currency was litas which was pegged to Euro at the rate of 3.4528 LTL for 1 Euro and the exchange rates in regard to other currencies was 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 Profit (loss) and other 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 per cent 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 IFRS). 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	15 – 50
Structures and machinery	5 – 70
Vehicles	4 – 10
Equipment and tools	4 – 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 EUR 144.81.

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 Profit (loss) and other 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 significantly 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 significantly 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 Profit (loss) and other 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 interest and similar 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 Profit (loss) and other 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.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2016 the income tax applied to the Group and the Company is 15 per cent (2015 – 15 per cent).

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary

differences can be utilized. Such deferred assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the period

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

2.21. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. 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.

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 Euro (EUR). All transactions made in foreign currency are converted into Euros at the official exchange rate determined daily by the European Central Bank. Financial assets and liabilities are converted into Euros at currency rate of creation day of statements of financial state. Gains and losses arising on exchange are included in profit or loss for the period at the moment of its appearance. Income or expenditures arising on exchange when converting financial assets or liabilities into euros are included in profit or loss.

The applicable rates used for principal currencies were as follows:

As of 30 June 2016			As of 31 December 2015		
1 EUR	=	1.1090 USD	1 EUR	=	1.09260 USD
1 EUR	=	0.8255 GBP	1 EUR	=	0.73799 GBP

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 valutors using depreciated replacement costs method amounted to EUR 39.446 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 valutors by using depreciated replacement costs method amounted to EUR 0.178 million. Building – boiler-house was sold in March 2015.

In 2014 a new shares issue was paid by contribution in-kind: i.e. networks system situated in Kaunas city. Market value of assets estimated upon their transfer by local qualified valutors by using depreciated replacement costs method amounted to EUR 0.122 million.

As of 30 June 2016 carrying value of total contribution in-kind amounted to EUR 35,901 thousand, including the manifolds, which amounted to EUR 35,648 thousand (31 December 2015: EUR 36,190 thousand and EUR 35,933 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 Profit (loss) and other comprehensive income.

As of 30 June 2016 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,236 thousand (as of 31 December 2015 – EUR 1,245 thousand) 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 June 2016 amounts to EUR 3,703 thousand and EUR 3,724 thousand, respectively (as of 31 December 2015 – EUR 6,238 thousand and EUR 6,221 thousand respectively). The amounts of EUR 3,182 thousand and EUR 3,203 thousand (as of 31 December 2015 – EUR 6,201 thousand and EUR 6,201 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statements of Profit (loss) and other comprehensive income. The remaining amounts were included into other activity expenses.

As of 30 June 2016 part of the property, plant and equipment of the Group with acquisition cost of EUR 44,337 thousand (EUR 42,036 thousand as of 31 December 2015) and the Company – EUR 44,290 thousand were fully depreciated (EUR 41,918 thousand as of 31 December 2015), but were still in active use.

As of 30 June 2016 and as of 31 December 2015 the major part of the Group's and Company's construction in progress consisted of reconstruction and overhaul works of boiler-houses equipment and heat supply networks.

As of 30 June 2016 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to EUR 4,309 thousand (as of 31 December 2015 – EUR 2,945 thousand).

As of 30 June 2016 property, plant and equipment of the Group and the Company with the net book value of EUR 40,756 thousand (EUR 57,556 thousand as of 31 December 2015) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal less than EUR 3 thousand in 2016 (in 2015 – EUR 9 thousand). The capitalization rate varied from 0.95 per cent to 1.05 per cent in 2016 (in 2015 – from 0.15 per cent to 4.51 per cent).

As of 30 June 2016 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 760 thousand in the category Equipment and tools (EUR 152 thousand as of 31 December 2015).

5. Non-current accounts receivable

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Long-term loans granted to the Company's employees	1	1	1	1

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 June 2016 and as of 31 December 2015 using 3.7 per cent interest rate. In 2015 effect of reversed discounting amounted to EUR 1 thousand (in 2014 – EUR 1 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 statements of Profit (loss) and other comprehensive income.

As of 30 June 2016 and as of 31 December 2015 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 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
<i>Available-for-sale financial assets</i>				
Fair value of shares	1	1	1	1

Financial assets held for sale consists of ordinary shares are unquoted. On 31 December 2015 the decrease of the value of other financial assets by EUR 27 thousand was determined. This decrease is included in Group's and Company's statements of Profit (loss) and other comprehensive income Financial assets and short-term investments Impairment article.

7. Inventories

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Technological fuel	1,063	1,078	1,063	1,078
Spare parts	438	385	438	385
Materials	506	483	506	479
	2,007	1,946	2,007	1,942
Less: write-down to net realisable value of inventory at the end of the period	(1,641)	(1,657)	(1,641)	(1,657)
Carrying amount of inventories	366	289	366	285

As of 30 June 2016 Group's and Company's amounted to EUR 1,641 thousand (as of 31 December 2015 – EUR 1,657 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2016 and for the year 2015 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statements of Profit (loss) and other comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Trade receivables, gross	15,318	21,385	15,357	21,433
Less: impairment of doubtful receivables	(12,144)	(12,410)	(12,183)	(12,458)
	3,174	8,975	3,174	8,975

Change in impairment of doubtful receivables in 2016 and 2015 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 Profit (loss) and other comprehensive income.

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

	Group	Company
Balance as of 31 December 2014	12,774	12,825
Additional allowance formed	(233)	(236)
Write-off	(131)	(131)
Balance as of 31 December 2015	12,410	12,458
Additional allowance formed	(266)	(275)
Write-off	-	-
Balance as of 30 June 2016	12,144	12,183

In 2015 the Group and the Company wrote off EUR 131 thousand and EUR 131 thousand of bad debts respectively. In 2016 the Group recovered EUR 4 thousand and the Company – EUR 3 thousand (in 2015 – EUR 9 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 June 2016 and 31 December 2015 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2016	1,288	577	777	273	53	206	3,174
2015	7,225	849	177	175	180	369	8,975

The ageing analysis of the Company's net value of trade receivables as of 30 June 2016 and 31 December 2015 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2016	1,288	577	777	273	53	206	3,174
2015	7,225	849	177	175	180	369	8,975

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 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Taxes	352	165	346	161
Other receivables	526	961	576	1,021
Less: value impairment of doubtful receivables	(251)	(267)	(316)	(336)
	627	859	606	846

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

	Group	Company
Balance as of 31 December 2014	173	251
Additional allowance formed	97	88
Write-off	(3)	(3)
Balance as of 31 December 2015	267	336
Additional allowance formed	(16)	(20)
Write-off	-	-
Balance as of 30 June 2016	251	316

As of 30 June 2016 and 31 December 2015 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 June 2016 and 31 December 2015 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	
2016	209	34	16	7	2	7	275
2015	335	170	17	6	3	163	694

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 30 June 2016 and 31 December 2015 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	
2016	194	34	16	7	2	7	260
2015	326	170	17	6	3	163	685

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 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Cash in transit	135	196	135	196
Cash at bank	8,127	2,328	8,122	2,315
Cash on hand	6	7	6	7
	<u>8,268</u>	<u>2,531</u>	<u>8,263</u>	<u>2,518</u>

The Group's and the Company's accounts in banks amounting to EUR 8,218 thousand as of 30 June 2016 (31 December 2015 – EUR 1,853 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 per cent of net profit calculated in accordance with IFRS are compulsory until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be distributed as dividends but can be used to cover any future losses.

On 28 April 2015 the Company annulled by the decision of shareholders other reserves (EUR 521 thousand), transferred EUR 613 thousand from retained earnings to legal reserve and EUR 713 thousand to other reserves. Reserves were formed for investments – EUR 413 thousand, for support – EUR 200 thousand and for maintenance of heat units – EUR 100 thousand.

On 28 April 2016 the Company annulled other reserves (EUR 713 thousand) by the decision of shareholders, transferred EUR 227 thousand from retained earnings to legal reserve and EUR 2,977 thousand to other reserves. The following reserves were formed: EUR 2,435 thousand – for repayment of long term loans, for

investments – EUR 472 thousand, EUR 50 thousand – for support and for maintenance of heat units – EUR 20 thousand.

11. Borrowings

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Non-current borrowings	19,491	19,481	19,491	19,481
Current portion of non-current borrowings (except leasing which) is disclosed in Note 12)	1,401	2,402	1,401	2,402
Current borrowings (including credit line)	-	-	-	-
Factoring with recourse agreement	-	-	-	-
Current borrowings	1,401	2,402	1,401	2,402
	20,892	21,883	20,892	21,883

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

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
2016	1,401	2,402	1,401	2,402
2017	2,234	2,223	2,234	2,223
2018	2,222	2,223	2,222	2,223
2019	2,223	2,223	2,223	2,223
2020	1,985	1,985	1,985	1,985
2021	1,373	1,373	1,373	1,373
2022	1,366	1,366	1,366	1,366
2023	674	674	674	674
2024	674	674	674	674
2025	674	674	674	674
2026	674	674	674	674
2027	674	674	674	674
2028	674	674	674	674
2029	674	674	674	674
2030	674	674	674	674
2031	674	674	674	674
2032	674	674	674	674
2033	674	674	674	674
2034	674	674	674	674
	20,892	21,883	20,892	21,883

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

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Current borrowings	0.00	0.00	0.00	0.00
Non-current borrowings	2.59	2.58	2.59	2.58

Balance of borrowings (except factoring) at the end of the term in thousands Euro according to borrowings currencies was as follows:

	Group		Company	
Currency of the loan:	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
EUR	20,892	21,883	20,892	21,883

Detailed information on loans as of 30 June 2016:

	Credit institution	Date of contract	Currency	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 30.06.2016 EUR thousand	A part of 2016, EUR thousand
1	AB SEB Bank	21/12/2006	EUR	2,059	2,059	30/11/2016	-	-
2	AB DNB Bank	14/11/2007	EUR	576	576	31/12/2016	36	36
3	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,684	-
4	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	693	-
5	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,651	87
6	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	533	67
7	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	814	102
8	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	1,067	126
9	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	31	3
10	MF Lithuania***	15/01/2014	EUR	793	793	01/12/2034	790	42
11	AB SEB Bank	31/03/2014	LTL	5,400	1,564	15/01/2021	1,180	130
12	MF Lithuania***	31/03/2014	EUR	7,881	7,881	01/12/2034	7,858	414
13	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	-	-
14	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	59	48
15	OP Corporate**	02/12/2015	EUR	4,842	4,842	02/12/2022	4,496	346
							20,892	1,401

* Nordea Bank Finland Plc. Lithuanian branch;

** OP Corporate Bank Plc Lithuanian branch;

*** Ministry of Finance of the Republic of Lithuania.

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 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Within one year	-	-	-	-
From one to five years	50	70	50	70
Total financial lease obligations	50	70	50	70
Interest	(1)	(2)	(1)	(2)
Present value of financial lease obligations	49	68	49	68
Financial lease obligations are accounted for as:				
- current	14	34	14	34
- non-current	35	34	35	34

13. Grants (deferred income)

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Balance at the beginning of the reporting period	16,761	13,764	16,761	13,764
Received during the year	8	3,863	8	3,863
Amortisation	(522)	(866)	(522)	(866)
Balance at the end of the reporting period	16,247	16,761	16,247	16,761

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 EUR 1,738 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 1,692 thousand by 30 June 2016. The project is accomplished.

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 EUR 1,735 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 1,279 thousand by 30 June 2016. The project is accomplished.

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 EUR 676 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 500 thousand by 30 June 2016. The project is accomplished.

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 EUR 454 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2016 financing in amount of EUR 413 thousand has been received. The project is accomplished.

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 EUR 807 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2016 financing in amount of EUR 731 thousand has been received. The project is accomplished.

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 EUR 452 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2016 financial support in amount of EUR 431 thousand has been received. The project is accomplished.

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 EUR 469 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2016 financial support in amount of EUR 469 thousand has been received. The project is accomplished.

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 EUR 172 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2016 financial support in amount of EUR 172 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project “The modernisation of Pramone 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 EUR 579 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2016 financing in amount of EUR 579 thousand has been received. The project is accomplished.

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 EUR 519 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 June 2016 the Company has got a financial support in amount of EUR 517 thousand, EUR 71 thousand are accounted in Group's and Company's other receivables line. The project is accomplished.

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 EUR 666 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 June 2016 the Company has got a financial support in amount of EUR 664 thousand, EUR 84 thousand are accounted in Group's and Company's other receivables line. The project is accomplished.

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 EUR 185 thousand is provided for the Company from Lithuanian Environmental Investment Fund after the terms of agreement are fulfilled. As of 30 June 2016 the Company has got a financial support in amount of EUR 185 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project “Reconstruction of Šilkas boiler-house, changing used fuel to biofuel (stage II)” under which a financing in amount of EUR 1,156 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 30 June 2016 the Company has got a financial support in amount of EUR 1,154 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project “Reconstruction of Petrašiūnai power plant, changing used fuel to biofuel (stage I)” under which a financing in amount of EUR 1,738 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 30 June 2016 the Company has got a financial support in amount of EUR 1,523 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project “Reconstruction of Inkaras boiler-house, changing used fuel to biofuel” under which a financing in amount of EUR 1,738 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 30 June 2016 the Company has got a financial support in amount of EUR 1,738 thousand. The project is accomplished.

On 20 December 2013 the Group and the Company signed agreement of financing and administration of the project “Reconstruction of Kaunas main 4Ž between heat cameras 4Ž–10 and 4Ž–15 Taikos av.” under which a financing in amount of EUR 307 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 30 June 2016 financial support in amount of EUR 306 thousand has been received. The project is accomplished.

On 20 December 2013 the Group and the Company signed agreement of financing and administration of the project “Reconstruction of Kaunas main 3Ž between heat cameras 3Ž–9 and 3Ž–9–5 A. Baranausko str.” under

which a financing in amount of EUR 228 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 30 June 2016 financial support in amount of EUR 208 thousand has been received. The project is accomplished.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12 in Chemijos str." under which a financing in amount of EUR 579 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 30 June 2016 financial support in amount of EUR 579 thousand has been received. The project is accomplished.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 6Ž" under which a financing in amount of EUR 299 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 30 June 2016 financial support in amount of EUR 296 thousand has been received. The project is accomplished.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 5T" under which a financing in amount of EUR 494 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 30 June 2016 financial support in amount of EUR 494 thousand has been received. The project is accomplished.

On 4 October 2015 the Group and the Company signed an agreement with the Lithuanian Environmental Investments Fund (LEIF) regarding financing for the project "Reconstruction of Šilkas boiler-house, replacing depreciated boiler with the new one" rendering subsidy from the Climate Change Special Programme, under which a financing in amount of EUR 150 thousand is allocated for the Company. As at 30 June 2016 financial support in amount of EUR 149 thousand has been received and EUR 8 thousand are accounted in Group's and Company's other receivables line.

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	
	2016	2015	2016	2015
Employee benefit liability at the beginning of the year	891	885	891	885
Paid	(58)	(135)	(58)	(135)
Formed	-	141	-	141
Employee benefit liability at the end of the year	833	891	833	891
Non-current employee benefit liability	585	585	585	585
Current employee benefit liability	248	306	248	306

During the 2016 total amount of the benefit paid to the employees by the Group amounted to EUR 58 thousand (in 2015 – EUR 135 thousand), and by the Company – EUR 58 thousand (in 2015 – EUR 135 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statements of Profit (loss) and other 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 June 2016	As of 31 December 2015
Discount rate	4.0 per cent	4.0 per cent
Employee turnover rate	18.9 per cent	18.9 per cent
Expected average annual salary increases	3.0 per cent	3.0 per cent

15. Derivative financial instruments

As at 30 June 2016 and 31 December 2015 the Company did not have valid transactions concerning derivative financial instruments.

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	
	2016 I half	2015	2016 I half	2015
Heat supplies	34,514	57,396	34,519	57,404
Hot water supplies	1,374	2,569	1,374	2,569
Maintenance of manifolds	113	226	113	226
Maintenance of heat and hot water systems	5	21	5	21
Electric energy	38	253	38	253
Maintenance of hot water meters	140	260	140	260
	36,184	60,725	36,189	60,733

17. Other expenses

	Group		Company	
	2016 I half	2015	2016 I half	2015
Cash collection expenses	90	207	90	207
Equipment verification and inspection	240	545	240	545
Maintenance of manifolds	198	394	198	394
Debts collection expenses	22	54	22	54
Sponsorship	89	93	89	93
Consulting expenses	64	87	64	87
Customer bills issue and delivery expenses	70	126	70	126
Communication expenses	23	47	23	47
Employees related expenses	56	89	56	89
Insurance	56	75	56	75
Long term assets maintenance and related services	51	70	51	70
Membership fee	62	83	62	83
Transport expenses	80	129	80	129
Advertising expenses	23	43	23	43
Audit expenses	14	20	14	20
Rent of equipment and machinery	8	16	8	16
Other expenses	316	425	316	425
	1,462	2,503	1,462	2,503

18. Other activities income and expenses

	Group		Company	
	2016 I half	2015	2016 I half	2015
Income from other operating activities				
Miscellaneous services	207	453	153	375
Materials sold	2	37	2	37
Gain from sale of non-current assets	-	68	-	68
Damage compensation	1,835	-	1,835	-
Other	26	39	26	39
	2,070	597	2,016	519
Expenses from other operating activities				
Cost of miscellaneous services	(109)	(268)	(83)	(191)
Cost of materials sold	-	(68)	-	(68)
Write off of non-current assets	-	(84)	-	(84)
Loss from sale of non-current assets	-	-	-	-
Other	(47)	(29)	(47)	(29)
	(156)	(449)	(130)	(372)

19. Finance income

	Group		Company	
	2016 I half	2015	2016 I half	2015
Interest from late payment of accounts receivable	114	264	114	264
Fines	-	-	-	-
Impairment of non-current financial assets	-	-	-	-
Bank interest	-	-	-	-
Other	-	-	-	-
	114	264	114	264

20. Finance costs

	2016 I half	2015	2016 I half	2015
Interest on bank loans and overdrafts	(276)	(650)	(276)	(650)
Calculation of the value of shares	-	(98)	-	(98)
Penalties	-	(28)	-	(28)
Long-term financial assets impairment	-	(27)	(151)	(27)
Exchange rate change	-	-	-	-
	(276)	(803)	(427)	(803)

21. Income tax

As of 30 June 2016 and 31 December 2015 deferred income tax asset and liability were accounted for by applying 15 per cent rate. All changes in deferred tax are reported in the statement of Profit (loss) and other comprehensive income.

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

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	
	2016 I half	2015	2016 I half	2015
Net profit	7,185	4,509	7,017	4,528
Number of shares (thousand), opening balance	42,802	42,802	42,802	42,802
Number of shares (thousand), closing balance	42,802	42,802	42,802	42,802
Average number of shares (thousand)	42,802	42,802	42,802	42,802
Basic and diluted earnings per share (EUR)	0.17	0.11	0.16	0.11

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 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Individuals	114,414	114,494	114,414	114,494
Other legal entities	2,195	2,159	2,195	2,159
Legal entities financed from municipalities' and state budget	660	591	660	591
	117,269	117,244	117,269	117,244

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

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Individuals	2,822	7,370	2,822	7,370
Other legal entities	176	934	176	934
Legal entities financed from municipalities' and state budget	176	671	176	671
	3,174	8,975	3,174	8,975

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 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
AA-	3,635	717	3,630	704
A+	4,446	1,587	4,446	1,587
A	17	6	17	6
Bank with no rating attributed	29	18	29	18
	8,127	2,328	8,122	2,315

*- external credit ratings set by Standart & Poor's agency.

The Group and the Company do not guarantee obligations of the other parties in 2016 and in 2015.

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 the year 2016 and 2015 the Group and the Company had not been entered into valid interest rate swap agreements in order to manage variable rate risk.

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>
2016		
EUR	50	(6)
EUR	(50)	6
2015		
EUR	50	(7)
EUR	(50)	7

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 30 June 2016 were 2.46 and 2.39, respectively (1.10 and 1.07 as of 31 December 2015). The Company's liquidity and quick ratios as of 30 June 2016 were 2.46 and 2.39, respectively (1.10 and 1.07 as of 31 December 2015). As at 30 June 2016 Groups' and Company's net working capital was plus respectively (EUR 7,731 thousand and EUR 7,720 thousand) (as at 31 December 2015 it was also plus – EUR 1,179 thousand and EUR 1,162 thousand).

In order to increase liquidity the Group and the Company implemented the following action plan:

- Considering the current situation the Group and the Company started to reduce its expenses;
- The Company increased heat production in its own effective production sources;
- The new measures of reducing losses in production and supply were implemented;
- The Company seeks to shorten money cycle increasing turnover of purchaser's debts and reducing turnover of debts to suppliers;
- Organized refinance of part of financial liabilities.

Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Amount used	-	-	-	-
Amount unused	7,240	4,344	7,240	4,344
	7,240	4,344	7,240	4,344

The table below summarises the maturity profile of the Group's financial liabilities as of 30 June 2016 and as of 31 December 2015 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 9 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	658	1,023	10,430	13,281	25,392
Trade payables	2,040	15	28	-	2,083
Balance as of 30 June 2016	2,698	1,038	10,458	13,281	27,475

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	724	2,260	10,430	12,041	25,455
Trade payables	7,744	34	26	-	7,804
Balance as of 31 December 2015	8,468	2,294	10,456	12,041	33,259

The table below summarises the maturity profile of the Company's financial liabilities, as of 30 June 2016 and as of 31 December 2015 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 9 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	658	1,023	10,430	13,281	25,392
Trade payables	2,038	15	28	-	2,081
Balance as of 30 June 2016	2,696	1,038	10,458	13,281	27,473

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	724	2,260	10,430	12,041	25,455
Trade payables	7,743	34	26	-	7,803
Balance as of 31 December 2015	8,467	2,294	10,456	12,041	33,258

Trade payables

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

	Group		Company	
	As of 30 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
For heat purchased	501	4,989	501	4,989
Contractors	376	399	376	399
Other suppliers	1,206	2,416	1,204	2,415
	2,083	7,804	2,081	7,803

30 day settlement period is set with KTE for purchased heat energy, 60–180 day settlement period – with contractors, 5–30 day settlement period – with other suppliers.

As of 30 June 2016 the Group and the Company had an EUR 114 thousand (31 December 2015 – EUR 1,691 thousand) of overdue trade creditors, out of which an EUR 1,593 thousand as of 31 December 2015 related to legal proceedings with KTE.

Foreign currency risk

All sales and purchases transactions as well as the financial debt portfolio of the Group and the Company are denominated in EUR, 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 June 2016	As of 31 December 2015	As of 31 December 2014	As of 30 June 2016	As of 31 December 2015	As of 31 December 2014
Cash and bank balances	8,268	2,531	389	8,263	2,518	384
Loans and receivables	3,802	9,835	21,746	3,781	9,822	21,735
Financial assets, carried at fair value through profit or loss (level 3 in the fair value hierarchy)	1	1	28	1	1	28
	12,071	12,367	22,163	12,045	12,341	22,147

Financial liabilities:	Group			Company		
	As of 30 June 2016	As of 31 December 2015	As of 31 December 2014	As of 30 June 2016	As of 31 December 2015	As of 31 December 2014
Carried at amortised cost	23,280	29,883	48,786	23,278	29,882	48,784
	23,280	29,883	48,786	23,278	29,882	48,784

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 June 2016 and 31 December 2015.

The Group and the Company is obliged to upkeep its equity of not less than 50 per cent 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 June 2016	As of 31 December 2015	As of 30 June 2016	As of 31 December 2015
Non-current liabilities (including deferred tax and grants (deferred income))	39,919	40,391	40,111	40,583
Current liabilities	5,307	12,191	5,292	12,178
Liabilities	45,226	52,582	45,403	52,761
Equity	87,247	81,860	87,631	82,412
Debt* to equity ratio (percent)	51.84	64.23	51.81	64.02

* 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 January 2014 insurance company AB Lietuvos Draudimas placed a claim in amount of EUR 33 thousand in case of damage compensation to UAB Korelita, in which AB Litgrid, UAB DK PZU Lietuva and the Company are defendants. A claimant suffered damage due to a fault in the electrical system. The Company placed a response to the court in which asked to ignore a claim as unfounded. Kaunas District Court rejected a claim on 22 April 2015. A claimant submitted an appeal, but it was left unmet by the decision of Kaunas Regional Court of 29 October 2015 and the decision of Kaunas District Court came into force. Whereas a cassation appeal was not submitted, the decision remained unchanged.

Leasing and construction work purchase arrangements

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 June 2016 amounted to EUR 19,957 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 2016 and 2015 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 2016 and 2015 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:

2016 I half	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	464	3,209	119	156
Jurbarkas city municipality	-	198	1	-
2015	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,010	5,327	873	296
Jurbarkas city municipality	1	325	13	-

The Group's and the Company's as of 30 June 2016 allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 390 thousand (as of 31 December 2015 – EUR 341 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

As at 30 June 2016 and 31 December 2015 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

Kauno Energija NT UAB	Purchases	Sales	Receivables	Payables
2016 I half	3	5	112	-
2015	6	8	125	-

As at 30 June 2016 the Company has formed a value decrease in amount of EUR 112 thousand (as at 31 December 2015 in amount of EUR 125 thousand) for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 30 June 2016 the Group's and the Company's management team comprised 6 and 4 persons respectively (as at 31 December 2015 – 6 and 4).

	Group		Company	
	2016 I half	2015	2016 I half	2015
Key management remuneration	98	175	80	160
Calculated post-employment benefits	7	7	7	7

In the year 2016 and 2015 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

There were no post balance sheet events.



AB KAUNO ENERGIJA CONSOLIDATED INTERIM REPORT FOR THE 1 HALF OF THE YEAR 2016



Kaunas, 2016



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

Confirmation of the persons responsible for the shareholders of the Company and the Bank of Lithuania

Following Article 23 of the Law on Securities of the Republic of Lithuania and the Rules for presentation and delivery of periodic and additional formation, approved by the decision No O3-48 of 28 February 2013 of the Board of the Bank of Lithuania, we hereby confirm that, to our best knowledge, the Consolidated Interim Report of the 1 half of the year 2016 and Consolidated and Parent Company Financial Statements of the 1 half of the year 2016 of private limited liability company Kauno Energija (hereinafter the Company or the Issuer), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, represent a true and fair view of the total consolidated assets, liabilities, financial position and profit or loss and cash flows, that the Consolidated Interim Report of the 1 half of the year 2016 includes a fair business development and performance review of the Company and the situation of consolidated, together with the description of principal risks and uncertainties encountered.

General Manager of AB Kauno Energija



Rimantas Bakas

Chief Accountant of AB Kauno Energija



Violeta Staškūnienė

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1. Reporting period of the Consolidated Interim Report

Reporting period for which AB Kauno Energija Consolidated Interim Report was prepared is the 1 half of the year 2016.

2. Companies consisting the group and their contact details

AB Kauno Energija (hereinafter referred to as the Company or the Issuer) prepares both the Company's and the consolidated financial statements. The group (hereinafter referred to as the Group) consists of AB Kauno Energija and its subsidiary – UAB Kauno Energija NT, in which the Issuer directly controls 100 per cent of the shares.

Main details of the Company:

Name of the Company:	Open Limited Liability Company Kauno Energija
Legal-organizational form:	Open Limited Liability Company
Headquarters address	Raudondvario pl. 84, 47179 Kaunas
Code of legal entity: 235014830	
Telephone (8 37) 305 650	
Fax	(8 37) 305 622
E-mail:	info@kaunoenergija.lt
Webpage	www.kaunoenergija.lt
Registration date and place	22 August 1997, Kaunas, Order No 513
Register manager	Kaunas Branch of State Enterprise Centre of Registers
VAT payer code	LT350148314

Main information about the subsidiaries:

Company name	Private Limited Liability Company Kauno Energija NT
Legal-organizational form	Private Limited Liability Company
Headquarters address	Savanorių pr. 347, 49423 Kaunas
Code of legal entity	303042623
Telephone	(8 37) 305 693
E-mail	kent@kaunoenergija.lt
Registration date and place	16 April 2013, Kaunas
Register manager	Kaunas Branch of State Enterprise Centre of Registers

3. Nature of core activities of the companies consisting the group

The nature of core activities of the Group is manufacture and rendering of services. The Company is the parent company of the Group. The Company generates and supplies heat to consumers (for the purposes of heating and hot water making) in the cities of Kaunas and Jurbarkas and in Kaunas district (Akademija town, Ežerėlis town, Domeikava village, Garliava town, Girionys village, Neveronys village, Raudondvaris village), (hereinafter referred to as Kaunas district).

Also, following provisions of the Law on Heat Sector, the Company supplies hot water (is engaged in hot domestic water supplier activities) from 1 May 2010 for consumers in the cities of Kaunas and Jurbarkas and Kaunas district (hereinafter the supplies of heat and hot domestic water without cold water are referred to as heat, with the exception of information provided in Tables 7 and 8 “Comparison of financial indicators of the Group and the Company of the 1 half of the year 2016 with the indicators of the 1 half of the years 2012–2015”), who chose the Company as a hot water supplier. As at 30 June 2016, the Company was a hot water supplier for 464 residential buildings in Kaunas and Kaunas district and 5 in Jurbarkas. Income from hot water supplies amounts to approximately 3.8 per cent of all of Company's sales revenue.

In addition, the Company produces electric energy in small quantities in Kaunas district, maintains engineering structures (collectors – manifolds) and operates heat and electricity production facilities. The Group and the Company carries out a supervision of indoor heat and hot water supply systems, maintenance of heat unit equipment, repairs of heat units and other heating equipment, provides rental services premises under particular agreements. The Group and the Company are engaged in licensed activity in accordance with the licenses held.



The vision of the Group and the Company is to be a modern, effective, competitive, and added value for shareholders creating group of companies engaged in heat and electric energy generation, supply and distribution and in maintenance of buildings and indoor heating and hot water supply systems, and property lease. Maintenance of buildings and indoor heating and hot water supply systems is being performed following the provisions of Article 20 of the Law on Heat Sector of the Republic of Lithuania.

Values of the Group and the Company:

- More than 50 years of experience in heat production and supplies business;
- Social responsibility – responsibility for consumers for fail-safe heat and hot water supplies and for quality maintenance of indoor heating and hot water supplies systems at the lowest expenditures;
- Competitive heat production allowing to reduce heat price for consumers;
- High qualifications of employees, allowing to reach a highest rates of efficiency;
- Ability to implement latest scientific and technological achievements in the activities of the Group and the Company;
- Analysis of good management, technological and technical practice of other Lithuanian and foreign companies and implementation of them in Company activities;
- Close cooperation with state and municipal institutions, universities, research institutions and with academic institutions;
- Ability to participate in development and implementation of scientific programs;
- Partnership in international projects;
- Self-analysis and implementation of alterations;
- Reputation of reliable, modern and solid group of companies;

Strategic goals of the Group and the Company:

- To implement strategic development plans formed by shareholders;
- To properly contribute to the implementation of goals of National Energetics Strategy;
- To reduce dependence from imported fuel, i.e. natural gas;
- To reduce expenditures of heat generation, supplies, delivery of services and management, make more effective heat generation in order to reduce final price of centrally supplied heat and hot water for customers;
- To fulfil all measures indicated in investment plans within scheduled terms in order to ensure fail-safe heat supplies for customers and reduction of its expenditures;
- To increase competition in heat generation sector;
- To expand current position of the Group companies in the market;
- Development by offering new products and services;
- To ensure implementation of Energy Efficiency Directive 2012/27/EU;
- To analyse examples of good practice of national and foreign companies and to be ready for their adaption;
- To create strategic development guidelines and to coordinate process of implementation in the way, developing reliable, quality manner of heat production and supplies, demanding least expenditures.

Principled guidelines of Company's heat economy strategy are as follows:

- Increase and expansion of heat economy – Kaunas city needs at least one bigger than 100 MW capacity modern, up-to-date production facility – cogeneration power-plant, using renewable energy sources (hereinafter – RES) and / or waste, and / or natural gas. New power-plant should ensure tankage / use of reserved fuel, reservation of heat production facilities, stable hydraulic mode of centralized heat supply, flexible reaction to network peak demand changes, should have an emergency replenishment system and should be economically “balanced”;
- Increase of safety and reliability of heat supply – the Company intends to formulate an expert assessment of safety / vulnerability of heat supply system, to implement update and modernization of system of parameters data transfer, collection and evaluation, to implement optimization of the network hydraulic mode and increase of speed of parameters reaction / change, to reconstruct and optimize sections of thermofication pipelines and elements (average age of pipelines of district heating network (hereinafter – DHN) reaches approximately 30 years), to implement update and development of the system of DHN water reserve – emergency replenishment, to implement technical solutions and / or use a good practice increasing reliability and safety, ensuring stability of thermofication mode;
- to actively participate in formation of policy of Kaunas city supply with heat and in increase of Company's desirability and in expansion of district heating market;



- formation of good practice and its publicizing;

4. Issuer's agreements with credit institutions

On 1 April 2003 the Issuer Service Agreement with AB SEB Bankas (company code 112021238, Gedimino pr. 12, Vilnius), represented by the Finance Markets Department was made.

5. Trade in securities of companies composing the group of companies in regulated markets

20,031,977 (twenty million thirty one thousand nine hundred seventy seven) of the Issuer's ordinary registered shares (VP ISIN code LT0000123010) with the total nominal value equal to EUR 34,855,639.98 (thirty four million eight hundred fifty five thousand six hundred thirty nine euro and 98 cents) as at 30 June 2016 were listed in the secondary trade list of Nasdaq Vilnius Baltic stock exchange. The beginning of listing of the Company's shares is 28 December 1998.

6. Overview of the condition, performance and development of the group of companies

6.1. Overview of the condition, performance and development of the Company

In the 1 half of the year 2016 the Company performed its activities with a main focus on development of capacities of production sources and increase of reliability of CHS network, considering Strategic guidelines of centralized heat supplies of Kaunas city.

When planning its activities the Company also takes into account the AB Kauno Energija Strategy for the Heating System Development for the years 2007–2020 developed by the Lithuanian Energy Institute. Estimating alterations taking place in the sector, preparations for creation of the new "Strategy of AB Kauno Energija development by implementing guidelines of energy sector development" have been made.

The Company covers a major part of heat production and supply market in the cities of Kaunas and Jurbarkas and Kaunas district. Company's generation capacities consist of Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 boiler-house in Jurbarkas city, 13 boiler-houses of isolated networks and 28 local gas burning boiler-houses in Kaunas city, also 8 local water heating boiler-houses in Sargėnai catchment. Total installed heat generation capacity in the 1 half of the year 2016 was 551.379 MW (including 37.5 MW capacities of condensational economizers) and also 8.75 MW of electricity generation capacities. 294.8 MW of heat generation capacities (including 16 MW capacities of condensational economizers) and 8 MW of electricity production capacities of Petrašiūnai power plant are among them. 29.8 MW of heat generation capacities (including 2.8 MW capacities of condensational economizer) is situated in Jurbarkas city. Total Company's power generation capacity is 560.129 MW (including 37.5 MW of condensational economizers' capacities).

Almost 40 per cent of heat supplied to consumers in the 1 half of the year 2016 was produced in Company's heat production facilities. The rest of required quantity of heat was purchased from independent heat producers (hereinafter – IHP) in monthly auctions, according to legal acts.

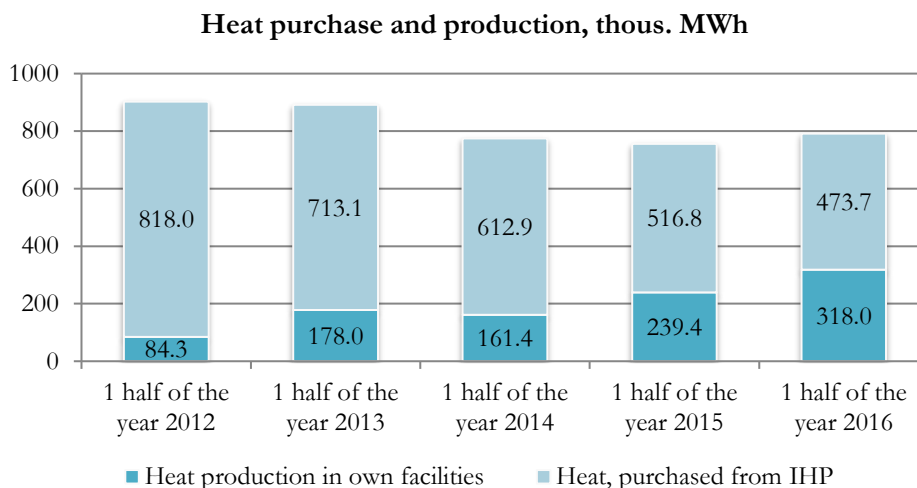
Fuel, used by the Company for heat and electricity production in the 1 half of the year 2016 was as follows:

- Solid biofuel – 82.58 per cent,
- Natural gas – 16.85 per cent,
- Biogas and other fuels – 0.57 per cent.

In the 1 half of the year 2016, the Company purchased heat from 10 independent heat producers in Kaunas and Kaunas district: from UAB Kauno Termofikacijos Elektrinė, UAB GECO Kaunas, UAB Lorizon Energy, UAB Ekoresursai, UAB Pramonės Energija, UAB Aldec General, UAB ENG, UAB Oneks Invest, UAB Ekopartneris and UAB "SSPC-Taika". Total purchases consisted of 473.7 thousand MWh of heat, i.e. 60.1 per cent of heat supplied to the network (in the 1 half of the year 2015 – 68.5 per cent). Amounts of heat purchased from IHP and produced with Company's equipment during the 1 half of the years 2012 – 2016 are presented in chart 1, thousand MWh:



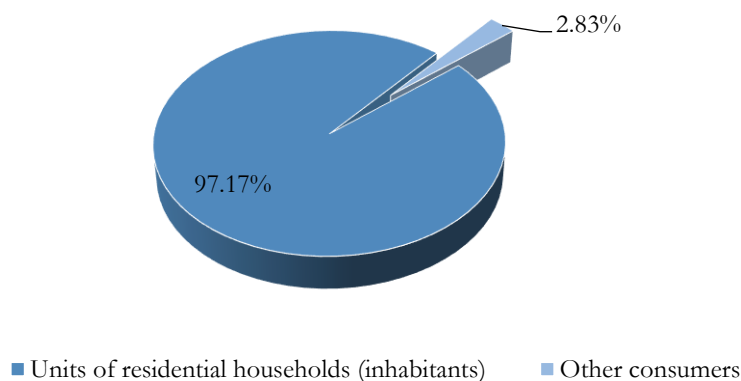
Chart 1



As at 30 June 2016 the Company supplied this heat with integrated heating and local area networks to 3,347 business organizations as well as to 115,119 households, in total – to 118,466 consumers (objects by addresses).

Chart 2

Repartition of Company's heat consumers by groups



Company's turnover from sales of the 1 half of the year 2016 was amounted to EUR 36,189 thousand and decreased by 3.43 per cent in comparison with the 1 half of the year 2015 (in the 1 half of the year 2015 it consisted of EUR 37,473 thousand). Turnover from sales of the Group of the 1 half of the year 2016 was amounted to EUR 36,184 thousand (in the 1 half of the year 2015 it consisted of EUR 37,468 thousand).

Company's income for the heat sold comprised the majority of income both Company's and the Group's: Group's – 97.92 per cent, Company's 97.90 per cent (supply of heat and hot water, excluding income from sales of cold water).

Net profit of the Group of the 1 half of the year 2016 was amounted to EUR 7,185 thousand and of the Company – EUR 7,017 thousand.

Investments

On 24 May 2016 Kaunas city municipality council approved revised Company's Investment Plan for the year 2016, under which EUR 44.54 million were planned to invest in Company's assets. The Company invested EUR 2.07 million in own assets during the 1 half of the year 2016.

The Company implements trunk pipeline replacement projects co-financed by the European Union structural funds, it also optimizes pipeline diameters, connects new objects to the DHN and modernises heat production



facilities according to Investment plan. With the start of a new period (for the years 2013–2016) of the basic heat price approved by the National Commission for Energy Control and Prices (hereinafter – NCC), and with changes in the regulating environment, in order to reduce the heat production costs and heat price to consumers, the Company refocused guidelines of development of its activities and the major part of investments of the years 2013–2016 is being allocated to the development and modernisation of heat generating facilities from renewable energy sources.

Refocussing of activities development guidelines and starting of development of the new Company's heat generation capacities became possible after termination in the year 2012 of Company's agreed liability, that was valid from the year 2003, written into an agreement of heat purchase, signed with UAB Kauno termofikacijos elektrinė, to purchase no less than 80 per cent of heat used in Kaunas integrated heating network from UAB Kauno termofikacijos elektrinė after a selling of it in the year 2003.

In addition, amendments to the Law on Heat Sector of the Republic of Lithuania and changes in NCC's regulation allowed favourable conditions to invest to construction and reconstruction of heat production facilities, thus increasing competition in heat production sector and effectively reducing heat price for consumers.

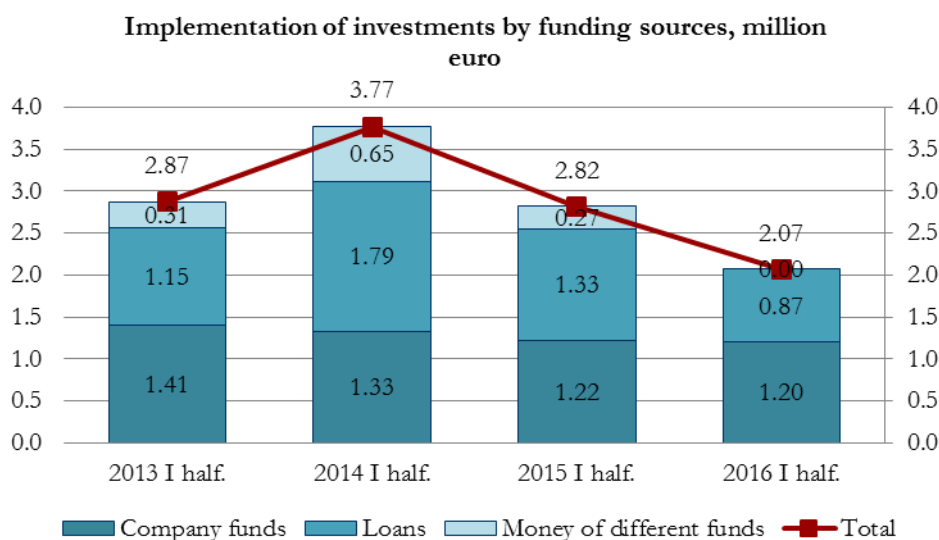
In order to reach those goals, the Company continues modernization of its' own heat generation facilities by installing a new heat generation equipment in them. The following projects of heat generation facilities modernization are being implemented at the moment:

1. On March 2016 the Company started a project of installation of 15 MW capacity gas burned boiler No. 2 together with 1.5 MW capacities condensational economizer in "Šilkas" boiler-house. Value of the project is EUR 659 thousand. This new equipment will increase reliability of heat production and supply, and will reduce Company's comparable expenditures of heat production and the final heat price for consumers;
2. The Company plans to install 5 MW and 3 MW capacities biofuel burned boilers together with condensational economizer in Jurbarkas boiler-house for more than EUR 2.1 million. This project is being planned to accomplish in the years 2017 – 2018. First stage of the project is being planned to accomplish in 4 quarter of the year 2016, i.e. 5 MW heat capacity biofuel burned boiler together with pertinent is being planned to install. The amount of heat produced using biofuel will amount up to 60 per cent of all heat supplied in Jurbarkas city after the reconstruction.

In June 2016 the Company submitted 9 applications to the Lithuanian Business Support Agency under the measure No. 04.3.2-LVPA-K-102 "Modernisation and development of heat supply networks" 1 invitation of the 4 priority "Promoting energy efficiency and production and use of renewable energy" of Operational Programme for the European Union Funds' Investments in 2014-2020: "Modernisation of the main pipeline 3Ž of Kaunas city integrated network" (code 04.3.2-LVPA-K-102-01-0009), "Modernisation of the main pipeline 6T of Kaunas city integrated network" (code 04.3.2-LVPA-K-102-01-0010), "Reconstruction of Kaunas city integrated network in Eiguliai catchment" (code 04.3.2-LVPA-K-102-01-0011), "Modernisation of the main pipeline 1T of Kaunas city integrated network" (code 04.3.2-LVPA-K-102-01-0024), "Reconstruction of Kaunas city integrated network in Kalniečiai catchment" (kodas 04.3.2-LVPA-K-102-01-0025), "Modernisation of the main pipeline 4T of Kaunas city integrated network" (code 04.3.2-LVPA-K-102-01-0026), "Reconstruction of heat supply networks, built from Kaunas city Pergalė boiler-house" (code 04.3.2-LVPA-K-102-01-0036), "Reconstruction of Kaunas city integrated network in P. Lukšio street" (code 04.3.2-LVPA-K-102-01-0037), "Modernisation of the main pipeline 2Ž of Kaunas city integrated network" (code 04.3.2-LVPA-K-102-01-0038). These projects are being planned to implement in the years 2016 – 2018. Total value of the projects is EUR 16 million. European Union Structural support in amount of EUR 8 million is requested.

In the 1 half of the year 2016 the Company has invested EUR 2.07 million (not Company's funds, i.e. EUR 0.87 million were loans from commercial banks; there were no investments using financial support from European Union Structural Funds). Company's investments by funding sources for the 1 half of the years 2013–2016 are shown in Chart 3.





Company's investments in latest technologies (reconstruction of heat production facilities, equipping them with economizers, new biofuel boilers, automation of boiler-houses of isolated and integrated networks, e-service system for customers, system of data transfer and processing from remote heat meters, modern customer servicing system based on the 'One Call' principle, etc.), helps the Company to reduce price of heat sold. Reconstructions of heat supply networks reduce Company's heat supply losses. All these investments help Company to adapt to market changes and to become an innovative company of heat and hot water supplies, maintenance of heating networks and generation facilities in the cities of Kaunas and Jurbarkas and in Kaunas district.

On 1 October 2015 National Commission for Energy Control and Prices (hereinafter – Commission) approved Company's investments – reconstructions of heat supplies networks and building of biofuel boiler-house in the city of Jurbarkas. Commission approved for the Company planned installation of biofuel boiler in 2016 for more than EUR 2.1 million in Jurbarkas boiler-house and EUR 16 million worth reconstruction of heat supply pipelines in the city of Kaunas, for implementation of which a co-financing is requested from European Union Structural funds.

After installation of 5 MW capacities biofuel boiler in the city of Jurbarkas together with 1 MW capacity condensational economizer, approximately 34 GWh of heat energy will be produced using biofuel per year. Currently Jurbarkas boiler-house uses natural gas for heat production.

In order to expand its' consumer market, the Company started to build a new heat supply pipeline in 2015 to Brasta residential quarter in Kaunas, which is in process of construction. Following the project "Heat supply networks to residential quarter from HC 8K-14-5 near the building at Jurbarko str. 81 to the point "A" at the address Brastos str. 24, Kaunas" a 487 meters length, 200 mm diameter pipeline will be built. The heat will be supplied to this residential quarter using this pipeline. According to publicly announced information 10 residential buildings with approximately 500 flats will be built in this residential quarter. Approximately of 4.4 MW capacities consumption equipment are being planned to install in them. A new pipeline will allow supplies of an up to 10 MW flow of heat at the coldest period of the year, so it will be possible to connect even more new consumers if it will be necessary. Total value of the project is EUR 244 thousand. Project is being implemented using efforts and funds of AB Kauno Energija. Construction works of the project were started in December 2015. Project completion is planned in the year 2016.

Starting from 28 January 2013 the Company performs as a participant of Natural Gas Exchange. Companies assumed more flexibility acquiring deficient or selling surplus amount of gas after start of operation of natural gas exchange at the same time applying the undertakings for gas suppliers under agreements. Participation in natural gas exchange provides the possibility to companies to know the exact price of gas in a moment, to avoid application of "take or pay" terms and to balance amount of purchased and used natural gas.

On 4 December 2014 NCC issued for the Company Licence of Energy operation No. L2-38(GDT), which allows the Company to be engaged in natural gas supplies business. The term of licence validity has been terminated by the decision of NCC of 25 May 2016 No. O3-140.

6.2. Description of exposure to key risks and uncertainties we confront with and their impact on Company's results

External risk factors affecting the Company's core business: increasing competition between heat producers in Kaunas, increase in final (i.e. including all expenditures) price of natural gas, ever-changing legal environment, as well as the heat production pricing policies.

The Company, in order to operate effectively and reliably, in creating the added value for shareholders, is faced with specific threats to the sphere of its activity, but also takes advantage of opportunities to work efficiently and effectively by exploiting the available potential. One of the biggest threats that the Company may face is a relatively high price for heat purchased from IHP, who are ranked as private business units committed to profit generation. Purchase of heat is pursued following valid law and the Description of procedure for purchase of heat from independent suppliers of heat approved by NCC. In turn, the Company invests extensively in modernization and construction of its own manufacturing facilities, to reduce the comparative costs of heat production. Thus it takes advantage of the regulatory environment and reduces the energy purchase price.

The Company has applications from 11 potential IHP at the moment (with total capacity of approximately 500 MW) to connect their heat production facilities to Company's integrated heat supply network. Along with coming of IHP a new additional issues raised and Company has to solve them. These are additional technical, economical, legal and other issues, such as network management and balancing of IHP capacities in the case of emergency stop, maintaining of optimum working parameters, regulation of order of heat purchase from IHP and its vicissitude and application.

Economic factors: The Company is a major supplier of the heat produced centrally to the city of Kaunas, part of Kaunas district and the city of Jurbarkas. In order to maintain this market, it is necessary to implement modern and efficient heat production technologies in own production facilities and to focus on the reliable supply at the lowest cost, benefiting from private differences of different types of fuel.

The Company's sales of heat are directly dependent on heat demand, i.e. heat consumption, which is mostly affected by the average outdoor air temperature, the amount of investment of consumers in energy-saving and rational use of heat and the pace of development of the heat sales.

Changes in fuel prices and the price of heat, produced by IHP have an impact on cost of Company's heat and electricity production.

Risk of decline in consumption: Company's performance is affected by the decline in sales due to reduced and further reducing heat demand (in pursuance of residential buildings renovation and by installing a heat saving equipment), due to consumer's disconnections from DHN (due to the various reasons). Risks can be mitigated by Company current and further investments in heat and electricity production facilities, using renewable energy sources, reducing heat production expenditures and the price heat, purchased from IHP as well as the price of heat supplied for consumers, and continually reasonably informing customers on the benefits of DHN systems (safety, reliability, correlation with one sort of fuel, fuel conversion, local pollution sources in residential areas, total environmental pollution, etc.) in comparison with autonomous heating.

The effects of other competing companies, propagating the only usage of natural gas, irrespective of approved special heating supplies plan, supplies reliability, affection to the only source of fuel, not yet regulated local pollution, in the heat supply sector with the Company are disconnections of consumers from DHN system. Heating equipment disconnection from the DHN and heating mode changes are carried out in accordance with the procedures specified in the Civil Code of the Republic of Lithuania, the Law on Heat Sector and the Law on Construction, and secondary legislation implementing the aforementioned legal acts. Heat disconnection is governed by the "Rules on heat supply and consumption" approved by order No 1-297 of 25 October 2010 of the Minister of Energy of the Republic of Lithuania (and their further amendments) and the Description of procedure for disconnection of the building or heating facilities of premises from heat supply networks at the initiative of consumers approved by order No A 1830 of the director of administration of Kaunas City Municipality of 14 May



2012. Kaunas City Municipality has approved a special heat supply plan, which provides a way to separate the heat supply in different urban areas. Disconnection of buildings in the district heating area from the DH network is only possible with the appropriate permit of Kaunas City Municipality. A special heat supply plan of Kaunas District Municipality was approved by the decision of Kaunas District Municipality No TS-43 of 26 January 2012. A special heat supply plan of Jurbarkas City and District was approved by the decision of Jurbarkas District Municipality No T2-67 of 10 March 2005.

Financial / economic risk: Decrease of consumers' solvency and the debts. Risks can be mitigated by the factoring of debts and applying more stringent debt collection techniques / methods. Other possible financial / economic risk – changes in interest rates in the banking market.

Detailed information on risk management policy and of risks of credit, currency rates, interest rates and liquidity is provided in Note 23 of Company's explanatory notes to the financial statements of the 1 half of the year 2016.

Heat consumer debts as at 30 June 2016 in comparison with 31 December 2015 increased approximately by 1.5 per cent and consisted of EUR 14.0 million (the major part of debts is covered after the end of heating season). Consumer debts in the year 2015 in comparison with the year 2014 decreased by approximately 10 per cent and consisted of EUR 13.8 million, and in the year 2014 – EUR 15.4 million. Decrease was affected by application of effective methods of debts administration, decrease in heat price, and more high average air temperature during heating seasons and conditionally lower heat consumption.

In order to recover these debts as soon as possible, the Company actively uses a variety of legal debt management measures, such as pre-trial actions, judicial recovery and also cooperation with debt Collection Companies. In addition, when a debt becomes big, a restriction of heat supplies was started to apply as a prevention measure (if there are technical possibilities and according to the law).

In all cases, the Company first notifies the user of his indebtedness. When debtors respond to warnings and contact the Company, the Company discusses the options of debt settlement with them, signs documents guaranteeing the repayment of the debt. If the debtor does not respond to warnings and if pre-trial measures are not effective, the judicial recovery begins. The Company then applies to the court and after a decision accompanied with receiving-order – to bailiff. In such case the debtor must pay not only the debt but also the court and execution expenditures. A number of debt prevention and pre-trial actions were made in the 1 half of the year 2016. A referral of information on debtors to Collection Company is among them. The Company submitted 0.7 million bills to consumers during the 1 half of the year 2016, more than 25.9 thousand telephone calls from consumers attained, and more than 5.5 thousand of them were advised verbally.

Activities of the Company are cyclical. During the heating season (October – April) the highest operating income is earned. During the non-heating season, the Company's revenues are at their lowest since only heat for hot water is used. In addition, during the non-heating season, the Company incurs more costs because it has to prepare for the upcoming heating season, i.e. to carry out the repairs and reconstruction of heat supply networks and heat production facilities.

Political and legal factors: Energy activities are governed by the Law on Heat Sector, the Law on Energy, the Law on Electricity, the Law on Natural Gas, the Law on Drinking Water Supply and Wastewater Management, Government resolutions, Heat supply and consumption rules, Methodology of heat prices and payments for heat of the National Control Commission for Prices and other legislation. Their amendments affect the heating industry.

With new amendments of articles 2, 3, 20, 22, 28, 31, and 32 of the Law on Heat Sector No XI-1608 of the Republic of Lithuania coming in affect from 1 November 2011, in accordance with Article 7, the heat and hot water prices may not include any costs related with the indoor building heating (including heat units), and hot water systems. In implementing the legislation, from 1 November 2011, all of these costs directly reduce the profit of the Company.

The political and legal risks also include political decisions of Kaunas City Municipality, with a controlling stake in the Company, that affect the Company's decision-making on the issues of agenda at the meetings of shareholders (the most significant issues, excluding the shareholder structure formation, are the distribution of profits and support), election of members of the Supervisory Board, who appoint the Company's Management Board members (who are often influenced by the politicians who elected them). The risk can be mitigated by informing



the main shareholder of the Company's operations, performance, future plans and non-politicized notification of the board.

On 7 March 2013 Gazprom OAO transferred ownership of the shares of KTE to Clement Power Venture Inc. The changes of Agreement on Investments and of Heat Energy Purchase 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 Energy Purchase 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 EUR 101.367 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 EUR 2.896 million, which will be fulfilled during the period of 2012 – 2016. Notwithstanding agreements reached, on 30 April 2013 KTE submitted a claim to Vilnius Court of Commercial Arbitration, arguing KTE obligations regarding investments in Company heat economy in amount of EUR 2.896 million and postponing the terms of implementation (alternative claim) (Arbitration case No. 268), and on 17 February 2014 it told in written, that it stops implementation of all obligations taken by Investment agreement. In February 2014 both sides began negotiations for a peaceful settlement of investment dispute; however on 26 May 2014 the Arbitration court was informed that compromise has not been reached. Considering that, the Company submitted a claim to Arbitration Court on 30 June 2014 reaching to adjudge from KTE the sum in amount of EUR 0.941 million for inappropriate implementation of its obligations to finance in the years 2012 – 2013 Company's investments (the case No. 304 started; later it was integrated with Arbitration case No. 268), but KTE specified on 9 July 2014 its claims in the case, by which asked Arbitration Court in addition to terminate overall Investment agreement. On 30 January 2015 the Company asked Arbitration by specified claims to adjudge in addition from KTE the sum in amount of EUR 0.652 million for non-financed Company's investments in 2014 (total claims in amount of EUR 1.593 million).

On 30 April 2015 KTE offered in written a renewal of negotiations regarding peaceful agreement in the case and Arbitration postponed investigation of the case. In pursuance of negotiations sides agreed the project of peaceful agreement, considering negotiations guidelines, determined in the meeting that took place on 11 June 2015 in Kaunas city municipality, with the participation of Kaunas city mayor and director of administration. On 9 October 2015 Company's Board took the decision to approve the project of peaceful agreement with KTE regarding termination of Investment agreement of 31 March 2003 and completion of argue in Arbitration case No. 268. On 20 October 2015 Kaunas city municipality council took the decision No. T-568, by which approved the essential terms of peaceful agreement and completion of the case in court, and starting from 17 December 2015 a project of peaceful agreement with KTE was approved also by Company's Extraordinary General Meeting of Shareholders. Estimating that, the Company and KTE signed peaceful agreement on 28 December 2015 and presented it to Arbitration for approval. Arbitration approved this peaceful agreement between the Company and KTE on 29 January 2016.

The essential terms of peaceful agreement: Investment agreement between both sides is terminated and KTE obliges to pay compensation for the Company in amount of EUR 2,317 thousand. As an additional non-financial compensation KTE disposes a part of Kaunas critical centralized heat supplies infrastructure to the Company for proprietorship, i.e. immovable property (manifolds building and coherent pipelines) as well as part of technological circuit equipment, necessary to the Company.

The main risks and uncertainties of the financial operations of the Company are provided in Notes 23 and 24 to the financial and consolidated statements of the Company of the year 2015.

Social factors: social factors that have had an impact on the Company's operations in recent years include consumers' disconnections from the system of centralized heat supply, limited purchasing power of consumers and slow growth of it, unemployment and exceptionally negative opinion about district heating supplier in the public domain.

However, an increased number of consumers (from 118,404 in the year 2015 up to 118,466 in the 1 half of the year 2016) had a positive impact.



Social risk: Company's activities are socially sensitive to many Kaunas region residents and businesses due to the conditionally high costs for heating and hot water. These costs constitute a significant part of expenses for households. But as the price of heat sold is decreasing, a number of complaints regarding big bills also decrease. This decrease was determined by the latest Company's investments in production facilities that allowed reducing the prices of heat and hot water significantly. As measured in terms of Lithuania, the Company's heat price in the 1 half of the year 2016 was one of the lowest among all heat supply companies.

This risk is mitigated by reasonably informing consumers about the Company's activities. Articles on Company's activities are coherently published in Company's website and in national or local media. In order to analyse and resolve these complaints, customer service professionals work with consumers who advise customers in the Company's premises, by phone, in letters and e-mails. Heat consumers periodically, i.e. 2-4 times per year, are invited to meet with the Company's specialists, and discuss consumer issues related to the Company's activities. Thus an image of modern and socially responsible company is being created.

Technical and process factors: greatest process risks are so shaded with the condition of heating systems. Company's trunk pipelines are an average about thirty years old. Modernization rate of them is determined by lack of funds – it is necessary to reconstruct more than 13.5 km of pipelines per year in order to condition of age of heat supply system and the minimum investments should consist of approximately 6 million euros. Hydraulic testing identifies their weakest points. Every year, about 200 points where cracks occur are identified during the tests. Upon discovery of defects, pipes are exposed and promptly repaired.

Mains of heating networks in the most worn out places are reconstructed through the use of support from the EU Structural Funds. New industrially (polyurethane foam insulation in polyethylene shell) insulated pipes not requiring concrete channels are mounted in the reconstructed sections of the heat supply network. Heat loss is very low in reconstructed sections (process level), while the pipelines no longer pose a threat of rupture and ensure reliable heat supply to consumers.

The greatest technical risk factor for heat generation facilities is their age. Some of heat generation facilities are already renewed at the moment. Every year boiler repairs and preventive work is carried out during the non-heating season. They are necessary to make secure heat supplies and reliability, i.e. securing of heat production facilities and fuel reserves.

The other risk factor is the lack of own heat generation capacities after selling the main heat generation facility – Kaunas Termofication power-plant in 2003. Existing Company's own capacities of approx. 409 MW cannot secure customers demand (maximum instantaneous demand according to data of three last years is 448 MW) in Kaunas integrated network. In addition, heat supply companies must have reserve capacities that must be a 30 per cent bigger, than the maximum instantaneous demand of heat according to Lithuanian legal acts. This is why the Company is obliged by NCC to buy a reserve capacity security service. In the 1 half of the year 2016 this service was bought from KTE. Considering that and estimating common trends in development of heat economies in Kaunas and Lithuania, one of the aims of the Company is to continually reasonably invest in own heat production facilities, i.e. to modernize existing and to build new additional heat production capacities. More detailed information on Company's investments and modernization of production facilities is provided in chapters 6.1 and 7.

Process risk can be reduced by reconstructing heat production facilities and supply pipelines, utilizing the latest and advanced technologies and thereby increasing the efficiency of the thermal system, capacity of own heat production facilities necessary for secure of reliability. In addition, significant investments in the modernization of the Company's assets must be made according to the country standards and regulations in line with European Union standards and normative acts regulating qualitative and technical indicators of heat supply systems.

Ecological factors: In terms of the Company they may be divided into those affecting the Company and there was influenced by the Company's operations.

In order not to adversely impact the environment and comply with the pollution limits, vibration and noise values, the Company is guided by the requirements of the Kyoto Protocol, the Helsinki Commission (HELCOM) and environmental constraints of Helsinki Convention, as well as the European Parliament and Council Directive 2001/80/EB of regulating energy emissions and Lithuanian environmental normative document LAND 43-2013 for the use of natural resources, and releases and emissions of air pollutants to the environment in its activities.



Main sources of pollution of the Company: burning fossil fuel in the Company's heat sources, production of heat and waste water, are used in the industrial processes.

The Company pays taxes for atmospheric and water pollution. If allowable emission rate limits or annual limits are exceeded, the Company must pay the fines under the applicable laws of the Republic of Lithuania. There have been no pollution-related incidents and the Company was not imposed any penalties in the 1 half of the year 2016.

Main Company's emission reduction measures: modernization of heat generation sources, heat transfer loss reduction by replacing the existing pipes to the pipes with polyurethane foam insulation, installation of new technology and improvement of existing facilities, use of less polluting fuels, and continuous emission monitoring (in the 1 half of the year 2016 the fuel balance was dominated by solid biofuel – 82.58%, natural gas – 16.85%, biogas and other fuels – 0.57 %).

Bank loan repayment: more on this issue is presented in Note 11 to the explanatory notes of financial statements of AB Kauno Energija of the 1 half of the year 2015. The Group and the Company repay the loans on time.

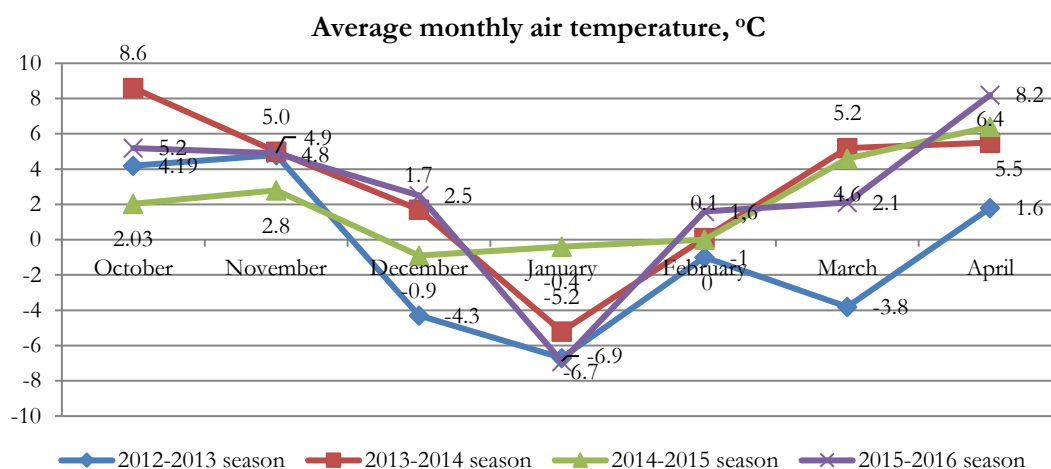
The main aims of the Company are to renew heat supply networks, because they are operated approx. 30 years and are obsolete, and to modernize heat production facilities. Every year, significant part of funds for facility upgrade are borrowed, as own resources, i.e. accumulated depreciation and amortization, are not sufficient to perform the necessary investment program. The volumes of the repayment of loans taken out for the investment program, are not included in the sale price of heat, as the price components in accordance with the current methodology, therefore, the Company aims to be profitable, to be financially able to settle with credit institutions in accordance with loan agreements.

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

The result of Company's activities of the 1 half of the year 2016 reflects an impact of investments that are implemented by the Company during the years 2014 – 2015. The Company implemented 3 big investment projects, focused to the development of production sector, reaching to reduce costs of heat production and purchase, ensure reliable heat supplies, reduce losses of heat transmission, and increase effectiveness of heat supply system.

Sales revenue from the main activities, in comparison with the 1 half of the year 2015 was at 3.43 per cent lower. This change was mainly affected by the reducing price of heat, the main part of which contains of purchased heat and fuel constituent. In the 1 half of the year 2016 the average price of heat decreased at 7.43 per cent (in the 1 half of the year 2016 it was 5.36 ct/kWh, and in the 1 half of the year 2015 it was 5.79 ct/kWh). The amount of heat sold in the 1 half of the year 2016 in comparison with the 1 half of the year 2015 was at 4.34 per cent bigger. Average air temperature of heating season of the 1 half of the year 2016 was -0.39 °C, and of the 1 half of the year 2015 – 2.56 °C.

Chart 4



Comparison of financial indicators of the Group of the 1 half of the year 2016 with the indicators of the 1 half of the years 2012–2015 is presented in Table 1.

Table 1

No	Indicator of the Group	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2015
1	Net profitability,% (net profit / sales and services)*100	4.6	9.1	3.9	12.7	19.9
2	Return on tangible assets,% (net profit / average value of tangible assets)*100	3.0	5.7	1.8	3.9	6.0
3	Debt ratio (liabilities / assets)	0.33	0.30	0.35	0.37	0.34
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.4	0.5	0.6	0.5
5	General liquidity ratio (short-term assets / short-term liabilities)	0.87	1.29	0.81	1.17	2.46
6	Asset turnover ratio (sales and services / assets)	0.54	0.52	0.38	0.29	0.27
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	5,631	8,175	4,805	8,060	10,667
8	Profitability of core business, per cent (operating profit / sales and services)* 100	4.5	4.5	3.7	13.3	15.0
9	Return on equity (ROE)% (net profit / average equity)*100	3.8	7.0	2.3	6.0	8.7
10	Return on assets (ROA)% (net profit / average assets)*100	2.5	4.7	1.4	3.5	5.4
11	Quick ratio ((short-term assets-inventory) / short-term liabilities)	0.80	1.19	0.74	1.13	2.39
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.06	0.12	0.05	0.26	1.56
13	Net earnings per share (net profit / average weighted number of shares in issue)	0.07	0.13	0.04	0.11	0.17
14	Net profit, thousand euros	2,884	5,468	1,798	4,773	7,185
15	Assets, thousand euros	116,597	116,518	120,702	129,542	132,473
16	Equity, thousand euros	78,185	81,115	78,318	82,124	87,247
17	Equity per share, euros	1.82	1.91	1.83	1.92	2.04
18	Revenue from sales, thousand euros	62,847	60,246	46,383	37,468	36,184
18.1	Including: Heat energy	61,888	58,727	44,661	35,739	34,514
18.2	Electric energy	54	60	87	122	38
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	101	125	21	16	5
18.4	Income from the maintenance of collectors	112	112	114	113	113
18.5	Hot water supply including cold water price	656	1,175	1,430	1,351	1,374
18.6	Income from maintenance of hot water meters	36	47	70	127	140
19	P / E ratio (last share market price of the year / (net profit / number of shares at year-end))	6.67	4.56	11.79	4.25	2.98
20	Share capital, thousand euros	74,256	74,256	74,378	74,476	74,476



No	Indicator of the Group	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2015
21	Share capital-to-assets ratio	0.64	0.64	0.62	0.57	0.56
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	3.8	7.2	2.3	6.1	8.9

Comparison of financial indicators of the Company of the 1 half of the year 2016 with the indicators of the 1 half of the years 2012–2015 is presented in Table 2.

Table 2

No	Indicator of the Company	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2015
1	Net profitability,% (net profit /sales and services)*100	4.6	8.9	3.9	12.8	19.4
2	Return on tangible assets,% (net profit / average value of tangible assets)*100	2.9	5.4	1.7	1.9	2.8
3	Debt ratio (liabilities /assets)	0.33	0.30	0.35	0.37	0.34
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.4	0.5	0.6	0.5
5	General liquidity ratio (short-term assets / short-term liabilities)	0.87	1.29	0.81	1.16	2.46
6	Asset turnover ratio (sales and services / assets)	0.53	0.51	0.38	0.29	0.27
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	5,624	8,070	4,802	8,059	10,520
8	Profitability of core business, per cent (operating profit/ sales and services)*100	4.5	4.5	3.7	13.3	15.0
9	Return on equity (ROE)% (net profit / average equity)*100	3.6	6.7	2.3	2.7	4.0
10	Return on assets (ROA)% (net profit / average assets)*100	2.4	4.5	1.4	1.6	5.2
11	Quick ratio ((short-term assets-inventory) / short-term liabilities)	0.80	1.19	0.73	1.13	2.39
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.06	0.11	0.05	0.26	1.56
13	Net earnings per share (net profit / average weighted number of shares in issue)	0.07	0.12	0.04	0.11	0.16
14	Net profit, thousand euros	2,888	5,379	1,791	4,781	7,017
15	Assets, thousand euros	117,606	117,445	121,413	130,270	133,034
16	Equity, thousand euros	79,157	81,892	78,839	82,665	87,631
17	Equity per share, euros	1.85	1.91	1.85	1.90	2.05
18	Revenue from sales, thousand euros	62,830	60,165	46,388	37,473	36,189
18.1	Including: Heat energy	61,899	58,739	44,668	35,744	34,519



No	Indicator of the Company	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2016
18.2	Electric energy	54	60	87	122	38
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	73	32	19	16	5
18.4	Income from the maintenance of collectors	112	112	114	113	113
18.5	Hot water supply including cold water price	656	1,175	1,430	1,351	1,374
18.6	Income from maintenance of hot water meters	36	47	70	127	140
19	P / E ratio (last share market price of the year / (net profit / number of shares at year-end)	6.66	4.63	11.83	4.24	3.05
20	Share capital, thousand euros	74,256	74,256	74,378	74,476	74,476
21	Share capital-to-assets ratio	0.63	0.63	0.61	0.57	0.56
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	3.8	7.0	2.3	6.1	8.7

Comparison of financial results of the Group and the Company for the 1 half of the years 2012–2016 (operating profit, net profit and operating revenue) is given in Charts 5, 6 and 7.

Chart 5

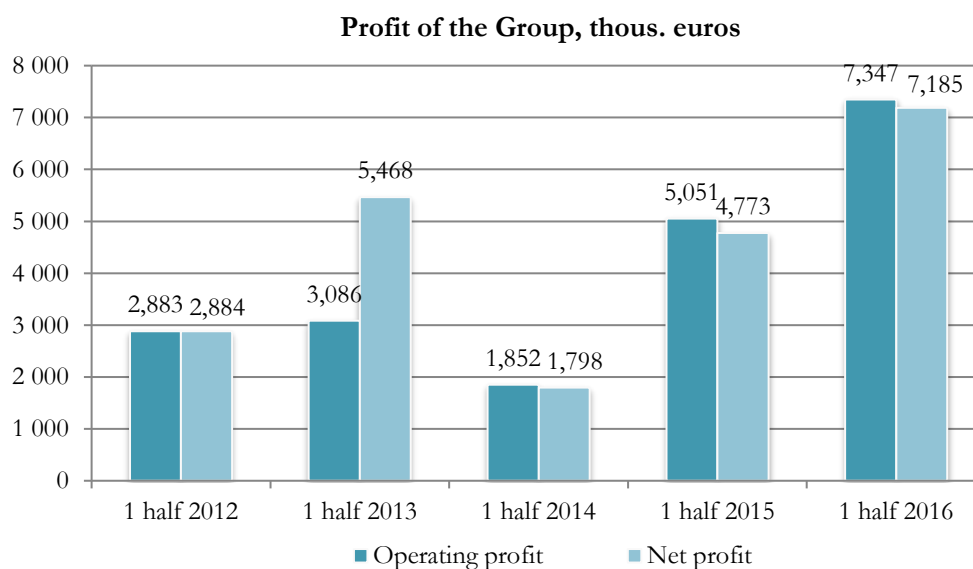


Chart 6

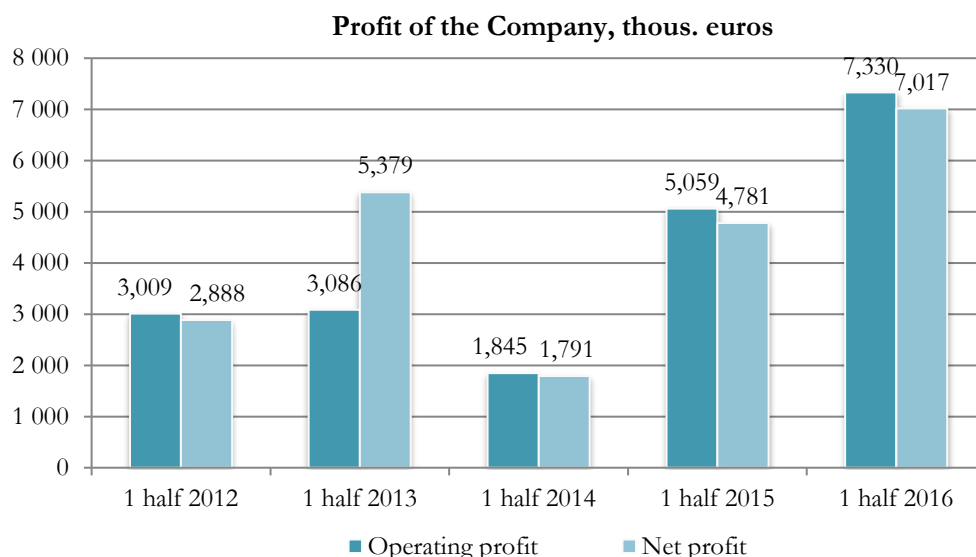
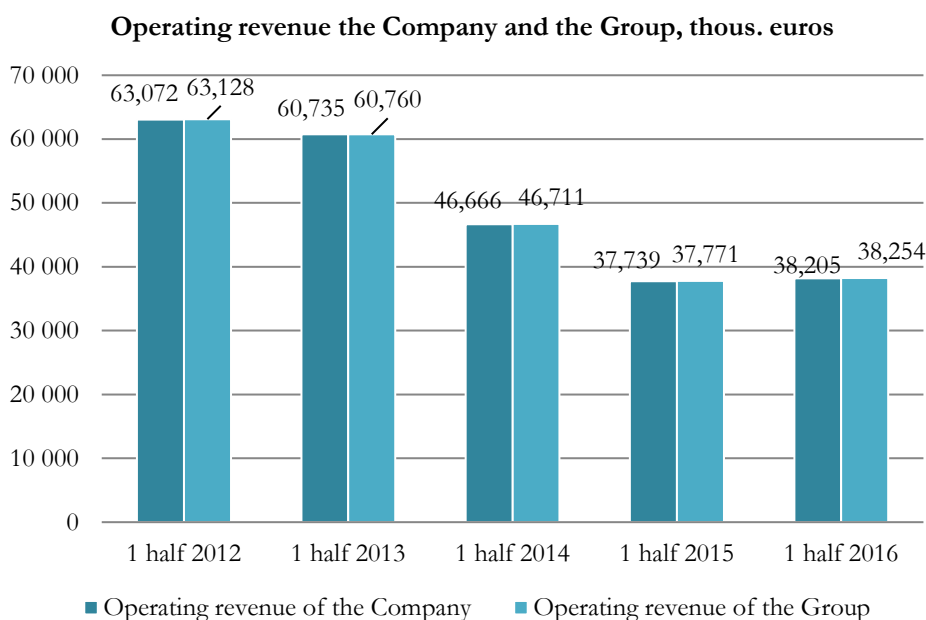


Chart 7



Notwithstanding that Group's and the Company's turnover decreased in EUR 0.5 million, Company's net profit of the 1 half of the year 2016 in comparison with the 1 half of the year 2015 became at 46.8 per cent higher. This increase was determined by effective Company's activities that allowed to significantly reduce expenses of fuel and purchased heat with starting of usage of biofuel in heat production instead of the natural gas. All of these allowed making heat cheaper, both produced by the Company and purchased from IHP. Profit of the 1 half of the year 2016 is also increased by the compensation in amount of EUR 1.8 million collected from UAB Kauno Termofikacijos Elektrinė in accordance with Peaceful agreement signed on 28 December 2015 by which litigation in Arbitration case regarding noncompliance of Investment Agreement of 31 March 2003 was terminated.

The Company's profit decreases also because of the maintenance costs of individual heating units owned by the Company. Those costs may not be included in heat and hot water prices as in accordance with amendments of articles 2, 3, 20, 22, 28, 31, and 32 of the Law on Heat Sector No XI-1608 of the Republic of Lithuania that came in affect from 1 November 2011, "any costs related with the indoor building heating (including heating units), and hot water systems may not be included in heat and hot water prices". Starting from 1 November 2011 in accordance with the law the costs of maintenance and repair of heating units equipment are not included in the heat price. The Company suffers approx. EUR 0.6 million of losses every year uncovered by income due to this maintenance.

Heat Council of Ministry of Energy of the Republic of Lithuania discussed on 14 December 2015 a problem issues of heat economy, concerned with alternative of ransom and (or) disposal of heating units equipment owned by heat suppliers to owners of flats of residential buildings and redemption of implemented investments. On 16 February 2016 European Commission officially presented to European Parliament and Council a “Package of sustainable and safe energy”, which would be a part of created Energy Union policy. The main tasks of this policy are optimization of energy consumption, i.e. stimulation of energy saving in buildings. These goals could be reached with a help of proper operation of heat units as important technological equipment.

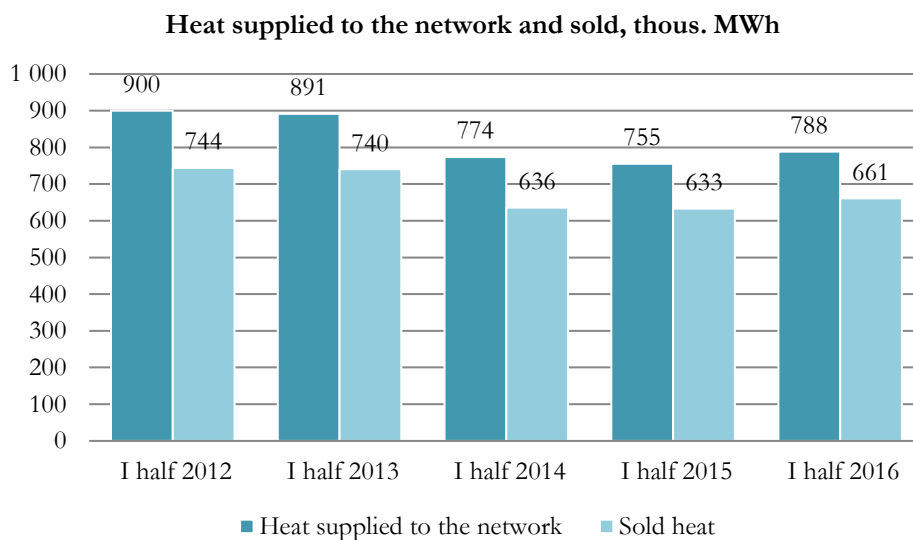
A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to Financial Statements for the 1 half of the year 2016.

Comparison of non-financial indicators of the 1 half of the year 2016 with the indicators of the 1 half of the years 2012-2015 is presented in Table 3.

Table 3

No	Denomination of Indicator	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2016
1.	Energy produced, purchased and supplied to the network, thous. MWh	900.4	891.3	775.2	756.4	788.8
1.1.	thermal energy	899.8	890.5	774.1	754.8	788.3
1.2.	electric energy	0.6	0.8	1.1	1.6	0.5
2.	Energy sold thous. MWh	744.5	740.9	637.0	634.6	661.1
2.1.	thermal energy	743.9	740.1	635.9	633.0	660.6
2.2.	electric energy	0.6	0.8	1.1	1.6	0.5

Chart 8

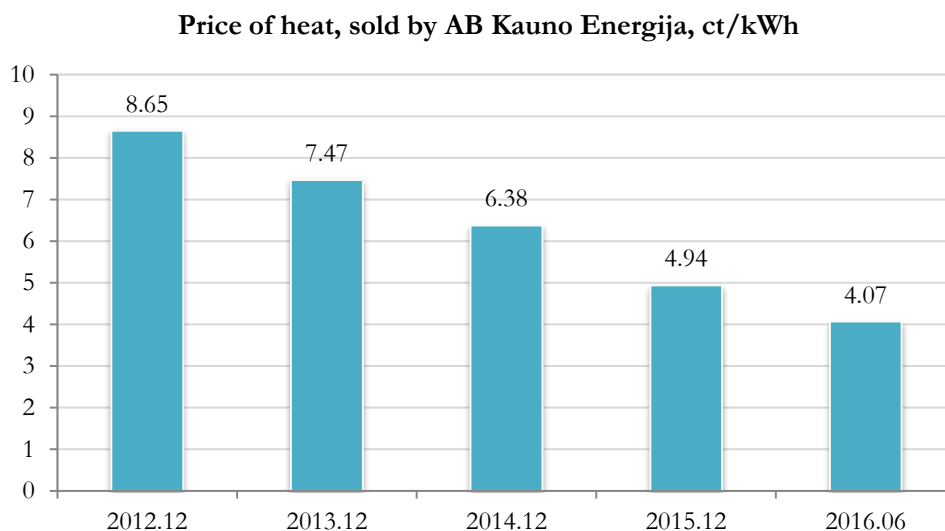


Environmental impact on operations: The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher of lower outdoor temperature during the heating season, changes in fuel prices, heat purchase price from IHP.

Company's reconstructed heat production facilities changing fossil fuel to biofuel make a serious competition with their costs of production to IHP, operating in Kaunas. With modernization of its own production facilities the Company reduced heat price for its consumers by 45 per cent during the last 3 years.

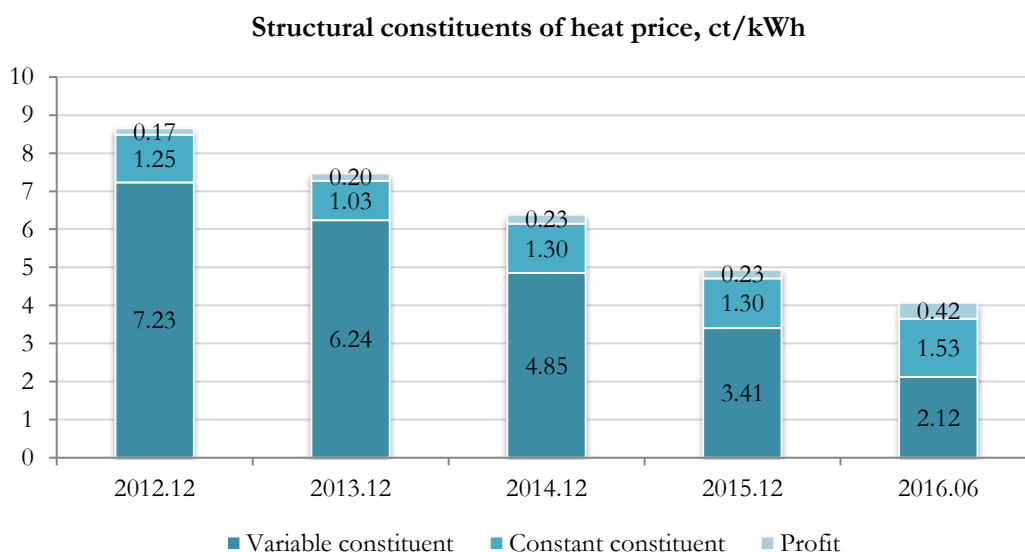
The dynamics of heat price sold by the Company in 2012–2016 is presented in Chart 9.

Chart 9



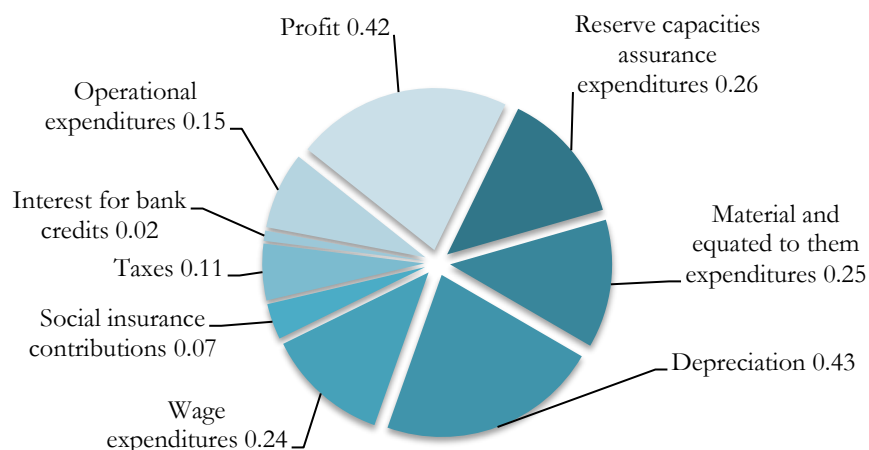
Components of Company's heat price structure in 2012–2016 are presented in Chart 10.

Chart 10



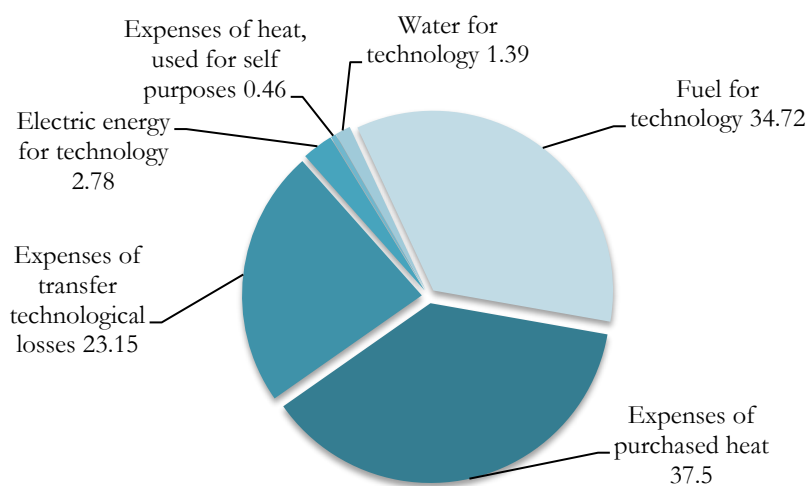
Management Board of AB Kauno Energija determined by its decision of 28 January 2016 No. 2016-2-2 (amended by the decision No. 2016-8-3 of AB Kauno Energija Management Board of 28 April 2016) a heat price constituents for the third year of validity of basic heat price, which were agreed by NCC's decision of 25 May 2016 No. O3-129. Heat price constant constituent, valid until 31 May 2016 was 1.53 ct/kWh, and a new constant constituent, valid from 1 June 2016 is 1.95 ct/kWh (increase of constant constituent was determined by change in realized heat quantity, inflation, change in investment depreciation and new "expenditures of assurance of reserve capacities" – 0.26 ct/kWh). Details of constant heat price constituent are presented in Chart 11.

Chart 11

Heat price constant constituent, euro ct/kWh

The Company recalculates values of variable constituents of heat price and final heat prices every month, considering changes in prices of fuel and purchased heat. Details of variable heat price constituent valid in June 2016 are presented in Chart 12.

Chart 12

Heat price variable constituent in June 2016, per cent

Other information related to environmental issues, waste and wastewater management, air pollution and human resources has no difference from the information provided in AB Kauno Energija Consolidated Annual Report of the year 2015.

8. References and additional explanations

All main financial data of the Group and the Company are provided in the explanatory notes to the Consolidated Financial Statements and Financial Statements of AB Kauno Energija for the 1 half of the year 2016.

Internal control over Consolidated Statements. When preparing its Consolidated Financial Statements, the Company combines the itemised financial statements of the Company and its subsidiaries, by summing up the items of assets, liabilities, equity, revenue and expenses. Afterwards, it eliminates the book value of the Company's investment in the subsidiary and the Company's share of equity in the subsidiary; amounts on balance sheets, transactions, income and expenses inside the Group (for this purpose, it prepares a reconciled report of all transactions, income and expenses for the period); difference in depreciation of contribution in kind measured at market value as compared to its book value.

For the purpose of the Consolidated Financial Statements of the Group, the Financial Statements of the Company and subsidiaries are prepared for the same date.

It's being controlled if the accounting policy of the Company and its subsidiaries for accounting of similar transactions is the same. The subsidiaries' income and expenses are included into the Consolidated Financial Statements as of the date of acquisition.

9. Significant events after the end of the 1 half of the year 2016

On 23 June 2016 AB Kauno Energija and UAB E energija signed an agreement on shares acquisition, under which the Company intends to acquire 100 per cent of the shares of UAB Petrašiūnų Katilinė. The agreement became valid on 30 June 2016. The transaction will be accomplished if the Competition Council of the Republic of Lithuania will take a decision for transaction permission.

The approval of the agreement on acquisition of the shares of UAB Petrašiūnų Katilinė signed between AB Kauno Energija and UAB E energija on 23 June 2016 was made at the Extraordinary General Meeting of shareholders that has been held on 29 July 2016.

On 28 July 2016, Company's Management Board approved unaudited Consolidated and Company's Financial Statements of the 1 half of the year 2016, prepared under international financial reporting standards, approved for use in European Union.

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

Inasmuch investments allows continual business development and profitability, the aims of the Group's and the Company's investment program for the year 2016 is further increase in volumes of heat production and effectiveness, expansion of heat selling market, through increase of use of biofuel for heat production, development of heat transmission and distribution increasing safety and reliability, developing services of maintenance of engineering systems and further improvement of consumers services quality.

In compliance with the provisions of the plan for the facilities on the implementation of the National Renewable Energy Development Strategy, in order to implement the Company's key business objectives and the provisions of the National Energy Independence Strategy related to the assurance of technical requirements for reliability of heat facilities and heat supply networks, to guarantee the quality keeps apply to consumers, the Company specified its "Investment plan for the year 2012–2015 and is financing sources" according to which it plans to invest EUR 92.08 million and also specified its investment plan for the year 2016 according to which it plans to invest EUR 44.54 million in Company's asstes.

The main investment goals of the Company for 2013–2016 regulation periods are as follows: to decrease heat production costs in existing facilities, increase the share of cheaper types of fuel (biofuel) in the total fuels, increase the capacity of own facilities until full satisfaction of power demand.

In 2016 the implementation of Company's investment program will involve further modernization of boiler-houses owned by the Company automating the production process and mounting condensational economizers; reconstruction of heat networks; replacement of heat meters. Implementation of these measures will allow to reduce heat production, transmission and selling losses and to perform optimization of heat supply to the consumers and to ensure heat supplies reliability.

It is planned that in 2016 in comparison with 2015, the Group's sales turnover will be similar as in 2015 or a little bit lower due to the decreased price of heating; the amount of heat sold to consumers will remain at the comparable



level as in 2015. The greatest impact on the Group's and the Company's income and expenses will be made by fuel and purchased heat price changes, as the price of heat under the requirements of the law is recalculated every month. The Group profit in comparison with 2015 is planned to be lower due to the recalculated constituents of heat price. The submitted data may be adjusted by the heat demand change, i.e. consumption, which is mainly affected by the average outdoor air temperature, the size of user investment in housing renovation, energy-saving and its rational use, as well as changes in the economic situation in Lithuania.

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

On 27 January 2016 the Company signed an agreement with Lithuanian Energy Institute regarding accomplishment of research study and Company's development strategy, implementing guidelines of energy sector development. Development strategy is prepared for implementation of guidelines of energy sector, in order to perform an effective policy of Kaunas heat economy development for the period until the year 2021.

On 2 March 2016 the cooperation agreement between the Company and Vytautas Magnus University has been signed in Kaunas city municipality, under which both sides obliged to make conditions to each other to use own infrastructure, creative and organization resources for implementation of common projects and events organization.

On 23 June 2016 AB Kauno Energija and UAB E energija signed an agreement on shares acquisition, under which the Company plan to acquire 100 per cent of the shares of UAB Petrašiūnų Katilinė. This heat generation facility using biofuel is acquired reaching to reduce heat production expenditures and to make cheaper heat energy to consumers. Produced heat energy will be supplied in Kaunas city integrated DHN system, ensuring necessary quality of thermofunctional water parameters (pressure, temperature).

Company's representatives are invited to work in committees of preparation of Energy Engineering studies programs of Kaunas University of Technology and in groups of external and self-evaluation. Working in these groups and committees Company's representatives analyse aims of programs and goals of studies, composition of training plans, appropriateness of staff, material basis, process and evaluation of studies, as well as program management. Performing external and self-evaluation, committees apply recommendations for improvement of program structures and implementation process, in order to satisfy the needs of employers and to meet the requirements of national and European legal acts in the field of higher education.

The Company along with Lithuanian Energy Institute takes part in READY project ("Resource efficient cities implementing advanced smart city solutions") supported by European Commission. 23 companies from Denmark, Sweden, Austria, France and Lithuania take part in it. Project will be pursued until the year 2022 by applying the latest measures of effective energy consumption in Kaunas city.

Furthermore the Company takes part in programmes "Green Light" and "Motor Challenge", supported by European Commission, the aim of whose is effective energy consumption in lighting and pumps operation systems.

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

The Company does not hold the shares of its own. The Company's subsidiaries have not purchased any of the Company's shares. Neither the Company nor its subsidiaries purchased or sold own shares during the reporting period.

13. Information on the aims of financial risk management, hedging instruments in use

All relevant information on this issue is presented in Notes 2.11, 15, 23 to the consolidated financial statements for the 1 half of the year 2016 of AB Kauno Energija.

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

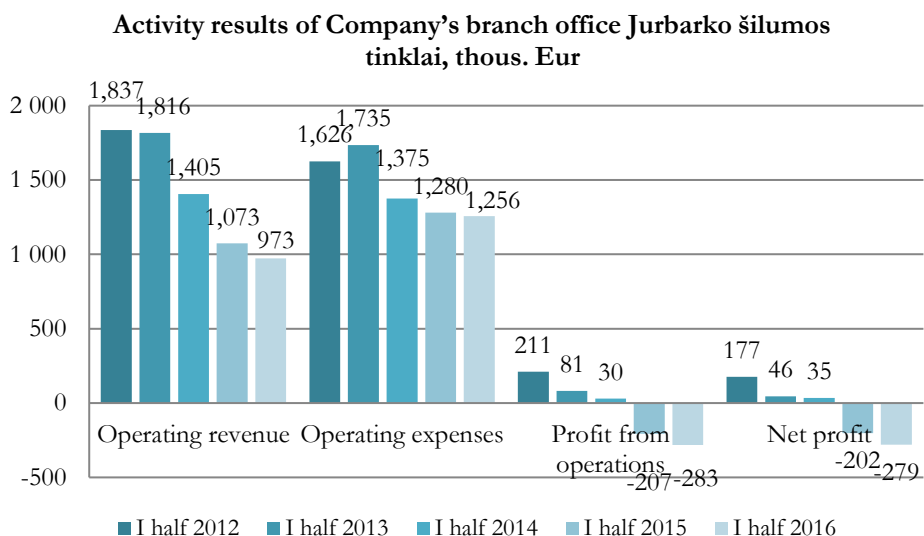
The Company's branch office Jurbarko Šilumos Tinklai was established by the decision of the Company's Management Board, and registered on 9 September 1997 at the address V. Kudirkos g. 33, 4430 Jurbarkas. The Company's branch produces and sells heat to consumers in the city of Jurbarkas.



The Company's branch Jurbarko Šilumos Tinklai had 30 employees as at 30 June 2016.

Comparison of financial indicators of Company's branch office Jurbarko Šilumos Tinklai of the 1 half of the year 2016 (operating revenue, operating expenses, profit) with the indicators of the 1 half of the years 2012-2015 are given in Chart 13.

Chart 13



On 16 April 2013 the statutes of AB Kauno Energija subsidiary UAB Kauno Energija NT, headquarter address is Savanorių pr. 347, 49423 Kaunas, company code 303042623, were registered in the Register of Legal Entities.

The authorised capital of UAB Kauno Energija NT in total of EUR 1,329,872, registered in the Register of Legal Entities, is divided into 45,921 ordinary nominal shares with the par value of 28.96 euros each as at 30 June 2016.

UAB Kauno Energija NT has no holdings directly or indirectly managed in other companies.

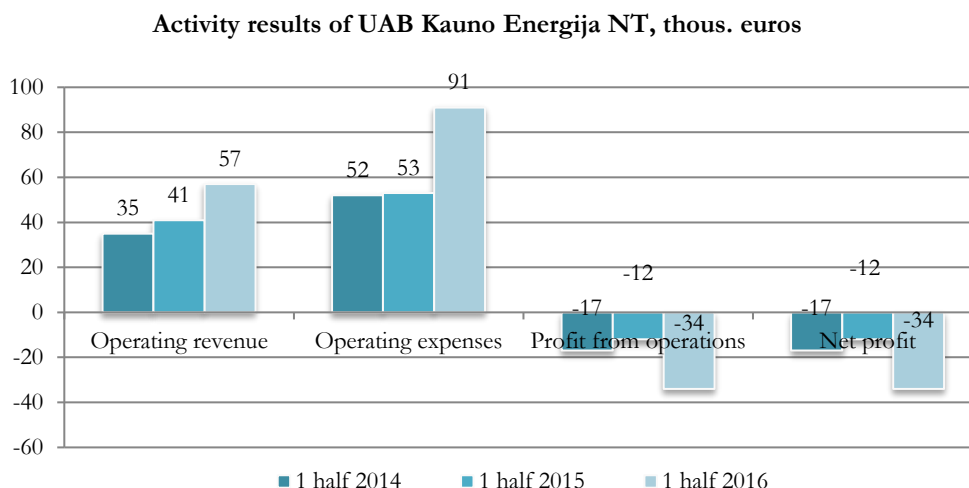
Activities of UAB Kauno Energija NT include the real estate development, management, leases, purchase and sale.

Turnover of UAB Kauno Energija NT of the 1 half of the year 2016 was EUR 57 thousand, profit (loss) was amounted to EUR (34) thousand.

As at 30 June 2016 UAB Kauno Energija NT had 3 employees.

Comparison of financial indicators of UAB Kauno Energija NT of the 1 half of the year 2016 (operating revenue, operating expenses, profit) with the indicators of 1 half of the year 2014-2015 are provided in Chart 14.

Chart 14



15. Structure of authorized capital

Company's authorised capital experienced no changes in 2012-2013. The decision on increase of Issuers' authorised capital with 121,928.87 euros (from 74,256,215.82 euros to 74,378,144.69 euros) by emitting 70,166 ordinary nominal shares with the par value of 1.73772 euros each, the price of emission of whose is equal to the nominal value, was made in Extraordinary General Meeting of Shareholders that has been held on 6 January 2014. The priority right of all shareholders to acquire the newly issued 70 166 ordinary registered shares of AB Kauno Energija by nominal value of 1.73772 euros each, the price of emission of whose is equal to the nominal value, has been revoked by the decision of this General Meeting of Shareholders giving the right to acquire these newly issued shares to Kaunas city municipality (code 111106319, address Laisvės av. 96, Kaunas) in order to get from Kaunas city municipality its own heat supplies pipelines – heating network (situated in Karaliaus Mindaugo str. 50, Kaunas, unique No 4400-2125-5130).

The decision to change the Statutes of AB Kauno Energija with the approval of authorised capital in euros was made at the General Meeting of Shareholders that has been held on 28 April 2015.

The authorised capital of the Company registered in the Register of Legal Entities of the Republic of Lithuania on 18 May 2015 is EUR 74,475,728.82 (seventy four million four hundred seventy five thousand seven hundred twenty eight euros and 82 cents).

The authorised capital of the Company registered in the Register of Legal Entities of the Republic of Lithuania as at 30 June 2016 is EUR 74,475,728.82 (seventy four million four hundred seventy five thousand seven hundred twenty eight euros and 82 cents).

Structure of authorized share capital by types of shares is specified in Table 4.

Table 4

Type of shares	Number of shares, units	Nominal value, euros	Total nominal value, euros	Municipal share in the authorised capital, per cent	Share of private shareholders in the authorised capital, per cent
Ordinary nominal shares	42,802,143	1.74	74,475,728.82	98.33	1.67

16. Data on shares issued by the Issuer

The authorised capital of AB Kauno Energija was registered on 18 May 2015 by the decision of General Meeting of Shareholders held on 28 April 2015 and amounts to EUR 74,475,728.82 (seventy four million four hundred seventy five thousand seven hundred twenty eight euros and 82 cents) and it is divided to 42,802,143 (forty two million eight hundred and two thousand one hundred forty three) ordinary shares of par value of 1.74 euros.

Value of the share of the Company was recalculated into 1.74 euro (as at 31 December 2014 – 1.73772 euro) following the order of euro adoption from 1 January 2015, determined by the Law on the Euro Adoption in the Republic of Lithuania No XII-828 of 17 April 2014.

There are no limitations on the transfer of securities.

16.1. Main characteristics of shares released into free circulation of securities (as at 30 June 2016).

Securities registration No	A01031430
ISON code of securities	LT0000123010
Number of shares	20,031,977 ordinary nominal shares
Nominal value	EUR 1.74
Total nominal value of shares	EUR 34,855,639.98

16.2. Main characteristics of shares issued and registered for non-public trading (as at 30 June 2016).

ISON code of securities	LT0000128407
Number of shares	22,770,166 ordinary nominal shares
Nominal value	EUR 1.74
Total nominal value of shares	EUR 39,620,088.84



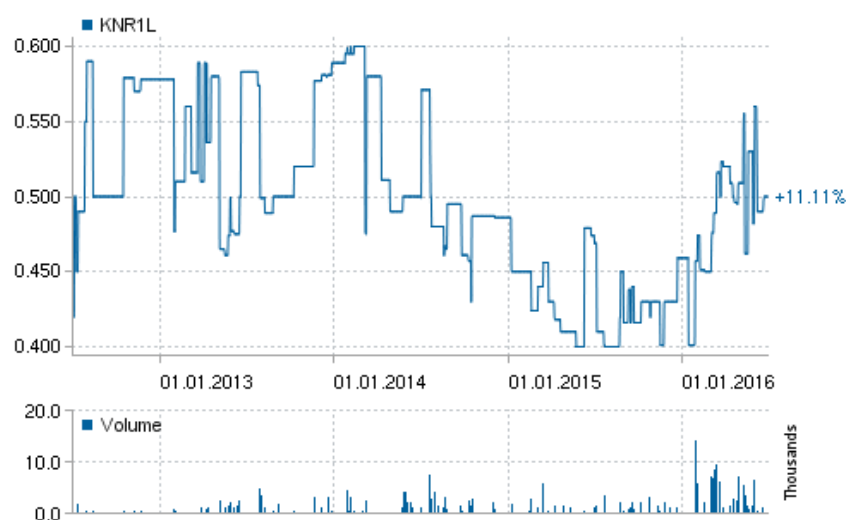
History of trade in Company's securities in the years 2012–2015 and in the 1 half of the year 2016 is provided in Table 5.

Table 5

Indicator	2012	2013	2014	2015	1 half 2016
Opening price, euro	0.565	0.578	0.589	0.486	0.459
Highest price, euro	0.590	0.589	0.600	0.479	0.560
Lowest price, euro	0.415	0.458	0.430	0.400	0.401
Last price, euro	0.578	0.589	0.486	0.459	0.500
Circulation, units	80,421	36,355	70,160	41,193	106,104
Circulation, million euro	0.04	0.02	0.04	0.02	0.05
Capitalisation, million euro	11.58	11.80	9.74	9.19	10.02

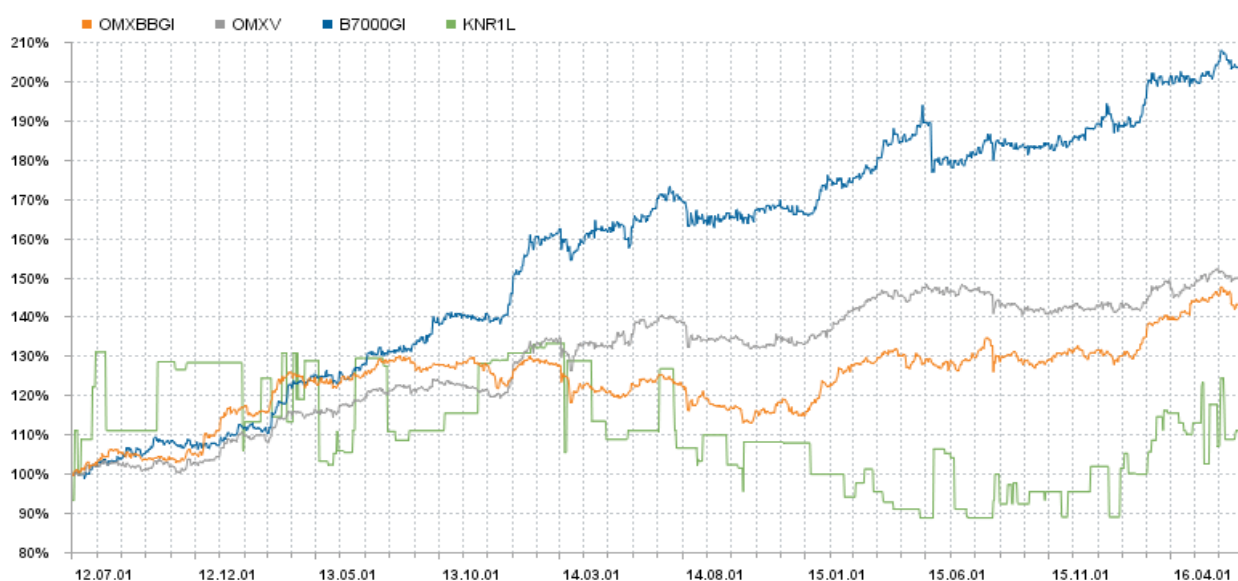
Historical data on share prices (in euro) and turnovers in 01-07-2012 – 30-06-2016 are provided in Chart 15.

Chart 15



Comparison of Company's share price with the index of own sector (utility services) and OMX Vilnius index is provided in Chart 16.

Chart 16



Data of Chart 16:

Index/Shares	01.07.2012	30.06.2016	+/-%
OMX Baltic Benchmark GI	492.43	711.29	44.44
OMX Vilnius	339.89	510.69	50.25
B7000GI Utilities	920.71	1,875.02	103.65
KNR1L	0.450 EUR	0.500 EUR	11.11%

17. Information on the Issuer's shareholders

The total number of Company's shareholders as at 30 June 2016 was 293.

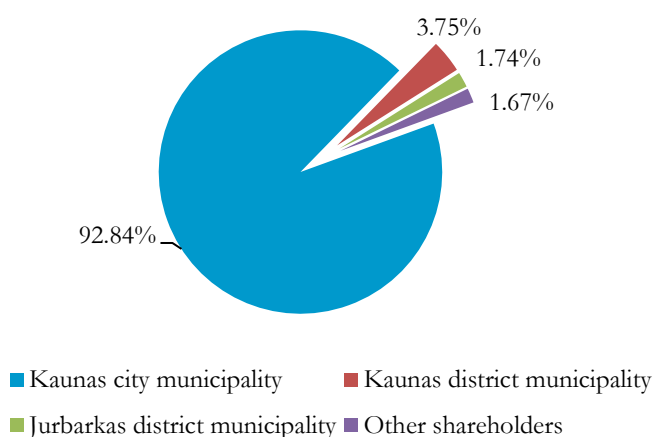
Information on Shareholders of the Issuer who owned as at 30 June 2016 more than 5 per cent of the authorised capital of the Company registered on 18 May 2015 (42,802,143 ordinary nominal shares), is provided in Table 6 and Chart 17.

Table 6

Full name of shareholder (company name, type, headquartered dress, code)	Number of ordinary nominal shares owned by the shareholder, units	Owned share in the authorised capital, per cent	Share of votes carried by owned shares. per cent	Share of votes owned by the shareholder together with acting entities, per cent
Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319	39,736,058	92.84	92.84	-
Other shareholders	3,066,085	7.16	7.16	-
Total:	42,802,143	100	100	-

Chart 17

Structure of shareholders as at 30 June 2016



Repartition of shareholders in accordance with groups at the end of the reporting period is provided in table 7.

Table 7

The name of the Group	Number of shares owned by the Group, pcs.	Own part of share capital, per cent from all the shares
Local authorities	42,088,631	98.33
Households	375,436	0.88
Securities of other accounts keepers clients	229,368	0.53
Private non-financial enterprises	83,508	0.20
Other financial brokers, except insurance companies and pension funds and other auxiliary enterprises	25,000	0.06
Other shareholders (non-financial enterprises controlled from abroad, financial auxiliary enterprises, companies holding deposits, except central bank	200	0.00
Total	42,802,143	100

17.1. The shareholders, who owned as at 30 June 2016 more than 5 per cent of the Company's shares (20,031,977 ORS) issued for public trading (reg. No. A01031430, VP ISIN code – LT0000123010) are listed in Table 8.

Table 8

Name	Type of shares	Number of shares, units	Total nominal value of shares, euros	Percentage of shares from those released into the public circulation	Share of the authorised capital (%)
Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319	Ordinary registered shares	16,965,892	29,520,652	84.69	39.64
Kaunas District Municipality Savanorių pr. 371, 49500 Kaunas, Code 111100622	Ordinary registered shares	1,606,168	2,794,732	8.02	3.75
Other shareholders	Ordinary registered shares	1,459,917	2,540,256	7.29	3.41
Total:		20,031,977	34,855,640	100	46.80

17.2. The shareholders, who owned as at 30 June 2016 more than 5 per cent of the Company's shares (22,770,166 ORS) issued for non-public trading (VP ISIN code – LT0000128407) are listed in Table 9.

Table 9

Name	Type of shares	Number of shares, units	Total nominal value of shares, Euro	Percentage of shares from those released into the public circulation	Share of the authorised capital (%)
Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319	Ordinary registered shares	22,770,166	39,620,089	100	53.20

None of the shareholders of the Issuer holds any special rights of control. The rights of all shareholders are the same; they are specified in article 4 of the Law on Companies of the Republic of Lithuania. The number of shares carrying votes at the General Meeting of Shareholders of the Company is 42,802,143 units.

The Company has not been notified on the limitations of voting rights or any other mutual agreements of shareholders which may limit the transfer of securities and / or voting rights.



In 2010, the dividends from the profit of 2009 were allocated and paid to the shareholders of the Issuer. Dividend per share was EUR 0.024, in total – EUR 1.039 million.

In 2011, no dividends were allocated and paid to the shareholders of the Issuer. The profit of 2010 was allocated to the statutory reserve, the reserve for investment and support.

In 2012, the dividends from the profit of the year 2011 were allocated and paid to the shareholders of the Issuer. Dividend per share was EUR 0.072, in total EUR 3.094 million.

In 2013, no dividends from the profit of the year 2012 were allocated and paid to the shareholders of the Issuer. Following the decision no 3 of the General Meeting of Shareholders, the profit was allocated to the statutory reserve, other reserves (repair of heating units), support, and part of the profit was transferred to the next financial year. A total of EUR 0.043 million was allocated for support and charity.

In 2014, the dividends from the profit of the year 2013 were allocated and paid to the shareholders of the Issuer. Dividend per share was EUR 0.0028962, in total – EUR 0.124 million. The profit was allocated to the statutory reserve, other reserves, support and annual payments for members of the Board. A total of EUR 0.333 million was allocated for support and charity.

In 2015, the dividends from the profit of the year 2014 were allocated and paid to the shareholders of the Issuer. Dividend per share was EUR 0.003, in total – EUR 0.129 million. The profit was allocated to the statutory reserve, other reserves. A total of EUR 0.2 million was allocated for support and charity.

In 2016, the dividends from the profit of the year 2015 were allocated and paid to the shareholders of the Issuer. Dividend per share was EUR 0.042, in total – EUR 1.798 million. The profit was allocated to the statutory reserve, other reserves, annual payments for Management Board members, bonuses for employees. A total of EUR 0.05 million was allocated for support and charity.

18. Employees

A total of 517 employees were employed in the Group as at 30 June 2016. Changes in the number of employees of the Group in 2012 – 1 half of the year 2016 are specified in Table 10.

Table 10

Actual number of employees	Group 31-12-2012	Group 31-12-2013	Group 31-12-2014	Group 31-12-2015	Group 30-06-2016
Total:	617	561	545	526	517
including: management	6	7	6	4	3
specialists	327	292	290	279	278
workers	284	262	249	243	236

Changes in the number of employees of the Company in 2012 – 1 half of the year 2016 are specified in Table 11.

Table 11

Actual number of employees	Company 31-12-2012	Company 31-12-2013	Company 31-12-2014	Company 31-12-2015	Company 30-06-2016
Total:	583	548	542	523	514
including: management	4	5	4	3	2
specialists	314	288	290	278	277
workers	265	255	248	242	235

Education of employees of the Group as at the end of the period is provided in Table 12.

Table 12

No	Education	Group 31-12-2012	Group 31-12-2013	Group 31-12-2014	Group 31-12-2015	Group 30-06-2016
1	Secondary incomplete	9	6	6	7	5
2	Secondary	231	217	206	195	191



No	Education	Group 31-12-2012	Group 31-12-2013	Group 31-12-2014	Group 31-12-2015	Group 30-06-2016
3	College	89	80	77	72	72
4	Higher	288	258	256	252	249
	Total:	617	561	545	526	517

Education of employees of the Company as at the end of the period is provided in Table 13.

Table 13

No	Education	Group 31-12-2012	Group 31-12-2013	Group 31-12-2014	Group 31-12-2015	Group 30-06-2016
1	Secondary incomplete	8	5	6	7	5
2	Secondary	217	211	205	194	190
3	College	83	78	77	72	72
4	Higher	275	254	254	250	247
	Total:	583	548	542	523	514

Average conditional number of employees and average monthly salary in euros (as at the end of the 1 half of the year 2016 before taxes) is provided in Table 14.

Table 14

No	Employees	Company	Group
1.1.	Average conditional number of managers	3	5.2
1.2.	Average monthly salary of managers	4,317.6	2,944.9
2.1.	Average conditional number of specialists	255.5	256.5
2.2.	Average monthly salary of specialists	958.64	956.7
3.1.	Average conditional number of workers	227.6	228.5
3.2.	Average monthly salary of workers	689.9	688.1

The salary of employees of the Issuer consists of the constant some part of salary, variable part of salary, benefits and allocations paid according to the Labour Code of the Republic of Lithuania and other laws, Collective agreement of the Company, and bonuses. Bonuses are paid from net profit, if the General Meeting of Shareholders allocates part of the profit for the bonuses of the Company employees. From 1998 till 2015, the General Meeting of Shareholders has never allocated any part of the profit for the bonuses of the Issuer's employees. The General Meeting of Shareholders that has been held on 28 April 2016 allocated EUR 207 thousand from the profit of the year 2015 for bonuses for employees.

The Collective agreement provides the special rights and responsibilities of the Issuer's employees or part of them. Under the Collective agreement that became effective in the Company on 28 January 2013:

1. For continuous employment within the Company employees are granted additional paid leave:
2. After working for 5 years 1 calendar day.
3. from 6 to 10 years 2 calendar days;
4. After working for more than 10 years 3 calendar days;
5. for every subsequent 5 years 1 calendar day.
6. The length of service of employees of the Lithuanian power system companies transferred to the Company according to the corporate employer agreement, i.e. when the transfer was carried out according to the Labour Code or the Law on Employment Contract, is considered not interrupted, and such employees are granted additional paid leave for a continuous period of employment with the Company.
7. At the agreement of the employer and employee, the employee may be granted unpaid leave for family related issues and other important reasons.
8. Company's employees are entitled to additional paid leave in the following cases:
9. Creating a family 3 calendar days;
10. Death of a close relative (one of the parents or parents of the spouse, the spouse, brother, sister, daughter, or legal foster son, foster daughter, grandson, granddaughter) 3 calendar days;
11. Wife's birth giving 1 calendar day;
12. Wedding of the employee's daughter, son or legal foster-child 3 calendar days;
13. employees, raising a child studying at a general education school under twelve years of age, are given a day off during the first day of the academic year, paying such employees the average wage.

14. Employees who take entrance exams to universities, higher schools and colleges and successfully study in them, if their chosen specialty is within the interests of the Company and the job carried out, are granted the statutory paid educational leave, by paying 50 per cent of the employee's average salary.

The employer undertakes:

1. To ensure the conditions of preventive health check and, if necessary, rehabilitation treatment of employees, to provide free health services at the Company's occupational health unit;
2. In case of death of an employee, the Company pays an allowance in the amount of two monthly average salaries of the last year of the Company or a branch (depending on where the employee has worked), gives free transport or covers transport costs. The allowance is granted to the burying person;
3. in case of death of a close relative of the employee (father, mother, child, or spouse), the employee is granted the allowance of the average salary of the previous year of the Company or an affiliate (depending on where the employee works), given free transport or transport costs are covered;
4. In case of birth of one or more children, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) for each child;
5. In case of wedding, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works);
6. employees who are raising three or more children under the age of 16, widows (widowers) and unmarried persons who raise one child or children alone, if they are studying at secondary schools until the age of 19, and while studying at higher schools or colleges full-time till the age of 21, or if they are caring for other family members with heavy or moderate disability level or lower than 55 per cent working ability level, or family members who have reached the retirement age, which according to the laws are established a major or moderate level of special needs, once a year are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) according to the date of request;
7. for the 40th, 50th and 60th anniversary, as proposed by the head of the division, for excellent performance of employees having the 15 and 20 years of continuous employment with the Company are granted a monetary gift of 25 per cent, and having over 20 years of continuous work experience – a monetary gift of 50 per cent of the average salary of the previous year of the Company or an affiliate (depending on where the employee worked);
8. in other cases, where the material support is needed (loss due to natural disasters or other reasons beyond the employee's control), at the mutual agreement of the representatives who have signed the Collective Agreement, employees are granted a benefit of up to 580 euros,
9. In the event of a serious illness or accident of the employee, he is granted an allowance of up to 5 average salaries of the previous year of the Company or an affiliate (depending on where the employee worked) at the mutual agreement of the representatives who have signed the Collective Agreement;
10. For the occasions of the Lithuanian Energy Day and jubilees of the Company deserving employees are granted a monetary gift of up to 145 euros.

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

The statutes of the Issuer say that the General Meeting of Shareholders of the Company has the exceptional right to amend the statutes other than the exceptions provided in the Law on Companies of the Republic of Lithuania. The resolution on the amendment of the Company's statutes 2/3 qualified majority of votes of the members participating in the meeting of shareholders is needed.

The statutes of the Company were amended on 28 April 2016 by the decision of the General Meeting of Shareholders. A number of members of Company's Management Board reduced from 7 (seven) to 5 (five) and the remuneration for the activity of the member of the Management Board provided. The new version of the statutes was registered on 13 May 2016 in the Register of Legal Entities of the Republic of Lithuania. It can be found in the Internet website of the Company at www.kaunoenergija.lt.

20. Issuer's management bodies

According to the statutes of the Company, the management bodies of the Company include the General Meeting of Shareholders, a collegial management body – the Supervisory Board, a collegial management body – the Management Board, and a sole management body – the head of the company – General manager.

Decisions of the General Meeting of Shareholders made on the issues within the competence of the General Meeting of Shareholders provided for in the statutes of the Company are binding to its shareholders, the Supervisory Board, the Board and the General manager, and other employees of the Company.



All persons who are the shareholders of the Company on the date of the General Meeting of Shareholders have the right to attend the Company's General Meeting of Shareholders in person or by proxy, or be represented by persons with whom they had entered into the agreement on the transfer of the voting right. The record date of the meeting of the Company is the fifth working day before the General Meeting of Shareholders or the fifth working day before the repeat General Meeting of Shareholders. A person attending the General Meeting and entitled to vote shall provide a document which is a proof of his personal identity and sign the registration list of the Meeting of Shareholders. A person who is not a shareholder shall additionally provide a document attesting to his right to vote at the General Meeting of Shareholders.

1 (one) General Meeting of Shareholders was convoked in the 1 half of the year 2016. Company's General Manager and Head of Department of Finances took part in it. Issuers' shareholders are allowed to ask questions and to get answers or explanations from Company's managers and speakers.

The collegial management body – Supervisory Board is selected by the General Meeting of Shareholders according to the procedure specified in the Law on Companies of the Republic of Lithuania. The Supervisory Board consists of 7 (seven) members. The Supervisory Board is elected for a term of 4 (four) years. The Supervisory Board elects the chairman of the Supervisory Board from among its members. The General Meeting of shareholders may remove from office the entire Supervisory Board or its individual members before the expiry of the term of office of the Supervisory Board. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

The Supervisory Board elects and dismisses the Management Board members and supervises the activities of the Management Board and the General manager of the Company; submits its comments and proposals to the General Meeting of Shareholders on the Company's operating strategy, set of annual financial statements, draft of profit / loss allocation and the annual report of the Company as well as the activities of the Management Board and the General manager of the Company; submits proposals to the Management Board and the General manager of the Company to revoke their decisions which are in conflict with laws and other legal acts, the statutes of the Company or decisions of the General Meeting of Shareholders; addresses other issues assigned to the scope of powers of the Supervisory Board by decisions of the General Meeting of Shareholders regarding the supervision of the activities of the Company and its management bodies. The Supervisory Board shall not be entitled to assign or delegate the functions assigned to the scope of its powers by the Law on Companies of the Republic of Lithuania and the statutes of the Company to other organs of the Company.

The Supervisory Board, following resolution No 1K-18 of 21 August 2008 of the Securities Commission of the Republic of Lithuania „On the requirement for Audit Committees“, „Guidelines for the application of requirements for Audit Committees“, approved in the decision of 28 November 2008 of the Securities Commission, approves the internal rules of procedure for forming the Audit Committee, and electing the Audit Committee members.

The Supervisory Board of the Company approved a new version of the internal rules of procedure of the Audit Committee of AB Kauno Energija on 26 October 2015.

The Management Board is a collegial management body of the Company. The Management Board is comprised of 5 (five) members. The Management Board is elected for the period of 4 (four) years by the Supervisory Board. The Supervisory Board can remove from office the entire Management Board *incorpore* or its individual members before the expiry of their term. If individual members of the management Board are elected, they shall serve only until the expiry of the term of office of the current Management Board. The Management Board elects the chairman of the Management Board from among its members.

The Management Board analyses and estimates Company's annual financial statements, profit (loss) allocation project, and along with response and proposals on them and with Company's annual report renders to Supervisory Board and General Meeting of Shareholders. Also the Management Board pursues functions of shareholder in companies where holds all the shares and written decisions of the Management Board are equated to the decisions of the General Meeting of Shareholders in them.

The Management Board elects and removes from office the Company's General manager, determines his salary and sets other terms of the employment contract, approves his job description, provides incentives for him and



impose penalties; makes other decisions assigned to the competence of the Management Board by the Law on Companies of the Republic of Lithuania, statutes or the Company or resolutions of the General Meeting of Shareholders.

The General Manager is the head of the Company. The head of the Company is a sole person management body of the Company organising its activities. Powers and responsibilities of the administration members of the Company are established in the order of the General Manager.

20.1. Data on the committees in the Company

(Committee members: full names, information on participation in the authorised capital of the issuer, beginning and end of each person's term of office, workplaces, powers, main functions)

On 26 October 2015 the Supervisory Board elected Inga Šliačkusienė, deputy chief accountant of the Company, Aušra Smolskienė, senior economist of the Economic and Planning Division of the Financial Department of the Company and Juozas Gontis, senior lawyer of the Law Division of the Department of Law and Purchases of the Company as the members of the Audit Committee.

On 26 October 2015 the Supervisory Board appointed by the decision No. 2015-4 Mrs. Edita Plūkienė, Member of Kaunas City Municipality Council, Mr. Židrūnas Garšva, Member of Supervisory Board and Mr. Audrius Lukoševičius, Director of budgetary institution “Kauno biudžetinių įstaigų buhalterinė apskaita” (Accounting of budgetary institutions of Kaunas city) as an independent members of the Company's Audit Committee and determined, that members of Audit Committee carry out their activities starting from 27 October 2015.

Full name	Position	Beginning of term	End of term*
Edita Plūkienė	Independent member of Audit Committee	27 October 2015	29 May 2019
Židrūnas Garšva	Independent member of Audit Committee	27 October 2015	29 May 2019
Audrius Lukoševičius	Independent member of Audit Committee	27 October 2015	29 May 2019
Inga Šliačkusienė	Member of Audit Committee	27 October 2015	29 May 2019
Aušra Smolskienė	Member of Audit Committee	27 October 2015	29 May 2019
Juozas Gontis	Member of Audit Committee	27 October 2015	29 May 2019

* The term of office of the Audit Committee coincides with the term of office of the Supervisory Board of the Company.

In carrying out its activities, the Audit Committee follows the internal rules of procedure of the Company's Audit Committee approved by decision No 2015-4 of 26 October 2015 of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. The Audit Committee had no sessions during the 1 half of the year 2016.

Mrs. Edita Plūkienė is a Project Manager of UAB Aksa Holdingas, Director of UAB Amžiaus Pasaka, Director of UAB Savas Kazino, and member of public organization Vieningas Kaunas, member of Kaunas city municipality council. She was elected as a member of Company's independent Audit Committee on 26 October 2015. Education – University degree, master in agricultural economy from Aleksandras Stulginskis University (1993). Mrs. Edita Plūkienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Židrūnas Garšva is a member of the Kaunas City Municipality Council, member of Committee of City Economy and Services, member of the Supervisory Board of AB Kauno Energija, General manager of UAB Dexter, member of supervisory board of Public Institution K. Grinius Nursing and Sustaining Treatment Hospital, Chairman of the Supervisory Board of Public institution Kaunas Central Clinic, also involved in personal business (activities such as head offices and management consultancy activities). He was elected as a member of Company's independent Audit Committee on 26 October 2015. Education – University degree, bachelor in economy from Kaunas University of Technology (2007). Workplaces and positions held over the last 10 years:



1996 – 2008 and from 2015 – CEO of UAB Dextera. Mr. Židrūnas Garšva holds no shares of the Company. Mr. Ž. Garšva holds the shares of UAB Dextera Holding.

Mr. Audrius Lukoševičius is Director of budgetary institution “Kauno biudžetinių įstaigų buhalterinė apskaita” Specialist of supervision of credit unions of Lithuanian Central Credit Union, voluntary assistant of member of Kaunas city municipality Rimantas Mikaitis, member of the management board of Public institution “Automobilių stovėjimo aikštelės”, member of the board of association “Kauno mažoji beisbolo lyga”. He was elected as a member of Company’s independent Audit Committee on 26 October 2015. Education – University degree, bachelor in business administration and management from Vilnius University (1998). Workplaces and positions held over the last 10 years: 08.2004–12.2013 – Manager of customer service centre at Swedbank, AB, 04.2015–12.2015 – Specialist of supervision of credit unions of Lithuanian Central Credit Union. Mr. Audrius Lukoševičius holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Inga Šliačkusienė is a Deputy Chief Accountant of the Company. She was elected as a member of Company’s Audit Committee on 26 October 2015. Education – University degree, bachelor in economy from Faculty of Economy and Management of Kaunas University of Technology (2007). Workplaces and positions held over the last 10 years: 09.2004–08.2009 – accountant of Company’s accounting department, 08.2009–05.2014 – senior accountant of the Company. Mrs. Inga Šliačkusienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs Aušra Smolskienė is a senior economist of Economy and Planning Division of the Company. She was elected as a member of Company’s Audit Committee on 26 October 2015. Education – University degree, bachelor in management and business from Faculty of Economy and Management of Kaunas University of Technology (2008), master in economy from Faculty of Economy and Management of Kaunas University of Technology (2010). Workplaces and positions held over the last 10 years: 10.2003–02.2007 – Technical secretary of Public Relations Division of the Company. Mrs. Aušra Smolskienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Juozas Gontis is a senior lawyer of the Law Division of the Department of Law and Purchases of the Company. He was elected as a member of Company’s Audit Committee on 26 October 2015. Education – University degree, bachelor in English philology from Vilnius University (1998), master in international law from Vytautas Magnus University (2002). Workplaces and positions held over the last 10 years: 08.2002–06.2010 – senior solicitor of Kaunas branch of Bank of Lithuania, 08.2010–03.2012 – lawyer of UAB Vilniaus Valda, 04.2014–11.2014 – lawyer of AB Kauno Dujotiekio Statyba, 09.2010–12.2014 – lawyer of UAB Rotada, 08.2010–12.2014 – lawyer of UAB KDS Group. Mr. Juozas Gontis holds no shares of the Company. No interest in the capital of other Lithuanian companies.

21. Members of collegiate bodies, Company’s manager, chief financier

(full name, information on participation in the authorised capital of the issuer, beginning and end dates of the term of office of each person, information on the amounts of money calculated by the issuer during the reporting period, other transferred assets and granted guarantees for those persons in total, and average values per one member of the Company’s Supervisory Board, board member, members of administration (head of the Company, senior financier), information on participation in the activities of other companies, institutions and organisations (names of the company, institution and organisation, and position title)

21.1. Information about the members of the Company’s Supervisory Board:

Members of the Supervisory Board of the Company as at 30 June 2016:

Full name	Position	Beginning of term	End of term
Visvaldas Matijošaitis	Chairman of the Supervisory Board	29 May 2015	29 May 2019
Povilas Mačiulis	Deputy Chairman of the Supervisory Board	29 May 2015	29 May 2019
Tomas Bagdonavičius	Member of the Supervisory Board	29 May 2015	29 May 2019
Visvaldas Varžinskas	Member of the Supervisory Board	29 May 2015	29 May 2019
Rimantas Mikaitis	Member of the Supervisory Board	29 May 2015	29 May 2019
Židrūnas Garšva	Member of the Supervisory Board	29 May 2015	29 May 2019
Andrius Palionis	Member of the Supervisory Board	29 May 2015	29 May 2019



The Company's Supervisory Board consists of seven dependant members, who are also the members of the Kaunas City Municipality Council, as they partially represent the controlling shareholder, i.e. Kaunas City Municipality, holding 92.82 per cent of the Company's voting shares.

2 sessions of the Supervisory Board were held during the 1 half of the year 2016. More than 1/2 of members of the Supervisory Board attended all the sessions.



Mr. Visvaldas Matijošaitis is a Mayor of Kaunas city, Member of the Kaunas City Municipality Council. He is also a founder, leader and Chairman of the board of public organization Vieningas Kaunas (United Kaunas), Chairman of the board of association Mentor Lietuva, President of association Žalgirio Fondas (Žalgiris Fund), President of Lithuanian federation of cycling, Vice-president of Council of Lithuanian economic and trade cooperation with Russian Federation of Lithuanian Confederation of Industrialists. Mr. Visvaldas Matijošaitis holds no shares of the Company. Mr. V. Matijošaitis holds the shares of Vičiūnai Group of companies.



Mr. Povilas Mačiulis is a Deputy Mayor of Kaunas city, member of the Kaunas City Municipality Council (Deputy Chairman of Committee of City Economy and Services), Deputy Chairman of Kaunas Regional Development Council, and member of the board of public organization Vieningas Kaunas (United Kaunas), Director of Public Institution Maironio Fondas (Maironis Fund). Mr. Povilas Mačiulis holds no shares of the Company. Mr. P. Mačiulis holds the shares of UAB Munava.



Mr. Rimantas Mikaitis is a member of the Kaunas City Municipality Council, Head of Public Institution Centre for Liberty Studies. Mr. Rimantas Mikaitis holds no shares of the Company. No interest in the capital of other Lithuanian companies.



Dr. Visvaldas Varžinskas is a member of the Kaunas City Municipality Council, Chairman of Committee of Sustainable Development and Investments, Docent of Environmental Engineering Institute of Kaunas University of Technology, Head of Centre of Packaging Innovations and research of Kaunas University of Technology, member of special workgroup Strategic Development of Lithuanian Packaging Industry of Small and medium-sized business council (at the Ministry of Economy of the Republic of Lithuania), member of the board of public organization Vieningas Kaunas, member of expert group of Sustainable Development and Urbanism of Kaunas city Business council, member of council of National Cluster of Renewable Energy of Baltic Littoral. Mr. Visvaldas Varžinskas holds no shares of the Company. No interest in the capital of other Lithuanian companies.



Mr. Tomas Bagdonavičius is a member of the Kaunas City Municipality Council, head of Business planning and analysis of UAB Vičiūnai Group, member of public organization Vieningas Kaunas (United Kaunas). Mr. Tomas Bagdonavičius holds no shares of the Company. Mr. T. Bagdonavičius holds the shares of UAB Baltic Fish Export.



Mr. Židrūnas Garšva is a Member of the Kaunas City Municipality Council, Head of Committee of City Economy of Kaunas City Council, General manager of UAB Dextera, Member of supervisory board of Public Institution K. Grinius Nursing and Sustaining Treatment Hospital also involved in personal business (activities such as head offices and management consultancy activities). Mr. Židrūnas Garšva holds no shares of the Company. Mr. Ž. Garšva holds the shares of UAB Dextera Holding.



Mr. Andrius Palionis is a member of the Kaunas City Municipality Council, Director of Irena Matijošaitienė fund, Director of public organization Vieningas Kaunas (United Kaunas), member of Kaunas city Youth Affairs Council. Mr. Andrius Palionis holds no shares of the Company. No interest in the capital of other Lithuanian companies.

21.2. Information on the members of the Company's Board

As at 30 June 2016 the members of the Company's Management Board were as follows:

Full name	Position	Beginning of term	End of term
Vytautas Mikaila	Chairman of the Board	1 June 2015	1 June 2019
Algimantas Stasys Anužis	Deputy chairman of the Board	1 June 2015	1 June 2019
Eugenijus Ušpuris	Member of the Board	1 June 2015	1 June 2019
Nerijus Mordas	Member of the Board	1 June 2015	1 June 2019
Giedrius Bielskus	Member of the Board	1 June 2015	1 June 2019

The Company's Management Board held 14 sessions in the 1 half of the year 2016. More than 2/3 members of the Management Board attended all the sessions.



Mr. Vytautas Mikaila is a doctor in engineering, Director of UAB MVE Group, member of Association of Heating Technicians Engineers, member of Rotary Club Kauno Tauras, honorary consul of Slovak Republic in Lithuania. Starting from 1 July 2015 – head of Company's Strategy and Investment Projects department. He is a chairman of Company's Management Board from 1 June 2015. Mr. Vytautas Mikaila holds no shares of the Company. He holds 55% of shares in UAB MVE Group. Mr. Vytautas Mikaila charged EUR 5.26 thousand of salary, EUR 1.49 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No assets were transferred or guarantees issued during the reporting period.



Mr. Algimantas Stasys Anužis is a member of the Board of UAB Kauno Švara, member of board of Kaunas Chamber of Commerce, Industry and Crafts, president of Lithuanian Veterans Basketball League, member of Company's Management Board from 1 June 2015. Mr. Algimantas Stasys Anužis holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr. Algimantas Stasys Anužis charged EUR 0.90 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No assets were transferred or guarantees issued during the reporting period.



Mr. Eugenijus Ušpuras is a habilitated doctor, chief of Laboratory of Nuclear Installation Safety, Lithuanian Energetic, full member of the Lithuanian Academy of Sciences, professor, and member of Company's Management Board from 1 June 2015. Mr. Eugenijus Ušpuras holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr. Eugenijus Ušpuras charged EUR 0.90 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No assets were transferred or guarantees issued during the reporting period.



Mr. Giedrius Bielskus is a director of public institution S. Darius ir S. Girėno Sporto Centras (S. Darius and S. Girėnas Sports Centre), member of Company's Management Board from 1 June 2015. Mr. Giedrius Bielskus holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr. Giedrius Bielskus charged EUR 0.90 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No assets were transferred or guarantees issued during the reporting period.



Mr. Nerijus Mordas is a chief finance officer for Eastern European and Asian markets of UAB Vičiūnų Grupė (UAB Vičiūnai Group), auditor of UAB E. Mordas ir Partneriai (UAB E. Mordas and Partners), deputy director (for finances) of OOO Vičiūnai-Rus, member of Company's Management Board from 1 June 2015. Mr. Nerijus Mordas holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr. Nerijus Mordas charged EUR 0.90 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No assets were transferred or guarantees issued during the reporting period.

Members of Company's Management Board until 23 March 2016:

Mr. Justas Jankauskas is a partner of lawyers' professional community Jankauskas ir Partneriai (Jankauskas and Partners). He is a practising arbitrator of Vilnius International and National Commercial Arbitration Court, also a mediator of Lithuanian Arbitration Association, member of Company's Management Board from 1 June 2015 until 23 March 2016. Mr. Justas Jankauskas holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Ramūnas Gatautis is a doctor in technology sciences, research associate of Laboratory of Energy Systems Research of Lithuanian Energy Institute, member of International Association of Energy Economists (IAEE), member of Company's Management Board from 1 June 2015 to 23 March 2016. Mr. Ramūnas Gatautis holds no shares of the Company. He holds 33 per cent of shares of UAB RENEKS. No remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued during the reporting period.

21.3. Information on the General Manager and Chief accountant of the Company:

Mr. Rimantas Bakas is a Doctor in Technical sciences. The Company's General Manager since 24 November 2008. Member of the Lithuanian Thermal Engineers Association, member of council of PI Kaunas Regional Energy Agency, member of Council of The Lithuanian District Heating Association, member of Scientific Council of Lithuanian Energy Institute, chairman of Master Qualification Committee of the Thermal and Nuclear Energy Department of Kaunas University of Technology, certified expert of the PET Lithuanian Committee on Energy approved by the Lithuanian committee of the World Energy Council, member of the Company's Board from 3 May 2011 to 2 January 2012 and from 28 September 2012 to 1 June 2015. Mr. Rimantas Bakas has a higher university education of Kaunas University of Technology, graduated in 1985, industrial thermal energy engineer. Workplaces and positions over the last 10 years: Chief Project Manager of Strategy Division of the Company 05.2003–01.2006, head of Strategy Division – 01.2006–11.2008.



Mr. Rimantas Bakas was awarded with letters of appreciation from the Lithuanian District Heating Association (2007), Lithuanian Electricity Association (2008), Lithuanian Committee of World Energy Council (2010), Minister of Energy of the Republic of Lithuania (2013), Chairman of the Seimas of the Republic of Lithuania (2013), Lithuanian Committee of World Energy Council (2013), and the 600th Anniversary medal of Kaunas City Municipality (2008), Medal of Honour of Lithuanian energetics (2011), silver-plated brassy medal of Jonas Vileišis, burgomaster of Kaunas city for the merits in development of energy economy of the city (2015).

Mr. Rimantas Bakas holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Violeta Staškūnienė is a Company's Chief Accountant since 16 January 2003. She has a University education from Vilnius University, graduated in 1984, labour economics, profession – economist. Mrs. Violeta Staškūnienė holds 2,641 of the Company's shares, which represent less than 5 per cent of the authorised capital. No interest in the capital of other Lithuanian companies.

The total amount of money incurred to the General Manager and the Chief Accountant of the Company during the 1 half of the year 2016 is EUR 56.94 thousand, and the average amount per member is EUR 28.47 thousand. No other assets have been transferred, no guarantees granted.

22. Information on significant agreements

There are no significant agreements that would come into force, change or termination in case of change in controls of Issuer (their impact as well, except cases when due to the character of agreements the disclosure of them would make a significant harm).

23. Information on agreements of the Issuer and its managerial body members or employees

There are no agreements of the Issuer or its managerial body members or employees (which provide for compensation in case of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Issuer).

24. Information on major transactions with related parties

There were no larger individual transactions. More detailed information is provided in Note 25 of the explanatory notes to financial statements.

25. Information on harmful transactions concluded on behalf of the Issuer during the reporting period

There are no harmful transactions concluded on behalf of the Issuer during the reporting period (not complying with the Company's objectives, normal market conditions, detrimental to the interests of shareholders and other interest groups etc.) which were or are likely to have an adverse effect on the Issuer's activities and (or) performance in the future, as well as information on transactions entered into in a conflict of interest between the Issuer's management, controlling shareholders or other related parties' obligations to the Issuer and their private interests and (or) other duties.

26. Information on compliance with the Governance Code of Companies and the Company's corporate social initiatives and policies

Information on compliance with the corporate governance code is provided in Annex 1 to the Annual Report of the year 2015. Annual reports on the Company's corporate social initiatives and policies are provided in Annex 2 to the Annual Report of the year 2015 named AB Kauno Energija Report on Social Responsibility and on the Company's website.

27. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information starting from 1 January 2015 over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. This information was also posted on the



website of the Issuer. All information is available on Nasdaq Vilnius websites (<http://www.nasdaqbaltic.com/market/?lang=lt>) and the issuer's website (<http://www.kaunoenergija.lt>).

Title	Announcement category	Language	Time
Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-07-29 16:00
Activity results of the 1 half of the year 2016	Notification on material event	EN, LT	2016-07-28 16:00
Convocation of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-06-30 16:44
AB Kauno Energija and UAB E energija signed an agreement on acquisition of the shares of UAB Petrašiūnų Katilinė	Notification on material event	EN, LT	2016-06-23 16:00
Regarding decision on acquisition of the shares of UAB Petrašiūnų Katilinė	Notification on material event	EN, LT	2016-06-16 17:33
CORRECTION: Resolutions of the General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-04-29 11:28
Activity results of the 1 quarter of the year 2016	Interim information	EN, LT	2016-04-28 17:06
Resolutions of the General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-04-28 16:27
Financial statements with the annual report and Social Responsibility Report	Annual information	EN, LT	2016-04-28 16:44
Convocation of General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-04-11 16:04
Convocation of General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-03-30 18:17
Audited activity results of AB Kauno Energija of the year 2015	Notification on material event	EN, LT	2016-03-30 18:16
Information on recall of the members of Management Board of AB Kauno Energija	Notification on material event	EN, LT	2016-03-24 13:50
Vilnius Commercial Arbitration Court approved a peaceful agreement between AB Kauno Energija and UAB Kauno Termofikacijos Elektrinė by which a litigation in case No. 268 was terminated	Notification on material event	EN, LT	2016-02-02 16:26
Activity results of 12 months of the year 2015	Interim information	EN, LT	2016-01-28 16:00

General Manager of AB Kauno Energija

Rimantas Bakas

