

# CONSOLIDATED ANNUAL REPORT OF AB KAUNO ENERGIJA FOR THE YEAR 2013



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

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules for presentation and delivery of periodic and additional formation of the Securities Commission of the Republic of Lithuania, we hereby confirm that, to our best knowledge, the consolidated annual report and audited consolidated and parent company financial statements of 2013 reviewed by auditors 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 annual report of 2013 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

## CONTENTS

1. Reporting period of the Consolidated Annual Report	61
2. Companies composing the group of companies and their contact details	61
3. Nature of core activities of the companies composing the group of companies	61
4. Issuer's agreements with finance broker companies and (or) credit institutions	62
5. Trade in securities of companies composing the group of companies in regulated markets (name of regulated market, amount of securities in trade)	62
6. Objective overview of the condition, performance and development of the group of companies, and description of exposure to key risks and uncertainties	62
6.1. Company's condition, performance and development overview	62
6.2. Description of exposure to key risks and uncertainties we confront with and their impact on Company's results	67
7. Analysis of financial and non-financial performance results of the group of companies, information related to environmental and personnel issues	72
8. References to and additional explanations of data presented in the annual financial statements, and key features of internal control and risk management systems relating to the preparation of the consolidated financial statements	77
9. Significant events after the end of the financial year	78
10. Plans and forecasts of activities of the group of companies	79
11. Information on research and development activities of the group of companies	80
12. Information on own shares acquired and held by the Issuer	80
13. Information on the aims of financial risk management, hedging instruments in use and subject to hedging accounting, and the scope of exposure of the group of companies to price risk, credit risk, liquidity risk and cash flow risk, provided the group of companies uses financial instruments and it is important for the assessment of assets, equity, liabilities, financial position and performance results of the group of companies	81
14. Information on the Issuer's branch office and subsidiary undertakings	81
15. Structure of authorized capital	83
16. Data on shares issued by the Issuer	84
17. Information on the Issuer's shareholders	86
18. Employees	88
19. Procedure for amending the Issuer's Articles of Association	89
20. Issuer's management bodies	90
21. Members of collegiate bodies, Company's manager, chief financier	92
22. All significant agreements, where the Issuer is one of the contractual parties, and which would come into effect, would be subject to amendments or termination in case of changes in controls of the Issuer, also their impact, except for cases where due to the nature of agreements, the disclosure of such agreements would cause significant damages to the Issuer	96
23. All agreements of the Issuer and its managerial body members or employees, which provide for compensation in case of their resignation or termination of employment on no grounds or in case their employment is terminated due to changes in controls of the Issuer	97
24. Information on major transactions with related parties	97
25. Information about 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	97



<i>(It is necessary to disclose the substance matter of significant transactions, the nature of conflicts of interest and their impact on the transaction)</i>	97
26. Information on compliance with the Governance Code of Companies and the Company's corporate social initiatives and policies	97
27. Data on publicised information	97



## LIST OF TABLES

Table 1	Dynamics of consumer connection and disconnection from the centralized heat supply network	67
Table 2	List of newly connected users	67
Table 3	Comparison of financial indicators of 2013 with the indicators of 2011–2012	72
Table 4	Comparison of non-financial indicators of 2013 with the indicators of 2011–2012	74
Table 5	Comparison of the Company's emissions to the atmosphere from stationary air pollution sources in 2013 with the amount of 2009–2012	76
Table 6	Structure of authorized share capital by types of shares	83
Table 7	History of trade in Company's securities in 2009–2013	84
Table 8	Shareholders of the Issuer, who as at 31 December 2013 owned more than 5 percent of the authorised capital of a company registered in 26 March 2010	86
Table 9	Company's shareholders as at 31 December 2013	87
Table 10	Shareholders, who as at 31 December 2013 owned more than 5 percent of Company's shares, issued in unadvertised securities circulation	87
Table 11	Changes in the number of employees in 2009–2013	88
Table 12	Education of the Group and the Company to the end of the period	88
Table 13	Average conditional number and average monthly salary of employees	88

## LIST OF CHARTS

Chart 1	Distribution of the number of Company's heat consumers by groups	62
Chart 2	Company's heat sales revenue for 2009–2013	64
Chart 3	Comparison of constant heat price components	65
Chart 4	Utilisation of investment by sources of funding	65
Chart 5	Group's and the Company's income and profit	73
Chart 6	Supply of heat to the network and supply loss	75
Chart 7	Price of heat supplied by AB Kauno Energija	75
Chart 8	Structural constituents of heat price	76
Chart 9	Income, costs and profit of UAB Pastatų Priežiūros Paslaugos	82
Chart 10	Income, costs and profit (loss) of UAB Kauno Energija NT	83
Chart 11	Historical data on prices (in euro) and turnovers in 2009–2013	85
Chart 12	Comparison of Company's share price with the index of own sector and OMX Vilnius index	85
Chart 13	Structure of shareholders as at 31 December 2013	86



## 1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Annual Report of AB Kauno Energija was prepared, is the year 2013.

## 2. Companies composing the group of companies 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 undertaking UAB Pastatų Priežiūros Paslaugos and UAB Kauno Energija NT, in which the Issuer directly controls 100 per cent of 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 Pastatų Priežiūros Paslaugos
Legal-organizational form	Private Limited Liability Company
Status of legal entity	In liquidation
Headquarters address	Savanorių pr. 347, 49423 Kaunas
Code of legal entity	300580563
Telephone	(8 37) 305 959
E-mail	info@kaunoenergija.lt
Webpage	www.p-p-p.lt
Fax	(8 37) 311 877
Registration date and place	1 July 2006, Kaunas
Register manager	Kaunas Branch of State Enterprise Centre of Registers
VAT payer code	LT100002506015

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 composing the group of companies

The nature of core activities of the Group is manufacture and delivery services. The Company is the parent company of the Group. The Company generates and distributes heat to consumers in the city of Kaunas and town of Jurbarkas and in Kaunas district (Akademija town, Ežerėlis, Domeikava village, Garliava, Girionys village, Neveronys village, Raudondvaris village), (hereinafter referred to as Kaunas district).

After amendment of provisions of the Law on Heat Sector, from 1 May 2010 the Company supplies hot water (is engaged in hot domestic water supplier activities) for part of residential apartment buildings in the



city of Kaunas and town of Jurbarkas and Kaunas district (hereinafter the supplies of heat and hot domestic water are referred to as heat, with the exception of information provided in Table 3 “Comparison of financial indicators of 2013 with indicators of 2011–2012”) to consumers who chose the Company as a hot water supplier according to legislation. As of 31 December 2013, the Company was a hot water supplier for 320 houses in Kaunas, 5 in Kaunas district and 5 in Jurbarkas. Income from hot water supplies amounts to approximately 2.7 per cent of all of Company’s sales revenue.

In addition, the Company produces electric energy in small quantities in Kaunas city and Kaunas district and steam in Kaunas city, maintains engineering structures (collectors – manifolds), and operates heat and electricity production sources. The Group and the Company carries out a supervision of indoor heat and hot water supply systems, maintenance of heat unit equipment, repairs of buildings and constructions, repairs of heat units and other heating equipment, provides rental services of transport and premises, and other services to individuals and legal entities in relation to the supervision and maintenance of heat economy. The Group and the Company are engaged in licensed activity in accordance with the licenses held.

**4. Issuer’s agreements with finance broker companies and (or) credit institutions**

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

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

As of 31 December 2013, the 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 LTL 120,191,862 (one hundred and twenty million one hundred ninety one thousand eight hundred sixty two litas) were listed in the secondary trade list of NASDAQ OMX Vilnius Stock Exchange Baltic. The beginning of listing of the Company’s shares is 28 December 1998.

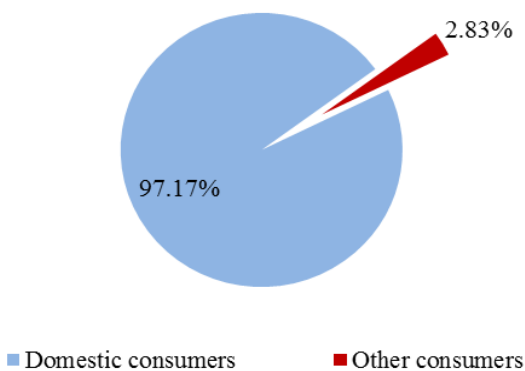
**6. Objective overview of the condition, performance and development of the group of companies, and description of exposure to key risks and uncertainties**

**6.1. Company’s condition, performance and development overview**

The Company covers a major part of heat supply market in the city of Kaunas and the town of Jurbarkas and part of Kaunas district. A total of 3,341 businesses, organizations, and 114,533 of domestic users, in total 117,874 users (objects by addresses) connected to the Company’s integrated heating and local area networks on 31 December 2013. The total of 12 new consumers connected to the Company’s heat supply network in 2013, with the total installed capacity of 2.817 MW. Distribution in the number of consumers by groups is shown in Chart 1.

*Chart 1*

**Distribution of the number of heat consumers of the company by groups**



The vision of the Group and the Company is to be a modern, effective, competitive, and added value 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 are 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:

- 50 years of experience in heat production and supplies business;
- responsibility against consumers for fail-safe heat and hot water supplies and for quality maintenance of buildings and of heating and hot water supplies systems at the lowest cost;
- high qualifications of employees, enabling to reach a highest rates of efficiency;
- ability to implement latest scientific achievements in the activities of the Group and the Company;
- close cooperation with state and municipal institutions, universities, research institutions and with academic institutions;
- ability to participate in development and implementation of scientific programs;
- reputation of a reliable, modern and solid group of companies.

Strategic goals of the Group and the Company:

- to reduce the costs of heat generation, supply, delivery of services and management in order to reduce competition in the heat production sector, reduce the final value of centrally supplied heat and hot water for customers;
- to fulfil all measures indicated in investment plans until the end of the year 2015 in order to ensure fail-safe heat supplies for customers and reduction of its costs ;
- to expand the use of renewable energy sources in the Company's heat production facilities in order to reduce the cost of heat production and fulfil the requirement of Directive 2009/28/EB to produce not less than 23 per cent of heat from renewable energy sources in Lithuanian by 2020;
- to expand the competition in the heat generation sector;
- to expand the current position of the Group companies in the market.

The Company continued its activities in the first half of the year 2013 following the strategic guidelines of Kaunas city central heat supplies, approved by decision No T-236 of Kaunas City Council of 7 April 2011 "On the strategic guidelines of Kaunas city central heat supply" and following the Strategy of Kaunas city central heat supplies accepted by decision No T-626 of Kaunas City Council of 14 November 2012 "On the approval of Strategy of Kaunas city central heat supplies".

In preparing development guidelines, 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. The Company continues to carry out the trunk pipeline replacement projects co-financed by the European Union structural funds, to optimize pipeline diameters, connect new customers to the district heating network and modernise the sources of heat production. With the start of a new period of the basic heat price approved by the Prices and Energy Control Commission (for the year 2013–2016), and changes in the regulating environment, in order to reduce the heat production costs, heat price to consumers, the Company refocused its activity development guidelines and intends to spend most part of investments to the development and modernisation of new heat generating sources from renewable energy resources.

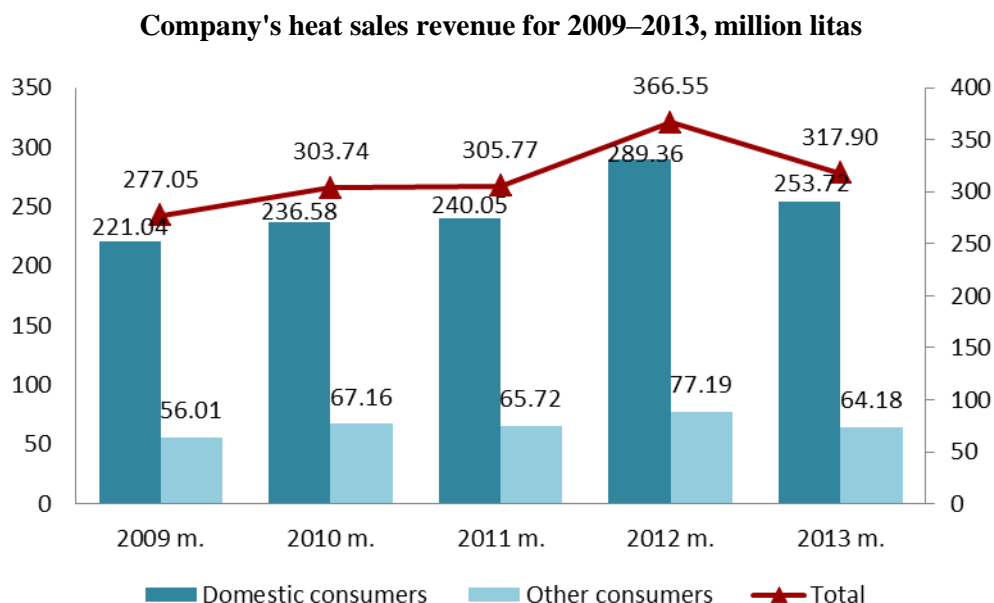
In 2013 the Group's net profit amounted to 3,019 thousand litas, the Company's profit – 1,858 thousand litas. Group's operating income amounted to 322,363 thousand litas, the Company's – 322,338 thousand litas. Majority of revenue were generated from the sales of heat: Group's – 98.62 per cent, Company's – 98.62 per cent (Heat and hot water without the cost of cold water).

The Company's income from sales of heat amounted to 317,901 thousand litas and increased by 2012 per cent compared to the first half of the year 2012 (Chart 2). In 2013, the Company's variable cost in thermal operations (fuel, purchased heat, water and electricity technology) was 13.22 per cent lower (39.5 million litas) compared with 2012. More information is given in section 7.





Chart 2



Company's investments in latest technologies (reconstruction of heat production sources, equipping them with, misers, 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), reconstruction of heat supply networks helps the Company to reduce heat supply losses, quickly adapt to changes in the market and to become an innovative company of heat and hot water supply, maintenance of heating networks and generation sources in the city of Kaunas and the town of Jurbarkas and in Kaunas district.

As the regulation settings have changed and as the National Control Commission for Prices and Energy (hereinafter the Commission) determined new constituency of the Company's heat price for the first year of validity of the base prices on 24 January 2013, the Company prepared and continued to implement the new projects of modernization of heat production sources of Kaunas city integrated network and Ežerėlis and Noreikiškės boiler-houses. The main projects: installation of new gas burning boilers, condensers (economizers) in existing heat production sources and development of bio-fuel burning projects.

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 sources, thus increasing competition in heat production sector and effectively reducing heat price for consumers.

On 24 January 2013 the National Control Commission for Prices and Energy (hereinafter the Commission) determined in its decision *ex-parte* lower components of the Company's heat price for the first year of validity of the base price. In cooperation with the Commission, the project of base heat price components submitted by the Company was corrected by determining lower expense value for repairs, wage and interests to banks for borrowing the working capital. This Commission's decision was made after the assessment of the good Company's heat supply performance indicators and an increase in operational profit. New heat price components were applied from 1 March 2013. Hot water price constituents were agreed with the Commission by decision No O3-44 of 22 February 2013 and were started to apply from 1 March 2013.

In carrying out the aforementioned Commission's decision on cost reduction for wage, the Company's Management Board in its decision No 2013-4-2 of 21 February 2013 approved a new management structure in order to reduce the number of employees and the wage fund, which came into force on 1 July 2013.

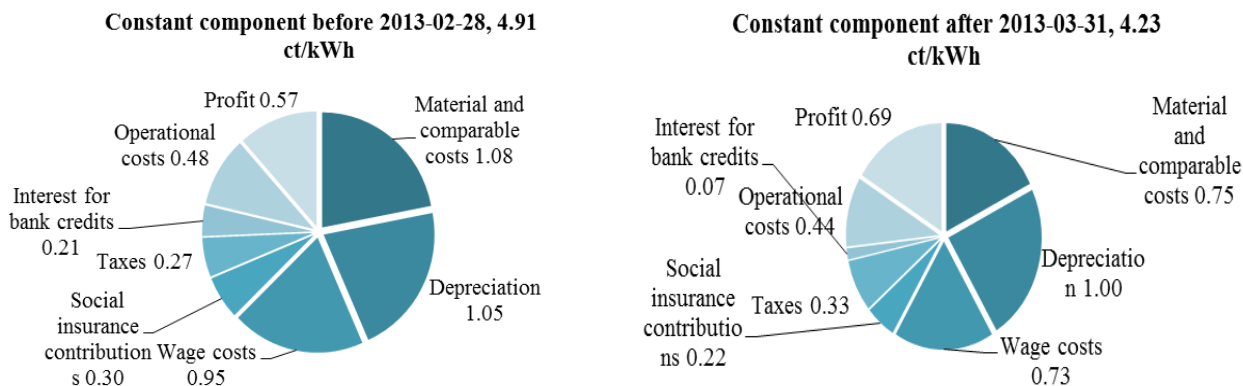
A new constant heat price constituent went down from 4.91 ct/kWh to 4.23 ct/kWh, i. e. by 13.8 per cent (LTL 10 million) due to the reduced expenses for repairs, wage and interests. A comparison of the constant



heat price constituent and valid until 28 February 2013 and of a new constituent effective from 1 March 2013 is presented in Chart 3.

Chart 3

**Comparison of constant heat price components**

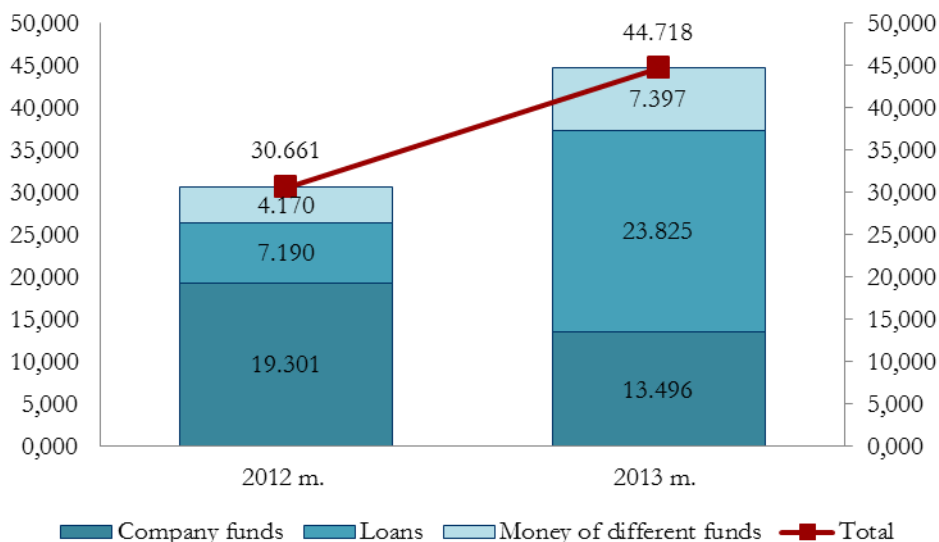


The Company makes investments in accordance with the Company's revised investment plan for 2012–2015, which was approved by decision No T-60 of Kaunas City Council of 6 February 2014 “On the revised investment plan of AB Kauno Energija for 2012–2015.” Over the period of 2012–2015, the planned investments in the Company's assets should be 188.04 million litas.

During the first half of the year 2013 the Company invested 44.718 million litas (funds from other sources, among them, i.e. 23.825 million litas are loans of commercial banks, 7.397 million litas is financial support from the European Union Structural Funds, from which 12 million litas was allocated to connect 12 new consumers to the central heat supply networks with a summary power of 2,817 MW. The Company also laid 0.893 km of new heat supply networks and reconstructed and repaired 4.789 km of heat supply networks. Company's investments by funding sources for 2012–2013 are shown in Chart 4.

Chart 4

**Utilisation of investment by sources of funding, million litas**



The change of investment uptake of the Issuer during 2009–2013 reflects changes in the amount of investment and macro-economic processes in the country and in the European Union: In 2009, the investment performance was 20.634 million litas, and the volumes of used investments in 2010 amounted to 30.242 million litas. In 2011, the investment volumes compared to 2010 increased by 16.4 per cent. In 2012, compared to 2011, investment volumes changed insignificantly and amounted to 30.661 million litas, while the Company's investments in equity in 2013, compared with 2012, increased by 45.85 per cent. Such growth of investment volume is due to the effective operations of the Company, partial investment funding from the European Union structural funds and the Lithuanian Environmental Investment Fund, improved lending conditions (interest rate stabilization), the country's economic recovery from the recession and optimistic expectations.

In 2013 the Company conducted new projects of generation source and network modernization:

- (i) In Šilkas boiler unit it installed a reserve fuel facility and reconstructed the steam boiler DKVR 10/13 to adapt it to operate on biofuel, and built a new gas boiler and flue condensing economizer in this boiler station (the project value is 5.239 million litas, the project preparatory work began in 2011). The Company built a modern new 15 MW gas fired hot water boiler, together with process control instrumentation and automation and electrical equipment (the project value is 1.908 million litas, work on the project began in 2013);
- (ii) According to the pollution reduction program for higher efficiency of heat production process supported by the Lithuanian Environmental Investment Fund (hereinafter the LEIF) in Pergalė boiler station in 2012, the Company installed the smoke condensing economizer and in 2013 installed a new 18 MW hot water boiler, connecting it to the existing economizer (value of these projects is 3.64 million litas);
- (iii) according to the special programme of climate change “Installation of biofuel boilers from 500 kW to 5 MW for district heating supply in municipalities with a total population of no more than 100 thousand” co-financed by the LEIF the Company performed Noreikiškės boiler station reconstruction, installing a biofuel-powered 4 MW hot water boiler (project value 6.58 million litas) and Ežerėlis boiler reconstruction, installation of biofuel- fired 3.5 MW hot water boiler (project value 4.63 million litas; applications were submitted in 2011);
- (iv) “Modernization of Kaunas integrated network Aukštieji Šančiai line (2Ž) (district heating pipeline from ŠK 2Ž-11 to ŠK 2Ž-15 and from ŠK 2Ž-26 to ŠK 2Ž-29, Kaunas)” (project value 4.64 million litas). This project received the funding of 1.617 million litas according to order No 4-160 of the Minister of Economy of the Republic of Lithuania of 29 March 2011 according to the facility VP2-4.2-ŪM-02-K „Modernisation and development of heat supply system“ (applied in 2010);
- (v) “Reconstruction of Kaunas integrated network Vilijampolė heat supply networks (9K) from Inkaras boiler station to Šilainiai neighbourhood” (project value 2.13 million litas). The funding of 0.595 million litas was granted for this project also according to the same order No 4-160 of the Minister of Economy of the Republic of Lithuania of 29 March 2011 according to the facility VP2-4.2-ŪM-02-K „Modernisation and development of heat supply system“ (applied in 2010);

To quickly and effectively assess the condition of pipelines and identify the most problem areas, at night of 22 April 2015 the Company applied the modern aerial aerothermography technology to check the condition of heat supply networks and their insulation, recorded cases of potential unauthorized access. This method has proved useful as the assessment of technical condition of the district heating network (hereinafter the DH) in determining priorities of renovation and investment planning. The use of aero mapping allows an objective comparison of information on underground piping insulation quality and allows making accurate investment decisions. The information obtained helps to better identify the worst and the least secure network points and to adjust network renovation plans accordingly. It also enables to identify leaking areas of underground networks, to check (specify) the locations and configuration of the underground pipelines. More accurate spatial information saves operator costs and reduces the third party pipeline emergency damage risks. Specialists conducted a rapid (express) diagnostics, including the analysis of thermal maps, and identified underground district heating network areas showing the signs of drain (leakage). After the flight the Company carried out the underground piping analysis and classification according to the released heat. Each pipeline segment has been estimated. The entire test area was about 100 km<sup>2</sup>.



On 20 January 2013, the Company became a participant of the Natural Gas Exchange. Upon launching the gas exchange, the Company has gained more flexibility in acquiring the shortage or selling excess quantities and performing contractual obligations to gas suppliers. Participation in the Natural Gas Exchange enables companies to immediately know exactly what the price of the purchased natural gas is, to avoid the “take-or-pay” treatment and balance the amount of natural gas. Natural Gas Exchange participants are natural or legal persons – the natural gas market participants (i.e., natural gas consumers, supply companies, transmission system operators and distribution system operators, storage system operators and LNG system operators) which have a valid contract with the transmission system operator, providing the balancing rules.

## 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:* inflation, increase of oil prices, 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 independent manufacturers of heat, which is regulated in the Description of procedure for purchase of heat from independent suppliers of heat. In 2003 Kaunas power plant formerly owned by the Company was sold to UAB Kauno Termofikacijos Elektrinė. It is the main, most modern and the newest source in Kaunas, the facility producing heat in co-generation mode with the lowest natural gas price (buying it from the main gas pipeline). UAB Kauno Termofikacijos Elektrinė failing to provide the investments specified in the agreement on the purchase of Kaunas power plant (Investment Agreement), with the rapid development of independent heat producers in the city of Kaunas, the main competition of the sale and purchase of heat is occurring in the high-price area. In turn, the Company invests extensively in modernization and construction of its own manufacturing sources, to reduce the comparative costs of heat production. Thus it takes advantage of the regulatory environment and reduces the energy purchase price.

In 2013, the Company bought heat of 5 independent heat producers in the city and district of Kaunas: UAB Kauno Termofikacijos Elektrinė, UAB GECO Kaunas, UAB Lorizon energy, UAB Ekoresursai and UAB ENG. Total purchases were 1,174.4 thousand MWh of heat, i.e. 81.6 per cent of heat is applied to the network (in 2012 the indicator was 86.9 per cent).

Natural gas was the Company's main fuel used for heat and electricity production in 2013 (85.41 per cent, in 2012 – 92.43 per cent). Changing fuel prices affect the price of the Company's combined heat and power production and the heat purchased from UAB Kauno Termofikacijos Elektrinė which in 2013 was the dominant source of production (heat purchased from UAB Kauno Termofikacijos Elektrinė amounted to 79.8 per cent of the total purchased heat).

*Economic factors:* The Company is a major supplier of the heat produced centrally to the town of Jurbarkas and the city of Kaunas, and part of Kaunas district. In order to maintain this, it is necessary to adapt to the changing heat supply conditions and continue the implementation of modern and efficient technologies in the production of heat, to focus on the reliable supply at the lowest cost, benefiting from private differences of different types of fuel and delivery of quality service to consumers.

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.



Dynamics of consumer connection and disconnection from the centralized heat supply network is presented in Table 1.

Table 1

	Power in 2009, MW	Power in 2010, MW	Power in 2011, MW	Power in 2012, MW	Power in 2013, MW	Power in 2009-2013, MW
Consumer disconnections	1.95	1.10	3.183	2.242	4.813	13.288
Consumer connections	1.29	10.14	2.02	8.022	2.817	24.289

A total 12 new customers were connected to the Company's heat supply networks during 2013 including new shopping centres in Šiaurės prospektas and T.Masiulio g. 16E, a residential apartment building developed by UAB YIT Kausta būstas, an office building at V. Krėvės prospektas, catering premises at Vilniaus g. The total installed thermal power of these four customers alone is in excess of 2.15 MW. The total installed capacity of the facilities connected to the DH over the year is more than 2.8 MW. The list of newly connected users is given in Table 2.

Table 2

No	Heat user's name	Address	Power, MW	Heated area, m <sup>2</sup>
1	UAB Via Baltika dvaras, conservatory	Pilies takas 1, Raudondvaris, Kaunas district	0.075000	556.14
2	UAB Hes-Pro Vilnius	A. Baršausko g. 66D, Kaunas	0.078000	271.53
3	UAB Kauno saulėtekis	Šiaurės pr. 8D, Kaunas	0.928000	5,294.00
4	UAB Lanigera, Maxima shopping centre	T. Masiulio g. 16E, Kaunas	0.416000	3,134.40
5	UAB YIT Kausta būstas, apartment house	Biržiškų g. 1E, Kaunas	0.405000	2,504.41
6	UAB Homes in the Wood	V. Krėvės pr. 120A, Kaunas	0.226000	1,882.18
7	UAB Optina	Vilniaus g. 10, Kaunas	0.240000	959.46
8	Rima Skujienė, non-residential building, boiler station	Kalniečių g. 186A, Kaunas	0.065000	110.76
9	Vytautas Siaurys, non-residential building, boiler station	Pramonės pr. 36A, Kaunas	0.086000	95.33
10	UAB Algiro, hotel	Savanorių pr. 120, Kaunas	0.238000	807.75
12	Kaunas city social service centre	V. Krėvės pr. 9A, Kaunas	0.060011	607.36
<b>Total:</b>			<b>2.817011</b>	<b>16,223.32</b>

*Risk of decline in consumption:* Company's performance is affected by the decline in sales due to reduced heat demand, high effect of changes in fuel prices to the price of heat, and these connections of consumers. Risks can be mitigated by the Company investing in renewable energy sources using heat and electricity production facilities, promotion of competition in the heat production industry, thereby reducing the heat production cost and the price of heat offered for consumers, educating consumers about the benefits of district heating systems in comparison with autonomous heating.

The effects of other competing companies in the heat supply sector with the Company are disconnection of consumers from the district heating system. During 2013, consumers disconnected 4.813 MW installed power plant from it changing the type of fuel to gas, electricity or other fuels, and equipping alternative



sources of heat generation. Heating equipment disconnection from the district heating networks 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 amendment approved by order No 1-191 of 20 July 2011, 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.

*Financial /economic risk:* User solvency decline and 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. Currently, the interest rates are stable.

In 2013 the economic growth, the solvency of the heat consumers enabled customers to reduce their debts. During 2013 compared with 2012, heat consumer debts fell by 13.72 per cent, from 129.858 million litas in 2012 to 112.036 million litas in 2013. This was resulted from the decline of heat rates due to lower fuel prices and competition increase in heat industry, the better Company's operating efficiency and investment in heat generation sources and supply systems. In 2013 compared with 2012, debts of educational institutions funded by the Kaunas city municipal budget increased by 0.796 million litas, i.e. from 18.459 million litas in 2012 to 19.255 million litas in 2013. In 2012, the 10 million debt repayment schedule was made providing the start of debt repayment from 2014. On 3 December 2013 the amendment of the agreement was signed by transferring the final deadline of settlement to 2015. In 2013, the agreement on short-term credit of 10.567 million litas was signed by refinancing the repayment of debts of Kaunas municipality for heat.

In order to recover these debts as soon as possible, the Company uses a variety of active debt management measures, cooperating with debt collection companies, and introducing other new instruments.

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, does not cooperate with the Company, it is then applies to the court for the award of the debt. In such case the debtor must pay not only the debt but also the court and execution costs.

Information on debtors avoiding timely payments is passed to the Creditinfo debtor administration information system according to the laws where all of its participants (different service providers) can see and evaluate the person's solvency. A debtor listed in this database is assigned to a group of unreliable payers and may have difficulties in the future to get a credit, to sign a leasing contract, or, for instance, to become a mobile communication subscriber.

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 sources.

*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.

In 2013, Lithuania adopted a new methodology for calculating the prices of heat, in force since 1 January 2014. Also, the National Control Commission for Prices approved a new Schedule of heat purchase from



independently producers enabling the Company to take part in the heat purchasing auction with its manufacturing resources.

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 as the Company has invested 61.8 million litas to the upgrade of from 1997.

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.

The main risks and uncertainties of the financial operation of the company are provided in Notes 2.25, 2.26 and 23 to the financial statements of the Company for the year 2013 and consolidated statements of AB Kauno Energija.

*Social factors:* social factors that have had an impact on the Company's operations in recent years include the decline in the number of users, slight degree of growth in real consumer income (purchasing power), unemployment and building negative opinions about district heating and of the Company in the public domain.

Decline in the number of consumers in 2013, compared to 2012, from 118,104 in 2012 to 117,874 in 2013, was determined by the disconnection of user equipment from the district heating system. During 2013, the number of Company's heat consumers decreased by 242 (mostly households). However, 12 new consumers were connected to the Company's district heating network during the same period, with a total consumption of 2.817 MW capacity (mostly businesses with large buildings, i.e. heated areas).

*Social risk:* The Company's activities are most important to many Kaunas region residents and businesses due to the relatively high costs for heating and hot water (as measured in terms of Lithuania, the Company's district heating price was close to the average among all heat supply companies in 2013). This risk is mitigated by raising the awareness of consumers about the Company's activities in order to ensure quality services and greater attention to consumers. The Company receives most complaints for the amount of charges for heat. In order to analyze 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 users 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, and also to mitigate the negative image of the heat suppliers promoted by the media.

*Technical and process factors:* greatest process risks are so shaded with the condition of heating systems. A majority of the Company's trunk pipelines are about thirty years old. Hydraulic testing identifies their weakest points. Every year, about 300 points where cracks occur are identified during the tests. Upon discovery of defects, pipes are exposed and promptly repaired.

Other maintenance work is carried out along with pipe repairs. Each year, leaking shutoff valves are replaced in heat chambers – valves, to which the heating media supply is disconnected in part of the city's neighbourhoods. These works are carried out by the Company out of its own funds.

Trunk heating networks in the most worn out places are reconstructed through the use of support from the EU Structural Funds. In 2013, the Company implemented 2 projects of the trunk heating network reconstruction: “Modernization of Kaunas integrated network Aukštieji Šančiai line (2Ž)” and



“Reconstruction of Kaunas integrated network Vilijampolė heat supply networks (9K) from Inkaras boiler station to Šilainiai neighbourhood”. A total of 1.618 million litas of European Union structural funds were used for the reconstruction of the trunk line in Aukštieji Šančiai and 0.595 million litas for the district heating pipeline in Vilijampolė. The total value of these projects was 4.641 million litas and 2.133 million litas, respectively.

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 sources is the age of heat production facilities. Each year, boiler repairs and preventive work is carried out during the non-heating season. The Company also invests in the renovation of production sources. More information on the Company's production and investment in the modernization of sources is provided in sections 6.1 and 7.

Process risk can be reduced by reconstructing the sources of heat production and supply pipelines, utilizing the latest and advanced technologies and thereby increasing the efficiency of the thermal system. 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, in its activities 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/EC of regulating energy emissions and Lithuanian environmental normative document LAND 43-2001 for the use of natural resources, and releases and emissions of air pollutants to the environment. 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. In 2013, there have been no pollution-related incidents and the Company was not imposed any penalties.

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 2013, the fuel balance was dominated by natural gas – 84.93 per cent, turf – 2.59 per cent, biogas – 1.36 per cent, sawdust – 0.07 per cent, biofuels of wood origin – 11.05 per cent, diesel – 0.002 per cent).

*Bank loan repayment:* more on this issue is presented in Note 11 to the explanatory notes of financial statements of AB Kauno Energija for 2013. The Group and the Company repay the loans on time.

One of the most important objectives of the Company is to upgrade the heat supply networks, as the Company's heat supply networks are being operated for an average of about 30 years and are heavily worn out, and to modernize the heat production sources. 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 of the group of companies, information related to environmental and personnel issues

It has been planned that in 2013, the core business sales revenue will be slightly lower due to reduced heating prices; the amount of heat sold to consumers will remain the same as in 2012. Sales revenue from the main activities, compared with 2012, is 12.75 per cent lower. This change was mainly affected by the price of heat, the main part of it contains of purchased heat and fuel component. In 2013, the average price of heat (27.01 ct/kWh) was 7.9 per cent lower than in 2012 (29.33 cents/kWh). The amount of salt heat in 2013 compared with 2012 was 5.8 per cent less, and the average annual temperatures were 0.23 °C higher. During the heating season 2013, the average outdoor air temperature was 0.02 °C and in 2012 -1.15 °C.

Comparison of financial indicators of 2013 with the indicators of 2011–2012 is presented in Table 3.

*Table 3*

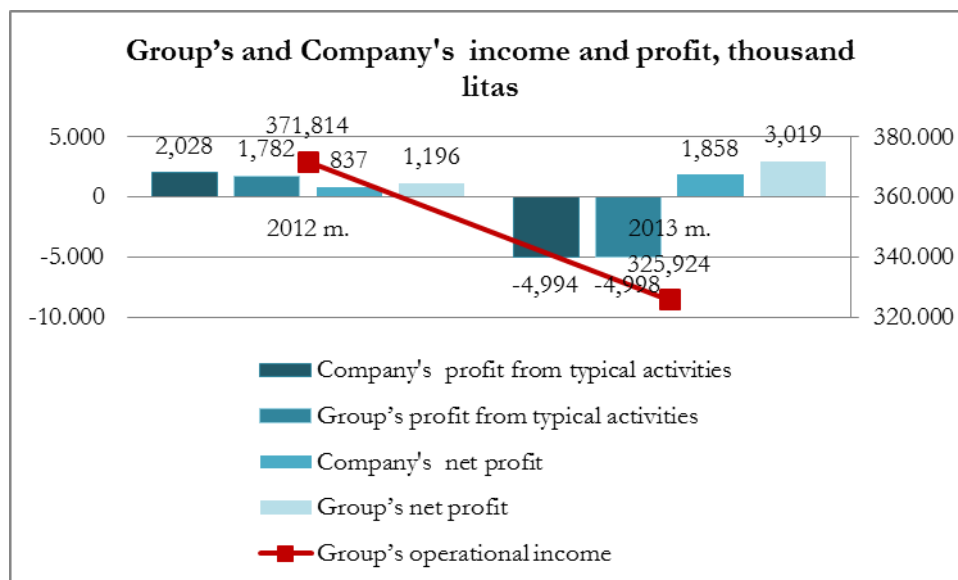
No	Indicator name	Company 2011	Group 2011	Company 2012	Group 2012	Company 2013	Group 2013
1	Net profitability,% (net profit /sales and services)*100	4.4	4.4	0.2	0.3	0.6	0.9
2	Return on tangible assets,% (net profit/average value of tangible assets)*100	4.1	4.1	0.2	0.4	0.5	0.9
3	Debt ratio (liabilities /assets)	0.34	0.34	0.41	0.42	0.41	0.41
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.5	0.7	0.7	0.7	0.7
5	General liquidity ratio (short-term assets / short-term liabilities)	0.97	0.96	0.85	0.85	0.70	0.69
6	Asset turnover ratio ( sales and services/ assets)	0.74	0.75	0.82	0.83	0.72	0.72
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand litas	33,009	33,246	20,814	21,239	20,741	22,042
8	Profitability of core business, per cent (operating profit/sales and services)* 100	2.4	2.4	0.2	0.2	-2.2	-2.1
9	Return on equity (ROE)% (net profit/average equity)*100	5.0	5.1	0.3	0.4	0.7	0.9
10	Return on assets (ROA)% (net profit/ average assets)*100	3.3	3.3	0.2	0.3	0.4	0.7
11	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.91	0.90	0.82	0.81	0.66	0.66
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.08	0.08	0.05	0.05	0.02	0.02
13	Net earnings per share (net profit/average weighted number of shares in issue)	0.31	0.32	0.02	0.03	0.04	0.07
14	Net profit, thousand litas	13 442	13 540	837	1 196	1 858	3 019
15	Assets, thousand litas	416,069	412,255	450,407	447,221	450,175	447,787
16	Equity, thousand litas	274,027	270,682	264,181	261,195	266,039	264,214
17	Equity per share, litas	6.4	6.3	6.2	6.1	6.2	6.2
18	Revenue from sales, thousand litas	308,622	309,345	369,462	369,723	322,338	322,363
18.1	Of them: Heat energy	302,893	302,842	362,728	362,667	311,632	311,576
18.2	Electric energy	568	568	460	460	767	767



No	Indicator name	Company 2011	Group 2011	Company 2012	Group 2012	Company 2013	Group 2013
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	515	1 289	399	721	199	280
18.4	Income from the maintenance of collectors	866	866	775	775	779	779
18.5	Hot water supply including cold water price	3,725	3,725	4,818	4,818	8,612	8,612
18.6	Income from maintenance of hot water meters	55	55	282	282	349	349
19	P/E ratio (last share market price of the year /(net profit/number of shares at year-end)	3.84	3.82	101.90	71.32	46.78	28.79
20	Share capital, thousand litas	256,392	256,392	256,392	256,392	256,392	256,392
21	Share capital-to-assets ratio	0.62	0.62	0.57	0.57	0.57	0.57
22	Return on equity (capital), per cent (net profit/ capital and reserves)*100	5.2	5.2	0.3	0.5	0.7	1.2
23	Dividend payment ratio (dividend per share/earnings per share)	0.79	0.78	0.00	0.00	0.00	0.00

Comparison of the Company's financial results for the year 2013 (sales revenue, operating profit, net profit) with those for the first half with 2012 is given in Chart 2012.

Chart 5



The Group's and the Company's profit of 2013 compared to 2012 is higher because of the decision of Vilnius Commercial Arbitration Court for the award of 7.054 million litas fine from UAB Kauno Termofikacijos Elektrinė for its failure to perform its obligations under the Investment Agreement.

Since 1 July 2013 the Company pays to UAB Kauno Termofikacijos Elektrinė a service fee for guaranteeing the reserve power, i.e. 1.009 million litas per month. Since 1 August 2013, the fee is included in the price of

heat sold to consumers (0.75 cents/kWh), but according to the heat sold in July-December 2013, in 2013 the Company paid to UAB Kauno Termofikacijos Elektrinė 3 million litas more than in the fees collected from users. Consumers will have to cover the difference during 2014–2015.

The Group and the Company accounts impairment loss in doubtful receivables. Change of impairment loss in doubtful receivables in 2013 in the Group's and the Company's general income statements is included in the item of the cost of changes in the impairment of receivables and in 2013 amounted to 9.982 and 10.151 million litas, accordingly (5.896 and 6.210 million litas in 2012). During 2013, the Group and the Company wrote off 3.254 million litas (in 2012 – 1.414 million litas) of bad debts. During 2013 the Group and the Company received 0.015 million litas (in 2012 – 0.017 million litas) of bad debts which were written off in prior years.

The Company's profits decline also because of the maintenance costs of individual heating units owned by the Company, where, 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 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. From 1 November 2011 in accordance with the law, the cost of heating substation equipment maintenance and repair are not included in the sale price of heat.

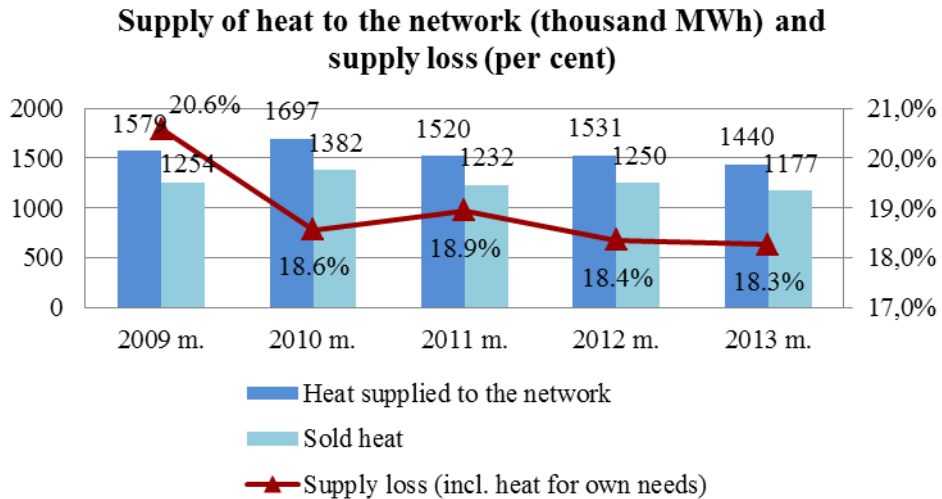
A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to Financial Statements for the year 2013.

Comparison of non-financial indicators of 2013 with the indicators of 2011-2012 is presented in Table 4.

Table 4

No	Indicator name	Measure units	Company 2011	Group 2011	Company 2012 y.	Group 2012	Company 2013	Group 2013
1.	Energy produced and purchased: of which supplied to the network	thousand MWh	1,521.8	1,521.8	1,532.9	1,532.9	1,442.2	1,442.2
1.1.	thermal energy	thousand MWh	1,519.8	1,519.8	1,531.4	1,531.4	1,439.8	1,439.8
1.2.	electric energy	thousand MWh	2.0	2.0	1.5	1.5	2.4	2.4
2.	Energy sold	thousand MWh	1,233.9	1,233.7	1,251.4	1,251.2	1,179.3	1,179.1
2.1.	thermal energy	thousand MWh	1,231.9	1,231.7	1,249.9	1,249.7	1,176.9	1,176.7
2.2.	electric energy	thousand MWh	2.0	2.0	1.5	1.5	2.4	2.4
3.	Reconstructed heat supply networks	m	8,990	8,990	7,970	7,970	4,789	4,789
4.	Newly built heat supply networks	m	1,317	1,317	1,496	1,496	893	893

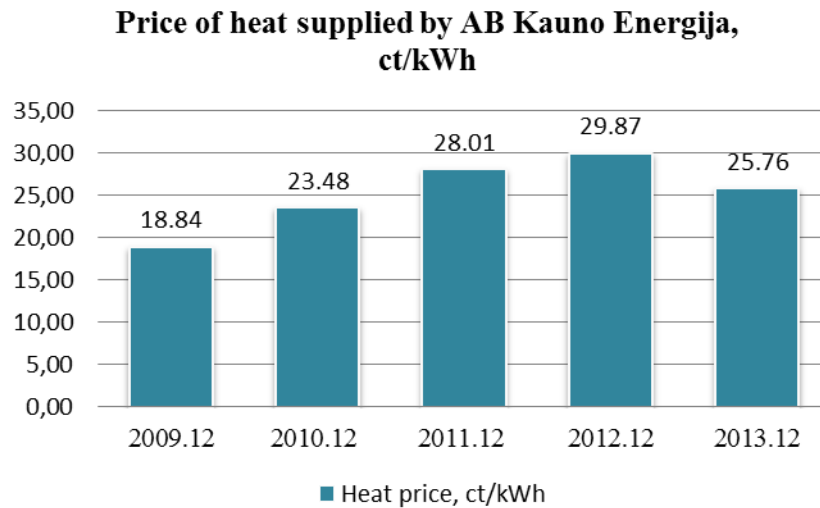
Chart 6



*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 or lower outdoor temperature during the heating season, changes in fuel prices, heat purchase price from independent producers.

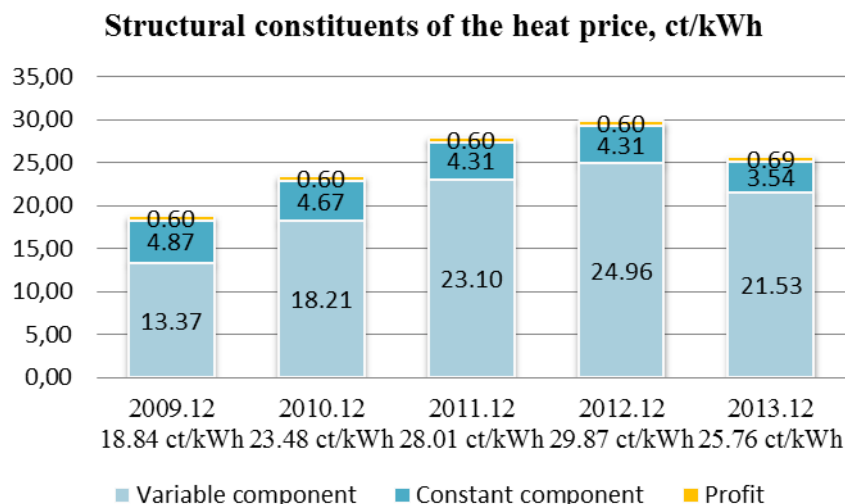
The dynamics of heat prices in the Company in 2009–2013 are presented in Chart 7.

Chart 7



Components of Company's heat price structure during 2009–2013 are given in Chart 8.

Chart 8



*Information related to environmental issues.* In carrying out their activities, the Group and the Company seek to prudently use natural resources, introducing less polluting technologies, complying with the environmental legislation and applying preventive measures to minimize the negative impact on the environment.

*Waste management.* The Group and the Company have organized the waste collection, sorting and transfer of them to waste managers, i.e. to licensed waste management businesses. In 2013, the Group and the Company transferred for recycling 274.900 tons of mixed municipal waste, 85 tons of ash, 316.550 tons of scrap metal, 1.320 tons of used tires, and 0.160 tons of fluorescent lamps.

*Wastewater management.* In accordance with the schedule agreed with Kaunas Regional Environmental Protection Department, the Group and the Company constantly monitor that the effluent discharges from stationary sources are within the permissible limits set out in the integrated pollution prevention and control permits.

*Air pollution.* The measurement laboratory of stationary air pollution sources of the Group and the Company, having the permit issued by the Environmental Protection Agency, continuously monitors that the emissions to the atmosphere from stationary sources are within the permissible limits established in integrated pollution prevention and control permits. Boiler stations of Šilkas, Ežerėlis, Girionys and Noreikiškės use biofuels, thereby reducing atmospheric pollution. Below in Table 5 you will find the comparison of the Company's emissions to the atmosphere from stationary air pollution sources in 2013 with the amount in 2009-2012.

Table 5

Pollutant name	Particulates	Nitrogen oxides	Carbon monoxide	Sulphur dioxide	Hydrocarbons	Vanadium pentoxide	Other pollutants
Pollutants in 2013, t	10.5967	101.3197	299.6656	5.0747	14.9647	0.0000	0.770
Pollutants in 2012, t	7.6130	54.3160	135.1510	6.0280	1.2080	0.0000	0.4397
Pollutants in 2011, t	7.2641	57.0909	125.3107	6.1983	3.0555	0.0000	0.4397
Pollutants in 2010, t	8.4833	65.8444	146.8925	7.3386	2.6571	0.0000	0.4397
Pollutants in 2009, t	9.7000	72.7000	179.8000	8.9000	3.4000	0.0000	0.4000



At boiler stations of Šilkas, Ežerėlis, Girionys and Noreikiškės, smoke is cleaned from particles in cyclones, and their working efficiency is checked every year. The Company is involved in the greenhouse gas emissions trading system. This system includes pollution trade allowances (ATL) appointed to Petrašiūnai power plant, Šilkas, Pergalė, Garliava, Jurbarkas boiler stations and Noreikiškės boiler station with a CHP plant.

*Human resource information.* In optimising the Company's Management Board and management, and seeking for greater efficiency of performance and ongoing processes in the operating results of structural division, in 2013 the Company's administration carried out all actions provided for in the legislation of the Republic of Lithuania for implementation of changes in the organisation of labour related with decision No 2013-4-2 of the board of the Company of 21 February 2014 "On approval of the management structure of AB Kauno Energija" and decision No 2013-7-2 of 22 March 2013 "On approval of position titles of AB Kauno Energija". The new management structure was introduced in the Company from on July 2013.

The Company has set up a new structural unit – an internal control group with the aim to control the Company's structural unit organization, and implementation of tasks and functions.

Upon entry into force of the new management structure, the Company optimized the working functions of structural units, eliminated 36 posts and reduced the wage fund.

On 24 January 2013 the Company's Employee Conference approved the Company's collective agreement, which aims to enable coordinated team efforts to ensure the efficient operation of the Company and representing all Company's employee rights and legitimate interests. The collective agreement specifies the conditions and guarantees of work, wages, social, economic and professional conditions and guarantees, which are not governed by laws and other legal acts, but which improve and ensure the labour, economic and social conditions of personal.

On 31 December 2013 the Company updated its rules of procedure, with the aim to define the Company's operating procedures, discipline, work and rest regime, wages, confidential information, employee safety, health and behavioural requirements.

The Company also aims on focused development of staff and improvement of their skills; therefore employees are encouraged to attend training courses and thematic conferences. During vocational training the staff upgrades their knowledge required for work and necessary qualification certificates.

The Company actively cooperates with educational institutions and allows higher school students to perform their field practice at the Company, to apply theoretical knowledge and gain practical skills.

Taking into account the recommendations of the Company's Audit Committee in 2013, the Company initiated the procurement of independent external assessment of the Company's internal control system which will include the detailed analysis of all Company's internal control elements and the system as a whole, and its efficiency, determining the efficiency and validity of the current Company's internal control system. It will also prepare findings and recommendations for the improvement of the system, and aiming for higher operational efficiency of the Company's structural units and employees.

In order to enhance the performance, since 2012 the Company evaluates the performance of its personnel every year. The main goal of such assessment is to evaluate the employee skills and abilities to perform the job functions assigned in their job regulations, to carry out a proper assessment of the activities of employees, to provide feedback about the fulfilment of objectives, to increase the employee loyalty and satisfaction with their work, encouraging them to excel. The main outcome of this process is the information allowing better coordination of the Company's activities and encouragement of employees to improve their work performance. The annual performance evaluation of Company employees, who work under the contracts, is carried out on a regular basis.

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

All main financial data of the Group and the Company are presented in the explanatory notes to the consolidated financial statements and financial statements of AB Kauno Energija for the year 2013.

*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.

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 financial year

On 6 January 2014 the extraordinary meeting of shareholders of AB Kauno Energija was held. It was attended by and voted in writing by 3 shareholders (controlling holding of 42,018,465 ordinary shares of the Company, representing 98.33 per cent of the voting stock number), who decided:

- to increase the share capital of open limited liability company Kauno Energija by LTL 420,996 (four hundred twenty thousand nine hundred and ninety six litas) from LTL 256,391,862 (two hundred and fifty- six million three hundred and ninety one thousand eight hundred and sixty two million litas) to LTL 256,812,858 (two hundred and fifty six million, eight hundred and twelve thousand eight hundred and fifty eight million litas) by issuing 70,166 (seventy thousand one hundred and sixty six) ordinary shares with par value of LTL 6 (six litas), the issue price of which is equal to the nominal value of the share.
- to revoke the pre-emptive right to all shareholders to acquire newly issued 70,166 units of ordinary nominal shares of the open limited liability company Kauno Energija with par value of 6 litas the issue price of which is equal to the nominal value of the share, by granting the right to acquire these shares to Kaunas City Municipality, code 111106319, Laisvės al. 96, Kaunas, so that Kaunas City Municipality can transfer to open public company Kauno Energija the heat supply – heating networks line owned by the municipality (Karaliaus Mindaugo pr. 50, Kaunas, unique No 4400-2125-5130).
- to amend the articles of association of open limited liability company Kauno Energija by issuing their new version, and authorise the director-general open public company Kauno Energija Rimantas Bakas to sign the amended text of the articles of association of the open public company Kauno Energija (attached).
- to revoke Valys Venslovas from the Supervisory Board of open limited liability company Kauno Energija.
- to elect Židrūnas Garšva to the members of the Supervisory Board of open limited liability company Kauno Energija.
- to allocate up to LTL 1,000,000 (one million litas) support for public institution Žalgiris basketball centre (company code 302811111), including this amount of support to the audited project of allocation of operating profit (loss) of AB Kauno Energija for the year 2013.

The board of AB Kauno Energija, taking into account the proposals of UAB Fortum Heat Lietuva on strategic cooperation, in its decision No 2014-2-3.2 of 22 January 2014 “On negotiations with UAB Fortum Heat Lietuva” decided to initiate consultations with UAB Fortum Heat Lietuva on the proposed strategic investment of UAB Fortum Heat Lietuva in AB Kauno Energija. Report on the results of consultations will be presented to the board of AB Kauno Energija for consideration, and deciding on subsequent implementation, and coordination of the terms of preliminary agreements with the shareholders of AB Kauno Energija.

On 30 January 2014 AB Kauno Energija received a notice that the Vilnius Court of Commercial Arbitration make a decision on 27 January 2015 in case No 266 in which it is dismissed the claims of the plaintiff UAB Kauno Termofikacijos Elektrinė against the defendant AB Kauno Energija on the award from the defendant of debt of 1,193,978.52 litas for heating in December 2012, January 2013, 145,713.63 litas of delay interest, procedural interest and litigation costs. At the same time, 26,430.86 litas of arbitration costs were awarded in favour of AB Kauno Energija from the plaintiff. The dispute arose because of the heat purchase prices. According to the plaintiff, AB Kauno Energija hatch to purchase heat from UAB Kauno Termofikacijos Elektrinė at the higher price than the price of the comparative heat production cost offered by



AB Kauno Energija, but the arbitration tribunal rejected these claims of the plaintiff. The said decision is final and binding on the parties of the dispute, and became effective from the moment of its adoption. UAB Kauno Termofikacijos Elektrinė acknowledged the decision and did not file an appeal to the Lithuanian Court of Appeal.

On 20 March 2014 the State Enterprise Centre of Registers, Kaunas branch registered the new version of the Company's Articles of Association.

On 25 March 2014 it completed the audit of the financial statements for the year 2013. It was performed by the accounting and control UAB Auditas (Auditor Certificate No 001234). In 2013 the financial statements were audited with the independent auditor's report thereon, which is presented along with this Annual Report.

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

The aim of the Group's and the Company's investment program for the year 2014 is to further develop the Company's heat production, transmission and distribution through increase of use of bio-fuel for heat production, heat supply reliability, expansion of maintenance services of engineering systems and improvement of 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 sources and heat supply networks, to guarantee the quality keeps apply to consumers, the Company adjusted its "Investment plan for the year 2012–2015 and is financing sources" according to which it plans to invest 188.04 million litas.

The main investment goals of the Company for 2013–2016 regulation periods are as follows: to decrease heat production costs in existing sources, increase the share of cheaper types of fuel (bio-fuel) in the total fuels, increase the capacity of own sources until full satisfaction of power demand. In November 2013 the Company signed tripartite agreements with the Ministry of Economy and public institution Lithuanian Business Support Agency for the financial support from the European Union structural funds, which will grant 15.99 million litas support of the EU SF to the following projects: "Šilkas power plant reconstruction, replacing the fuel type to biofuels (stage II)" (total project value 8.1 million litas, support 3.99 million litas), "Petrašiūnai power plant reconstruction, replacing the fuel type to biofuels (stage I)" (total project value is 25.0 million litas, support 6.0 million litas), "Inkaras boiler-house reconstruction, replacing the fuel type to biofuels" (total project value is 15.0 million litas, support 6.0 million litas). These projects should be implemented in 2014-2015: installation of two 8 MW biofuel-fired hot water boilers with 4 MW condensing smoke economizer (total capacity of 20 MW) in Inkaras boiler station, replacement of boiler 1 for 2 biofuel-fired 12 MW hot water boilers and installation of 6 MW condensing economizer (total capacity 30 MW) in Petrašiūnai power plant, installation of 8 MW biofuel boiler for water heating and 4 MW condensing economizer in Šilkas power plant.

In 2014, the Company will carry out the following heating network reconstruction projects supported by the European Union funds: "Modernisation of Kaunas city integrated network trunk 5T", "Modernisation of Kaunas city integrated network trunk 6Ž", "Reconstruction of Kaunas city 1Ž trunk between the heat chambers 1Ž-7 and 1Ž-8 and the heat chambers 1Ž-10 and 1Ž-12 at Chemijos g.", "Reconstruction of Kaunas city trunk 3Ž between the heating chambers 3Ž-9 and 3Ž-9-5 at A. Baranausko g.", and "Reconstruction of Kaunas city trunk 4Ž between the heating chambers 4Ž-10 and 4Ž-15 at Taikos pr.". The implementation of these projects will allow upgrading 2.24 km of Kaunas city heat supply networks. These projects will be supported by 6.59 million litas from the EU Structural Funds under according to the facility VP2-4.2-ŪM-04-K "Modernization and development of heat supply system" of Priority 4 "Basic Economic Infrastructure" of the Economic Development action Programme.

10 MW condensing economizer will be built in Petrašiūnai power plant in 2014. The new plant will be built to an existing 100 MW gas boiler PTVM 100. The device will allow for about 10 per cent reduction in fuel consumption for the same amount of heat produced. The total installed capacity of the two units will be 110





MW. Along with the new economizer the Company will equip an automatic boiler control system. Installation of the economizer will increase its overall efficiency and the boiler efficiency, which will be about 105 per cent. The existing boiler flue PTVM 100 will be adapted for operation with the economizer (cost of the project – 5.4 million litas).

All of the above mentioned investment projects are included in the adjusted investment plan for the year 2012–2015 of AB Kauno Energija and its financing sources, approved by Kaunas City Municipality Council on 17 November 2012 in its decision No T-60. The projects are launched successfully and will be finished in 2014–2015.

In addition to the above mentioned projects the implementation of Company’s investment program in 2014 will involve further modernization of boiler-houses owned by the Company automating the production process and mounting condensers (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.

In 2013, the Company offered the services of power object operator. Heating equipment repairs and other services help the Company earn additional income. Expanding of these additional activities in the future, offering energy saving services and earning additional income in other ways offer new possibilities of the growing heat price compensation due to the future decrease in heat sales, related to the renovation of buildings.

It is planned that by 2014, compared with 2013, the Group's sales revenue will be lower due to the reduced heating rates; the amount of heat sold to consumers will remain the same as in 2013. 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 will remain at a similar level compared with 2013. 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**

Following the provisions of the Law on Heat Sector of the Republic of Lithuania and allowing development of competition in the heat production sector, the Company initiated and continues to develop the work “Preparation of regulations of implementation of procedure for centrally supplied heat purchase” (hereinafter the Heat Networks Code), describing the existing and foreseeing the future requirements of connection of independent heat producers to the central heating networks system and the principles, ways and processes of heat selling and purchase. It is also offers the measures to be implemented for transparent and fluent trade with independent heat producers. It describes the principles, provisions and concepts of the organizational structure of heat market, process regulations of central heat supplies systems functioning, order of hear energy trade, regulations of rendering of central heat supplies services and reimbursement, regulations of central heat supplies development, regulations of reserves accumulation and use, central heat supplies system functioning for accidents or repair, resolution of disputes. Currently, the document is submitted for consideration to Kaunas City Municipality.

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

The Company does not hold its own shares. The Company’s subsidiary has not purchased any of the Company’s shares. Neither the Company nor its subsidiary has purchased or sold own shares during the reporting period.



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

All relevant information on this issue is presented in Notes 2.11, 15, 23, 24 to the consolidated financial statements for the year 2013 of AB Kauno Energija and the Company.

**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. 11, 4430 Jurbarkas. The Company's branch produces and sells heat to consumers in the town of Jurbarkas.

The Company's branch Jurbarko Šilumos Tinklai had 36 employees as at 31 December 2013.

On 1 July 2006 the Company registered a subsidiary Pastatų Priežiūros Paslaugos, headquarters address Savanorių pr. 347, 49423 Kaunas, company number 300580563.

On 31 December 2013 an authorised capital of the subsidiary in the amount of 10,000 litas was registered at the Register of Legal Entities and was divided into 100 ordinary nominal shares at the par value of 100 litas each, of ordinary nominal shares of UAB Pastatų Priežiūros Paslaugos.

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

Activities of UAB Pastatų Priežiūros Paslaugos includes the maintenance of heating and hot water supply systems of the buildings, maintenance of heating unit equipment, repair of buildings and structures, repair of heating units and their heating equipment, delivery of transport services and other activities such as the lease of premises.

Turnover of the Company's subsidiary in 2013 was 714 thousand litas, a loss was 187 thousand litas, the previous year's accumulated losses amounted to 54 thousand litas, the total retained loss on 31 December 2013 was 2 thousand litas as the amount of share capital has been reduced by 152 thousand litas, 155 thousand litas were the transferred shareholder contributions, and 68 thousand litas of profit was transferred to subsidiary UAB Kauno Energijos NT.

As from 1 July 2012, in accordance with item 2 of article 20 of the Law on Heat Sector of the Republic of Lithuania, "the person maintaining the building heating can hot water system (operator) in apartment houses may not be the heat supplier or persons related with the heat supplier in employment relations or prices providing services or products to the heat supplier, or the manufacturers of heating units and devices used for heat production and heat metering, or other equipment, also persons engaged in the retail and wholesale trade of fuel used for heat production, or persons belonging in conjunction with the aforementioned entities to the group of related economic entities according to the Law on Competition" (this restriction is not applied for the maintenance of the heating and hot water systems of apartment houses in buildings in the residential locations in which, according to the information of the Athenian Department of statistics, the population is less than 50,000).

With regard to the provisions of the Law on amendment and supplement of articles 2, 3, 20, 22, 28 and 31 of the law on heating facilities of 20 May 2003 on the separation of maintenance of the heating can hot water systems in the buildings from that heat production and supply, in 2012 the board of the Company approved to the reorganisation of UAB Pastatų Priežiūros Paslaugos by way of separation, in performing the separation of activities carried out by the subsidiary by creating a new company with the same legal form, named UAB Kauno Energijos NT.



On 21 February 2003, following the decision of the board of AB Kauno Energija which is the sole shareholder of UAB Pastatų Priežiūros Paslaugos, it was decided to reduce the authorised capital up to 4,602 thousand litas by eliminating the eye can related loss of 152 thousand litas. The articles of association of UAB Pastatų Priežiūros Paslaugos were newly registered on 6 March 2013.

It has been decided by the decision of the meeting of shareholders of UAB Pastatų Priežiūros Paslaugos of 22 March 2013 to transfer the contribution of shareholders of 45 thousand litas to cover the loss, and the contribution of shareholders of 100 thousand litas that were transferred on 22 March 2013.

After completing the procedures of reorganisation by way of separation of UAB Pastatų Priežiūros Paslaugos, a subsidiary of AB Kauno Energija, the articles of association of UAB Pastatų Priežiūros Paslaugos (company number 300580563) continuing the activities were registered in the register of legal entities on 16 April 2013.

On 11 December 2013, following the decision of AB Kauno Energija performing the functions of the sole shareholder of UAB Pastatų Priežiūros Paslaugos, it was decided to liquidate the open limited liability company Pastatų Priežiūros Paslaugos (company code 300580563) from 16 December 2013; in the same decision the director of Pastatų Priežiūros Paslaugos was dismissed from 16 December 2013, and the advocate Aiva Dumčaitienė of the lawyer professional community Magnusson ir partneriai was appointed as the liquidator of UAB Pastatų Priežiūros Paslaugos 16 December 2013.

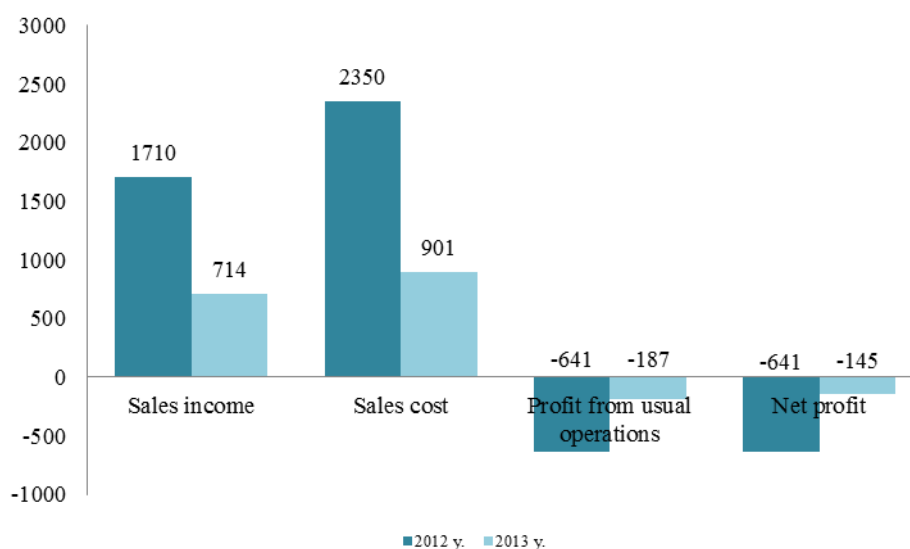
On 31 December 2013, the investment in UAB Pastatų Priežiūros Paslaugos and accumulated losses of depreciation to tile to 2,799 thousand litas (on 31 December 2012 it was 1,764 thousand litas) and was accounted for in the company's profit and loss is, in the item of financial operation costs. More information is presented in Note 20 of the explanatory notes to financial statements.

On 31 December 2013, UAB Pastatų Priežiūros Paslaugos had 10 employees.

The comparison of the financial results of UAB Pastatų Priežiūros Paslaugos for 2013 (operating income, operating profit, net profit) with the indicators of 2012 is given in Chart 9.

Chart 9

**Income, costs and profit of UAB Pastatų Priežiūros Paslaugos, thousand litas**



After completing the procedures of reorganisation by way of separation of UAB Pastatų Priežiūros Paslaugos, a subsidiary of AB Kauno Energija, the articles of association of the newly established entity UAB Kauno Energija NT were registered in the Register of Legal Entities on 16 April 2013. Company's headquarter address is Savanorių pr. 347, 49423 Kaunas, company number 303042623.

The authorised capital of UAB Kauno Energija NT registered in the Register of Legal Entities on 31 December 2013 totalled 4,592,100 litas was divided into 45,921 ordinary nominal shares with the par value of 100 litas each.

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

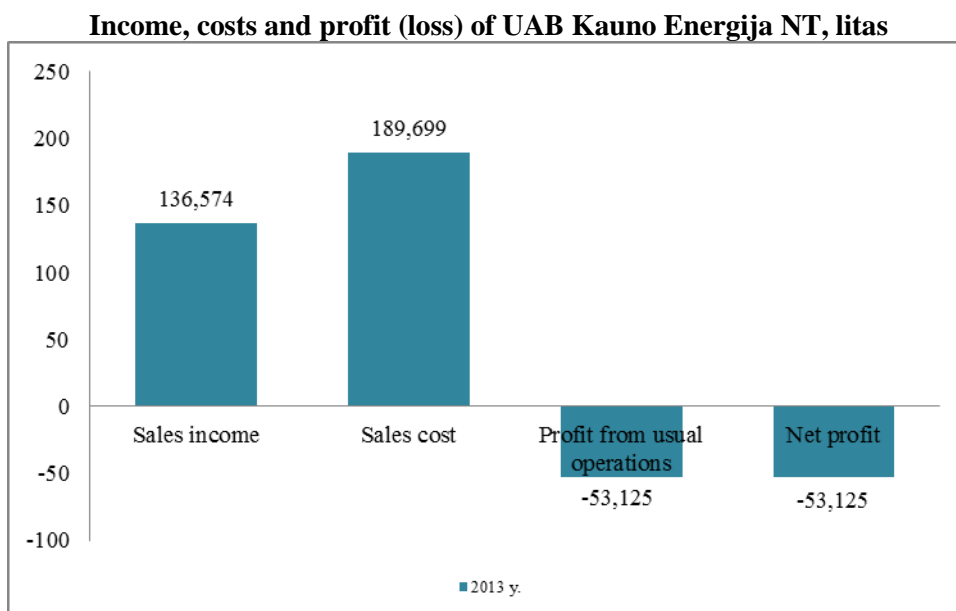
Activities of UAB Kauno Energija NT include the real estate development, management, leases, purchase and sale.

Turnover of UAB Kauno Energija NT – in 2013 was 136,574 thousand litas, profit (loss) amounted to 53,125 thousand litas.

On 31 December 2013 UAB Kauno Energija NT had 3 employees.

Financial indicators of UAB Kauno Energija NT in 2013 (operating income, operating profit, net profit) are given in Chart 10.

Chart 10



## 15. Structure of authorized capital

The authorised capital of the Company registered in the Register of Legal Entities on 31 December 2013 is LTL 256,391,862 (two hundred and fifty six million three hundred ninety one thousand eight hundred sixty two litas).

Structure of authorized share capital by types of shares is specified in Table 6.

Table 6

Type of shares	Number of shares, units	Nominal value, litas	Total nominal value, litas	Municipal share in the authorised capital, litas	Share of private shareholders in the authorised capital, litas
Ordinary nominal shares	42,731,977	6	256,391,862	98.33	1.67

## 16. Data on shares issued by the Issuer

The authorised capital registered on 26 March 2010, totals LTL 256,391,862 (two hundred fifty six million three hundred ninety one thousand eight hundred sixty two litas) and is divided into LTL 42,731,977 (forty two million seven hundred and thirty one thousand nine hundred and seventy seven) ordinary shares of par value of 6 litas.

There are no limitations on the transfer of securities.

16.1. Main characteristics of shares are released into free circulation of securities (31 December 2013).

Securities registration No	A01031430
ISON code of securities	LT0000123010
Number of shares	20,031,977 ordinary nominal shares
Nominal value	LTL 6
Total nominal value of shares	LTL 120,191,862

16.2. Main characteristics of shares issued and registered for non-public trading (31 December 2012).

ISON code of securities	LT0000128407
Number of shares	22,700,000 ordinary nominal shares
Nominal value	LTL 6
Total nominal value of shares	LTL 6

**History of trade in Company's securities in 2009–2013 is given in Table 7.**

*Table 7*

Indicator	2009	2010	2011	2012	2013
Opening price (litas/euro)	2.00/0.579	2.45/0.710	2.072/0.600	1.951/0.565	1.996/0.578
Highest price (litas/euro)	2.650.768	3.18/0.921	2.659/0.770	2.037/0.590	2.034/0.589
Lowest price (litas/euro)	1.41/0.408	1.903/0.551	1.105/0.320	1.433/0.415	1.581/0.458
Last price (litas/euro)	2.40/0.695	2.072/0.600	1.209/0.350	1.996/0.578	2.034/0.589
Circulation, units	92 418	77 729	90 239	80 421	36 355
Circulation, million (litas/euro)	0.19/0.05	0.2/0.06	0.18/0.05	0.13/0.04	0.06/0.02
Capitalisation, million (litas/euro)	102.28/29.62	41.5/12.02	24.21/7.01	39.98/11.58	40.74/11.80

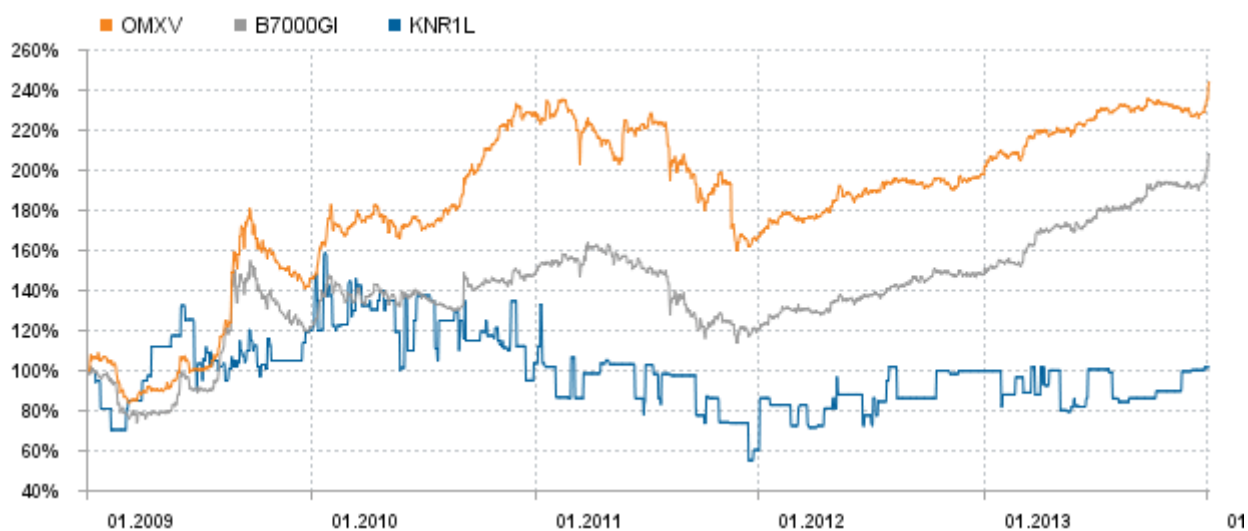
Historical data on prices (in euro) and turnovers in 2009–2013 are illustrated in Chart 11.

Chart 11



Chart 12

Comparison of Company's share price with the index of own sector (utility services) and OMX Vilnius index



Details of Chart 12:

Index/shares	01.01.2009	01.01.2014	+/-%
—OMX Vilnius	179.25	436.68	143.62
—B7000GI utility services	668.31	1 390.84	108.11
—KNR1L	EUR 0.58	EUR 0.59	1.68



**17. Information on the Issuer’s shareholders**

The number of company’s shareholders as of 31 December 2013 was 295.

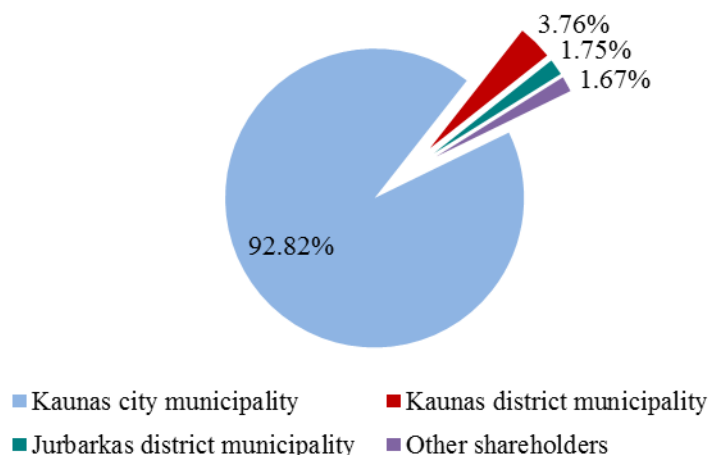
Information on Shareholders of the Issuer on 31 December 2013 owning more than 5 per cent of the authorised capital of the Company registered in 26 March 2010 (42 731 977 ordinary nominal shares), are given in Table 8 and Chart 13.

*Table 8*

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	39,665,892	92.82	92.82	-
Other shareholders	3,066,085	7.18	7.18	-
<b>Total:</b>	<b>42,731,977</b>	<b>100</b>	<b>100</b>	<b>-</b>

*Chart 13*

**Structure of shareholders as at 31 December 2013**



17.1. The shareholders, whose ownership interest as at 31 December 2013 exceeded 5 per cent of the Company’s shares (20,031,977 PVA) issued for non-public trading (VP ISIN code – LT0000123010), are listed in Table 9.



Table 9

Name	Type of shares	Number of shares, units	Total nominal value of shares, litas	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 nominal shares	16,965,892	101,795,352	84.69	39.70
Kaunas District Municipality Savanorių pr. 371, 49500 Kaunas, Code 111100622	Ordinary nominal shares	1,606,168	9,637,008	8.02	3.76
Other shareholders	Ordinary nominal shares	1,459,917	8,759,502	7.29	3.42
<b>Total:</b>		<b>20,031,977</b>	<b>120,191,862</b>	<b>100</b>	<b>46.88</b>

17.2. The shareholders, whose ownership interest as at 31 December 2013 exceeded 5 per cent of the Company's shares (22 700 000 ordinary registered shares) issued for non-public trading (VP ISIN code – LT0000128407), are listed in Table 10.

Table 10

Name	Type of shares	Number of shares, units	Total nominal value of shares, litas	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 nominal shares	22,700,000	136,200,000	100	53.12

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 42,731,977 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 is 0.084 litas, in total – 3.589 million litas.

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 2011 were allocated and paid to the shareholders of the Issuer. Dividend per share is 0.25 litas per share, in total 10.683 million litas.

In 2013, no dividends were allocated and paid to the shareholders of the Issuer. Following the decision no 3 of the ordinary 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 0.15 million litas was allocated for support and charity.





## 18. Employees

As at 13 December 2013, in total 561 employees were employed in the Group. Changes in the number of employees in 2011–2013 are specified in Table 11.

*Table 11*

Abdul number of employees	Company 2011-12-31	Group 2011-12-31	Company 2012-12-31	Group 2012-12-31	Company 2013-12-31	Group 2013-12-31
Total:	583	628	583	617	548	561
including:						
management	4	6	4	6	5	7
specialists	310	325	314	327	288	292
workers	269	297	265	284	255	262

### Education of the Group and the Company to the end of the period

*Table 12*

No	Education	Company 2011-12-31	Group 2011-12-31	Company 2012-12-31	Group 2012-12-31	Company 2013-12-31	Group 2013-12-31
1	Secondary incomplete	9	11	8	9	5	6
2	Secondary	219	245	217	231	211	217
3	College	92	98	83	89	78	80
4	Higher	263	274	275	288	254	258
	Total:	583	628	583	617	548	561

### Average conditional number and average monthly salary of employees (at the end of 2013, before taxes)

*Table 13*

No	Employees	Company	Group
1.1.	Average conditional number of managers	3.9	6.2
1.2.	Average monthly salary of managers	8,733.1	6,050.7
2.1.	Average conditional number of specialists	281.8	286.9
2.2.	Average monthly salary of specialists	2,898.5	2,888.8
3.1.	Average conditional number of workers	245.3	255.6
3.2.	Average monthly salary of workers	2,119.0	2,100.1

The salary of the Issuer consists of the on 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 allocated part of the profit for the bonuses of the Company employees. From 1998 till 2014, the general meeting of shareholders has never allocated part of the profit for the bonuses of the Issuer's employees.

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

1. For continuous employment with 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 2000 litas;

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 500 litas.

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

The articles of association of the Issuer provide that the general meeting of shareholders of the company has the exceptional right to amend the articles of association other than the exceptions provided in the Law on Companies of the Republic of Lithuania. The resolution on the amendment of the Company's articles of association 2/3 qualified majority of votes of the members participating in the meeting of shareholders.



In the decision of 26 October 2010 the extraordinary general meeting of shareholders amended the articles of association of the Company taking into consideration the amendments of legislation. The new version of the articles of association was registered in the Register of Legal Entities of the Republic of Lithuania on 11 November 2010. It can be found in the Internet website of the Company at [www.kaunoenergija.lt](http://www.kaunoenergija.lt).

## 20. Issuer's management bodies

According to the articles of association 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 board, and a sole management body – the head of the company – director general.

Decisions of the general meeting of shareholders made on the issues within the competence of the general meeting of shareholders provided for in the articles of association of the Company are binding to its shareholders, the Supervisory Board, the board and the general director, and other employees of the Company.

All persons who are the shareholders of the Company on the date of the General meeting of shareholders shall 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 produce 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 produce a document attesting to his right to vote at the general meeting of shareholders.

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 board members and supervisors the activities of the board and the head 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 appropriation and the annual report of the Company as well as the activities of the board and the manager of the Company; submits proposals to the board and the manager of the Company to revoke their decisions which are in conflict with laws and other legal acts, the articles of association 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 articles of association of the company to other organs of the Company.

The Supervisory Board, in accordance with resolution No 1K-18 of 21 August 20 weight 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 20 weight of the Securities Commission, approved 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 the open limited liability company Kauno Energija on 21 February 2013.



The Board is a collegial management body of the company. The board is comprised of 7 (seven) members. The board is elected for the period of 4 (four) years by the Supervisory Board. The Supervisory Board can remove from office the entire Board *in corpore* or its individual members before the expiry of their term. If individual members of the board are elected, they shall serve only until the expiry of the term of office of the current board. The board elects the chairman of the board from among its members.

The board elect and removes from office the head of the Company, fixes 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 board by the Law on Companies of the Republic of Lithuania, articles of association 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 director general.

#### 20.1. Data about 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 21 February 2013 the Supervisory Board elected Valerija Stankūnienė, deputy chief accountant of the company, and Inga Dragūnienė, senior economist of the Economic and Planning Division of the Financial Department of the Company, as the members of the Audit Committee.

On 10 April 2013, the Supervisory Board appointed the Supervisory Board member Edita Gudišauskienė to the independent members of the Company's Audit Committee. It carries out the activities of the Audit Committee since 11 April 2013.

Full name	Position title	Beginning of term	End of term*
Edita Gudišauskienė	Audit Committee, independent member	11 April 2013	30 April 2016
Inga Dragūnienė	Audit Committee, member	21 February 2013	30 April 2016
Valerija Stankūnienė	Audit Committee, member	21 February 2013	30 April 2016

\* 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 2013-1 of 21 February 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. In 2013, the Audit Committee met 6 times, the attendance of the Audit Committee members was 100 per cent.

Inga Dragūnienė. Senior economist of the Economics and Planning Division of the Financial Department of the Company. She held the position of the Audit Committee members from 18 August 2011. On January 3, 2012 was re-elected to the members of the Audit Committee and held the position until the withdrawal date of the Supervisory Board, i.e. 28 September 2012. Higher university education, Kaunas University of Technology, Master of Management Science in the field of Financial Management (2001). Workplaces in the last 10 years, and positions held: 1998-10-15 – 2006-07-25 senior accountant of the company, 2006-07-26 – 2009-11-01 deputy senior accountant of UAB Pastatų Priežiūros Paslaugos, 2009-11-02 – 2010-05-07 referent of administration of UAB Pastatų Priežiūros Paslaugos.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Valerija Stankūnienė. Deputy senior accountant of the company. Held the position of the Audit Committee members from 18 August 2011, on 3 January 2012. Re-elected to the members of the Audit Committee and held the position until the cancellation date of the Supervisory Board, i.e. 28 September 2012. Higher



university education, Vilnius University, accounting specialty (1983). Workplaces in the last 10 years, and positions held: 1995-02 – 2002-07 senior accountant of AB Šilkas, 2003-02 – 2010-01 senior accountant of UAB Arisbaltija.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Edita Gudišauskienė. Director of economics and finance of UAB Kauno autobusai, member of the Supervisory Board of the Company. The Company's independent member of the Audit Committee, acting in the Audit Committee since 11 April 2013. University education, Kaunas University of Technology, Faculty of Mechanical Engineering – Master of Science of Thermal Engineering (1995), Faculty of Economics and Management, Master of Science of Financial Management, (2001), Faculty of Social Sciences, Master of Regional Development – Public Administration. Workplaces in the last 10 years, and positions held: 2000-04-02 – 2006-08-30 senior accountant in children the right products and service of Kaunas City Municipality, 2006-08-31 – 2007-03-29 senior specialist, 2007–2010 Deputy Mayor of Kaunas City Municipality on the matters of communities and social issues, 2010–2011 director of administration of Kaunas City Municipality, 2011–2012 Deputy Minister of Agriculture of Republic of Lithuania.

## 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:

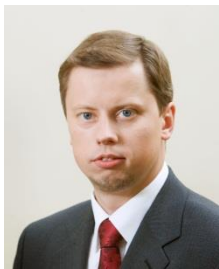
*Members of the Supervisory Board of the Company as at 31 December 2013:*

Full name	Position title	Beginning of term	End of term
Andrius Kupčinskas	Chairman of the Supervisory Board	28 September 2012	30 April 2016
Stanislovas Buškevičius	Member of the Supervisory Board	28 September 2012	30 April 2016
Edita Gudišauskienė	Member of the Supervisory Board	28 September 2012	30 April 2016
Aušra Ručienė	Member of the Supervisory Board	28 September 2012	30 April 2016
Artūras Tepelys	Member of the Supervisory Board	28 September 2012	30 April 2016
Valys Venslovas	Member of the Supervisory Board	15 July 2013	30 April 2016
Gediminas Žukauskas	Member of the Supervisory Board	28 September 2012	30 April 2016

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

A total of 4 meetings of the Supervisory Board were held during the year 2013. More than 2/3 members of the Supervisory Board attended all the meetings.





Andrius Kupčinskas. Kaunas City Mayor. Member of the Kaunas City Municipality Council.

Chairman of the Strategic Planning Commission of Kaunas City Council, Member of the Board of Academic Affairs, representative of the Business Council of Kaunas City Municipality, since 2007 the board member of the Lithuanian Association of Local Authorities (LSA), member of the Kaunas Regional Development Council (KRPT) and member of the EU Committee of the Regions.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Stanislovas Buškevičius. Deputy Mayor Kaunas city. Member of the Kaunas City Municipality Council. Member of the Culture and Art Committee of Kaunas City Council, Chairman of the Award Council.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.



Edita Gudišauskienė. Chief Officer of Economics and Finances of UAB Kauno autobusai, independent member of the Audit Committee of the Company. Member of the Kaunas City Municipality Council. Chairman of the Budget and Finance Committee of Kaunas City Municipality. Chairman of Lampėdžiai community centre.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Aušra Ručienė. Lawyer. Member of the Kaunas City Municipality Council. Chairman of City Development, Investments and Tourism Committee of Kaunas City Municipality Council, member of Anticorruption Commission, member of Strategic Planning Commission, member of the Academic Issue Service.

Holds no shares of the Company. Shareholder of UAB Ručenta.



Artūras Tepelys. Member of the Kaunas City Municipality Council. Member of Social, Health and Education Committee of Kaunas City Municipality Council, member of Control Committee, member of Administration Commission, member of Anticorruption Commission. Deputy Director of the Company's branch Jurbarko Šilumos Tinklai.

Salary charged in 2013 totalled 65 thousand litas, no charged bonuses, no transfer of other assets and no granted guarantees.

Holds no shares of the Company. Does not participate in the equity of other companies.

Gediminas Žukauskas. Operational director of UAB Kauno vandenys. Member of the Kaunas City Municipality Council. Chairman of Self-Government and Communities Development Committee of Kaunas City Municipality Council, member of Titles Contriving and Perpetuation of Memories Commission, member of Privatization Commission, member of Strategic Planning Commission. Chairman of Panemunė Community centre.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.



Valys Venslovas. Technical director of UAB Kauno vandenys. Kaunas City Council member, chairman of the Education and Sports Committee of Kaunas City Council, member of the Control Committee, member of the vote counting commission, member of the Traffic Safety Commission, member of the Strategic Planning Commission, member of the Court Decisions and Orders Control Committee. Representative of Kaunas City Municipality at Kaunas City Tripartite Council. Board member of International Hunting Club Safari.

Member of Company's Supervisory Board from 15 July 2013 till 6 January 2014.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.

During the reporting period, the members of Supervisory Board were not charged any sums of money (salary, bonuses), had no transfers of other assets and granted no guarantees.

Following the decision of the extraordinary general meeting of shareholders of 6 January 2014, the member of the supervisory board Valys Venslovas was revoked, and Židrūnas Garšva was elected to the members of the Supervisory Board of the Company. Židrūnas Garšva holds the office of the members of the Supervisory Board of the Company from the date of his election.

Full name	Position title	Beginning of term	End of term
Židrūnas Garšva	Member of the Supervisory Board	6 January 2014	30 April 2016



Židrūnas Garšva. Member of the Kaunas City Municipality Council. Chairman of the City Facility Committee of Kaunas City Council, Chairman of the Privatisation Commission, Member of the Strategic Planning Commission, representative of Kaunas City Municipality in the Business Council.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.

## 21.2. Information on about the members of the Company's Management Board

As at 31 December 2013 the members of the Company's Management Board were as follows:

Full name	Position title	Beginning of term	End of term
Valdas Lukoševičius	Chairman of the Management Board	28 September 2012	30 April 2016
Sigitas Grobllys	Deputy chairman of the Management Board	28 September 2012	30 April 2016
Juozas Augutis	Member of the Management Board	28 September 2012	30 April 2016
Rimantas Bakas	Member of the Management Board	28 September 2012	30 April 2016
Saulius Meškauskas	Member of the Management Board	28 September 2012	30 April 2016
Vaclovas Miškinis	Member of the Management Board	28 September 2012	30 April 2016
Mindaugas Varža	Member of the Management Board	28 September 2012	30 April 2016

The Company held 35 board meetings in 2013. More than 2/3 members of the Management Board attended all the sessions.



Valdas Lukoševičius. Doctor of technical sciences. Manager of Strategy and Investment Projects division of the Company till 13 February 2014. Chairman of the Company's Management Board from 20 September 2012. President of the Lithuanian Energy Consultants Association (LEKA). Associated Professor of Thermal and Nuclear Energy Department of Kaunas University of Technology (KUT).

Holds no shares of the Company. No interest in the capital of the Lithuanian companies. Salary charged in 2013 totalled 49 thousand litas, no charged bonuses, no transfer of other assets and no granted guarantees.

Sigitas Groblys. Partner, Law Firm *Foresta* Business Law Group. Member of the Company's Management Board since 28 September 2012. UAB Litpirma board member, Board Chairman of Gintaras Steponavičius Support Fund.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies. During the reporting period, the board member did not receive any sums of money (salary, bonuses), had no transfers of other assets and no guarantees.



Juozas Augutis. Professor. Vice-Rector of Vytautas Magnus University. Professor at Mathematics and Statistics Department, Vytautas Magnus University (VMU). Member of the Company's Management Board since 28 September 2012. Full member of the Lithuanian Academy of Sciences, FP6 and FP7 expert, Expert of the Lithuanian Council of Science, Expert of the Lithuanian State Science and Studies Foundation, manager of the Energy Security Centre of Vytautas Magnus University (VMU), Safety Committee chairman of Ignalina NPP, member of the editorial board of magazines

*Energetika*, *Journal of Civil Engineering Management and Mathematics and Mathematical Modelling*, member of the Lithuanian Mathematics Informatics and Lithuanian Energy Institute councils, member of the European Safety Reliability and Data Association ESREDA SRA, Senate and Board member of Vytautas Magnus University (VMU), member of the Lithuanian Society of Mathematicians and Statisticians Association. Chairman of the group panel the National Research Programme "Sustainable Energy" and Chairman of the group panel the National Research Programme "Energy for the Future".

Holds no shares of the Company. No interest in the capital of the Lithuanian companies. During the reporting period, the board member did not receive any sums of money (salary, bonuses), had no transfers of other assets and no guarantees.

Rimantas Bakas. Doctor of technical sciences. General Director of the Company. Member of the Company Management Board since 2012 September 28. Member of the Lithuanian Thermal Engineers Association, board member of PI Kaunas Regional Energy Agency, Scientific Council Member of the Lithuanian Energy Institute, Member of the Lithuanian District Heating Association Council, 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 Company's Management Board from 3 May 2011 until 2 January 2012. In 2008, participated as a working group member in the development of the study "Europe's Vulnerability to Energy Crises" presented to the European Commission.



Holds no shares of the Company. Does not participate in the equity of other companies. Salary charged in 2013 totalled 148 thousand litas, no charged bonuses, no transfer of other assets and no granted guarantees.



Saulius Meškauskas. Deputy Head of Energy Department of Kaunas City Municipality Administration. Member of the Management Board of the Company since 28 September 2012.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies. During the reporting period, the board member did not receive any sums of money (salary, bonuses), had no transfers of other assets and no guarantees.



Vaclovas Miškinis. Habilitated Doctor. Head of Complex Energy Research Laboratory of the Lithuanian Energy Institute, Prof., Dr Habil. Dr., Vice-Chairman of the Scientific Council of the Lithuanian Energy Institute. Member of the Management Board of the Company since 28 September 2012.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.

During the reporting period, the board member did not receive any sums of money (salary, bonuses), had no transfers of other assets and no guarantees.



Mindaugas Varža. Director at UAB Novrita. Director at UAB Kauno Verslo Grupė. Member of the Management Board of the Company since 28 September 2012.

Holds no shares of the Company. No interest in the capital of the Lithuanian companies.

During the reporting period, the board member did not receive any sums of money (salary, bonuses), had no transfers of other assets and no guarantees.

### **21.3. Information about the head and senior accountant of the Company:**

Rimantas Bakas. Doctor of technical sciences. The Company's CEO since 24 November 2008, Member of the Company Board since 28 September 2012. Member of the Lithuanian Thermal Engineers Association, board member of PI Kaunas Regional Energy Agency, Board Member of the Lithuanian Heat Suppliers Association, Council Member of the 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 Board from free May 2011 to 2 January 2012. Higher university education, Kaunas University of technology, 1985, industrial thermal energy engineer. Work experience and positions in the last 10 years: Chief Project Manager of Strategy Division 2003-05 – 2006-01; Head of Strategy Division – 2006-01 – 2008-11.

The Company's CEO 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 energy workers (2011).

Holds no shares of the Company. Does not participate in the equity of other companies.

Violeta Staškūnienė. Company's Chief Financial Officer since 16 January 2003. University education, Vilnius University, 1984, labour economics, profession – economist. Work experience and positions in the last 10 years: 2003-01 – 2004-06 UAB Energijos realizacijos centras, chief accountant.

Holds 2 641 of the Company's shares, which represent less than 5 per cent of the authorised capital. Does not participate in the equity of other companies.

The total amount of money incurred to the head of the company and the Chief Accountant during the year 2013 is 252.6 thousand litas, while the average amount per member – 126.3 thousand litas. No other assets have been transferred, no guarantees granted.

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

None.

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

None.

**24. Information on major transactions with related parties**

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

**25. Information about 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**

*(It is necessary to disclose the substance matter of significant transactions, the nature of conflicts of interest and their impact on the transaction)*

None.

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

Information about compliance with the corporate governance code is presented in Annex 1 to the annual report. Annual reports on the Company's corporate social initiatives and policies are published 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 over the past 12 months over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. Such information was also posted on the website of the Issuer. All information is available on **NASDAQ OMX Vilnius** websites (<http://www.baltic.omxgroup.com/?id=3304>) and the issuer's website (<http://www.kaunoenergija.lt>).

Title	Notice category	Language	Time
Information about the notice of Vilnius Court of Commercial Arbitration (addition)	Notice of stock event	English, Lithuanian	2014-01-31 14:27:10
Information about the notice of Vilnius Court of Commercial Arbitration	Notice of stock event	English, Lithuanian	2014-01-31 14:00:59
12-month economic performance in 2013	Notice of stock event	English, Lithuanian	2014-01-30 17:43:07
Information on the beginning of consultations with UAB Fortum Heat Lietuva	Other information	English, Lithuanian	2014-01-23 13:04:27
Resolutions of the extraordinary general meeting of shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2014-01-07 09:11:48
Convening the extraordinary general meeting of shareholders of AB Kauno Energija and draft resolutions	Notice of stock event	English, Lithuanian	2013-12-12 14:23:10
Financial formation of 9 months of 2013 of AB Kauno Energija	Interim information	English, Lithuanian	2013-11-06 12:52:36



<b>Title</b>	<b>Notice category</b>	<b>Language</b>	<b>Time</b>
9-month economic performance in 2013	Notice of stock event	English, Lithuanian	2013-10-28 10:00:43
Interim formation of the 1st half of 2013 of AB Kauno Energija	Interim information	English, Lithuanian	2013-08-23 14:54:27
Financial formation of the 1st half of 2013 of AB Kauno Energija	Notice of stock event	English, Lithuanian	2013-08-02 13:06:50
Economic performance in the 1st half of 2013	Notice of stock event	English, Lithuanian	2013-07-30 14:17:50
Resolutions of the extraordinary general meeting of shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2013-07-15 16:49:20
Changes in the agenda of the extraordinary general meeting of shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2013-07-03 09:24:04
Convening the extraordinary general meeting of shareholders of AB Kauno Energija and draft resolutions	Notice of stock event	English, Lithuanian	2013-06-2017:55:52
Financial formation of the 1st quarter of 2013 of AB Kauno Energija	Interim information	English, Lithuanian	2013-06-0317:28:56
On the repeated tendering of the sale of the subsidiary share portfolio	Notice of stock event	English, Lithuanian	2013-05-24 12:54:52
Arbitration claim of UAB Kauno Termofikacijos Elektrinė	Notice of stock event	English, Lithuanian	2013-05-07 17:34:02
On the announced tendering of the sale of the subsidiary shares	Notice of stock event	English, Lithuanian	2013-05-06 17:05:14
Resolutions of the ordinary general meeting of shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2013-04-30 15:51:34
Economic performance in the 1st quarter of 2013	Notice of stock event	English, Lithuanian	2013-04-25 17:24:48
On the sales procedures of subsidiary	Notice of stock event	English, Lithuanian	2013-04-23 16:58:55
Information about the notice of Vilnius Court of Commercial Arbitration	Notice of stock event	English, Lithuanian	2013-04-22 17:12:33
On the execution of decision of Vilnius Court of Commercial Arbitration in Case No 203	Notice of stock event	English, Lithuanian	2013-04-18 14:46:10
On the completion of the subsidiary separation procedure by way of reorganisation	Notice of stock event	English, Lithuanian	2013-04-18 13:42:09
Changes in the agenda of the ordinary general meeting of shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2013-04-17 15:12:31
Convening the ordinary general meeting of shareholders of AB Kauno Energija and draft resolutions	Notice of stock event	English, Lithuanian	2013-04-05 19:01:07
Audited operational result of 2012	Notice of stock event	English, Lithuanian	2013-04-05 14:48:46
Strategic directions of AB Kauno Energija for the regulatory period of 2013-2016	Notice of stock event	English, Lithuanian	2013-03-07 16:25:12
On the effects of situation in AB Ūkio bankas to the activities of AB Kauno Energija	Notice of stock event	English, Lithuanian	2013-02-13 15:51:16
Set of interim financial statements of 12 months of the year 2012	Interim information	English, Lithuanian	2013-02-11 16:58:07



Title	Notice category	Language	Time
12-month economic performance results in 2012	Notice of stock event	English, Lithuanian	2013-01-28 16:35:25
AB Kauno Energija and Lietuvos energija, AB signed the memorandum on Petrašiūnai cogeneration plant	Notice of stock event	English, Lithuanian	2013-01-11 16:07:09

**General Manager of AB Kauno Energija**

**Rimantas Bakas**



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

AB Kauno Energija, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the Stock Exchange NASDAQ OMX, Vilnius, for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
<b>Principle I: Basic Provisions</b>		
<b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company prepares and revises the strategies of production and heat supply system development every year. Investment plans are being presented for ratifying to Kaunas city, Kaunas region and Jurbarkas region municipalities as well as to The National Control Commission for Prices and Energy (NCC). The provisions of the Company's strategy which contain no confidential information and the decisions-making process, as well as the Company's development policies and objectives are published in the Company's annual reports and company's website. Periodic reports and notifications are disclosing the directions for Company's growth. Those reports, notification on material event and notifications are presented by the Company's managers and are published in press.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's board accepts strategic decisions and approves Company's activities strategy. The Company's board has also created a long-term and short-term Company's development strategic objectives. Company's Supervisory Board renders responses and suggestions for shareholders regarding Company's activities strategy. The management of the Company, the heads of the areas concerned are making their every effort in order to implement those objectives – the structure of the Company and of the subdivision of the Group is optimised.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Supervisory Board and the Management Board are formed. All the bodies of the Company (Manager, the Management board and the Supervisory board) aim to implement this recommendation, mutual meetings of the Management board and the Supervisory board

		are held.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	<p>The Company's supervisory and managing bodies aim to ensure all interests of the persons concerned. The Company's management and the separate areas managers spend a lot of time communicating with customers, suppliers, representatives of the municipality, in order to find optimal solutions, related to the Company's activities.</p> <p>Company's politics in respect of employees, customers and local society is stated in Company's Social Responsibility politics and implementation of this politics is described in Company's Social Responsibility reports.</p> <p>The specific of the Company ensures that consumers (customers) are periodically invited to attend meetings where the relevant issues related to the activity of the Company are discussed. In addition the "Open doors days" are being arranged in order to better inform customers and to ensure closer relations with them.</p>
<p><b>Principle II: The corporate governance framework</b></p> <p><b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b></p>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	<p>The General Meeting of Shareholders and the Company's general manager are compulsory management bodies of the Company set by the Law on Joint Stock Companies of the Republic of Lithuania. The collegial supervisory body - the Supervisory Board and the collegial management body – the Management Board are also being formed.</p> <p>Division of Company's management bodies' competences and responsibility is determined in Company's statute, regulations of management bodies' activities, are presented by the Company's management and are published Company's web site, and managers job description.</p>
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	<p>A collegial management body of the Company – the Management Board is responsible for the strategic management of the Company and also performs other key functions of the Company management. A collegial supervisory body – the Supervisory Board is responsible for the effective supervision of activities of the Company's managing bodies.</p>

2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	The Supervisory Board and the Management Board is being formed.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. <sup>1</sup>	Yes	The Supervisory Board of the Company is elected and it acts partly in compliance with the principles III and IV set out in the procedures and basic principles for the requirements are not violated.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. <sup>2</sup>	Yes	According to the Statute of the Company the Supervisory Board of 7 (seven) members is elected and the Supervisory Board elects the Management Board. It also is formed of 7 (seven) members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Supervisory Board of the Company is elected for 4 (four) years. According to the Statute of the Company and to the practice it is not forbidden to re-elect the single members of the Supervisory Board for the new term (Supervisory Board member's number of terms of office is not limited). Also the General meeting of shareholders is able to recall the Supervisory Board in-corpore or its individual members before the end of term of Supervisory Board and the member of Supervisory Board is able to resign before the end of term giving a 14 days written warning.

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

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

<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>The Chairman of the Company's Supervisory Board hasn't been the General Manager of the Company. His current or past position is not an obstacle for independent and impartial supervision.</p>
<p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b></p> <p><b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.<sup>3</sup></b></p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>The mechanism of forming of the Supervisory Board, which corresponds to the requirements of the Law on Joint Stock Companies of the Republic of Lithuania, ensures the objective supervision of the collegial body.</p>
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>Information regarding candidates for the members of Supervisory Board is being disclosed for shareholders even before and during General meeting of shareholders. Information regarding their education, qualifications, professional experience, occupation and other important professional obligations is being presented in Company's annual and interim reports and publicized in Company's website as well. It is foreseen in the work regulations of the Supervisory Board that every member of the body has to inform the Chairman of the Supervisory Board and the Company about his data changes and this data is being presented in the Company's annual and interim reports and publicized in Company's website as well.</p>

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



<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Not applicable</p>	<p>The shareholders of the Company by offering candidates for the collegial body must ensure that these members have the required competence. The Company publishes only the information which is provided by the members of the collegial body. Information which is presented in the annual and in interim report (data on participation of the issuer's statute capital, data on participation in other undertakings, bodies and organisations (title of the company, institution or organization and personal occupation), is publicized in Company's website.</p>
<p>3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>According to the Company's structure and activities, the main shareholder of the Company introduces candidates for members of the collegial body with relevant qualifications. The Collegial body as a unit has a versatile knowledge, opinions and experience enabling them to perform their tasks properly. Audit Committee as a unit, has up-to-date knowledge and relevant experience in finance, accounting, and (or) auditing.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p>	<p>In the practice of the Company all the new members of Supervisory Board are regularly informed about Company's activities and its alterations, as well as substantial changes of legal acts, regulating Company's activities and of circumstances, making an influence on Company's activities at the sessions of Supervisory Board of individually if there is such need or upon request of members.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient<sup>4</sup> number of independent<sup>5</sup> members.</p>	<p>No</p>	<p>The Company does not make any influence on the composition of the collegial body. Candidates to the members of the Company's collegial body are offered by the main shareholder.</p>

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

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

<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li> <li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</li> <li>5) He/she does not have and did not have any material business relations with the company or associated company within the</li> </ol>	<p>No</p>	<p>Company's Supervisory Board, elected on August, 2012 consists of seven dependent members who are also members of Kaunas city municipality council and they meet criteria indicated in item 3.7 of recommendations, except criteria 4, because they partly represent controlling shareholder, i.e. Kaunas city municipality having 92.82 % of votes.</p>
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<p>past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, advisory and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>		
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<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	<p>Yes</p>	<p>The Company discloses dependence of the members of Supervisory Board in this report.</p>
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	<p>Not applicable</p>	<p>Information provided by members of the Supervisory Board regarding their education, qualifications, professional experience, occupation and other important professional obligations and their relations with the Company is being presented in Company's annual and interim reports as well as in Company's website.</p>
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.<sup>6</sup> The general shareholders' meeting should approve the amount of such remuneration.</p>	<p>Not applicable</p>	<p>The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company.</p>
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p><b>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring<sup>7</sup> of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
<p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's</p>	<p>Yes</p>	<p>The Supervisory Board presents to the general shareholders meeting their opinions and proposals about the Company's activities, set of the annual financial statements, profit allocation project, the Company's annual report, the activity of the Company's general manager and the Management Board, and also carries out</p>

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

<sup>7</sup> See Footnote 3.

<p>management bodies and monitor and control the company's management performance.<sup>8</sup></p>		<p>other functions allotted to the Supervisory Board competence regarding the Company's and its managing bodies activity supervision. The Chairman of the Supervisory Board regularly meets the Chairman of the Management Board and the General Manager to discuss the events or changes of the Company that have taken place, also the essential questions of the Company's activity.</p>
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>According to the knowledge of the Company all the members of the Supervisory Board are acting in good faith in the interests of the Company following the Company's but not the own interests or interests of the third persons.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half<sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>The members of the Company's Supervisory Board devote enough time and pay enough attention individually and collectively for the functions assigned to the competence of the Supervisory Board to carry properly. All the members of Supervisory Board took part in more than a half sessions of the Supervisory Board during Company's financial year. A quorum determined in all standard acts was present in all sessions (was attended by more than 2/3 of the Supervisory Board members) of Supervisory Board in 2013. Members of Supervisory Board participating in session are registered in session protocol and in list of session participants.</p>

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

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

<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The Company's Supervisory Board in its work aim to behave honestly and impartially with all of the Company's shareholders and by the knowledge of the Company, there was no such kind of the contrary case. The Chairman of the Company's Supervisory Board and the Chairman of the Management Board harmonizes and coordinates interaction with Company's General Manager and in the name of Supervisory and Management Boards communicates with shareholders, informs the shareholders about the Company's strategy, activity and other essential questions.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>Company's management bodies conclude and approve their contracts following requirements of legal acts and Company's Statute. Members of Company's supervision or management bodies or shareholders are not concluded any contracts with Company, including of a big value or concluded in non-standard conditions.</p>
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies<sup>10</sup>. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the</p>	<p>No</p>	<p>As members of the Supervisory Board are partly related with Kaunas city municipality because they are members of Kaunas city municipality council, all their decisions are made only following Company's interests. Company's Supervisory Board is independent from Company's management bodies. Based on the Company's opinion, the collegial body and the Audit Committee are provided with sufficient resources, including their right to get all the necessary information, especially from the employees of the Company. Remuneration is not set up in the Company because the salaries of the managers of the Company, their deputies and of the chief accountant are determined according to the schedule approved by Kaunas municipality used in the municipality enterprises. The schedule of accounting and allocation of employees' variable part of salary is presented in the annex of the Company's collective agreement. Determination of per cent of variable part of salary, accounting and allocation of</p>

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

<p>human resources department, executive directors or collegial management organs of the company concerned.</p>		<p>variable part of salary is detailed in this schedule.</p>
<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees<sup>11</sup>. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to</p>	<p>No</p>	<p>Starting from 31 March 2009 an Audit Committee which has three members is formed by the Supervisory Board. The Nomination and the Remuneration Committees are not formed in the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No. 4.6. In the future, the Company will seek to implement this provision.</p>

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

<p>the collegial body as a whole.</p>		
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>Yes</p>	<p>Audit committee is being formed in the Company. One member of this Committee is independent. The Committee acts independently and principally and renders recommendations to collegial body. The Supervisory Board is responsible for decisions made within its competence.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee</p>	<p>Yes</p>	<p>Audit Committee is formed in the Company, consists of three members, one of whom is independent. Term of office of this Committee coincides with the term of office of the Company's Supervisory Board.</p>



membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. The information on composition of the Audit Committee, the number of sessions and attendance during the year 2013 is being announced in this Annual Report.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body	No	The Company does not form the committee which would be obligated to perform all of the tasks that were designated for the Nomination Committee. These functions are partly being performed by Supervisory Board and / or Company's Management Board.

<p>regarding the means of achieving necessary changes;</p> <ul style="list-style-type: none"> <li>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>• Properly consider issues related to succession planning;</li> <li>• Review the policy of the management bodies for selection and appointment of senior management.</li> </ul> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ul style="list-style-type: none"> <li>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</li> <li>• Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;</li> <li>• Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff</li> </ul>	<p>Not applicable</p>	<p>The Committee of Remuneration is not formed according to the circumstances shown in the article No 4.6.</p>

<p>members of the company;</p> <ul style="list-style-type: none"> <li>• Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</li> <li>• Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</li> <li>• Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</li> <li>• Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</li> </ul> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ul style="list-style-type: none"> <li>• Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>• Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>• Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</li> </ul> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> <li>• Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</li> <li>• At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</li> <li>• Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</li> <li>• Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</li> <li>• Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit</li> </ul>	<p>Yes</p>	<p>However, as of 31 March 2009 the Audit Committee of three members was formed by the Supervisory Board. The term of office of this committee coincides with the term of office of the Company's Supervisory Board. This committee will seek to fully implement functions assigned to it by this recommendation.</p>
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services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;

- Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.

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

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

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

4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant

<p>irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	<p>There was no practice of assessment of the activity of Supervisory Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Supervisory Board exhaustively knows the experiences and competences of each candidate. The Company will seek to implement this provision in the future.</p>
<p><b>Principle V: The working procedure of the company's collegial bodies</b></p>		
<p><b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b></p>		
<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	Yes	<p>The Company fully implements this recommendation. The Company's Supervisory Board and Management Board are run by the Chairman de jure and de facto. In accordance with the work regulations of the bodies the chairmen of Supervisory Board and Managing Board convenes meetings, ensures proper informing about convening meeting and about agenda of the meeting. This recommendation is fully implemented by the Supervisory Board and by the Managing Board.</p>
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each</p>	Yes	<p>This recommendation is implemented by the Supervisory Board and by the Management Board.</p>

<p>company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month<sup>12</sup>.</p>		
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	Yes	<p>The Company follows the order foreseen in the work regulations of the Supervisory Board and the Management Board and the information about the convened meeting is presented in advance together with an agenda and all the necessary information and documents related to the meeting agenda.</p> <p>The Supervisory Board and the Board meeting agenda may be changed or added during the meeting, in the presence of all members of the collegial body, or when there is an urgent need to deal with Company's certain key issues.</p>
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	Yes	<p>The chairmen of Company's supervisory and management bodies coordinate dates of the meetings, their agendas and cooperate in solving other issues of corporate governance.</p>
<p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b></p> <p><b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b></p>		
<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	Yes	<p>The ordinary registered shares which make the authorized capital of the Company give the equal rights for all share owners.</p>

<sup>12</sup> The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company allows investors to take a look at the rights conceded by newly issued or already issued shares. Company's Statute in which the rights conceded to Company's shareholders are determined, are publicized in Company's website.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. <sup>13</sup> All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	In compliance with the Law on the Joint Stock Companies and the Company's statutes the transactions confirmation issues foreseen in this recommendation are ascribed to the competence of the Management Board but in individual cases for the asset disposal transactions the Company applies to the shareholders meeting.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	There is a possibility for shareholders to vote in advance by filling up a general vote bulletin.
6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents	Yes	Information about the draft shareholders decisions and the decisions taken by the shareholders meeting the Company publicly places on the Company's website and disseminates it through the Stock Exchange NASDAQ OMX, Vilnius GlobeNewswire used information dissemination system, as it is foreseen in the Law on the Joint Stock Companies not only in Lithuanian, but also in English.

<sup>13</sup> The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.



<p>is not detrimental to the company or the company's commercial secrets are not revealed.</p>		
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>The shareholders of the Company can implement the right to participate in the General meeting of shareholders personally or through their representatives if the person has a proper authorization or the voting right delegation agreement is made with him in compliance with the legal acts order. The Company also creates conditions for the shareholders to vote in advance in writing by completing the general voting bulletin as it is foreseen by the Law on the Joint Stock Companies.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>Not applicable</p>	<p>According to the order of the Company's shareholders meetings and the lists of shareholders, there was no need to implement this recommendation in the Company up to now.</p>
<p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b></p> <p><b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b></p>		

7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Company's Supervisory and of the managing bodies act in accordance with the interests of the Company and their competences and individual features suggest that they behave so as to avoid conflicts of interests and they were not observed in practice. The members of the Company's Supervisory and of the managing bodies did not conclude deals with the Company, including high value deals or ones made in not standard conditions.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The members of the Company's supervisory and management body are not entered into transactions with the Company, including those consisting of high value or non-standard conditions.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	In accordance with regulations of Company's supervisory and management bodies, the provisions of the Law on Joint Stock companies of the Republic of Lithuania, the members of the Company's Supervisory and of the managing bodies must abstain from voting when decisions on deals or other questions in which they have a personal or professional interest.

**Principle VIII: Company's remuneration policy**

**Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**

<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p>	<p>Not applicable</p>	<p>The Company publicizes average wages of employees of the Company (by category) and the average wage of all employees of the Company. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not determined by the valid legal acts. The remuneration for the Supervisory Board and the Management Board of the Company is determined by the shareholders meeting, notwithstanding it is never been allotted up to now. The remuneration of the managing director is determined by the Managing Board considering the schedule of remuneration order of managers of municipal enterprises, companies, municipal controlled joint-stock and close-end companies, their deputies and chief accountants approved by Kaunas municipality. Considering this schedule the remuneration of the deputies and chief accountant of the Company is determined. Estimating this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information on the termination payments and loans for the members of the Supervisory Board, the Management Board and administration (General Manager, Chief accountant) in the annual report. The information regarding average remuneration of employees of the Company is also announced in Company's website.</p>
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>

<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> <li>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>• An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>• An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</li> <li>• Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>• Sufficient information on the linkage between the remuneration and performance;</li> <li>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>• Sufficient information on the policy regarding termination payments;</li> <li>• Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>• Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>• Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</li> <li>• A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>• Remuneration statement should not include commercially sensitive information.</li> </ul>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company, but the information on the termination and other payments is publicly announced in the Company's annual report.. Also Company publicizes average wages of employees of the Company (by category).</p>

<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li> <li>• The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>• The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li> <li>• If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li> <li>• Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li> <li>• Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ul> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>• The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</li> <li>• The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</li> </ul>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
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<ul style="list-style-type: none"> <li>• All changes in the terms and conditions of existing share options occurring during the financial year.</li> </ul> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</li> <li>• When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</li> </ul> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial <b>report</b> of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	Not applicable	
<p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	Not applicable	

8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Not applicable	
8.11. Termination payments should not be paid if the termination is due to inadequate performance		
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.13. Shares should not vest for at least three years after their award.	Not applicable	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.		
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	

<p>8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	<p>Not applicable</p>	
<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1., remuneration policy according to which the report on remuneration would be prepared is not approved by the Company. Nevertheless, the Company publishes information on the remuneration and other payments of the members of the Supervisory Board, Management Board, General Manager and his deputies and to the chief accountant in Company's annual reports in accordance with the legislation. Information on average remuneration of Company's employees is also announced in Company's website. The Company does not use schemes under which the directors can be paid with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</li> </ol>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the Company does not use schemes under which the directors can be remunerated with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>



<p>8.21. Should national law or company’s Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders’ approval.</p>	<p>Not applicable</p>	
<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company’s employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders’ annual general meeting.</p>	<p>Not applicable</p>	
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company’s website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company’s website.</p>		

**Principle IX: The role of stakeholders in corporate governance**

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

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company follows all the requirements foreseen by the law for the stakeholders' opportunities to participate in the management of the Company, but any group of interest, having the right to participate in management of the Company, determined by the law, is not created yet in accordance with law.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

**Principle X: Information disclosure and transparency**

**The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**

<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> <li>1) The financial and operating results of the company;</li> <li>2) Company objectives;</li> <li>3) Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>5) Material foreseeable risk factors;</li> <li>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>7) Material issues regarding employees and other stakeholders;</li> <li>8) Governance structures and strategy.</li> </ol> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to</p>	Yes	<p>The Company discloses information, provided in this recommendation, in the reports, in the annual and interim reports, the Company's website and Centre of Registers electronic publication, in which the public information of legal persons are announced, except the report of remuneration policy determined in VIII principle. This report is not prepared in the Company because of the reasons foreseen in the article No. 8.1., and it is not approved, as it is not required by the law. According to the Law on Companies and to Company's Statute the remuneration for the members of the Company's Supervisory Board and of the Management Board can be determined by the meeting of shareholders, but it has not yet been assigned up to now (all of this is described in detail in annotation of VIII recommendations). The company also attempts not to disclose the information that can affect the price of Securities issued by the Company in the comments, interviews or other means, as long as such information will be publicly announced at the NASDAQ stock exchange OMX Vilnius used GlobeNewswire dissemination system on the Company's website.</p>
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<p>which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>		
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	<p>The Company simultaneously presents the information through the Stock Exchange NASDAQ OMX Vilnius used information dissemination system GlobeNewswire in Lithuanian and English languages as it possible. The Stock Exchange NASDAQ OMX, Vilnius places received information on its website and in trading system assuring simultaneous presentation of this information to all. In addition, the Company strives to announce the information before or after a trading session on the Stock Exchange NASDAQ OMX Vinius and to present it to all the markets in which there is trade in the Company's stocks at the same time. The Company does not provide the information which can have an influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced through the Stock Exchange NASDAQ OMX Vinius used dissemination system.</p>
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information</p>	<p>Yes</p>	<p>Company's information is published on its website in Lithuanian.</p>

technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.		
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information provided in this recommendation is announced publicly and placed on the Company's website, on the website of Stock Exchange NASDAQ OMX Vilnius and it can be reached by all the interested persons.
<p><b>Principle XI: The selection of the company's auditor</b></p> <p><b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b></p>		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements	Yes	The set of annual financial statements and the annual report of the Company is verified by the independent audit company.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The candidature of the Company's audit company which accomplished audit of financial statements of the years 2013-2015, was presented to the General meeting of shareholders by the Management Board in compliance with the results of the public competition implemented in 2013.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The information provided in the recommendation was not presented to the shareholders because the audit company did not provide non-audit services for the Company in the year 2013.