AB KAUNO ENERGIJA

SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS FOR THE YEAR 2014,
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH
CONSOLIDATED ANNUAL REPORT AND
INDEPENDENT AUDITOR'S REPORT

Translation note

This set of Consolidated and Parent Company's Financial Statements presented together with Consolidated Annual Report and Independent Auditor's Report has been prepared in Lithuanian language and in English language. In all matters of interpretations of information, views or opinions, the Lithuanian language version of these documents takes precedence over the English version.

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APSKAITOS IR KONTROLĖS
UAB „AUDITAS“ | NEXIA INTERNATIONAL

INDEPENDENT AUDITOR'S REPORT

To the shareholders of KAUNO ENERGIJA, AB

Report on the Financial Statements

We have audited the accompanying stand-alone and consolidated financial statements of Kauno Energija, AB (thereafter – the Company) and its subsidiaries (thereafter – the Group) set out on pages 5 to 54, which comprise the stand-alone and consolidated statements of financial position as of December 31, 2014, profit and loss and other comprehensive income, changes in equity, cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information (thereafter – the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as at December 31, 2014, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to the financial statements accompanying explanatory note 23, which states that in financial statements for the year ended 31 December 2014 accounted current liabilities exceed current assets by LTL 36 million (for the year ended 31 December 2013 current liabilities exceeded current assets by LTL 32 million). This fact indicates that there is significant uncertainty, raising doubts about the Company's and the Group's business continuity. The Group and the Company's ability to meet his obligations in 2015 and improve its liquidity ratios depend on the successful implementation of the plan of the measures.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended at December 31, 2014 set out on pages 55 to 135 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended at December 31, 2014.

Accounting and Control CJSC "Auditas"
Audit Company License No 001234

Lithuanian Certified Auditor Jūratė Sakalauskienė
Licence No 000241

Gedimino Ave. 24-11, LT-01103, Vilnius
25 March, 2015

Statements of Financial Position

	Notes	Group		Company	
		As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
ASSETS					
Non-current assets					
Intangible assets	**3**	258	209	258	209
Property, plant and equipment	**4**	-		-	
Land and buildings		25,247	27,097	24,005	25,798
Structures and machinery		334,856	320,178	334,868	320,187
Vehicles		899	848	992	903
Equipment and tools		16,360	18,730	16,359	18,723
Construction in progress and prepayments		44,281	7,289	44,281	7,289
Total property, plant and equipment		421,643	374,142	420,505	372,900
Non-current financial assets					
Investments into subsidiary	**1**	-	-	3,709	3,719
Non-current accounts receivable	**5**	21	40	21	40
Other financial assets	**6**	95	95	95	95
Total non-current financial assets		116	135	3,825	3,854
Total non-current assets		**422,017**	**374,486**	**424,588**	**376,963**
Current assets					
Inventories and prepayments					
Inventories	**7**	602	3,897	589	3,844
Prepayments		2,076	800	2,074	800
Total inventories and prepayments		2,678	4,697	2,663	4,644
Current accounts receivable	**8**				
Trade receivables	**23**	52,206	57,021	52,206	57,009
Other receivables		22,858	9,428	22,819	9,424
Total accounts receivable		75,064	66,449	75,025	66,433
Cash and cash equivalents	**9,23**	1,345	2,155	1,326	2,135
Total current assets		**79,087**	**73,301**	**79,014**	**73,212**
			-		-
Total assets		**501,104**	**447,787**	**503,602**	**450,175**

(cont'd on the next page)

Statements of Financial Position (cont'd)

	Notes	Group		Company	
		As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256,813	256,392	256,813	256,392
Legal reserve	10	7,187	6,845	7,187	6,845
Other reserve	10	1,799	250	1,799	250
Retained earnings (deficit)		-	-	-	-
Profit for the current year	1	2,977	3,019	2,992	1,858
Profit (loss) for the prior year	1	(1,592)	(2,292)	233	694
Total retained earnings (deficit)		1,385	727	3,225	2,552
Total equity		**267,184**	**264,214**	**269,024**	**266,039**
Liabilities					
Non-current liabilities					
Non-current borrowings	11,23	58,796	38,994	58,796	38,994
Financial lease obligations	12,23	37	125	37	125
Deferred tax liability	21	9,859	8,340	10,523	9,004
Grants (deferred income)	13	47,524	28,987	47,524	28,987
Employee benefit liability	14	2,143	2,079	2,143	2,079
Other non-current liabilities	23	444	-	444	-
Non-current trade liabilities	23	4	14	4	14
Total non-current liabilities		**118,807**	**78,539**	**119,471**	**79,203**
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12,23	15,349	20,401	15,349	20,401
Current borrowings	11,23	26,608	16,997	26,608	16,997
Trade payables	23	67,207	61,321	67,202	61,305
Payroll-related liabilities		1,904	1,950	1,904	1,927
Advances received		1,482	1,444	1,482	1,444
Taxes payable		53	1,146	56	1,142
Derivative financial instruments	15	-	51	-	51
Current portion of employee benefit liability	14	913	937	913	879
Other current liabilities		1,597	787	1,593	787
Total current liabilities		**115,113**	**105,034**	**115,107**	**104,933**
Total liabilities		**233,920**	**183,573**	**234,578**	**184,136**
Total equity and liabilities		**501,104**	**447,787**	**503,602**	**450,175**

(the end)

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

General Manager	Rimantas Bakas		25 March 2015
Chief Accountant	Violeta Staškūnienė		25 March 2015

Statements of Profit (loss) and other comprehensive income

Group

	Notes	2014	2013
Income			
Sales income	16	261,535	322,363
Other operating income	18	4,219	3,561
Total income		**265,754**	**325,924**
Expenses			
Fuel and heat acquired		(198,949)	(257,154)
Salaries and social security		(21,399)	(21,631)
Depreciation and amortisation	3,4	(17,918)	(15,936)
Repairs and maintenance		(2,488)	(2,678)
Write-offs and change in allowance for accounts receivable	5,8	7,187	(9,982)
Taxes other than income tax		(5,067)	(5,101)
Electricity		(3,093)	(2,919)
Raw materials and consumables		(1,934)	(1,876)
Maintenance of heating and hot water systems		-	(2)
Water		(2,529)	(2,167)
Change in write-down to net realisable value of inventories	7	(3,294)	(67)
Other expenses	17	(9,573)	(9,656)
Other activities expenses	18	(1,770)	(1,753)
Total expenses		**(260,827)**	**(330,922)**
Profit		**4,927**	**(4,998)**
Finance income	19	1,211	10,160
Finance costs	20	(1,642)	(1,913)
Finance cost, net		**(431)**	**8,247**
Profit before income tax		**4,496**	**3,249**
Income tax	21	(1,519)	(230)
Net profit		**2,977**	**3,019**
Basic and diluted earnings per share (LTL)	22	0.07	0.07

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

General Manager	Rimantas Bakas		25 March 2015
Chief Accountant	Violeta Staškūnienė		25 March 2015

Statements of Profit (loss) and other comprehensive income

Company

	Notes	2014	2013
Income			
Sales income	16	261,566	322,338
Other operating income	18	3,926	3,358
Total income		**265,492**	**325,696**
Expenses			
Fuel and heat acquired		(198,949)	(257,154)
Salaries and social security		(21,357)	(21,455)
Depreciation and amortisation	3,4	(17,949)	(16,014)
Repairs and maintenance		(2,488)	(2,678)
Write-offs and change in allowance for accounts receivable	5,8	7,227	(10,151)
Taxes other than income tax		(5,066)	(5,101)
Electricity		(3,093)	(2,919)
Raw materials and consumables		(1,937)	(1,881)
Maintenance of heating and hot water systems		(4)	(95)
Water		(2,529)	(2,167)
Change in write-down to net realisable value of inventories	7	(3,294)	(67)
Other expenses	17	(9,563)	(9,690)
Other activities expenses	18	(1,538)	(1,318)
Total expenses		**(260,540)**	**(330,690)**
Profit		**4,952**	**(4,994)**
Finance income	19	1,211	10,160
Finance costs	20	(1,652)	(3,102)
Finance cost, net		**(441)**	**7,058**
Profit before income tax		**4,511**	**2,064**
Income tax	21	(1,519)	(206)
Net profit		**2,992**	**1,858**
Basic and diluted earnings per share (LTL)	22	0.07	0.04

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

General Manager	Rimantas Bakas		25 March 2015
Chief Accountant	Violeta Staškūnienė		25 March 2015

Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2012		**256,392**	**1,307**	**2,584**	**912**	**261,195**
Total comprehensive income		-	-	-	3,019	3,019
Transferred to reserves	10	-	5,538	250	(5,788)	-
Transferred from reserves	10	-	-	(2,584)	2,584	-
Balance as of 31 December 2013		**256,392**	**6,845**	**250**	**727**	**264,214**
Profit (loss) not recognised in the comprehensive income statement		-	-	-	-	-
Total comprehensive income		-	-	-	2,977	2,977
Dividends	1	-	-	-	(428)	(428)
Transferred to reserves	10	-	342	1,799	(2,141)	-
Transferred from reserves	10	-	-	(250)	250	-
Increase in share capital	1	421	-	-	-	421
Balance as of 31 December 2014		**256,813**	**7,187**	**1,799**	**1,385**	**267,184**

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

General Manager	Rimantas Bakas		25 March 2015
Chief Accountant	Violeta Staškūnienė		25 March 2015

Statement of Changes in Equity

Company	**Notes**	**Share capital**	**Legal reserve**	**Other reserve**	**Retained earnings (accumulated deficit)**	**Total**
Balance as of 31 December 2012		**256,392**	**1,307**	**2,584**	**3,898**	**264,181**
Total comprehensive income		-	-	-	1,903	1,903
Transferred to reserves	**10**	-	5,538	250	(5,788)	-
Transferred from reserves	**10**	-	-	(2,584)	2,584	-
Shareholder (contribution) to cover losses	**1**	-	-	-	(45)	(45)
Balance as of 31 December 2013		**256,392**	**6,845**	**250**	**2,552**	**266,039**
Profit (loss) not recognised in the comprehensive income statement		-	-	-	-	-
Total comprehensive income		-	-	-	2,992	2,992
Dividends	**1**	-	-	-	(428)	(428)
Transferred to reserves	**10**	-	342	1,799	(2,141)	-
Transferred from reserves	**10**	-	-	(250)	250	-
Increase in share capital	**1**	421	-	-	-	421
Balance as of 31 December 2014		**256,813**	**7,187**	**1,799**	**3,225**	**269,024**

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

General Manager	Rimantas Bakas		25 March 2015
Chief Accountant	Violeta Staškūnienė		25 March 2015

Statements of Cash Flows

	Group		Company	
	2014	**2013**	**2014**	**2013**
Cash flows from (to) operating activities				
Net profit	**2,977**	**3,019**	**2,992**	**1,858**
Adjustments for non-cash items:				
Depreciation and amortisation	20,909	18,711	20,876	18,595
Write-offs and change in allowance for accounts receivable	(7,162)	9,997	(7,202)	10,166
Interest expenses	1,641	1,418	1,641	1,418
Change in fair value of derivatives	(51)	(153)	(51)	(153)
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	442	418	446	371
(Amortisation) of grants (deferred income)	(1,687)	(1,336)	(1,687)	(1,336)
Change in write-down to net realisable value of inventories	3,294	67	3,294	67
Change employee benefit liability	354	494	349	544
Income tax expenses	1,519	230	1,519	206
Change in accruals	5	(159)	(2)	(109)
Impairment of investment in subsidiary	-	-	10	1,035
Elimination of other financial and investing activity results	(1,159)	(9,850)	(1,159)	(9,695)
Total adjustments for non-cash items:	**18,105**	**19,837**	**18,034**	**21,109**
Changes in working capital:		-		-
(Increase) in inventories	83	269	43	246
(Increase) decrease in prepayments	(1,276)	(516)	(1,236)	(589)
(Increase) decrease in trade receivables	12,503	14,729	12,493	14,581
(Increase) in other receivables	(13,302)	(2,892)	(13,267)	(2,903)
(Decrease) increase in other non-current liabilities	434	(9)	434	(9)
Increase in current trade payables and advances received	5,924	(10,978)	5,935	(11,026)
(Decrease) increase in payroll-related liabilities	(365)	(831)	(272)	(528)
Increase (decrease) in other liabilities to budget	(1,093)	75	(1,086)	104
Increase (decrease) in other current liabilities	775	(134)	771	(96)
Total changes in working capital:	**3,683**	**(287)**	**3,815**	**(220)**
Net cash flows from operating activities	**24,765**	**22,569**	**24,841**	**22,747**

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

	Group		Company	
	2014	**2013**	**2014**	**2013**
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(67,608)	(44,399)	(67,680)	(44,416)
Proceeds from sale of tangible assets	1,105	209	1,102	207
Interest received for overdue accounts receivable	1,158	2,952	1,158	2,952
Penalties received	1	7,054	1	7,054
Decrease of non-current accounts receivable	20	-	20	-
Interest received	1	1	1	1
Net cash (used in) investing activities	**(65,323)**	**(34,183)**	**(65,398)**	**(34,202)**
Cash flows from (to) financing activities				
Proceeds from loans	45,405	25,539	45,405	25,539
(Repayment) of loans	(21,020)	(19,123)	(21,020)	(19,123)
Interest (paid)	(1,778)	(1,474)	(1,778)	(1,474)
Financial lease (payments)	(110)	(125)	(110)	(125)
Penalties and fines (paid)	(1)	(157)	(1)	(157)
Shareholder (contributions) to a subsidiary	-	-	-	(155)
Dividends (paid)	(428)	-	(428)	-
Received grants	17,680	3,777	17,680	3,777
Net cash flows from (used in) financing activities	**39,748**	**8,437**	**39,748**	**8,282**
Net (decrease) increase in cash and cash equivalents	**(810)**	**(3,177)**	**(809)**	**(3,173)**
Cash and cash equivalents at the beginning of the period	**2,155**	**5,332**	**2,135**	**5,308**
Cash and cash equivalents at the end of the period	**1,345**	**2,155**	**1,326**	**2,135**

(the end)

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

General Manager	Rimantas Bakas		25 March 2015
Chief Accountant	Violeta Staškūnienė		25 March 2015

Notes to the financial statements

1. General information

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

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

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

As of 31 December 2014 and of 31 December 2013 the shareholders of the Company were as follows:

	As of 31 December 2014		As of 31 December 2013	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
Kaunas city municipality	39,736,058	92.84	39,665,892	92.82
Kaunas district municipality	1,606,168	3.75	1,606,168	3.76
Jurbarkas district municipality	746,405	1.74	746,405	1.75
Other minor shareholders	713,512	1.67	713,512	1.67
	42,802,143	100.00	42,731,977	100.00

All the shares with a par value of LTL 6 each are ordinary shares. The Company did not hold its own shares in 2014 and 2013.

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

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

It was decided at the Company's Extraordinary meeting of shareholders held on 6 January 2014 to increase Company's authorised capital with LTL 421 thousand from LTL 256,392 thousand to LTL 256,813 thousand by issuing 70,166 ordinary shares at a nominal value of LTL 6, whose emission price is equal to nominal value of the share, enabling Kaunas city municipality to purchase those shares, seeking that Kaunas city municipality would dispose its own heat supply pipeline – heat network, situated in Karaliaus Mindaugo av. 50, Kaunas. A newly issued Company's Statutes were registered on 20 March 2014 after increase of authorised capital.

All shares were fully paid as of 31 December 2014 and as of 31 December 2013.

On 29 April 2014 the Annual General Meeting of Shareholders has made a decision to pay LTL 428 thousand, i.e. at 1 cents a share in dividends and LTL 82 thousand tantiemes for Company's board members from the profit of the year 2013. Two board members refused tantiemes for board members – LTL 23 thousand. Annual payments are accounted in salaries and social security line of Statements of Profit (loss) and other comprehensive income.

The unpaid part of dividends amounting to LTL 12 thousand as of 31 December 2014 (31 December 2013 – LTL 9 thousand) is accounted for in other current liabilities.

The Group and the Company are also involved in maintenance of heating systems. On 1 July 2006 on the basis of Kaunas Energy Services Department the Company established the subsidiary UAB Pastatų Priežiūros Paslaugos (hereinafter – PPP). The main activity of the PPP is exploitation and maintenance of building heating network and heating consumption equipment, internal engineering networks and systems as well as building structures. Starting from July 1, 2006 the Company contracted the PPP for permanent technical maintenance of heating and hot water supply systems of the buildings maintained by the Company. Whereas, according to the changes in the Law on Heat Sector, the PPP is not able to provide heating and hot water supply systems maintenance services starting from 1 July 2012, reorganization of the PPP in the way of separation was approved by the decision of the Company's Management Board of 6 April 2012. On 16 April, 2013 the Company completed procedures of reorganization of PPP in the way of separation. On 16 April, 2013 the new statutes of activity continuing PPP and newly established subsidiary UAB Kauno Energija NT (hereinafter – KENT) were registered in Register of Legal Entities. On 22 April, 2013 the Company announced a tender of sale of PPP. On 19 June, 2013 Company's Management Board decided not to sell block of shares of PPP at the price bid. On 24 September 2013 the Company's Management Board assigned Company's administration by protocol decision to pursue procedures of the end of PPP as of a legal entity in the way chosen by administration. On 25 October, 2013 Company's Board accepted by the protocol decision liquidation of PPP and pursuance of procedures of choosing of liquidator. On 11 December, 2013 the Company's Board decided as filling functions of the only shareholder of PPP to liquidate a subsidiary PPP starting from 16 December, 2013 and to appoint Attorney's Professional Community Magnusson ir Partneriai attorney Aiva Dumčaitienė as a liquidator.

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

Company	Principal place of business	Share held by the Group	Cost of investment	Writing-off cost of investment reducing the capital	Profit (loss) for the year	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos*	Savanorių Ave. 347, Kaunas	100 percent	6,518	(1,916)	107	4,709	Maintenance of heating and hot water systems
UAB Pastatų Priežiūros Paslaugos**	Savanorių Ave. 347, Kaunas	100 percent	10	-	(8)	-	Maintenance of heating and hot water systems
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	4,592	-	(99)	4,508	Rent

- *The data presented as of 31 March, 2013 – until company's separation;
- ** The data presented as of 31 December, 2014 – after company's separation.

As of 31 December 2014 accumulated impairment loss on investment in subsidiarys amounted to LTL 2,809 thousand (31 December 2013 – LTL 2,799 thousand) in the Company's profit or loss in article of financial activity expenses (Note 20).

It has been decided by the decision of the meeting of shareholders PPP of 21 February 2013 to reduce authorised capital to LTL 4,602 thousand by withdrawing accumulated loss of LTL 152 thousand. The new Articles of Association of PPP were registered on 6 March, 2013.

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

Legal Regulations

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

According to the Heating Law of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Price Regulation Commission of Energy Resources (hereinafter the Commission). On 26 February 2004 the Commission granted the Company the heat distribution license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply. On the 14 December 2012 the Commission determined by its decision No. O3-413 a new basic heat rates force components for the period from 1 January 2013 till 31 December 2016.

Operational Activity

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

Total installed heat generation capacity is 499.644 MW (including 23.66 MW – condensing economizers) and electricity – 8.75 MW, respectively, out of which 264.8 MW (including 10 MW – condensing economizer) of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 29.8 MW of heat generation capacity (including 2.8 MW – condensing economizer) is located in Jurbarkas city. The total Company's power generation capacity is 508.394 MW (including 23.66 MW – condensing economizers).

By selling a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) the Company committed in Heat purchase contract of 31 March 2003 to purchase at least 80 percent of the annual heat demand of Kaunas integrated heating network. The contract is valid for 15 years from the signing day. It was determined in this contract that heat purchase price from KTE will not increase in 5 years from the day of contract signing. Starting from 1 December 2008 a new basic heat prices for each 4 years period are being approved by the Commission for KTE and for the Company according to valid legal acts.

The Company received an official note on the 13th of April, 2012 confirming the decision of Gazprom OAO to sell its shares to the smaller shareholder "Clement Power Venture Inc.", and the provision, that Gazprom OAO as the main shareholder of KTE must ensure that during the term of Heat Energy Purchase agreement, i. e. until the 30th of March, 2018 it will own the main block of shares and adequate (not less than 51 percent) number of votes in General meeting of shareholders, is confirmed in heat purchase agreement signed in 2003 between the Company and KTE, Company's Management Board decided on the 10th of July, 2012 to approve the selling of all the shares of Kauno Termofikacijos Elektrinė UAB owned by Gazprom OAO to Clement Power Venture Inc., regularizing terms of change of contracts agreements signed with Kauno Termofikacijos Elektrinė UAB and seeking the best for the Company from this selling. On 13 March 2013 KTE adduced to Company an evidence, i.e. an extract from securities account, saying that ownership of the shares of KTE owned by Gazprom OAO is transferred to Clement Power Venture Inc. since 7 March 2013. The changes of Agreement on Investments and of Heat Energy Purchase Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and Gazprom OAO on 13 August 2013 came into force since that date. Following changes of Heat Energy Purchase Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of LTL 350 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of LTL 10 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 percent forfeit from the value of unfulfilled investments. Notwithstanding agreements reached, on 30 April, 2013 KTE placed a claim to Vilnius Court of Commercial Arbitration. KTE seeks to argue obligations, determined by chapters 2 and 3 of Change of Investments Agreement of 13 August, 2013 by this claim regarding investments in Company heat economy in amount of LTL 10 million and the terms of implementation as well as forfeit (penalties) determined if those investments would not be implemented. According 19th February, 2014 arbitration decision Company and KTE began negotiations for a peaceful settlement of investment dispute, however on 26th May Company has informed Arbitration court that compromise has not been reached. KTE specified it's claim requisitions in the case, by which alternatively asks Arbitration court to terminate Investment agreement. Arbitration court conjoined this case with the case in which the Company placed a claim seeking that KTE would pay to the Company LTL 3,25 million for inappropriate implementation of its obligations to finance in the years 2012 – 2013 Company's investments according to 31 March 2003 Investment agreement changes, signed on 13 August 2012 and 28 September 2012. The case is still pending and a decision is not taken. Further process is described in Note 26.

In 2014 the average number of employees at the Group was 554 (575 employees in 2013). In 2014 the average number of employees at the Company was 551 (565 employees in 2013).

Strategic Decisions

On 16 October, 2014 the Kaunas city council approved corrected Company's investment plan for the years 2012 – 2015, according to which investments in amount of LTL 192,418 million are intended to invest into Company's assets during the period of the years 2012 – 2015. The Group and the Company invested LTL 67,778 thousand and LTL 67,850 thousand in the own assets respectively during the year 2014 (during 2013 – LTL 44,701 thousand and 44,718 thousand).

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

In 2013 the projects "Reconstruction of Noreikiškės boiler-house equipping it with biofuel burned 4 MW capacity water heating boiler" (value of the project is LTL 6.7 million, planned amount of produced heat – 16 GWh per year) and "Reconstruction of Ežerėlis boiler-house equipping it with biofuel burned 3.5 MW capacity water heating boiler" (value of the project is LTL 4.7 million, planned amount of produced heat – 6,7 GWh per year) were implemented. Both projects were implemented using financial support from Lithuanian Environmental Investment Fund (LEIF) in amount of LTL 4.08 million. 14 GWh of heat were produced in Noreikiškės boiler-house and 7 GWh of heat – in Ežerėlis boiler-house during the year 2014.

In 2013 the Company reconstructed old water heating boiler DKVR No 6 in Šilkas boiler-house, transforming it into a new 9 MW biofuel water heating boiler with 1 MW dry flow economizer. Total installed capacity of biofuel burned boilers was 10 MW. Along with this boiler a 15 MW capacity gas burned boiler with 1,5 MW capacity condesational econpmizer was also installed in Šilkas boiler-house in the year 2013. 71 GWh of heat were produced in this boiler-house in the year 2014.

The 18 MW capacity gas burned water heating boiler was installed in Pergalė boiler-house in the year 2013 from the Company's own funds. A 53 GWh of heat were produced in this boiler-house in the year 2014.

In the year 2013 the Company started and at 31 March 2014 finished the reconstruction of water heating boiler PTVM-100 No 2 in Petrašiūnai power plant equipping boiler with 10 MW capacity condensational economizer. The total value of the project was LTL 5.4 million. Conditional fuel consumption for heat production decreased in this equipment by 6.74 kg_{oe}/MWh from 94.2 to 87.46 kg_{oe}/MWh in the year 2014. A 53.85 GWh of heat were produced in this power plant in the year 2014. The Company saved 363 t_{oe} of fuel.

In the year 2013 the Company started and in the year 2014 continues a reconstruction of Šilkas boiler-house where the new biofuel burned 8 MW capacity water heating boiler and common for boilers No.5 and No. 6 4 MW capacity condensational economizer are installed instead of old 9 MW capacity water heating boiler

DKVR 10-13 No 5. The total value of the project with the support from Lithuanian business support agency (LBSA) is LTL 8 million.

Started in 2013, The Company currently installs two biofuel burned water heating boilers (capacity of 2 x 8 MW) and condensing economizer (capacity of 4 MW) in Inkaras boiler-house. The total value of the project with the support from LBSA (LTL 6 million) is LTL 19.4 million.

In 2014, in order to change currently used fuel into biofuel, the Company equips two biofuel water heating boilers (capacity of 2 x 12 MW) and one common condensing economiser (capacity of 6 MW) in Petrašiūnai power plant. Total installed capacity of this equipment will reach 30 MW. Up to 224 GWh of heat energy are planned to produce with this new equipment. It would consume 93 thousand tones of wooden fuel per year. Predictable value of the project with the support from LBSA (LTL 6 million) is LTL 25 million.

In the year 2014 the common index of Company's fuel usage was 88.50 kg_{ne}/MWh, i.e. at 2.6 kg_{ne}/MWh lower as compared to the index (91.1 kg_{ne}/MWh) used to count a base heat price. The Company saved 760 t_{oe} during the year producing 292 GWh of heat.

Company's annual technological heat losses in centralized heat supplies network in the year 2014 were 244 GWh or at 13 GWh lower than in the year 2013. As compared to the index (280 GWh) used in base heat price count, approximately 36 GWh of heat were saved.

Company's annual water consumption for technological purposes in the year 2014 were 255 thousand tons or at 51 thousand tons lower than in the year 2013. Compared to the index (518 thousand tons) used in base heat price count, approximately 263 tons of water were saved.

Company's comparative annual electricity consumption in heat production in the year 2014 were 14.58 kWh/MWh or at 0.21 kWh/MWh (1.4 %) lower than in the year 2013. Compared to the index (14.6 kWh/MWh) used in base heat price count, approximately 5.85 MWh of electricity were saved.

In the year 2014 the Company reconstructed it's own main pipelines named 5T, 6Ž, 1Ž, 3Ž and 4Ž of the integrated heat supply network. Total estimated value of these projects is LTL 14,148 thousand (including LBSA support in amount of LTL 6.501 million).

On October 2014 after UAB Onex Invest boiler house with total installed capacity approximately of 47 MW was connected to Company's heat supply network the total maximum capacity of biofuel burned boiler houses of all independent heat producers (hereinafter – IHP) amounts approximately to 120 MW. In total the Company purchases heat from 8 IHP (7 of them sell heat, produced using biofuel).

The Company has applications from 13 potential IHP at the moment (with total capacity of 520 MW) to connect them to Company's integrated heat supply network. Together with coming of IHP new issues arise, such as network management and balancing of IHP capacities in the case of emergency stop, maintaining of optimum working parameters, regulation of order of heat purchase from IHP and its vicissitude and appliance.

Implemented projects made an impact on decrease of heat price for consumers in 2014.

Answering to Lietuvos Energija, UAB invitation to put forward proposals of cooperation on implementation of projects of cogeneration plants, on 22 July 2014 the Company placed an application to take part in contest, announced by Lietuvos Energija, UAB, named Cooperation For Implementation of Modernization Projects of Heat Economies of Vilnius and Kaunas Cities, By Equipping Cogeneration Power-plants, Using Local and Renewable Energy Sources.

2. Accounting principles

2.1. Adoption of new and/or amended IFRS

The following new or amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the EU are effective for the annual accouting periods beginning on after 2014 and relevant to the Company and the Group:Amendments to IFRS 7 Financial Instrument:

- **IFRS 10 Consolidated financial statements**, adopted by the ES on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 Consolidated and separate financial statements and SIC-12 Consolidation – special purpose entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.
- **IAS 27 Separate financial statements (revised in 2011),** adopted by the ES on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014) was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.
- **Amendments to IAS 32 Financial Instruments: Presentation** – Offsetting financial assets and financial liabilities, adopted by the ES on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set -off' and that some gross settlement systems may be considered equivalent to net settlement.
- **Transition guidance amendments to IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interest in other entities**, adopted by the ES on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014). The amendments clarify the transition guidance in IFRS 10. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 dif fers from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12 by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.
- **Amendments to IAS 36 Impairment of Assets** – Recoverable amount disclosures for non-financial assets, adopted by the ES on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a cash generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment.

The following new or amended IFRS and IFRIC interpretations adopted by the EU that are mandatory for annual accounting periods beginning on or after 2014 but not relevant to the Group/Company are as follows:

- **IFRS 11 Joint arrangements**, adopted by the ES on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014), replaces IAS 31 Interests in jodint ventures and SIC-13 Jointly controlled entities—non-monetary contributions by ventures. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.
- **IFRS 12 Disclosure of interest in other entities**, adopted by the ES on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint

arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material noncontrolling interests, and detailed disclosures of interests in unconsolidated structured entities.

- **IAS 28 Investments in associates and joint ventures(revised in 2011)** , adopted by the ES on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014). The amendment of IAS 28 resulted from IFRS 11 and now requires accounting for joint ventures and associates using the equity method.
- **Amendments to IFRS 10 Consolidated financial statements, IFRS 12 Disclosure of interest in other entities and IAS 27 Separate financial statements** – Investment entities, adopted by the ES on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.
- **Amendments to IAS 39 Financial instruments: Recognition and Measurement** – Novation of derivatives and continuation of hedge accounting, adopted by the ES on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the ES were in issue but not yet effective because are mandatory for annual accounting periods beginning on or after 1 January 2015 and have not been early adopted by the Group/Company:

- **IFRS 2 Share-based payment, IFRS 3 Business combinations, IFRS 8 Operating segments, IAS 16 Property, plant and equipment, IAS 24 Related party disclosures, IAS 38 Intangible assets, IAS 37 Provisions, contingent liabilities and contingent assets and 39 Financial instruments: recognition and measurement** are amended in accordance with the amendments to IFRS 3, adopted by the ES on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015)
- **IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions** are amended in accordance with the amendments to IFRS 3, adopted by the ES on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015). The amendments aim to simplify and clarify the accounting for employee or third party contributions linked to defined benefit plans.
- **IFRS 3 Business combinations, IFRS 13 Fair value measurement, IAS 40 Investment property** are amended in accordance with the amendments to IFRS 3, adopted by the ES on 18 December 2014 (effective for annual periods beginning on or after 1 January 2015). Amendments are clarifications or corrections to the respective standards of inconsistency in International Financial Reporting Standards (IFRS) or where clarification of wording is required.
- **21 IFRIC interpretation Levies,** adopted by the ES on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014). The objective of the Interpretation is to provide guidance on the appropriate accounting treatment of levies that are within the scope of International Accounting Standard 37, in order to increase the comparability of financial statements for users.

There are no other new or revised standards or interpretations that are not yet effective and which could have a material impact on the Group / Company.

2.2. Statement of Compliance

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

2.3. Basis of the preparation of financial statements

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

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

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

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

2.4. Principles of consolidation

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

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

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

Changes in the Group's ownership interests in existing subsidiaries
Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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

2.5. Investments in subsidiaries

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

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

2.6. Intangible assets

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

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

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

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

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

2.7. Accounting for emission rights

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

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

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

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

2.8. Property, plant and equipment

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

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

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

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

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

	Years
Buildings	15 – 50
Structures and machinery	5 – 70
Vehicles	4 – 10
Equipment and tools	4 – 20

Freehold land is not depreciated.

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

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

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

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

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

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

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

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

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

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

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

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

2.10. Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.11. Derivative financial instruments

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

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

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

2.12. Inventories

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

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

2.13. Provisions

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

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

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

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

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

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

2.16. Borrowing costs

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

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

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

2.17. Financial liabilities and equity instruments

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

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

<u>Financial liabilities</u>
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

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

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

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

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

2.18. Leasing

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

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

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

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

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

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

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

2.20. Income tax

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

Current tax
Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2014 the income tax applied to the Group and the Company was 15 percent (2013 – 15 percent).

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such deferred assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

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

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

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

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

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

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

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

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

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

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

The applicable rates used for principal currencies were as follows:

As of 31 December 2014				As of 31 December 2013			
1 EUR	=	3.45280	LTL	1 EUR	=	3.4528	LTL
1 USD	=	2.8387	LTL	1 USD	=	2.5098	LTL
1 GBP	=	4.4080	LTL	1 GBP	=	4.1391	LTL

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

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

2.25. Use of estimates in the preparation of financial statements

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

Estimates and assumptions

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

Property, plant and equipment – useful life

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

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

Realisable value of inventory

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

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

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

In 2014 a new shares issue was paid by contribution in-kind: i.e. networks system situated in in Kaunas city. Market value of assets estimated upon their transfer by local qualified valuators by using depreciated replacement costs method amounted to LTL 0.421 million.

Following decision of 12 August 2010 of the Commission stated in 2012, the Company performed an additional valuations of contribution in-kind, i. e. manifolds in 2012. It's emphasized in the valuation report, that in this particular case a value of manifolds calculated in the method of income is not correct market value of the asset and the value of the manifolds, estimated under the replacement cost method, is considered to be the market value of the assets. In order to ensure that principles of estimation of market value of intercepted contribution in-kind, applied during evaluations in 2009 and 2012, fulfil requirements of International estimation standards and that the value estimated fulfils provisions of 16-th International accounting standard, the Company have ordered and got in 2014 the certificate of expert survey expertize of immovable property (manifolds, 40 units). It is stated in it, that the value of assets, indicated in previous evaluation statemens accounted by the method of expenses can be considered as a real value of these assets.

As of 31 December 2014 carrying value of total contribution in-kind amounted to LTL 126,859 thousand, including the manifolds, which amounted to LTL 125,893 thousand (31 December 2013: LTL 128,423 thousand and LTL 127,840 thousand respectively).

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

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

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

2.26 Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

	Group	Company
	Patents, licenses	
Cost:		
Balance as of 31 December 2012	**5,379**	**5,326**
Additions	73	10
Disposals and write-offs	(155)	(40)
Transfers from property, plant and equipment	84	84
Balance as of 31 December 2013	**5,381**	**5,380**
Additions	6	6
Disposals and write-offs	(57)	(57)
Transfers from property, plant and equipment	141	141
Balance as of 31 December 2014	**5,471**	**5,470**
Amortisation:	-	-
Balance as of 31 December 2012	**5,175**	**5,122**
Charge for the year	139	89
Disposals and write-offs	(142)	(40)
Balance as of 31 December 2013	**5,172**	**5,171**
Charge for the year	98	98
Disposals and write-offs	(57)	(57)
Balance as of 31 December 2014	**5,213**	**5,212**
Net book value as of 31 December 2012	**204**	**204**
Net book value as of 31 December 2013	**209**	**209**
Net book value as of 31 December 2014	**258**	**258**

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

As of 31 December 2014 part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 4,649 thousand (LTL 4,816 thousand as of 31 December 2013) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for the half ended as of 31 December 2014 amounts to LTL 19,137 thousand and LTL 19,104 thousand, respectively (as of 31 December 2013: LTL 17,220 thousand and LTL 17,151 thousand respectively). The amounts of LTL 19,023 thousand and LTL 19,023 thousand (as of 31 December 2013: LTL 17,119 thousand and LTL 17,050 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other activity expenses.

As of 31 December 2014 part of the property, plant and equipment of the Group with acquisition cost of LTL 114,938 thousand (LTL 114,753 thousand as of 31 December 2013) and the Company – LTL 114,809 thousand were fully depreciated (LTL 114,724 thousand as of 31 December 2013), but were still in active use.

As of 31 December 2014 and as of 31 December 2013 the major part of the Group's and Company's construction in progress consisted of heat supply networks, boiler-houses reconstruction and repair works.

As of 31 December 2014 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to LTL 50,799 thousand (as of 31 December 2013 – LTL 35,414 thousand).

Group	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2012	**57,009**	**574,997**	**4,996**	**37,889**	**2,198**	**677,089**
Additions	-	6,830	628	4,352	32,881	44,691
Disposals and write-offs	(485)	(1,153)	(485)	(246)	-	(2,369)
Reclassifications	1,854	20,428	-	5,424	(27,706)	-
Transfers to intangible assets	-	-	-	-	(84)	(84)
Balance as of 31 December 2013	**58,378**	**601,102**	**5,139**	**47,419**	**7,289**	**719,327**
Additions	-	5,945	6	(789)	64,920	70,082
Disposals and write-offs	(3,313)	(3,538)	(15)	(345)	-	(7,211)
Reclassifications	292	24,561	288	2,646	(27,787)	-
Transfers to intangible assets	-	-	-	-	(141)	(141)
Balance as of 31 December 2014	**55,357**	**628,070**	**5,418**	**48,931**	**44,281**	**782,057**
Accumulated depreciation:	-	-	-	-	-	-
Balance as of 31 December 2012	**30,432**	**267,405**	**4,583**	**26,284**	**-**	**328,704**
Charge for the year	1,159	14,599	165	2,649	-	18,572
Disposals and write-offs	(310)	(1,092)	(457)	(232)	-	(2,091)
Reclassifications	-	12	-	(12)	-	-
Balance as of 31 December 2013	**31,281**	**280,924**	**4,291**	**28,689**	**-**	**345,185**
Charge for the year	1,192	15,892	210	3,517	-	20,811
Disposals and write-offs	(2,362)	(2,874)	(16)	(330)	-	(5,582)
Reclassifications	(1)	(728)	34	695	-	-
Balance as of 31 December 2014	**30,110**	**293,214**	**4,519**	**32,571**	**-**	**360,414**
Net book value as of 31 December 2012	**26,577**	**307,592**	**413**	**11,605**	**2,198**	**348,385**
Net book value as of 31 December 2013	**27,097**	**320,178**	**848**	**18,730**	**7,289**	**374,142**
Net book value as of 31 December 2014	**25,247**	**334,856**	**899**	**16,360**	**44,281**	**421,643**

As of 31 December 2014 property, plant and equipment of the Group and the Company with the net book value of LTL 148,173 thousand (LTL 207,522 thousand as of 31 December 2013) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal to LTL 170 thousand in 2014 (in 2013 – LTL 83 thousand). The capitalization rate varied from 1.01 percent to 2.87 percent in 2014 (in 2013 – from 1.40 percent to 2.96 percent).

As of 31 December 2014 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 1,060 thousand in the category Equipment and tools (LTL 3,604 thousand as of 31 December 2013).

Company	Land and buildings	Structures and machinery	Vehicles	Equipment and tools	Construction in progress and prepayments	Total
Cost:						
Balance as of 31 December 2012	**54,467**	**574,375**	**3,823**	**37,521**	**2,198**	**672,384**
Additions	-	6,830	628	4,369	32,881	44,708
Disposals and write-offs	(485)	(1,052)	(125)	(90)	-	(1,752)
Reclassifications	1,854	20,428	-	5,424	(27,706)	-
Transfers to intangible assets	-	-	-	-	(84)	(84)
Balance as of 31 December 2013	**55,836**	**600,581**	**4,326**	**47,224**	**7,289**	**715,256**
Additions	-	5,948	74	(788)	64,920	70,154
Disposals and write-offs	(3,313)	(3,538)	(15)	(339)	-	(7,205)
Reclassifications	292	24,561	288	2,646	(27,787)	-
Transfers to intangible assets	-	-	-	-	(141)	(141)
Balance as of 31 December 2014	**52,815**	**627,552**	**4,673**	**48,743**	**44,281**	**778,064**
Accumulated depreciation:	-	-	-	-	-	-
Balance as of 31 December 2012	**29,247**	**266,773**	**3,382**	**25,958**	**-**	**325,360**
Charge for the year	1,101	14,602	166	2,637	-	18,506
Disposals and write-offs	(310)	(993)	(125)	(82)	-	(1,510)
Reclassifications	-	12	-	(12)	-	-
Balance as of 31 December 2013	**30,038**	**280,394**	**3,423**	**28,501**	**-**	**342,356**
Charge for the year	1,135	15,890	240	3,513	-	20,778
Disposals and write-offs	(2,362)	(2,872)	(16)	(325)	-	(5,575)
Reclassifications	(1)	(728)	34	695	-	-
Balance as of 31 December 2014	**28,810**	**292,684**	**3,681**	**32,384**	**-**	**357,559**
Net book value as of 31 December 2012	**25,220**	**307,602**	**441**	**11,563**	**2,198**	**347,024**
Net book value as of 31 December 2013	**25,798**	**320,187**	**903**	**18,723**	**7,289**	**372,900**
Net book value as of 31 December 2014	**24,005**	**334,868**	**992**	**16,359**	**44,281**	**420,505**

5. Non-current accounts receivable

	Group		Company	
	As of 31 December 2014	**As of 31 December 2013**	**As of 31 December 2014**	**As of 31 December 2013**
Long-term loans granted to the Company's employees	21	40	21	40

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 are non-interest bearing. These loans are accounted for at discounted value as of 31 December 2014 using 3.7 percent interest rate and as of 31 December 2013 using 3.47 percent interest rate. In 2014 effect of reversed discounting amounted to LTL 3 thousand (2013 - LTL 1 thousand). The reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statement of comprehensive income.

As of 31 December 2014 and as of 31 December 2013 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

6. Other financial assets

	Group		Company	
	As of 31 December 2014	**As of 31 December 2013**	**As of 31 December 2014**	**As of 31 December 2013**
Available-for-sale financial assets				
Fair value of shares	95	95	95	95

Financial assets held for sale consists of ordinary shares are unquoted.

7. Inventories

	Group		Company	
	As of 31 December 2014	**As of 31 December 2013**	**As of 31 December 2014**	**As of 31 December 2013**
Technological fuel	3,512	3,502	3,512	3,502
Spare parts	1,113	1,140	1,113	1,140
Materials	1,192	1,175	1,179	1,122
	5,817	5,817	5,804	5,764
Less: write-down to net realisable value of inventory at the end of the period	(5,215)	(1,920)	(5,215)	(1,920)
Carrying amount of inventories	602	3,897	589	3,844

As of 31 December 2014 Group's and Company's amounted to LTL 5,215 thousand (as of 31 December 2013 – LTL 1,920 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2014 and for the year 2013 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 31 December 2014	**As of 31 December 2013**	**As of 31 December 2014**	**As of 31 December 2013**
Trade receivables, gross	96,312	111,871	96,489	112,036
Less: impairment of doubtful receivables	(44,106)	(54,850)	(44,283)	(55,027)
	52,206	**57,021**	**52,206**	**57,009**

Of 31 December 2014 Group's and Company's receivables as include the factored receivables amounting to LTL 2,020 thousand under the agreement with AB DNB Bank (as of 31 December 2013 – LTL 2,453 thousand, the factored receivables under the agreement with UAB Swedbank Lizingas).

Change in impairment of doubtful receivables in 2014 and 2013 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of comprehensive income.

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

	Group	**Company**
Balance as of 31 December 2012	**47,755**	**47,877**
Additional allowance formed	10,336	10,391
Write-off	(3,241)	(3,241)
Balance as of 31 December 2013	**54,850**	**55,027**
Additional allowance formed	(7,688)	(7,690)
Write-off	(3,056)	(3,054)
Balance as of 31 December 2014	**44,106**	**44,283**

In 2014 the Group and the Company wrote off LTL 3,056 thousand and LTL 3,054 thousand of bad debts respectively (in 2013 – LTL 3,241 thousand). In 2014 the Group and the Company also recovered LTL 25 thousand (in 2013 – LTL 15 thousand) of doubtful receivables, which were written off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 31 December 2014 and 31 December 2013 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2014	43,362	2,359	619	731	863	4,272	52,206
2013	44,691	3,295	995	973	1,231	5,836	57,021

The ageing analysis of the Company's net value of trade receivables as of 31 December 2014 and 31 December 2013 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2014	43,362	2,359	619	731	863	4,272	52,206
2013	44,679	3,295	995	973	1,231	5,836	57,009

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

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

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Taxes	16,271	4,130	16,271	4,130
Other receivables	7,184	5,495	7,413	5,797
Less: value impairment of doubtful receivables	(597)	(197)	(865)	(503)
	22,858	**9,428**	**22,819**	**9,424**

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

	Group	Company
Balance as of 31 December 2012	**536**	**728**
Additional allowance formed	(326)	(212)
Write-off	(13)	(13)
Balance as of 31 December 2013	**197**	**503**
Additional allowance formed	529	491
Write-off	(129)	(129)
Balance as of 31 December 2014	**597**	**865**

As of 31 December 2014 and 31 December 2013 the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold inventories (metals, heating equipment) and services supplied (maintenance of manifolds and similar services).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 31 December 2014 and 31 December 2013 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2014	2,705	54	179	550	5	3,094	6,587
2013	2,126	32	37	6	3,071	26	5,298

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 31 December 2014 and 31 December 2013 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2014	2,666	54	179	550	5	3,094	6,548
2013	2,122	32	37	6	3,071	26	5,294

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

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

9. Cash and cash equivalents

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Cash in transit	402	977	402	977
Cash at bank	922	1,160	903	1,140
Cash on hand	21	18	21	18
	1,345	2,155	1,326	2,135

The Group's and the Company's accounts in banks amounting to LTL 760 thousand as of 31 December 2014 (31 December 2013 – LTL 1,137 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

Legal and other reserves

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

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

On 29 April, 2014 the Company annulled other reserves (LTL 250 thousand) by the decision of shareholders, LTL 342 thousand transferred from retained earnings to legal reserve and LTL 1,799 thousand to other reserves. Reserve was formed for investments LTL 799 thousand and for support – LTL 1,000 thousand.

11. Borrowings

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Non-current borrowings	**58,796**	**38,994**	**58,796**	**38,994**
Current portion of non-current borrowings (except leasing which) is disclosed in Note 12)	15,263	20,291	15,263	20,291
Current borrowings (including credit line)	24,588	14,544	24,588	14,544
Factoring with recourse agreement	2,020	2,453	2,020	2,453
Current borrowings	**41,871**	**37,288**	**41,871**	**37,288**
	100,667	**76,282**	**100,667**	**76,282**

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

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
2014	-	20,291	-	20,291
2015	15,263	8,568	15,263	8,568
2016	9,611	7,121	9,611	7,121
2017	7,759	4,993	7,759	4,993
2018	7,362	3,780	7,362	3,780
2019	6,208	2,551	6,208	2,551
2020	4,669	1,432	4,669	1,432
2021	1,680	754	1,680	754
2022	1,655	753	1,655	753
2023	1,654	754	1,654	754
2024	1,654	753	1,654	753
2025	1,655	754	1,655	754
2026	1,654	753	1,654	753
2027	1,654	754	1,654	754
2028	1,655	753	1,655	753
2029	1,654	753	1,654	753
2030	1,655	754	1,655	754
2031	1,655	754	1,655	754
2032	1,654	753	1,654	753
2033	1,654	754	1,654	754
2034	1,654	753	1,654	753
	74,059	59,285	74,059	59,285

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

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Current borrowings	1.24	0.97	1.24	0.97
Non-current borrowings	2.66	2.59	2.66	2.59

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

	Group		Company	
Currency of the loan:	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
EUR	45,885	36,816	45,885	36,816
LTL	52,762	37,013	52,762	37,013
	98,647	73,829	98,647	73,829

Detailed information on loans as of 31 December 2014:

	Credit institution	Date of contract	Currency	Currency sum, thousand	Sum LTL thousand	Term of maturity	Balance as of 31.12.2014 LTL thousand	A part of 2015, LTL thousand
1.	AB SEB Bank	23/08/2005	EUR	8,776	30,300	31/12/2014	-	-
2.	Nordea*	01/12/2006	LTL	6,090	6,090	31/12/2015	793	793
3.	AB SEB Bank	21/12/2006	EUR	2,059	7,108	30/11/2016	496	395
4.	AB DNB Bank	14/11/2007	EUR	576	1,989	31/12/2016	497	248
5.	Danske**	31/07/2008	EUR	984	3,398	31/12/2018	1,386	351
6.	Danske**	31/07/2008	EUR	1,158	4,000	30/09/2017	1,355	500
7.	Swedbank, AB	02/12/2009	EUR	3,815	9,819	02/12/2016	2,033	1,203
8.	MF Lithuania***	09/04/2010	EUR	2,410	8,323	15/03/2034	6,139	-
9.	Swedbank, AB	21/06/2010	EUR	649	2,240	21/06/2017	195	195
10.	Nordea*	17/09/2010	EUR	1,625	5,611	31/05/2016	1,401	989
11.	MF Lithuania***	26/10/2010	EUR	807	2,788	15/03/2034	2,526	-
12.	AB SEB Bank	11/02/2011	EUR	1,031	3,560	10/02/2019	2,282	548
13.	Nordea*	19/04/2011	EUR	921	3,180	30/04/2019	2,362	545
14.	MF Lithuania***	02/09/2011	EUR	1,672	5,773	01/09/2034	5,702	-
15.	AB SEB Bank	13/10/2011	EUR	290	1,000	30/11/2019	307	141
16.	AB SEB Bank	23/05/2013	LTL	10,567	10,567	30/11/2014	-	-
17.	AB DNB Bank	01/07/2014	LTL	15,000	15,000	30/06/2015	14,888	14,888
18.	AB SEB Bank	29/08/2014	LTL	10,000	10,000	28/08/2015	9,700	9,700
19.	AB SEB Bank	10/09/2013	LTL	5,200	5,200	30/09/2020	4,983	867
20.	Nordea*	27/09/2013	LTL	1,300	1,300	30/09/2020	511	25
21.	Nordea*	03/06/2013	LTL	9,000	9,000	03/06/2020	3,405	619
22.	AB SEB Bank	03/06/2013	LTL	2,760	2,760	30/06/2020	2,530	460
23.	AB SEB Bank	03/06/2013	LTL	4,240	4,240	30/06/2020	3,870	707
24.	Nordea*	27/09/2013	EUR	655	2,261	30/09/2020	2,137	371
25.	Nordea*	28/11/2013	LTL	2,000	2,000	27/11/2020	1,504	254
26.	AB DNB Bank	28/02/2014	LTL	5,227	5,227	30/05/2015	5,227	5,227
27.	AB SEB Bank	31/03/2014	LTL	5,400	5,400	15/01/2021	5,351	825
28.	MF Lithuania***	31/03/2014	EUR	7,881	27,212	01/12/2034	14,383	-
29.	MF Lithuania***	15/01/2014	EUR	793	2,739	01/12/2034	2,684	-
							98,647	39,851

* Nordea Bank Finland Plc. Lithuanian branch;
** Danske Bank A/S Lithuania branch;
*** Ministry of Finance of the Republic of Lithuania.

On 24 October 2012 the Group and the Company signed a factoring with recourse agreement with Swedbank Lizingas, UAB amounted to the limit LTL 8,500 thousand. Factoring advance is 90 percent. The term of validity of agreement is 31 December 2013. Liability of the factoring with recourse, amounting to LTL 2,453 thousand as of 31 December 2013 is accounted within the caption of current borrowings.

On 2 January 2014 the Group and the Company signed a factoring with recourse agreement with AB DNB Bank amounted to the limit LTL 8,500 thousand. Factoring advance is 90 percent. The term of validity of agreement is 30 April 2015. Liability of the factoring with recourse, amounting to LTL 2,020 thousand as of 31 December 2014 is accounted within the caption of current borrowings

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

12. Finance lease obligations

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

Future minimal lease payments were:

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Within one year	88	116	88	116
From one to five years	37	125	37	125
Total financial lease obligations	125	241	125	241
Interest	(2)	(8)	(2)	(8)
Present value of financial lease obligations	**123**	**233**	**123**	**233**
Financial lease obligations are accounted for as:				
- current	86	110	86	110
- non-current	37	123	37	123

13. Grants (deferred income)

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Balance at the beginning of the reporting period	**28,987**	**26,546**	**28,987**	**26,546**
Received during the year	20,224	3,777	20,224	3,777
Amortisation	(1,687)	(1,336)	(1,687)	(1,336)
Balance at the end of the reporting period	**47,524**	**28,987**	**47,524**	**28,987**

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at V. Krėvės Ave. 82 A, 118 H, Kaunas)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,843 thousand by 31 December 2014. The project is completed.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Modernisation of Kaunas City Integrated Network Centre Main (4T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 5,990 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 4,414 thousand by 31 December 2014. The project is completed.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 1,725 thousand by 31 December 2014. The project is completed.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2014 financing in amount of LTL 1,426 thousand has been received. The project is completed.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2014 financing in amount of LTL 2,526 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Dainava area main of Kaunas integrated network (1T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,560 thousand after terms and conditions of the agreement are fulfilled As of 31 December 2014 financial support in amount of LTL 1,489 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Aukštieji Šančiai area main of Kaunas integrated network (2Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,618 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2014 financial support in amount of LTL 1,618 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Vilijampolė area heating network of Kaunas integrated network (9K)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 595 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2014 financial support in amount of LTL 595 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Pramonė area main of Kaunas integrated network (1Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,000 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2014 financing in amount of LTL 2,000 thousand has been received. The project is completed.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water boiler", according to which the financing in amount of LTL 1,791 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 31 December 2014 financial support in amount of LTL 1,785 thousand has been received. The project is completed.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler", according to which the financing in amount of LTL 2,299 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 31 December 2014 financial support in amount of LTL 2,293 thousand has been received. The project is completed.

On 8 July 2013 the Group and the Company signed a financing agreement of the project "Reconstruction of Pergalė boiler-house equipping it with condensational economizer", under which financing in amount of LTL 638 thousand is provided for the Company from Lithuanian Environmental Investment Fund after the terms of agreement are fulfilled. As of 31 December 2014 financial support in amount of LTL 383 thousand has been received. The project is completed.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Šilkas boiler-house, changing used fuel to biofuel (stage II)" under which a financing in amount of LTL 3,990 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2014 financial support in amount of LTL 1,733 thousand has been received.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Petrašiūnai power plant, changing used fuel to biofuel (stage I)" under which a financing in amount of LTL 6,000 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2014 financial support in amount of LTL 3,456 thousand has been received.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Inkaras boiler-house, changing used fuel to biofuel" under which a financing in amount of LTL 6,000 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2014 financial support in amount of LTL 3,631 thousand has been received.

On 20 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 4Ž between heat cameras 4Ž–10 and 4Ž–15 Taikos av." under which a financing in amount of LTL 1,061 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2014 financial support in amount of LTL 1,055 thousand has been received.

On 20 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 3Ž between heat cameras 3Ž–9 and 3Ž–9–5 A. Baranausko str." under which a financing in amount of LTL 787 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2014 financial support in amount of LTL 717 thousand has been received.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 1Ž between heat cameras 1Ž–7 and 1Ž–8 and between heat cameras 1Ž–10 and 1ž–12 in Chemijos str." under which a financing in amount of LTL 2,000 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2014 financial support in amount of LTL 2,000 thousand has been received.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 6Ž" under which a financing in amount of LTL 1,033 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2014 financial support in amount of LTL 1,023 thousand has been received.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 5T" under which a financing in amount of LTL 1,706 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2014 financial support in amount of LTL 1,706 thousand has been received.

14. Employee benefit liability

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

	Group		Company	
	2014	**2013**	**2014**	**2013**
Employee benefit liability at the beginning of the year	**3,016**	**3,297**	**2,958**	**2,999**
Paid	(314)	(775)	(251)	(585)
Formed	354	494	349	544
Employee benefit liability at the end of the year	**3,056**	**3,016**	**3,056**	**2,958**
Non-current employee benefit liability	2,143	2,079	2,143	2,079
Current employee benefit liability	913	937	913	879

During the 2014 total amount of the benefit paid to the employees by the Group amounted to LTL 314 thousand (in 2013 – LTL 775 thousand), and by the Company – LTL 251 thousand (in 2013 – LTL 585 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

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

	As of 31 December 2014	**As of 31 December 2013**
Discount rate	4.0 percent	4.0 percent
Employee turnover rate	18.9 percent	18.9 percent
Expected average annual salary increases	3.0 percent	3.0 percent

15. Derivative financial instruments

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15 percent for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction as EUR 784 thousand (the equivalent of LTL 2,708 thousands) as at 31 December 2013. Market value of swap agreement LTL 51 thousands as of 31 December 2013. This transaction does not have material impact on the future cash flows of the Group and the Company.

16. Sales income

The Group's and the Company's activities are heat supplies, maintenance of manifolds, electricity production and other activities. Starting from the year 2010 a part of inhabitants chose the Company as the hot water supplier. Those activities are inter-related, so consequently for management purposes the Group's and the Company's activities are organised as one main segment – heat energy supply. The Group's and the Company's sales income according to the activities are stated below.

	Group		**Company**	
	2014	**2013**	**2014**	**2013**
Heat supplies	250,274	311,576	250,308	311,632
Hot water supplies	9,091	8,612	9,091	8,612
Maintenance of manifolds	783	779	783	779
Maintenance of heat and hot water systems	93	280	90	199
Electric energy	759	767	759	767
Maintenance of hot water meters	535	349	535	349
	261,535	**322,363**	**261,566**	**322,338**

17. Other expenses

	Group		**Company**	
	2014	**2013**	**2014**	**2013**
Cash collection expenses	1,235	1,838	1,235	1,838
Equipment verification and inspection	1,728	1,657	1,729	1,657
Maintenance of manifolds	1,387	1,863	1,387	1,863
Debts collection expenses	186	198	185	198
Sponsorship	1,381	157	1,381	157
Consulting expenses	592	485	592	485
Customer bills issue and delivery expenses	436	457	436	457
Communication expenses	179	188	178	188
Employees related expenses	297	261	297	261
Insurance	292	261	292	261
Long term assets maintenance and related services	257	212	259	212
Membership fee	279	292	279	292
Transport expenses	82	101	81	100
Advertising expenses	119	170	119	170
Audit expenses	52	36	52	36
Rent of equipment and machinery	31	32	32	32
Other expenses	1,040	1,448	1,029	1,483
	9,573	**9,656**	**9,563**	**9,690**

18. Other activities income and expenses

	Group		Company	
	2014	**2013**	**2014**	**2013**
Income from other operating activities				
Miscellaneous services	1,661	3,204	1,423	3,023
Materials sold	99	219	52	201
Gain from sale of non-current assets	419	13	418	13
Other	2,040	125	2,033	121
	4,219	**3,561**	**3,926**	**3,358**
Expenses from other operating activities				
Cost of miscellaneous services	(830)	(1,689)	(671)	(1,248)
Cost of materials sold	(78)	(1)	(2)	(1)
Write off of non-current assets	(734)	(8)	(737)	(14)
Loss from sale of non-current assets	(127)	(32)	(127)	(32)
Other	(1)	(23)	(1)	(23)
	(1,770)	**(1,753)**	**(1,538)**	**(1,318)**

19. Finance income

	Group		Company	
	2014	**2013**	**2014**	**2013**
Interest from late payment of accounts receivable	1,158	2,952	1,158	2,952
Fines	1	7,054	1	7,054
Impairment of non-current financial assets	-	-	-	-
Change in fair value of derivative financial instruments	51	153	51	153
Bank interest	1	1	1	1
Other	-	-	-	-
	1,211	**10,160**	**1,211**	**10,160**

20. Finance costs

	Group		Company	
	2014	**2013**	**2014**	**2013**
Interest on bank loans and overdrafts	(1,641)	(1,418)	(1,641)	(1,418)
Impairment of non-current financial assets	-	(338)	(10)	(1,372)
Penalties	(1)	(157)	(1)	(157)
Shareholder's contributions in subsidiary	-	-	-	(155)
Exchange rate change	-	-	-	-
	(1,642)	**(1,913)**	**(1,652)**	**(3,102)**

21. Income tax

The recorded income tax for the year can be reconciled with the theoretical calculated income tax, which is computed by applying the standard income tax rate to profit before taxes as follows:

	Group		Company	
	2014	**2013**	**2014**	**2013**
Profit before tax	4,496	3,249	4,511	2,064
Income tax (expenses) calculated at statutory rate	(674)	(487)	(677)	(310)
Permanent differences and impact of valuation allowance of deferred income tax asset	(845)	257	(842)	104
Income tax (expenses) reported in the statement of comprehensive income	(1,519)	(230)	(1,519)	(206)
Effective rate of income tax (percent)	**33.79**	**7.08**	**33.67**	**9.98**

	Group		Company	
	2014	**2013**	**2014**	**2013**
Components of the income tax expense				
Current income tax for the reporting year	-	-	-	-
Deferred income tax (expenses)	(1,519)	(230)	(1,519)	(206)
Income tax (expenses) recorded in the statement of comprehensive income	(1,519)	(230)	(1,519)	(206)

As of 31 December 2014 and 31 December 2013 deferred income tax asset and liability were accounted for by applying 15 percent rate. All changes in deferred tax are reported in the statement of comprehensive income.

As of 31 December deferred income tax consists of:

	Group		Company	
	2014	**2013**	**2014**	**2013**
Net deferred income tax asset				
Tax loss carried forward	9,018	6,039	9,018	6,039
Accruals	538	846	538	846
The change in value of financial assets	-	51	-	51
Deferred income tax asset	**9,556**	**6,936**	**9,556**	**6,936**
Deferred income tax liability				
Differences of depreciation	(17,829)	(15,114)	(17,829)	(15,114)
Investment relief	(1,586)	(162)	(1,586)	(162)
Revaluation of the assets transferred to subsidiary	-	-	(664)	(664)
Deferred income tax liabilities	**(19,415)**	**(15,276)**	**(20,079)**	**(15,940)**
Deferred income tax, net	**(9,859)**	**(8,340)**	**(10,523)**	**(9,004)**

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

At 31 December unrecognized deferred tax assets of the Group and the Company consisted of:

	2014	**2013**	**2014**	**2013**
Allowance for trade receivables	6,922	8,228	6,949	8,254
Property, plant and equipment depreciation	109	98	109	98
Allowance for other accounts receivable	65	4	108	50
Impairment for the investment into subsidiary	-	-	421	420
Accruals	782	-	782	-
Unrecognized deferred tax asset, net	**7,878**	**8,330**	**8,369**	**8,822**

22. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2014	**2013**	**2014**	**2013**
Net profit	2,977	3,019	2,992	1,858
Number of shares (thousand), opening balance	42,732	42,732	42,732	42,732
Number of shares (thousand), closing balance	42,802	42,732	42,802	42,732
Average number of shares (thousand)	42,767	42,732	42,767	42,732
Basic and diluted earnings per share (LTL)	0.07	0.07	0.07	0.04

23. Financial assets and liabilities and risk management

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

Number of customers	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Individuals	114,151	114,240	114,151	114,240
Other legal entities	2,122	2,098	2,122	2,082
Legal entities financed from municipalities' and state budget	571	345	571	336
	116,844	**116,683**	**116,844**	**116,658**

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

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Individuals	37,732	39,320	37,732	39,319
Other legal entities	7,547	8,645	7,547	8,638
Legal entities financed from municipalities' and state budget	6,927	9,056	6,927	9,052
	52,206	**57,021**	**52,206**	**57,009**

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

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

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
A	197	322	178	302
A+	574	674	574	674
AA-	25	138	25	138
Bank with no rating attributed	126	26	126	26
	922	**1,160**	**903**	**1,140**

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

The Group and the Company do not guarantee obligations of the other parties in 2014 and in 2013.

With respect to credit risk arising from the other financial assets of the Group and the Company, which comprise cash and cash equivalents and available-for-sale financial investments, the Group's and the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Interest rate risk
All of the borrowings of the Group and the Company, except those loans signed with Ministry of Finance of the Republic of Lithuania, are at variable interest rates, therefore the Group and the Company faces an interest rate

risk. In 2014 and 2013 to manage variable rate risk the Group and the Company had been entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

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

	Increase/decrease in basis points	Effect on income tax
2014		
LTL	200	(158)
LTL	(200)	158
EUR	50	(11)
EUR	(50)	11
2013		
LTL	200	(111)
LTL	(200)	111
EUR	50	(15)
EUR	(50)	15

<u>Liquidity risk</u>

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 31 December 2014 were 0.69 and 0.68, respectively (0.70 and 0.66 as of 31 December 2013). The Company's liquidity and quick ratios as of 31 December 2014 were 0.69 and 0.68, respectively (0.70 and 0.66 as of 31 December 2013). As of 31 December 2014 the net working capital was minus (LTL 36,093 thousand), (as at 31 December 2013 it was also minus – LTL 31,721 thousand).

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

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

Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
Amount used	24,588	14,544	24,588	14,544
Amount unused	412	10,456	412	10,456
	25,000	**25,000**	**25,000**	**25,000**

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2014 and as of 31 December 2013 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	5,653	36,237	36,188	34,828	112,906
Trade payables	60,017	7,190	4	-	67,211
Balance as of 31 December 2014	**65,670**	**43,427**	**36,192**	**34,828**	**180,117**

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	5,180	31,174	27,610	18,408	82,372
Trade payables	61,210	111	14	-	61,335
Balance as of 31 December 2013	**66,390**	**31,285**	**27,624**	**18,408**	**143,707**

The table below summarises the maturity profile of the Company's financial liabilities, as of 31 December 2014 and as of 31 December 2013 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	5,653	36,237	36,188	34,828	112,906
Trade payables	60,012	7,190	4	-	67,206
Balance as of 31 December 2014	**65,665**	**43,427**	**36,192**	**34,828**	**180,112**

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	5,180	31,174	27,610	18,408	82,372
Trade payables	61,194	111	14	-	61,319
Balance as of 31 December 2013	**66,374**	**31,285**	**27,624**	**18,408**	**143,691**

Trade payables

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

	Group		Company	
	As of 31 December 2014	As of 31 December 2013	As of 31 December 2014	As of 31 December 2013
For heat purchased	32,722	35,826	32,722	35,826
Contractors	22,470	14,904	22,470	14,904
Other suppliers	12,019	10,605	12,014	10,589
	67,211	**61,335**	**67,206**	**61,319**

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

As of 31 December 2014 the Group and the Company had an LTL 7,101 thousand (31 December 2013 – LTL 2,667 thousand) of overdue trade creditors, out of which an LTL 6,996 thousand related to legal proceedings with KTE.

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

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

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.
The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

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

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

	Group			Company		
Financial assets:	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012
Cash and bank balances	1,345	2,155	5,332	1,326	2,135	5,308
Loans and receivables	75,085	66,489	88,225	75,046	66,473	88,120
Financial assets	95	95	433	95	95	433
	76,525	**68,739**	**93,990**	**76,467**	**68,703**	**93,861**

	Group			Company		
Financial liabilities:	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012
Carried at fair value through profit or loss (level 2 in the fair value hierarchy)	-	51	204	-	51	204
Carried at amortised cost	168,445	137,903	142,865	168,440	137,887	142,897
	168,445	**137,954**	**143,069**	**168,440**	**137,938**	**143,101**

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

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, reconsider the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management as of 31 December 2014 and 31 December 2013.

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

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

	Group		**Company**	
	As of 31 December 2014	**As of 31 December 2013**	**As of 31 December 2014**	**As of 31 December 2013**
Non-current liabilities (including deferred tax and grants (deferred income))	118,807	78,539	119,471	79,203
Current liabilities	115,113	105,034	115,107	104,933
Liabilities	**233,920**	**183,573**	**234,578**	**184,136**
Equity	**267,184**	**264,214**	**269,024**	**266,039**
Debt* to equity ratio (percent)	**87.55**	**69.48**	**87.20**	**69.21**

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

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

24. Commitments and contingencies

Litigations
On 17 April, 2013 the Company got a message from Vilnius Court of Commercial Arbitration (hereinafter – Arbitration) saying that KTE claim to the Company regarding LTL 1,340 thousand has been received in Arbitration on 12 April, 2013. According to KTE allegation, the debt formed due to the Company's lower neither it was determined by KTE payment for heat amount in December 2012 and January 2013. Considering Company's comparative expenditures of heat production and following provision of chapter 10 of the Law on Heat Sector of the Republic of Lithuania, that in all occasions the heat, purchased from independent heat producers cannot be more expensive than heat supplier's comparative expenditures of heat production, the Company purchased heat from KTE following provision of the law. On 17 May, 2013 the Company placed an objection to the Court regarding the claim. Arbitration rejected a claim of KTE by the decision of 27 January, 2014. KTE did not complain this decision, the case is closed.

On September 2013 the Company has been incorporated as a third party in the civil case under claimant's UAB KTE claim to defendant BAB Ūkio Bankas regarding the termination of factoring contract ant regarding the recognizing as a property of UAB KTE a sum of LTL 3,063 thousand, which were transferred by the Company when implementing its liability and which are now on hand of notary deposit account. A session in this case is still not appointed. On September 2013 a preliminary court decision under the specified claim of claimant BAB Ūkio Bankas to the Company regarding adjudgement of debt in amount of LTL 3,063 thousand, penalty, process interest and litigation expenses was delivered to the Company. The Company placed an objection to the Court regarding this preliminary decision and regarding rejection of specified claim of claimant BAB Ūkio Bankas Both cases were integrated by the decision of Kaunas Regional court of 2 December 2013. The Company awarded LTL 3,063 thousand to the BAB Ūkio bankas, cash recovery by directing the notary deposit account in cash. KTE appealed against the decision. The investigation in this case is still not appointed in the Court of Appeal of Lithuania.

The National Control Commission for Prices and Energy (NCC) brought a decision on 18 July 2013 by which satisfied application of KTE to acknowledge that the Company infringed legal acts regarding heat purchasing from IHP by refusing to purchase a part, i. e. 11,181.5 MWh of heat energy purchased from KTE in July 2013. If this decision of NCC would come into force, KTE would gain a right to ask to make amends (loss of income) for not purchased heat amount. The Company placed a claim to Vilnius Regional court objecting this decision of NCC. The Court rejected a claim of KE by the decision of 20 February, 2014. The Company placed an appeal regarding this decision on 24 March 2014. On 12 November 2014 Lithuanian Court of Appeal rejected this appeal by it's decision. Further process is described in Note 26.

On 14 January 2014 insurance company AB Lietuvos Draudimas placed a claim in amount of LTL 114 thousand in case of damage compensation to UAB Korelita, in which AB Litgrid and the Company are defendants. A claimant suffered damage due to a fault in the electrical system. The Company placed a response to the court in which asked to ignore a claim as unfounded. The case is still not explored and the decision is still not made.

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

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

Future liabilities of Group and the Company under valid purchase arrangements as of 31 December 2014 amounted to LTL 64,971 thousand.

25. Related parties transactions

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

In 2014 and 2013 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

In 2014 and 2013 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and amounts of receivables from and liabilities to them at the end of the year were as follows:

2014	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	2,942	28,861	8,820	1,086
Jurbarkas city municipality	4	1,751	167	23

2013	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	2,687	37,791	20,705	524
Jurbarkas city municipality	4	2,535	237	2

The Group's and the Company's as of 31 December 2014 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 2,763 thousand (as of 31 December 2013 – LTL 10,362 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

In 2014 and 2013 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

Pastatų Priežiūros Paslaugos UAB	**Purchases**	**Sales**	**Receivables**	**Payables**
2014	85	1	-	-
2013	544	69	-	7

Kauno Energija NT UAB	**Purchases**	**Sales**	**Receivables**	**Payables**
2014	19	35	464	-
2013	1	14	483	-

As of 31 December, 2014 the Company has formed an LTL 464 thousand (as of 31 December 2013 – LTL 483 thousand) of common postponements for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 31 December 2014 the Group's and the Company's management team comprised 6 and 4 persons respectively (as at 31 December 2013 – 7 and 4).

	Group		**Company**	
	2014	**2013**	**2014**	**2013**
Key management remuneration	464	455	440	400
Calculated post-employment benefits	65	104	65	104

In the year 2014 and 2013 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

26. Post balance sheet events

According to Investment agreement signed on 31 March 2003 with KTE with all the changes investment objects are planned for preliminary value in amount of LTL 350 million and a detailed schedule of investments implementation for the years of 2013 – 2017 as well. Herewith KTE obliged to finance from these investments Company's investments in amount of LTL 10 million. Those investments will be made in Company's infrastructure during the period of 2012 – 2016. Also KTE obliged to pay 10 percent fine from the value of non implemented investments.Litigation regarding this agreement is described in Note 1. As KTE further did not implement its obligations, the Company applied to Arbitration on 30 January 2015 with specified requirements to adjudge in addition EUR 652 thousand (LTL 2,250 thousand) for non financed Company's investments of the year 2014. Total requirements – EUR 1,593 thousand (LTL 5,500 thousand). The case is still not investigated and the decision is not made.

NCC made a decision on 18 July 2013 by which satisfied application of KTE to recognize, that the Company violated legal acts regarding purchase of heat from IHP by refusing to purchase part, i. e. 11,181.5 MWh of heat proposed by KTE in June 2013. Objecting to this decision of NCC, the Company placed a cassation complaint to the Lithuanian Court of Appeal on 13 February 2015, which was admitted, but the investigation of the case is still not appointed.

By the decision of Company's Board of 4 March 2015 and by the initiative of Company's main shareholder the Extraordinary General Meeting of Shareholders is convoked on 30 March 2015. Issues on purchase of Sargėnai heat economy and on approval for the decision of AB Kauno Energija Management Board of 30 January 2015 "Regarding selling of heat units equipment owned by AB Kauno Energija, situated in buildings owned by Kaunas City Municipality and the residual value of whose exceeds EUR 289.62 (LTL 1 thousand) per unit".

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CONSOLIDATED ANNUAL REPORT OF AB KAUNO ENERGIJA OF THE YEAR 2014

Kaunas, 2015

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

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

Following Article 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 2014 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 2014 includes a fair business development and performance review of the Company and the situation of consolidated, together with the description of principal risks and uncertainties encountered.

General Manager of AB Kauno Energija	Rimantas Bakas
Chief Accountant of AB Kauno Energija	Violeta Staškūnienė

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

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Reporting period, for which the Consolidated Report of AB Kauno Energija was prepared, is the year 2014.

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 subsidiaries – liquidated 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
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 town, Domeikava village, Garliava town, 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 Tables 4 and 5 “Comparison of financial indicators of the Group and the Company of the year 2014 with the indicators of the years 2012–2013”) to consumers who chose the Company as a hot water supplier according to legislation. As at 31 December 2014, the Company was a hot water supplier for 384 houses in Kaunas, 3 in Kaunas district and 5 in Jurbarkas. Income from hot water supplies amounts to approximately 3.48 per cent of all of Company's sales revenue.

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

4. Issuer's agreements with credit institutions

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

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

20,031,977 (twenty million thirty one thousand nine hundred seventy seven) of the Issuer's ordinary registered shares (VP ISIN code LT0000123010) with the total nominal value equal to LTL 120,191,862 (one hundred and twenty million one hundred ninety one thousand eight hundred sixty two litas) as at 31 December 2014 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. Overview of the condition, performance and development of the group of companies

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

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. By the decision of the main shareholder the main heat and electricity production source – Kauno termofikacijos elektrinė (Kaunas thermofication power-plant) was sold in 2003. In 2014 the Company produced 21.5 per cent of heat, supplied to consumers in its own heat production facilities. The rest of required quantity of heat is purchased from independent heat producers (hereinafter – IHP) in monthly auctions, according to legal acts. Information on heat purchase from IHP and production with own equipment is presented in Table 1.

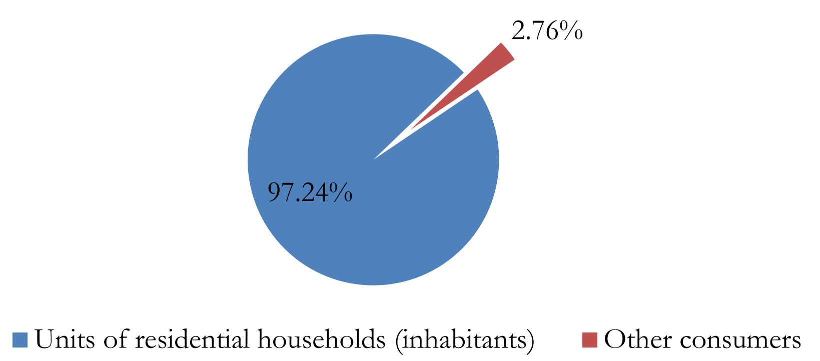
Table 1

Heat purchase and production, th. MWh	2010	2011	2012	2013	2014
Heat production in own facilities	228.9	196.6	212.9	267.0	293.0
Heat purchased from IHP	1,493.0	1,341.1	1,331.3	1,174.4	1,069.7
i. e. from UAB Kauno termofikacijos elektrinė	*1,486.8*	*1,335.1*	*1,282.5*	*937.3*	*618.5*

As at 31 December 2014 the Company supplied heat with integrated heating and local area networks to 3,331 business and organization as well as to 114,533 households, in total 117,786 consumers (objects by addresses). 12 new objects, the total installed capacity of whose amounts to 5.067 MW were connected to Company's heat supplies network during the year 2014. Repartiton of number of heat consumers by groups is shown in Chart 1.

Chart 1

Repartition of Company's heat consumers 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:

- More than 50 years of experience in heat production and supplies business;
- Social responsibility – 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 expenditures;
- Competitive heat production allowing to reduce heat price for consumers;
- high qualifications of employees, allowing to reach a highest rates of efficiency;
- ability to implement latest scientific achievements in the activities of the Group and the Company;
- analysis and implementation in Company of good management, technological and technical practise of other Lithuanian and foreign companies;
- close cooperation with state and municipal institutions, universities, research institutions and with academic institutions;
- ability to participate in development and implementation of scientific programs;
- partnership in international projects;
- reputation of reliable, modern and solid group of companies;

Strategic goals of the Group and the Company:

- to reduce expenditures of heat generation, supply, delivery of services and management in order to reduce final price 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 expenditures;
- to expand the use of renewable energy sources in the Company's heat production facilities in order to reduce the expenditures 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 increase competition in heat generation sector;
- to expand current position of the Group companies in the market;
- to ensure implementation of Energy Efficiency Directive 2012/27/EU;

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

- Increase and expansion of heat economy – Kaunas city needs at least one bigger than 100 MW capacity modern, up-to-date production facility – cogeneration power-plant, using renewable energy sources (hereinafter – RES) and / or waste, and / or natural gas. New power-plant should ensure tankage / use

of reserved fuel, reservation of heat production facilities, stable hydraulic mode of centralized heat supply, flexible reaction to network peak demand changes, should have an emergency replenishment system and should be economically "balanced";
- Increase of safety and reliability of heat supply – the Company intends to formulate an expert assessment of safety / vulnerability of heat supply system, to implement update and modernization of system of parameters data transfer, collection and evaluation, to implement optimization of the network hydraulic mode and increase of speed of parameters reaction / change, to reconstruct and optimize sections of thermofication pipelines and elements (average age of pipelines of district heating network (hereinafter – DHN) reaches approximately 30 years), to implement update and development of the system of DHN water reserve – emergency replenishment, to implement technical solutions and / or use a good practice increasing reliability and safety, ensuring stability of thermofication mode;
- to actively participate in formation of policy of Kaunas city supply with heat and in increase of Company's desirability and in expansion of district heating market;
- formation of good practice and its publicizing;

The Company continued its activities in the year 2014 following the strategic guidelines of Kaunas city supply with district heating, 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".

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 DHN and modernise the facilities 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 intents to spend most part of investments to the development and modernisation of new heat generating facilities from renewable energy sources in 2013–2015.

Essential development of new production facilities became possible in the year 2012 when an agreed liability, written into an agreement of heat purchase, signed with UAB Kauno termofikacijos elektrinė, to purchase no less than 80 per cent of heat used in Kaunas integrated heating network from UAB Kauno termofikacijos elektrinė after a selling of it in the year 2003.

In the year 2014 the Group's net profit was amounted to LTL 2,977 thousand, the Company's – LTL 2,992 thousand. The Group's operating revenue was amounted to LTL 261,535 thousand, the Company's – LTL 261,566 thousand. Majority of revenue was generated from the sales of heat: the Group's – 98.13 per cent, the Company's – 98.12 per cent (supplies of the heat and hot water excluding expenditures of cold water).

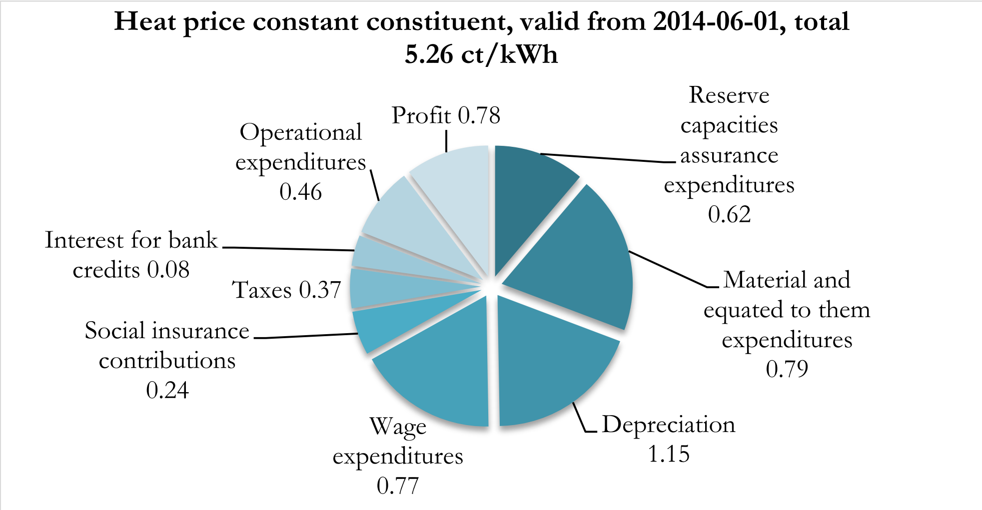
The Company's turnover from sales of heat was amounted to LTL 256,643 thousand and decreased by 19.27 per cent compared to the year 2013. The Company's variable expenditures in heat supplies (fuel, purchased heat, water and electricity for technology) in the year 2014 were at 21.99 per cent lower (57,669 thousand litas) compared to the year 2013. More detailed information is provided in section 7 of this annual report.

Company's investments in latest technologies (reconstruction of heat production facilities, equipping them with economizers, new biofuel boilers, automation of boiler-houses of isolated and integrated networks, e-service system for customers, system of data transfer and processing from remote heat meters, modern customer servicing system based on the 'One Call' principle, etc.), 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 heat and hot water supply, maintenance of heating networks and generation facilities company in the city of Kaunas and the town of Jurbarkas and in Kaunas district.

Amendments to the Law on Heat Sector of the Republic of Lithuania and changes in National Commission for Energy Control and Prices (hereinafter – NCC) regulation allowed favourable conditions to invest to

construction and reconstruction of heat production facilities, thus increasing competition in heat production sector and effectively reducing heat price for consumers.
Management Board of AB Kauno Energija determined by its decision of 28 March 2014 No 2014-8-1 a heat price constituents for the second year of validity of basic heat price, which were agreed by NCC's decision of 6 May 2014 No O3-120. Constant constituent of heat price, valid until 31 May 2014 was 4.23 ct/kWh, and a new constant constituent, valid from 1 June 2014 is 5.26 ct/kWh (increase of constant constituent was determined by change in realized heat quantity, inflation, change in investment depreciation and new "expenditures of assurance of reserve capacities" – 0.62 ct/kWh). Details of constant heat price constituent, valid from 1 June 2014 are presented in Chart 2.

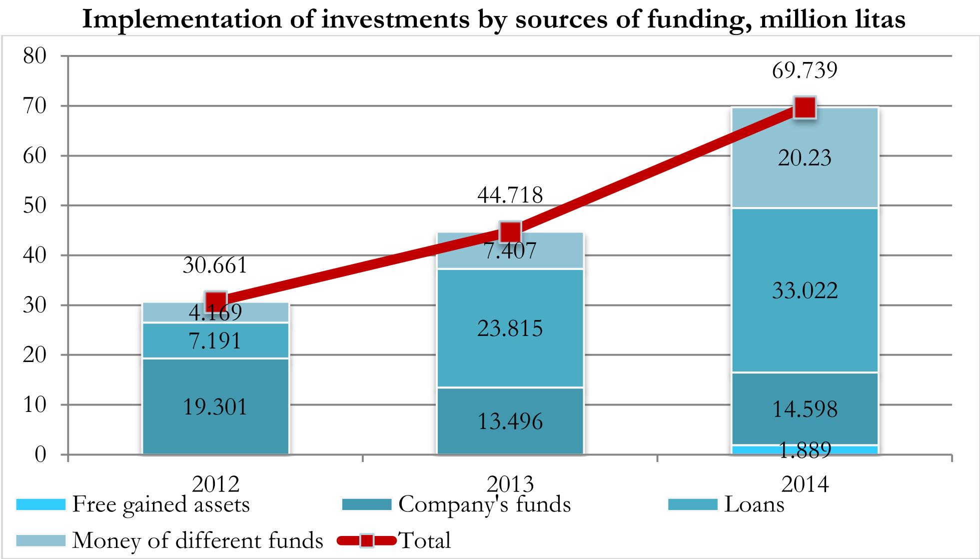
Chart 2



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 "Regarding revised investment plan of AB Kauno Energija for 2012–2015" and its specifications, approved by the decision of Kaunas city municipality No T-505 of 16 October 2014 "Regarding change of the "Revised investment plan of AB Kauno Energija for 2012–2015" and authorization to sing the changes". 192.418 million litas were planned to invest in Company's assets according to approved investment plan during the period of 2012-2015.

During the year 2014 the Company invested LTL 67.850 million (funds from other sources, among them, i.e. LTL 33.022 million are loans from commercial banks, LTL 20.230 million is a financial support from the European Union Structural Funds and Lithuanian Environmental Investment Fund). A part of these investments were assigned for equipment of biofuel boiler-houses. These investments reached LTL 39.877 million. The other part of these investments were assigned for connection of 12 new objects with total consuming capacity of 5.067 MW to DHN, also reconstruction of 4.197 km of DHN pipelines and construction of 0.759 km of new ones. Company's investments by funding sources for the years 2012–2014 are shown in Chart 3.

Chart 3



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

The change of investment uptake of the Issuer during 2010–2014 reflects changes in macro-economic processes in the country and in the European Union: in 2010, the investment performance was 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 and consisted of 44.718 million litas, but in 2014 Company's investment volumes reached 67.849 million litas and compared to 2013 increased by 51.73 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).

In 2014 the Company conducted the following projects of modernization of generation facilities and network:

1. A 10 MW capacity condensational economizer was built in Petrašiūnai power-plant. On 18 March 2014 it was presented to the State Energy Inspectorate, which issued a certificate allowing its operation. A new device is built alongside already existing 100 MW capacity gas burned boiler PTVM 100. A new device allowed reduction of fuel consumption for the production of the same quantity of heat. Total capacity of both devices consists of approximately 110 MW. Common coefficient of efficiency of both devices increased after the installation of condensational economizer, which now reaches approximately 105 per cent. Existing chimney of the boiler PTVM 100 is also adjusted for the operation with new condensational economizer. Total value of the project is LTL 5.405 million. In 2013 – 2.950 million litas, in 2014 – 2.455 million litas;
2. "Reconstruction of Šilkas boiler-house changing used fuel to bio-fuel (II stage)". 8 MW capacity bio-fuel burned water heating boiler along with 4 MW capacity condensational economizer in Šilkas boiler-house is installed while implementing this project. Project activities were started in June 2014 and on 6 February 2015 a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of legal acts and can be used in accordance with purpose has been received from the State Energy Inspectorate. Total value of the project is 8.1 million litas, European Union Structural Funds support – 3.99 million litas;
3. "Reconstruction of Petrašiūnai power-plant changing used fuel to bio-fuel (I stage)". While implementing this project, a steam boiler BKZ No 1 was changed with two bio-fuel burned water heating boilers with total capacity of 24 MW. A 6 MW capacity condensational economizer was installed as well (the total capacity of new equipment will reach 30 MW). Project activities were started in the spring of 2014 and on 17 February 2015 a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of legal acts and can be used in accordance with purpose has been received from the State Energy Inspectorate. The total anticipated value of the project is 25 million litas. European Union Structural Funds support for this project is 6 million litas is included.
4. "Reconstruction of Inkaras boiler-house changing used fuel to bio-fuel". Starting from the year 2000 Inkaras boiler-house was mothballed and did not produce any heat. During implementation of project two bio-fuel burned water heating boilers with capacity of 8 MW each and 4 MW capacity condensational economizer were installed (the total capacity 20 MW). The contract on boiler-house reconstruction works was signed on 5 August 2014. On 17 February a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of project and legal acts and can be used in accordance with purpose has been received from the State Energy Inspectorate. The total anticipated value of the project is 19.4 million litas. European Union Structural Funds support for this project is 6 million litas is included.

These projects of boiler-houses reconstructions changing used fuel to bio-fuel are implemented under the measure "Use of Renewable Sources for Energy Production" of the 3 priority "Environment and sustainable development" VP3-3.4-ŪM-02-K of Cohesion Promotion Operational Programme. The main objective of implementation of these projects is to even more reduce Company's comparable expenditures of heat production and the final heat price for consumers as well.

5. "Modernization of the main 5T of Kaunas integrated network" (value of the project is LTL 3.61 million). EU Structural Funds support is LTL 1.706 million. Construction works, planned in project were completed in September 2014;
6. "Modernization of the main 6Ž of Kaunas integrated network" (value of the project is LTL 2.152 million). EU Structural Funds support is LTL 1.023 million. Construction works, planned in project were completed in November 2014;

7. "Modernization of the main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12 in Chemijos str." (value of the project is LTL 4.691 million). EU Structural Funds support is LTL 2.00 million. Construction works, planned in project were completed in September 2014;
8. "Modernization of the main 3Ž between heat cameras 3Ž-9 and 3Ž-9-5c in A. Baranausko str." (value of the project is LTL 1.555 million). EU Structural Funds support is LTL 0.717 million. Construction works, planned in project were completed in October 2014;
9. "Modernization of the main 4Ž between heat cameras 4Ž-10 and 4Ž-15 in Taikos av." (value of the project is LTL 2.115 million). EU Structural Funds support is LTL 1.055 million. Construction works, planned in project were completed in October 2014.

Partial financing from EU Structural Funds for all these projects of the mains reconstructions is allocated under the measure "Modernization and development of heat supply system" of the 4 priority "Basic Economic Infrastructure" VP2-4.2-ŪM-04-K of the annex of Operational Programme for Economic Growth.

Company's generation capacities consist of a power plant in Petrašiūnai, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 boiler-house in Jurbarkas city, 13 boiler-houses of isolated networks and 31 local gas burning boiler-house in Kaunas city. Total installed heat generation capacity in Kaunas city is 499.644 MW (including 23.66 MW – condensational economizers) and electricity – 8.75 MW. Total Company's power generation capacity is 508.394 MW (including 23.66 MW – condensational economizers).

When new Company's biofuel burned boiler-houses are built and started to operate (total capacity of biofuel burned boilers with condensational economizers in Kaunas integrated network amounts to 72 MW), the part of heat, produced using biofuel in integrated network will increase up to 70-80 per cent, estimating currently working biofuel equipment of IHP. It means that if the price of fuel will not change significantly, consumers will pay for heat even less. The heat, produced using Company's biofuel burned equipment already at this time is approximately 25 per cent cheaper, than the heat, produced by IHP of Kaunas city, purchased in heating season. The Company builds biofuel equipment coherently pursuing strategy of Company's development, approved by city municipality council and seeking to further reduce heat price for consumers. By increasing and modernizing production capacities the Company increasingly occupies part of heat production market and it seems likely that in 2015 it will produce in own production facilities and will supply to DHN more than 40 per cent of all heat demand.

In the year 2014 VTT Technical Research Centre of Finland invited AB Kauno Energija to take part in the EU H2020 Secure Societies research project I-ACT (Identification and Development of standardised decision support methods for city Adaptation to Climate change) to which it is coordinating. I-ACT proposal aims to develop a decision support system for co-creation and adaptive management of city resilience based on long-term climate and socioeconomic scenarios with related uncertainties. AB Kauno Energija is ready to be involved as end-user in order to reach I-ACT project objectives. Should the contract be forthcoming to the I-ACT consortium, the Company will make the best effort to provide input, advice and support to the project, depending on its competencies, capabilities and availability.

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

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

In the year 2014 UAB Ernst & Young Baltic accomplished review of principles of accounting, payment and declaration of Company's immovable property tax for current and past five fiscal periods, in order to determine evaluation of taxing values. Results of review let to calculate lower taxing values for future taxing periods. According to those results, the Company saved 0.460 million litas of immovable property tax. The results were approved also by Kaunas Branch of the State Enterprise Centre of Registers.

Starting from 28 January 2013 The Company takes part in natural gas exchange. After natural gas exchange started to operate, the Company assumed more flexibility obtaining lacking or selling surplus gas amount, herewith pursuing liabilities for gas suppliers according to agreements. Participation in natural gas exchange provides the possibility to companies to specifically know the price of gas there and then, to avoid application of "take or pay" conditions and to balance amount of natural gas. Natural persons or legal entities can become participants of natural gas exchange if they are participants of natural gas market (i. e. natural gas consumers, supplies companies, transfer system operators, distribution systems operators, storage systems operators and liquid natural gas systems operators) who have a valid agreement with transfer system operator, in which regulations of balancing are anticipated.

On 4 December 2014 the NCC issued an Energy activity licence No L2-38(GDT) for the Company, by which provides the right for the Company to make business in natural gas supplies. The Company sells the lack of natural gas in natural gas exchange.

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 in fuel prices, ever-changing legal environment, as well as the heat production pricing policies.

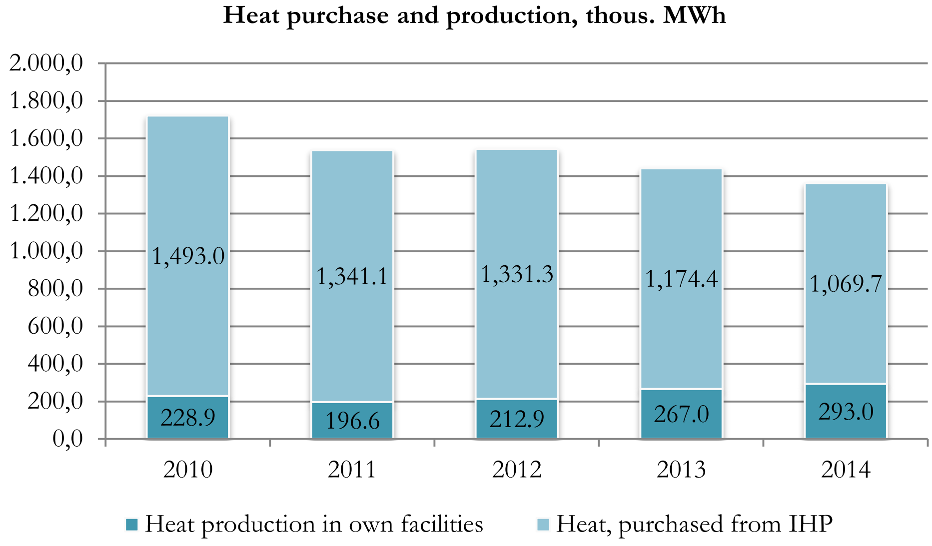
The Company, in order to operate effectively and reliably, in creating the added value for shareholders, is faced with specific threats to the sphere of its activity, but also takes advantage of opportunities to work efficiently and effectively by exploiting the available potential. One of the biggest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

In 2014, the Company purchased heat from 8 independent heat producers in Kaunas and Kaunas district: UAB Kauno Termofikacijos Elektrinė, UAB GECO Kaunas, UAB Lorizon Energy, UAB Ekoresursai, UAB Pramonės Energija, UAB Aldec General, UAB ENG and UAB Oneks Invest. Total purchases consisted of 1069.7 thousand MWh of heat, i.e. 78.5 per cent of heat supplied to the network (in 2013 – 81.3 per cent).

The Company has applications from 13 potential IHP at the moment (with total capacity of approximately 520 MW) to connect their heat production facilities to Company's integrated heat supply network. Along with coming of IHP a new additional issues raised and Company has to solve them. These are additional technical, economical, legal and other issues, such as network management and balancing of IHP capacities in the case of emergency stop, maintaining of optimum working parameters, regulation of order of heat purchase from IHP and its vicissitude and appliance. The Company has placed an application in 2014 to take part in contest, announced by Lietuvos Energija, UAB, "Regarding Cooperation for Implementation of Modernization Projects of Heat Economies of Vilnius and Kaunas Cities, By Installing Cogeneration Power-plants, Using Local and Renewable Energy Sources". The decision on the results of contest is still not announced.

The main fuel used for heat and electricity production in 2014 was natural gas (in 2014 – 70.69 %, in 2013 – 85.41 %, in 2012 – 92.43 %). Other fuel: peat – 0.1 %, solid biofuel – 27.76 %, biogas – 1.45 %. Changing fuel prices and prices of heat, purchased from IHP have an influence on expenditures of Company's heat and electricity production and on price of heat, purchased from UAB Kauno Termofikacijos Elektrinė, which was a dominant heat producer in 2014 (the amount of heat, purchased from UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) was 57.8 % in 2014 and 79.8 % in 2013 of total purchased heat amount).

Chart 4



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

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

The dynamics of objects connection and disconnection to DHN is shown in table 2.

Table 2

	Capacity, MW					
	2010	**2011**	**2012**	**2013**	**2014**	**2010–2014**
Objects disconnected	1.10	3.183	2.242	4.813	2.128	13.466
Objects connected	10.14	2.02	8.022	2.817	5.067*	28.066

** Treatment purposes buildings of VšĮ Kauno Klinikinė ligoninė (Public institution Kaunas Clinical Hospital) at Josvainių str, 2, the heating equipment of which is connected to DHN for reserve heat supplies, are included in data of Objects connected.*

A total 12 new customers were connected to the Company's heat supply networks during 2014 including new shopping centres, residential apartment buildings, educational purposes building and an office building. The total installed capacity of these objects reaches more than 5.067 MW. The list of newly connected objects is given in Table 3.

Table 3

No.	Denomination of consumer	Address	Capacities, MW	Heated area, m²
1	A. Žilinsko ir Ko, UAB Educational purposes building of Kaunas college	Pramonės av. 22A, Kaunas	0.466700	4057.09
2	Lithuanian Union of political prisoners and exiles	Vytauto av. 46, Kaunas	0.030000	215.79
3	UAB „Ireco būstas“	Kalniečių str. 247, Kaunas	1.085000	8087.88
4	UAB „Nuova Capital“	Baltų av. 193A, Kaunas	0.379074	2700.49
5	UAB „Saulės projektai“	Maironio str. 21A, Kaunas	0.305000	2,441.19
6	UAB „Plazma technologijos“	Baltijos str. 58, Kaunas	0.409200	3,285.57

No.	Denomination of consumer	Address	Capacities, MW	Heated area, m²
7	UAB „Abesta“ UAB „Hakonlita“	Studentų str. 19, Kaunas	0.162000	841.87
8	UAB „SMI Lietuva“	Savanorių av. 321, Kaunas	0.900000	7,135.00
9	VšĮ Kauno klinikinė ligoninė*	Josvainių str. 2, Kaunas	0.767800	50,658.00
10	Office premises R. ir V. Oliškevičiai	E. Ožeškienės str. 15, 17, Kaunas	0.095000	900.00
11	UAB „Mitnija“	Savanorių str. 109, Kaunas	0.347400	3,299.67
12	UAB „Donegra“	Maironio str. 11 Kaunas	0.120000	971.07
		Viso:	**5.067174**	**84,593.62**

** Treatment purposes buildings of VšĮ Kauno Klinikinė ligoninė (Public institution Kaunas Clinical Hospital) at Josvainių str, 2, the heating equipment of which is connected to DHN for reserve heat supplies, are included in the list of newly connected objects.*

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

The effects of other competing companies, propagating the only usage of natural gas, irrespective of approved special heating supplies plan, supplies reliability, affection to the only source of fuel, not yet regulated local pollution, in the heat supply sector with the Company are disconnections of consumers from DHN system. During 2014, consumers disconnected approximately 2.128 MW of installed capacities. Heating equipment disconnection from the DHN and heating mode changes are carried out in accordance with the procedures specified in the Civil Code of the Republic of Lithuania, the Law on Heat Sector and the Law on Construction, and secondary legislation implementing the aforementioned legal acts. Heat disconnection is governed by the "Rules on heat supply and consumption" approved by order No 1-297 of 25 October 2010 of the Minister of Energy of the Republic of Lithuania and their 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: Decrease of consumers' solvency and the debts. Risks can be mitigated by the factoring of debts and applying more stringent debt collection techniques/methods. Other possible financial/economic risk – changes in interest rates in the banking market.

Detailed information on risk management policy and of risks of credit, currency rates, interest rates and liquidity is provided in Note 23 of Company's Notes to the financial statements of the year 2014.

During the year 2014 in comparison with the year 2013, heat consumer debts decreased by approximately 21 %. In the year 2014 they consisted of LTL 53.119 million, in the year 2013 – LTL 67.351 million. This was probably affected by application of effective debts administration, decrease in heat price and conditionally lower heat consumption.

In order to recover these debts as soon as possible, the Company actively uses a variety of legal debt management measures, such as pre-trial actions, judicial recovery and also cooperation with debt Collection

Company. In addition, when a debt becomes big, a restriction of heat supplies was started to apply as a prevention measure (if there are technical possibilities and according to the law).

In all cases, the Company first notifies the user of his indebtedness. When debtors respond to warnings and contact the Company, the Company discusses the options of debt settlement with them, signs documents guaranteeing the repayment of the debt. If the debtor does not respond to warnings and if pre-trial measures are not effective, the judicial recovery begins. The Company then applies to the court and after a decision accompanied with receiving-order – to bailiff. In such case the debtor must pay not only the debt but also the court and execution expenditures. A number of debt prevention and pre-trial actions were made in 2014. A referral of information on debtors to Collection Company is among them. 10 million litas has been recovered.

The Company placed to customers 1,277 thousand bills during 2014. There were more than 55 thousand telephone calls from consumers; more than 15 thousand of them were advised verbally.

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

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

In 2013, Lithuania adopted a new methodology for calculating the prices of heat, in force since 1 January 2014. Also, the NCC approved a new Schedule of heat purchase from IHP enabling the Company to take part in the heat purchasing auction with its own production facilities.

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 more than 62 million litas to the upgrade of heating units 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.

On 7 March 2013 Gazprom OAO transferred ownership of the shares of KTE to Clement Power Venture Inc. The changes of Agreement on Investments and of Heat Energy Purchase Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and Gazprom OAO on 13 August 2013 came into force since that date. Following changes of Heat Energy Purchase Contract that came into force, Company’s obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of LTL 350 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company’s investments in Company’s infrastructure in amount of LTL 10 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 percent forfeit from the value of unfulfilled investments. Notwithstanding agreements reached, on 30 April 2013 KTE placed a claim to Vilnius Court of

Commercial Arbitration. KTE seeks to argue obligations regarding investments in Company heat economy in amount of LTL 10 million and the terms of implementation (alternative claim), and on 17 February 2014 it told in written, that it stops implementation of all obligations taken by Investment agreement. According to 19 February 2014 Arbitration decision, the Company and KTE began negotiations for a peaceful settlement of investment dispute. However on 26 May the Company has informed Arbitration court that compromise has not been reached. Considering that, the Company placed a claim to Arbitration Court on 30 June 2014 seeking that KTE would pay to the Company LTL 3.25 million for inappropriate implementation of its obligations to finance in the years 2012 – 2013 Company's investments and KTE specified on 9 July 2014 its claims in the case, by which asked Arbitration Court in addition to terminate overall Investment agreement (alternative claim).

The main risks and uncertainties of the financial operations of the Company are provided in Notes 2.25, 2.26 and 23 to the financial and consolidated statements of the Company of the year 2014.

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 from 117,874 in 2013 to 117,786 in 2014, was determined by the disconnection of user equipment from the district heating system. During 2014, the number of Company's heat consumers decreased by 88 (mostly households). However, 12 new consumers were connected to the Company's district heating network during the same period, with a total consumption of 5.067 MW capacities (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 value of costs for heating and hot water. Payments for heat constitute a significant part of expenses for households. The Company gets almost the most of complaints regarding these payments. But due to the latest Company's investments in production facilities, the prices of heat and hot water significantly decreased, so decreased a number of complaints and dissatisfaction of Company's activity. As measured in terms of Lithuania, the Company's heat price in the year 2014 was close to the average among all heat supply companies at the time of heating season and one of the lowest at the time of non-heating season.

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

Technical and process factors: greatest process risks are so shaded with the condition of heating systems. A majority of the Company's trunk pipelines are about thirty years old. Modernization rate of them is determined by lack of funds – it is necessary to reconstruct more than 13.5 km of pipelines per year in order to condition of age of heat supply system and the minimum investments should consist of approximately 20 million litas. Hydraulic testing identifies their weakest points. Every year, about 240 points where cracks occur are identified during the tests. Upon discovery of defects, pipes are exposed and promptly repaired.

Mains of heating networks in the most worn out places are reconstructed through the use of support from the EU Structural Funds. 5 new projects of the reconstruction of the mains of heating network were implemented in the year 2014. The total value of these projects was 14.123 million litas. 6.501 million litas from this sum were finances from EU Structural Funds.

New industrially (polyurethane foam insulation in polyethylene shell) insulated pipes not requiring concrete channels are mounted in the reconstructed sections of the heat supply network. Heat loss is very low in reconstructed sections (process level), while the pipelines no longer pose a threat of rupture and ensure reliable heat supply to consumers.

The greatest technical risk factor for heat generation facilities is their age. Each year, boiler repairs and preventive work is carried out during the non-heating season. They are necessary to make secure heat supplies and reliability, I. e. securing of heat production facilities and fuel reserves. The Company also invests to renewal of heat production facilities. Existing Company's own capacities of approx. 409 MW cannot secure customers demand (maximum instantaneous demand according to data of three last years is 530 MW) in Kaunas integrated network. This is why the Company is obliged by NCC to buy a reserve capacity security service from IHP, including KTE, that should secure additional capacities, but not bigger than 30 % of maximum capacities in Kaunas DHN system. Considering that and estimating common trends in development of heat economies in Kaunas and Lithuania, one of the aims of the Company is to continually reasonably invest in own heat production facilities, I. e. to modernize existing and to build new additional heat production capacities. More detailed information on Company's investments and modernization of production facilities is provided in chapters 6.1 and 7.

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

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

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

The Company pays taxes for atmospheric and water pollution. If allowable emission rate limits or annual limits are exceeded, the Company must pay the fines under the applicable laws of the Republic of Lithuania. In 2014, 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 2014, the fuel balance was dominated by natural gas – 70.69%, peat – 0.1%, solid biofuel – 27.76%, biogas – 1.45 %).

Bank loan repayment: more on this issue is presented in Note 11 to the explanatory notes of financial statements of AB Kauno Energija of the year 2014. The Group and the Company repay the loans on time.

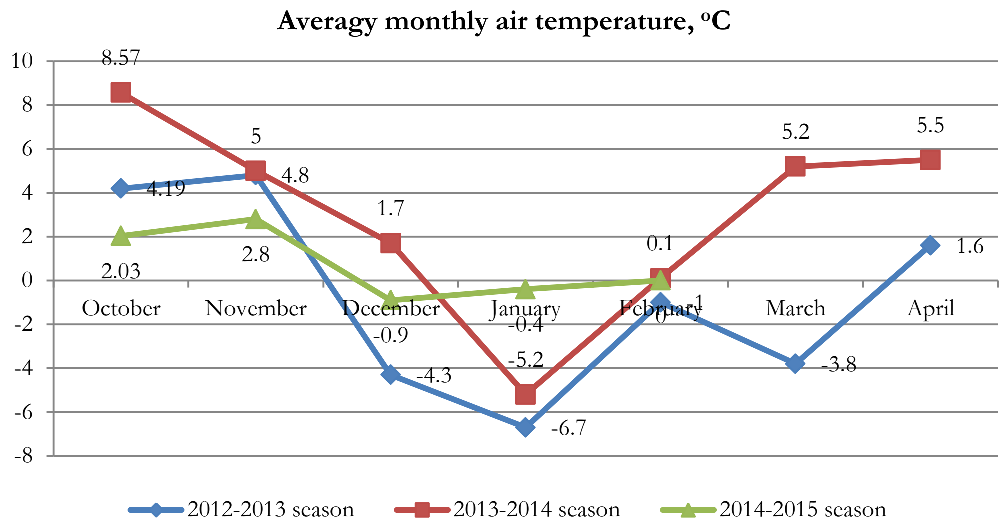
The main aims of the Company are to renew heat supply networks, because they are operated approx. 30 years and are obsolete, and to modernize heat production facilities. Every year, significant part of funds for facility upgrade are borrowed, as own resources, i.e. accumulated depreciation and amortization,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

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

It has been planned that in 2014, the core business sales revenue will be lower due to reduced heating prices; the amount of heat sold to consumers will remain the same as in 2013. Sales revenue from the main activities, compared with the year 2013, is 18.85% lower. This change was mainly affected by the price of heat, the main part of which contains of purchased heat and fuel component. In the year 2014, the average price of heat (23.09 ct/kWh) was at 14.5% lower than in the year 2013 (27.01 ct/kWh). The amount of heat sold in the year

2014 compared with the year 2013 was at 5.4% less. Average annual air temperature was at 0.92 °C higher. Average air temperature of heating season of the year 2014 was 0.87 °C, and of the year 2013 – 0.02 °C.

Chart 5



Comparison of financial indicators of the Group of the year 2014 with the indicators of the years 2010–2013 is presented in Table 4.

Table 4

No	Indicator name	2010	2011	2012	2013	2014
1	Net profitability,% (net profit /sales and services)*100	1.4	4.4	0.3	0.9	1.1
2	Return on tangible assets,% (net profit/average value of tangible assets)*100	1.3	4.1	0.4	0.9	0.8
3	Debt ratio (liabilities /assets)	0.37	0.34	0.42	0.41	0.47
4	Debt-to-equity ratio (liabilities / equity)	0.6	0.5	0.7	0.7	0.9
5	General liquidity ratio (short-term assets / short-term liabilities)	0.93	0.96	0.85	0.70	0.69
6	Asset turnover ratio (sales and services/ assets)	0.75	0.75	0.83	0.72	0.52
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand litas	26,578	33,246	21,239	22,042	25,359
8	Profitability of core business, per cent (operating profit/sales and services)* 100	2.4	2.4	0.2	-2.1	0.9
9	Return on equity (ROE)% (net profit/average equity)*100	1.6	5.1	0.5	1.2	1.1
10	Return on assets (ROA)% (net profit/ average assets)*100	1.1	3.3	0.3	0.7	0.7
11	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.88	0.90	0.81	0.66	0.68
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.04	0.08	0.05	0.02	0.01
13	Net earnings per share (net profit/average weighted number of shares in issue)	0.10	0.32	0.03	0.07	0.07
14	Net profit, thousand litas	4,167	13,540	1,196	3,019	2,977

No	Indicator name	2010	2011	2012	2013	2014
15	Assets, thousand litas	406,762	412,255	447,221	447,787	501,103
16	Equity, thousand litas	257,142	270,682	261,195	264,214	267,184
17	Equity per share, litas	6.0	6.3	6.1	6.2	6.2
18	Revenue from sales, thousand litas	306,856	309,345	369,723	322,363	261,535
18.1	Of them: Heat energy	302,546	302,842	362,667	311,576	250,274
18.2	Electric energy	349	568	460	767	759
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	2,037	1,289	721	280	93
18.4	Income from the maintenance of collectors	439	866	775	779	783
18.5	Hot water supply including cold water price	1,485	3,725	4,818	8,612	9,091
18.6	Income from maintenance of hot water meters		55	282	349	535
19	P/E ratio (last share market price of the year /(net profit/number of shares at year-end)	21,24	3,82	71,32	28,79	24,13
20	Share capital, thousand litas	256,392	256,392	256,392	256,392	256,813
21	Share capital-to-assets ratio	0.63	0.62	0.57	0.57	0.51
22	Return on equity (capital), per cent (net profit/ capital and reserves)*100	1.6	5.2	0.5	1.1	1.1
23	Dividend payment ratio (dividend per share/earnings per share)		0.78	0.00	0.23	0.00

Comparison of financial indicators of the Company of the year 2014 with the indicators of the years 2010–2013 is presented in Table 5.

Table 5

No	Indicator name	2010	2011	2012	2013	2014
1	Net profitability,% (net profit /sales and services)*100	1.2	4.4	0.2	0.6	1.1
2	Return on tangible assets,% (net profit/average value of tangible assets)*100	1.2	4.1	0.2	0.5	0.7
3	Debt ratio (liabilities /assets)	0.37	0.34	0.41	0.41	0.47
4	Debt-to-equity ratio (liabilities / equity)	0.6	0.5	0.7	0.7	0.9
5	General liquidity ratio (short-term assets / short-term liabilities)	0.93	0.97	0.85	0.70	0.69
6	Asset turnover ratio (sales and services/ assets)	0.74	0.74	0.82	0.72	0.52
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand litas	25,974	33,009	20,814	20,741	25,341
8	Profitability of core business, per cent (operating profit/sales and services)* 100	2.3	2.4	0.2	-2.2	1.0

No	Indicator name	2010	2011	2012	2013	2014
9	Return on equity (ROE)% (net profit/average equity)*100	1,4	5,0	0,3	0,7	1,1
10	Return on assets (ROA)% (net profit/ average assets)*100	0.9	3.3	0.2	0.4	0.6
11	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.88	0.91	0.82	0.66	0.68
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.04	0.08	0.05	0.02	0.01
13	Net earnings per share (net profit/average weighted number of shares in issue)	0.09	0.31	0.02	0.04	0.07
14	Net profit, thousand litas	3,737	13,442	837	1,858	2,992
15	Assets, thousand litas	410,541	416,069	450,407	450,175	503,602
16	Equity, thousand litas	260,585	274,027	264,181	266,039	269,024
17	Equity per share, litas	6.1	6.4	6.2	6.2	6.3
18	Revenue from sales, thousand litas	305,441	308,622	369,462	322,338	261,566
18.1	Of them: Heat energy	302,602	302,893	362,728	311,632	250,308
18.2	Electric energy	349	568	460	767	759
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	566	515	399	199	90
18.4	Income from the maintenance of collectors	439	866	775	779	783
18.5	Hot water supply including cold water price	1,485	3,725	4,818	8,612	9,091
18.6	Income from maintenance of hot water meters		55	282	349	535
19	P/E ratio (last share market price of the year /(net profit/number of shares at year-end)	23.69	3.84	101.90	46.78	24.00
20	Share capital, thousand litas	256,392	256,392	256,392	256,392	256,813
21	Share capital-to-assets ratio	0.62	0.62	0.57	0.57	0.51
22	Return on equity (capital), per cent (net profit/ capital and reserves)*100	1.5	5.2	0.3	0.7	1.1
23	Dividend payment ratio (dividend per share/earnings per share)		0.79	0.00	0.23	0.00

Comparison of financial results of the Group and the Company for the year 2014 (sales revenue, operating profit, net profit) is given in Charts 6 and 7.

Chart 6

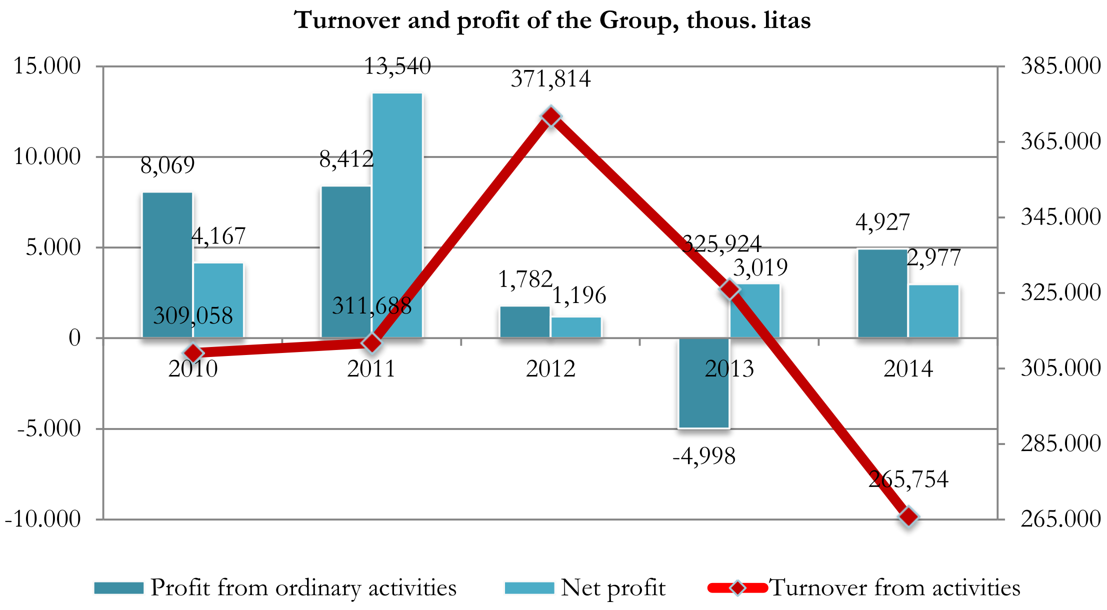
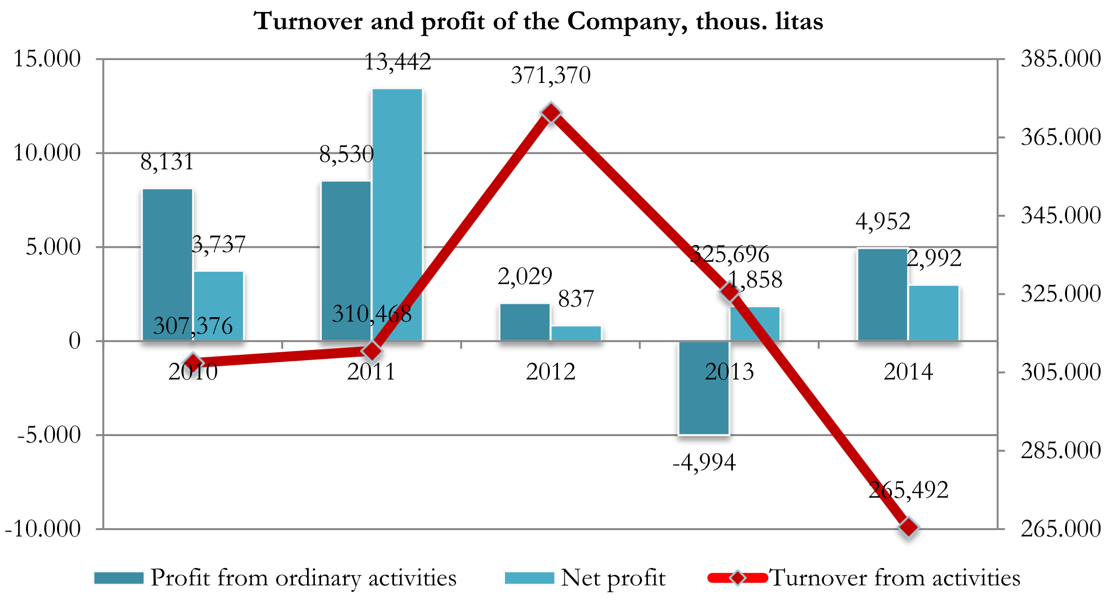


Chart 7



Notwithstanding that Group's and the Company's turnover decreased in 61 million litas, Company's profit of the year 2014 compared to year 2013 is higher because of effective Company's activities, due to the positive change in realisable value of doubtful receivables, due to decreased price of heat and measures of debts management, implemented by Company.

The Group and the Company accounts impairment loss in doubtful receivables. Change of impairment loss in doubtful receivables is included in the item of write-offs and change in allowance for accounts receivable of the Group's and the Company's Statements of Profit (loss) and other comprehensive income and in 2014 amounted to -7.187 and -7.227 million litas accordingly, i. e. expenditures decreased an because of that profit increased (9.982 and 10.151 million litas in 2013, i. e. expenditures increased and because of that profit decreased). During 2014, the Group and the Company wrote off 3.185 million litas and 3.183 million litas respectively (in 2013 – 3.254 million litas) of bad debts. During 2014 the Group and the Company recovered 0.025 million litas (in 2013 – 0.015 million litas) of bad debts which were written off in prior years.

The Company's profit decreases also because of the maintenance costs of individual heating units owned by the Company. Those costs may not be included in heat and hot water prices as in accordance with amendments of articles 2, 3, 20, 22, 28, 31, and 32 of the Law on Heat Sector No XI-1608 of the Republic of Lithuania that came in affect from 1 November 2011, "any costs related with the indoor building heating (including heating units), and hot water systems may not be included in heat and hot water prices". Starting from 1 November 2011 in accordance with the law the costs of maintenance and repair of heating units equipment are not included in the heat price. The Company suffers approx. 2.4 million litas losses every year uncovered by income due to this maintenance.

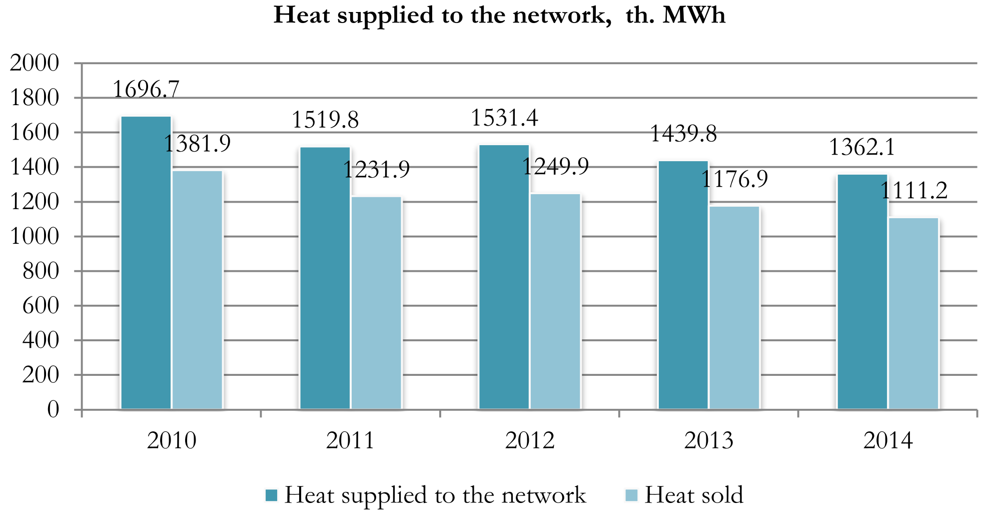
A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to Financial Statements for the year 2014.

Comparison of non-financial indicators of the year 2014 with the indicators of the years 2012-2013 is presented in Table 6.

Table 6

No	Indicator name	Company 2012	Group 2012	Company 2013	Group 2013	Company 2014	Group 2014
1.	Energy produced, purchased and supplied to the network, th. MWh	1,532.9	1,532.9	1,442.2	1,442.2	1,364.8	1,364.8
1.1.	thermal energy	1,531.4	1,531.4	1,439.8	1,439.8	1,362.1	1,362.1
1.2.	electric energy	1.5	1.5	2.4	2.4	2.7	2.7
2.	Energy sold, th. MWh	1,251.4	1,251.2	1,179.3	1,179.1	1,113.9	1,113.7
2.1.	thermal energy	1,249.9	1,249.7	1,176.9	1,176.7	1,111.2	1,111.0
2.2.	electric energy	1.5	1.5	2.4	2.4	2.7	2.7
3.	Reconstructed heat supply pipelines, m	7,970	7,970	4,789	4,789	4,197	4,197
4.	Newly built heat supply pipelines, m	1,496	1,496	893	893	759	759

Chart 8



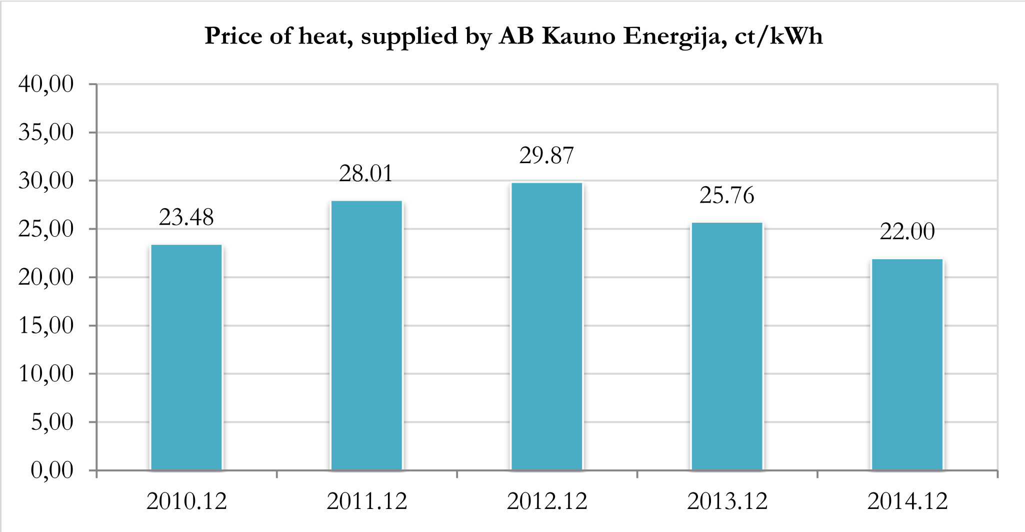
Environmental impact on operations: The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher of lower outdoor temperature during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

Company's reconstructed heat production facilities changing fossil fuel to biofuel will make a serious competition with their costs of production to IHP, operating in Kaunas. With modernization of its own production facilities the Company reduced heat price for its consumers by quarter over the last 2 years.

Decreased prices, increased effectiveness of the system, usage of biofuel in Company's and IHP heat production facilities as well as warmer weather allowed to consumers to save approx. 46 million litas during the year 2013 in comparison with the year 2012. Accordingly, during the year 2014 in comparison with the year 2013 consumers saved approx. 60 million litas. After start of new Company's biofuel boilers, final price of heat supplied to consumers should decrease even more, if the fuel prices will not increase.

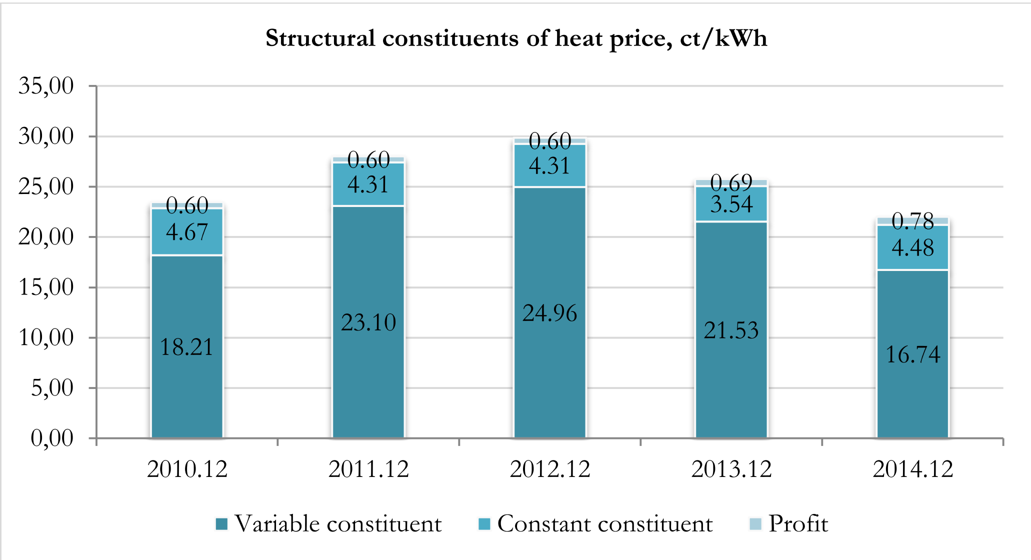
The dynamics of heat price of the Company in 2010–2014 is presented in Chart 9.

Chart 9



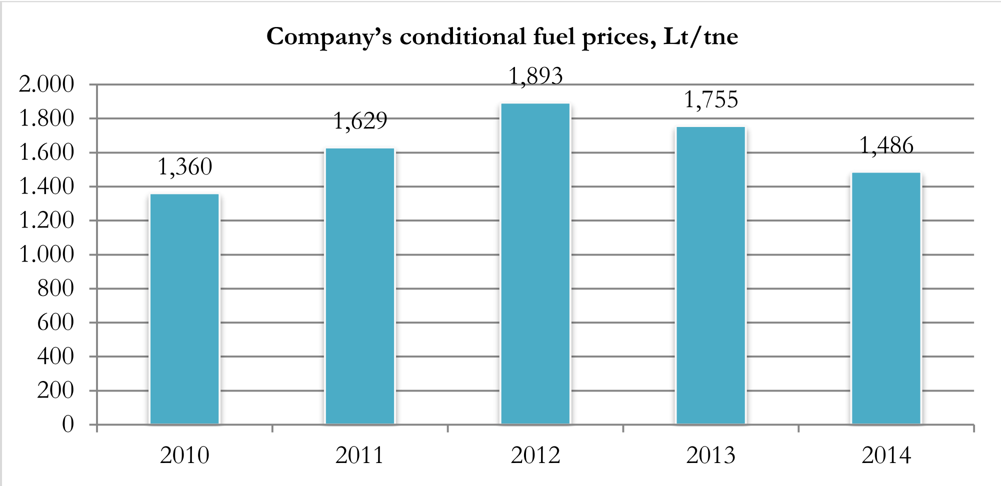
Components of Company's heat price structure in 2010–2014 are presented in Chart 10.

Chart 10



The dynamics in 2010–2014 of Company's conditional fuel prices is presented in Chart 11.

Chart 11



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 2014, the Group and the Company transferred for recycling 12.508 tons of mixed municipal waste, which can be accounted, 303.360 tons of ash, 632.080 tons of debris, 1.660 tons of used tires, and 780 pieces 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-houses of Šilkas, Ežerėlis, Girionys and Noreikiškės, and starting from 2015 – Inkaras boiler-house and Petrašiūnai power-plant use biofuels, thereby reducing atmospheric pollution. Below in Table 7 you will find the comparison of the Company's emissions to the atmosphere from stationary air pollution sources in 2014 with the amount in 2010-2013.

Table 7

Period	Particulates, t	Nitrogen oxides, t	Carbon monoxide, t	Sulphur dioxide, t	Hydrocarbons, t	Vanadium pentoxide, t	Other pollutants, t
2014	23.613	154.570	534.443	47.158	16.294	0.0000	0.440
2013	10.5967	101.3197	299.6656	5.0747	14.9647	0.0000	0.770
2012	7.6130	54.3160	135.1510	6.0280	1.2080	0.0000	0.4397
2011	7.2641	57.0909	125.3107	6.1983	3.0555	0.0000	0.4397
2010	8.4833	65.8444	146.8925	7.3386	2.6571	0.0000	0.4397

Cyclones for smoke cleaning from particulates are installed in Šilkas, Ežerėlis, Girionys, Noreikiškės, Inkaras boiler-houses and Petrašiūnai power-plant. Their working efficiency is checked every year. The Company is involved in the greenhouse gas emissions trading system. This system includes pollution trade permits (PTP) allocated to Petrašiūnai power-plant, Šilkas, Pergalė, Garliava, Jurbarkas boiler-houses and Noreikiškės boiler-house with a cogeneration power-plant.

Information related to human resource issues. Company‘s management pays a lot of attention to increase of work efficiency and to making better a consumers service. A level of qualifications of managers and specialists meets the requirements of office. The experience and practical know-how of other employees allows them to work in their positions. Fluctuation of employees in Company is not big.

In order to enhance the performance, 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.

In order to make certain fluent and consistent Company’s activity, the competence of employees is particularly important. A lot of attention is paid for training of employees and improvement of their qualifications and skills. 230 employees took part in conferences and seminars during 2014. Company’s employees acquired knowledge in law, taxing, and public purchase and in other fields. 159 employees participated in professional trainings, after completion of which the special certificates allowing performance of special works were given for them.

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. 8 students performed their practice in Company in 2014. In case of demand in employees, a possibility to employ is given to the best and most active students.

The Company took part in 2014 in implementing of State purposive financing studies programme and in cooperation with Kaunas University of Technology signed a tripartite agreement of Studies purposive financing with two first course students of Heat Energy and Technology studies programme.

In 2014 an 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, accomplished. Findings and recommendations for the improvement of the system, and aiming for higher operational efficiency of the Company's structural units and employees prepared. Estimating results, presented by consultants and taking into account the recommendations of the Company's Audit Committee and in order to structure procedures of inner control, in 2014 the procurement of facilities of preparing of Company’s inner control schedule, considering Company’s structural changes, recommendations of accomplished in 2014 assessment of internal control system and other Company’s requirements, initiated.

In order to improve of performance and ongoing processes in the operating results of structural divisions, in 2014 the Company’s Management Board approved a new management structure, which became valid from 1 January 2015. The jurisdiction of division of information technologies attached directly to the Company’s General Manager, without changing divisions’ functions.

8. References to and additional explanations

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 2014.

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 1 half of the year 2014

On 22 January 2015 by the decision of Kaunas city municipality No T-9 "Regarding specified AB Kauno Energija 2012-2015 investment plan" the Company's specified 2012-2015 investment plan approved. 67.14 million EUR (231.82 million litas) is planned to invest according to that plan.

The Company applied to Arbitration on 30 January 2015 with specified requirements to adjudge in addition EUR 0.652 million (LTL 2.250 million) from KTE for non-financed Company's investments to the Company's infrastructure of the year 2014 (total requirements amounts to EUR 1.593 million (LTL 5.500 million).

In January - February of 2015 operation of new Company's Inkaras, Šilkas and Petrašiūnai power-plant biofuel boilers was started (total capacity – 72 MW). The Company built those new boilers in order to increase part of heat produced using biofuel in Kaunas and thus decrease price of heat for consumers even more. Consumers perceived the benefit of Company's three big biofuel boiler-houses projects already in 2014-2015 heating season. After start of operation of these facilities in full power a comparable heat production expenditures decrease. This decrease forced IHP to decrease the price of purchased heat.

On 26 February 2015 Prime Minister of the Republic of Lithuania Algirdas Butkevičius visited the Company for the second time. This time the accomplished Company's biofuel projects – 5 biofuel boilers in Inkaras and Šilkas boiler-houses and in Petrašiūnai power-plant that were started to operate in full power on the threshold were presented to Prime Minister. Those boilers allowed make cheaper the price of heat more than at 25 % for consumers over the year. Prime Minister noticed that it was just talks about implementation of these projects when he visited the Company a year ago. He positively appreciated Company's efforts to modernize production and to decrease the price of heat for consumers.

By the decision of Company's Board of 4 March 2015 and by the initiative of Company's main shareholder – Kaunas city municipality represented by Director of Kaunas City Municipality Administration – the Extraordinary General Meeting of AB Kauno Energija (code of enterprise – 235014830, address – Raudondvario av. 84, Kaunas) shareholders was convoked on 30 March 2015. Following issues were taken:

1. Regarding purchase of Sargėnai heat economy.

Draft decision was to purchase Sargėnai heat economy, which is situated in the territory of Kaunas city municipality for the price, bargained with UAB Litesko and the other terms of acquisition and to accomplish procedures of acquisition of Sargėnai heat economy, after the additional approval from the main shareholder of AB Kauno Energija – Director of Kaunas City Municipality Administration will be obtained.

2. Regarding approval for the decision of AB Kauno Energija Management Board of the 30th of January, 2015, No 2015-2-2 due to the issue "Regarding selling of heat units equipment owned by AB Kauno Energija, situated in buildings owned by Kaunas City Municipality and the residual value of whose exceeds EUR 289.62 (LTL 1000.00) per piece".

Draft decision was to approve the decision of AB Kauno Energija Management Board to sell 32 heat units owned by AB Kauno Energija, situated in buildings owned by Kaunas City Municipality and the residual value of whose exceeds EUR 289.62 (LTL 1000.00) per piece, indicated in "The list of heat units equipment owned by AB Kauno Energija, situated in buildings owned by Kaunas City Municipality and the residual value of whose exceeds EUR 289.62 (LTL 1000.00) per piece and proposed to sell to Kaunas City Municipality" (enclosed) for the purchase price of EUR 0.29 (LTL 1.00) per piece, proposed by Kaunas City Municipality, i.e. for the total price of selling of heat units – EUR 9.27 (LTL 32.00) and the document preparation fees, that amounts to EUR 762.37 (LTL 2,632.32) VAT plius.

On the occasion of 11 March – the Day of Restoration of Independence of Lithuania Company's Managers – Chairman of the Board Valdas Lukoševičius and General Manager Rimantas Bakas were awarded with silver-plated brassy medals of Jonas Vileišis, burgomaster of Kaunas city for the merits consolidating self-government of Kaunas city, implementing civil initiatives and creating good image of the city.

On 25 March 2015 the audit of the financial statements for the year 2014 was accomplished. It was performed by the accounting and control UAB Auditas (Auditor Certificate No 001234). Candidacy of the company performing audit of the financial statements for the years 2013-2015 was proposed to General Meeting of Shareholders by Company's Board, following results of procurement, accomplished in 2013. The financial statements of the year 2014 with the independent auditor's conclusion on them are presented along with this Annual Report.

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

Inasmuch investments allows continual business development and profitability, the aims of the Group's and the Company's investment program for the year 2015 is to further develop Company's expansion of heat selling market, improvement and development of heat production, through increase of use of biofuel for heat production, development of heat transmission and distribution increasing safety and 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 facilities 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 192.4 million litas.

The main investment goals of the Company for 2013–2016 regulation periods are as follows: to decrease heat production costs in existing facilities, increase the share of cheaper types of fuel (biofuel) in the total fuels, increase the capacity of own facilities until full satisfaction of power demand. In 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 LTL 15.99 million EU Structural Funds support for projects of boiler-houses reconstructions changing used fuel to bio-fuel and LTL 6.59 million EU Structural Funds support for projects of reconstructions of heat supply networks.

In addition to the above mentioned projects the implementation of Company's investment program in 2015 will involve further modernization of boiler-houses owned by the Company automating the production process and mounting condensational economizers; reconstruction of heat networks; replacement of heat meters. Implementation of these measures will allow to reduce heat production, transmission and selling losses and to perform optimization of heat supply to the consumers and to ensure heat supplies reliability.

It is planned that in 2015 in comparison with 2014, the Group's sales turnover will be lower due to the decreased heating rates; the amount of heat sold to consumers will remain at the comparable level as in 2014. The greatest impact on the Group's and the Company's income and expenses will be made by fuel and purchased heat price changes, as the price of heat under the requirements of the law is recalculated every month. The Group profit in comparison with 2014 is planned to be higher due to the improvement of effectiveness. The submitted data may be adjusted by the heat demand change, i.e. consumption, which is mainly affected by the average outdoor air temperature, the size of user investment in housing renovation, energy-saving and its rational use, as well as changes in the economic situation in Lithuania.

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

On 27 March 2014 an open discussion "National peculiarities of heat sector, assessing practical experience and forecasts" arranged by AB Kauno energija has been held at Lithuanian Energy Institute at which representatives of authorities, scientifical institutions and energetics specialists – practicians shared their experience and providences regarding problems of Lithuanian and separately Kaunas heat sector, regarding valid order of heat purchase from independent heat producers and offered a suggestions on what could be done in order to decrease heat price for consumers even more.

Responding to Lietuvos Energija, UAB invitation to put forward noncommittal proposals of cooperation on implementation of projects of cogeneration plants, the Company placed an application on 22 July 2014. The Company placed an application just for cooperation in implementation of projects of cogeneration power-plants, using biofuel. It is planned that the total heat capacity of newly installed waste and biofuel burned power-plants complex in Kaunas would reach up to 134 MW and electric capacity – up to 41 MW. In December 2014 the Company placed a specified application. Lietuvos Energija, UAB discusses placed proposals at this time.

On 9 December 2014 the meeting of representatives of NCC administration, IHP and Company took place. The problems of heat purchase from IHP, heat supplies to the network and dispatcher control have been discussed in it. Positive effect of increasing competition for the decrease in heat price, topicality of heat purchase and supplies have also been discussed during this meeting, proposals regarding improvement of heat purchase order, and regarding expedition supplying bigger quantities of heat from biofuel boilers when consumption is increasing, etc. were made. Initiative of meeting was positively appreciated by NCC's representatives. They noticed, that is very positive to exchange provisions and proposals regarding further cooperation and creation of competitive environment.

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

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

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

All relevant information on this issue is presented in Notes 2.11, 15, 23 to the consolidated financial statements for the year 2014 of AB Kauno Energija.

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

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

The Company's branch Jurbarko Šilumos Tinklai had 35 employees as at 31 December 2014.

On 1 July 2006 the Company registered a subsidiary UAB Pastatų Priežiūros Paslaugos, headquarters address Savanorių pr. 347, 49423 Kaunas, company code 300580563. Starting from 8 January 2014 a status of liquidated is registered at the Register of Legal Entities.

On 31 December 2014 an authorised capital of the subsidiary UAB Pastatų Priežiūros Paslaugos in the amount of 10,000 litas registered at the Register of Legal Entities and was divided into 100 ordinary nominal shares at the par value of 100 litas each.

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

Activities of UAB Pastatų Priežiūros Paslaugos included maintenance of heating and hot water supply systems of the buildings, maintenance of heating units 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.

As from 5 July 2012, in accordance with item 2 of article 20 of the Law on Heat Sector of the Republic of Lithuania, "Heat suppliers or the persons associated 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 cannot be supervisors (operators) of heating and hot water system in residential buildings". According to the item 2 of article 20 of the Law on Heat Sector of the Republic of Lithuania valid from 1 June 2014, "Heat suppliers, supplying heat for particular building or natural persons associated with the heat supplier in employment relations, except cases when natural persons associated in employment relations live in that houses and supervises by themselves building or other buildings that belong to their societies, also the 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 cannot be supervisors (operators) of heating and hot water system in residential buildings". Following 4 item of article 20 of the Law on Heat Sector of the Republic of Lithuania, valid from 5 July 2012 this restriction is not applied for the maintenance of the heating and hot water systems of residential buildings in the locations in which, according to the information of the Lithuanian Department of statistics, the population is less than 150,000.

Considering provisions of the Law on Change and Addition of articles 2, 3, 20, 22, 28 and 31 of the Law on Heat Sector of the Republic of Lithuania of 29 September 2011 regarding separation of maintenance of heating and hot water systems of buildings from heat production and supplies No XI-1608, Company's Board approved by its 6 April 2012 decision reorganization of UAB Pastatų Priežiūros Paslaugos by separating assets from activities and by creating on the base of separated assets a new company with the same legal form, named UAB Kauno Energija NT.

On 21 February 2013, 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 accumulated 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 completion of the procedures of reorganisation in the way of separation of UAB Pastatų Priežiūros Paslaugos, the Statutes 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 UAB Pastatų Priežiūros Paslaugos (company code 300580563) from 16 December 2013; the director of Pastatų Priežiūros Paslaugos was dismissed from 16 December 2013 with the same decision, and the lawyer Aiva Dumčaitienė of the lawyer professional community Magnusson ir Partneriai was appointed as the liquidator of UAB Pastatų Priežiūros Paslaugos from 16 December 2013.

As at 31 December 2014 UAB Pastatų Priežiūros Paslaugos had no employees.

Starting from February 2014 UAB Pastatų Priežiūros Paslaugos performs no activity; final procedures of liquidation are accomplished.

After completion of the procedures of reorganisation in the way of separation of AB Kauno Energija subsidiary UAB Pastatų Priežiūros Paslaugos, a statutes 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 2014 in total of 4,592,100 litas is 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.

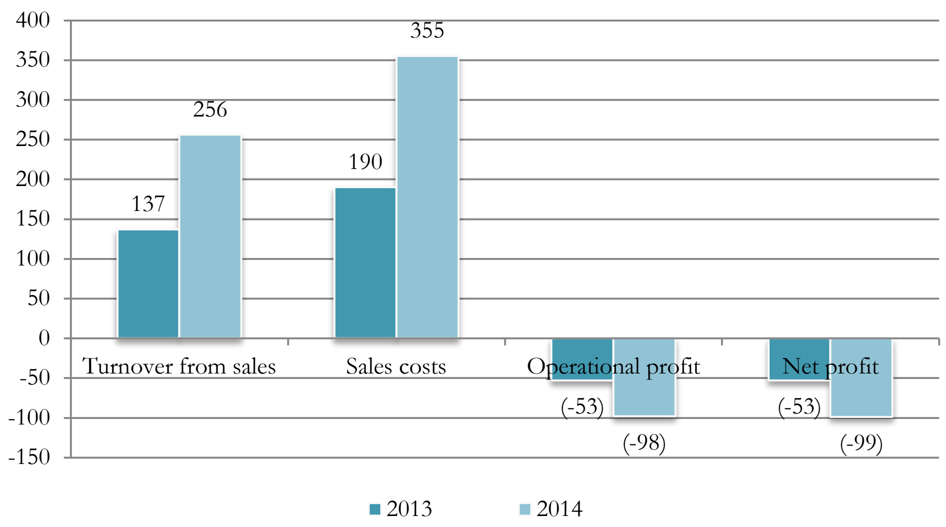
Turnover of UAB Kauno Energija NT of the year 2014 was LTL 256.4 thousand, profit (loss) was amounted to LTL (98.5) thousand.

As at 31 December 2014 UAB Kauno Energija NT had 3 employees.

Comparison of financial indicators of UAB Kauno Energija NT of the year 2014 (operating revenue, operating profit, net profit) with the year 2013 are given in Chart 12.

Chart 12

Turnover, costs and profit (loss) of UAB Kauno Energija NT, thous. litas



15. Structure of authorized capital

Company's authorised capital experienced no changes in 2012-2013. The decision on increase of Issuers' authorised capital with 420,996 litas (from 256,391,862 to 256,812,858 litas) by emitting 70 166 ordinary nominal shares with the par value of 6 litas each, the price of emission of whose is equal to the nominal value, was made in Extraordinary General Meeting of Shareholders that has been held on 6 January 2014. The priority right of all shareholders to acquire the newly issued 70 166 ordinary registered shares of AB Kauno Energija by nominal value of 6 litas each, the price of emission of whose is equal to the nominal value, has been revoked by the decision of this General Meeting of Shareholders giving the right to acquire these newly issued shares to Kaunas city municipality (code 111106319, address Laisvės av. 96, Kaunas) in order to get from Kaunas city municipality its own heat supplies pipelines – heating network (situated in Karaliaus Mindaugo str. 50, Kaunas, unique No 4400-2125-5130).

The authorised capital of the Company registered in the Register of Legal Entities on 31 December 2014 is LTL 256,812,858 (two hundred and fifty six million eight hundred twelve thousand eight hundred fifty eight litas).

Structure of authorized share capital by types of shares is specified in Table 8.

Table 8

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	42 802 143	6	256,812,858	98.33	1.67

16. Data on shares issued by the Issuer

The authorised AB Kauno Energija capital increased by the decision of Extraordinary General Meeting of Shareholders held on 6 January 2014 has been registered on 10 March 2014 amounts to LTL 256,812,858 (two hundred and fifty six million eight hundred twelve thousand eight hundred fifty eight litas) and it is divided to LTL 42 802 143 (forty two million eight hundred and two thousand one hundred forty three) ordinary shares of par value of 6 litas.

There were no changes in nominal value of Issuers' shares in 2012-2014.
There are no limitations on the transfer of securities.

16.1. Main characteristics of shares released into free circulation of securities (as at 31 December 2014).

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 (as at 31 December 2014).

ISON code of securities	LT0000128407
Number of shares	22 770 166 ordinary nominal shares
Nominal value	LTL 6
Total nominal value of shares	LTL 136,620,996

History of trade in Company's securities in 2010–2014 is given in Table 9.

Table 9

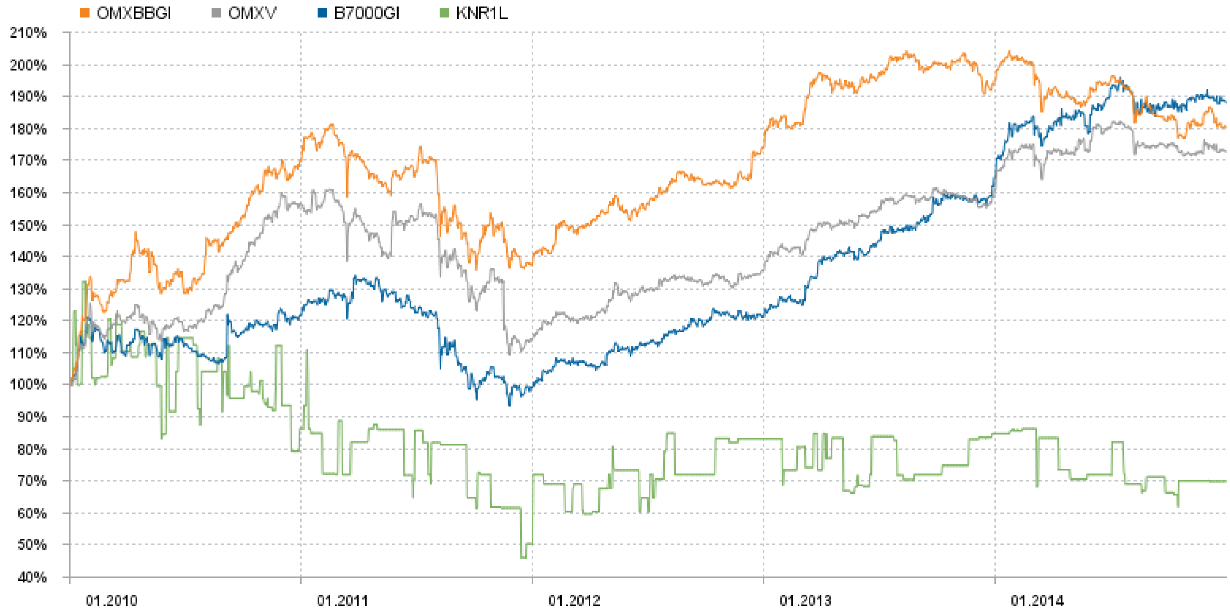
Indicator	2010	2011	2012	2013	2014
Opening price **(litas/euro)**	2.45/0.710	2.072/0.600	1.951/0.565	1.996/0.578	2.034/0.589
Highest price **(litas/euro)**	3.18/0.921	2.659/0.770	2.037/0.590	2.034/0.589	2.072/0.600
Lowest price **(litas/euro)**	1.903/0.551	1.105/0.320	1.433/0.415	1.581/0.458	1.485/0.430
Last price **(litas/euro)**	2.072/0.600	1.209/0.350	1.996/0.578	2.034/0.589	1.678/0.486
Circulation, units	77,729	90,239	80,421	36,355	70,160
Circulation, million **(litas/euro)**	0.2/0.06	0.18/0.05	0.13/0.04	0.06/0.02	0.12 /0.04
Capitalisation, million **(litas/euro)**	41.5/12.02	24.21/7.01	39.98/11.58	40.74/11.80	33.61 /9.74

Historical data on share prices (in euro) and turnovers in 2010–2014 are given in Chart 13.

Chart 13

Comparison of Company's share price with the index of own sector (utility services) and OMX Vilnius index is given in Chart 14.

Chart 14



Data of Chart 14:

Index/Shares	01.01.2010	31.12.2014	+/-%
OMX Baltic Benchmark GI	314.42	566.56	80.19
OMX Vilnius	261.77	452.42	72.83
B7000GI Utilites	814.75	1,531.33	87.95
KNR1L	0.695 EUR	0.486 EUR	-30.08

17. Information on the Issuer‘s shareholders

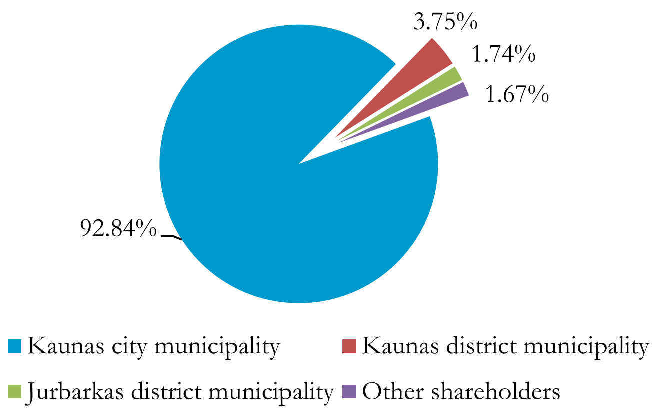
The total number of Company's shareholders as at 31 December 2014 was 295.
Information on Shareholders of the Issuer who owned as at 31 December 2014 more than 5 % of the authorised capital of the Company registered on 20 March 2014 (42 802 143 ordinary nominal shares), is given in Table 10 and Chart 15.

Table 10

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

Chart 15

Structure of shareholders as at 31 December 2014



Repartition of shareholders in accordance with groups at the end of the period is given in table 11.

Table 11

The name of the Group	Number of shares owned by the Group, pcs.	Own part of share capital, per cent from all the shares
Local authorities	42 088 631	98.33
Households	363 293	0.85
Securities of other accounts keepers clients	234 133	0.55
Private non-financial enterprises	82 808	0.19
Other financial brokers, except insurance companies and pension funds and other auxiliary enterprises	25 000	0.06
Other shareholders (non-financial enterprises controlled from abroad, financial auxiliary enterprises, companies holing deposits, except central bank	8 278	0.02
Total	42 802 143	100

17.1. The shareholders, who owned more than 5 per cent of the Company's shares (20 031 977 PVA) issued for non-public trading (VP ISIN code – LT0000123010) as at 31 December 2014 are listed in Table 12.

Table 12

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 registered shares	16 965 892	101,795,352	84.69	39.64
Kaunas District Municipality Savanorių pr. 371, 49500 Kaunas, Code 111100622	Ordinary registered shares	1 606 168	9,637,008	8.02	3.75
Other shareholders	Ordinary registered shares	1 459 917	8,759,502	7.29	3.41
Total:		20 031 977	120,191,862	100	46.80

17.2. The shareholders, who owned more than 5 per cent of the Company's shares (22 770 166 ordinary registered shares) issued for non-public trading (VP ISIN code – LT0000128407) as at 31 December 2014 are listed in Table 13.

Table 13

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 registered shares	22 770 166	136,620,996	100	53.20

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

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

In 2010, the dividends from the profit of 2009 were allocated and paid to the shareholders of the Issuer. Dividend per share was 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 the year 2011 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.25 litas, in total 10.683 million litas.

In 2013, no dividends from the profit of the year 2012 were allocated and paid to the shareholders of the Issuer. Following the decision no 3 of the General Meeting of Shareholders, the profit was allocated to the statutory reserve, other reserves (repair of heating units), support, and part of the profit was transferred to the next financial year. A total of 0.15 million litas was allocated for support and charity.

In 2014, the dividends from the profit of the year 2013 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.01 litas (0.0028962 euro), in total 428,021 litas (123,963 euro). The profit was allocated to the statutory reserve, other reserves, support and annual payments for members of the Board. A total of 1.15 million litas was allocated for support and charity.

18. Employees

As at 31 December 2014, in total 545 employees were employed in the Group. Changes in the number of employees in 2012–2014 are specified in Table 14.

Table 14

Abdul number of employees	Company 2012-12-31	Group 2012-12-31	Company 2013-12-31	Group 2013-12-31	Company 2014-12-31	Group 2014-12-31
Total:	583	617	548	561	542	545
including: management	4	6	5	7	4	5
specialists	314	327	288	292	290	291
workers	265	284	255	262	248	249

Education of employees of the Group and the Company at the end of the period

Table 15

No	Education	Company 2012-12-31	Group 2012-12-31	Company 2013-12-31	Group 2013-12-31	Company 2014-12-31	Group 2014-12-31
1	Secondary incomplete	8	9	5	6	6	6
2	Secondary	217	231	211	217	205	206
3	College	83	89	78	80	77	77
4	Higher	275	288	254	258	254	256
	Total:	583	617	548	561	542	545

Average conditional number of employees and average monthly salary (at the end of 31 December 2014 before taxes) is given in Table 16.

Table 16

No	Employees	Company	Group
1.1.	Average conditional number of managers	3.8	4.1
1.2.	Average monthly salary of managers	9,780.6	9,467.7
2.1.	Average conditional number of specialists	275.8	276.3
2.2.	Average monthly salary of specialists	2,904.6	2,903.6
3.1.	Average conditional number of workers	239.4	240.4
3.2.	Average monthly salary of workers	2,113.9	2,107.6

The salary of employees of the Issuer consists of the constant some part of salary, variable part of salary, benefits and allocations paid according to the Labour Code of the Republic of Lithuania and other laws, Collective agreement of the Company, and bonuses. Bonuses are paid from net profit, if the General Meeting of Shareholders allocates part of the profit for the bonuses of the Company employees. From 1998 till 2014, the General Meeting of Shareholders has never allocated any part of the profit for the bonuses of the Issuer's employees.

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

1. For continuous employment within the Company employees are granted additional paid leave:
2. After working for 5 years 1 calendar day.
3. from 6 to 10 years 2 calendar days;
4. After working for more than 10 years 3 calendar days;
5. for every subsequent 5 years 1 calendar day.
6. The length of service of employees of the Lithuanian power system companies transferred to the Company according to the corporate employer agreement, i.e. when the transfer was carried out according to the Labour Code or the Law on Employment Contract, is considered not interrupted, and such employees are granted additional paid leave for a continuous period of employment with the Company.
7. At the agreement of the employer and employee, the employee may be granted unpaid leave for family related issues and other important reasons.
8. Company's employees are entitled to additional paid leave in the following cases:
9. Creating a family 3 calendar days;
10. Death of a close relative (one of the parents or parents of the spouse, the spouse, brother, sister, daughter, or legal foster son, foster daughter, grandson, granddaughter) 3 calendar days;
11. Wife's birth giving 1 calendar day;
12. Wedding of the employee's daughter, son or legal foster-child 3 calendar days;
13. employees, raising a child studying at a general education school under twelve years of age, are given a day off during the first day of the academic year, paying such employees the average wage.
14. Employees who take entrance exams to universities, higher schools and colleges and successfully study in them, if their chosen specialty is within the interests of the Company and the job carried out, are granted the statutory paid educational leave, by paying 50 per cent of the employee's average salary.

The employer undertakes:

1. To ensure the conditions of preventive health check and, if necessary, rehabilitation treatment of employees, to provide free health services at the Company's occupational health unit;
2. In case of death of an employee, the Company pays an allowance in the amount of two monthly average salaries of the last year of the Company or a branch (depending on where the employee has worked), gives free transport or covers transport costs. The allowance is granted to the burying person;
3. in case of death of a close relative of the employee (father, mother, child, or spouse), the employee is granted the allowance of the average salary of the previous year of the Company or an affiliate (depending on where the employee works), given free transport or transport costs are covered;
4. In case of birth of one or more children, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) for each child;
5. In case of wedding, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works);
6. employees who are raising three or more children under the age of 16, widows (widowers) and unmarried persons who raise one child or children alone, if they are studying at secondary schools until the age of 19, and while studying at higher schools or colleges full-time till the age of 21, or if they are caring for other family members with heavy or moderate disability level or lower than 55 per cent working ability level, or family members who have reached the retirement age, which according to the laws are established a major or moderate level of special needs, once a year are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) according to the date of request;
7. for the 40th, 50th and 60th anniversary, as proposed by the head of the division, for excellent performance of employees having the 15 and 20 years of continuous employment with the Company are granted a monetary gift of 25 per cent, and having over 20 years of continuous work experience – a monetary gift of 50 per cent of the average salary of the previous year of the Company or an affiliate (depending on where the employee worked);
8. in other cases, where the material support is needed (loss due to natural disasters or other reasons beyond the employee's control), at the mutual agreement of the representatives who have signed the Collective Agreement, employees are granted a benefit of up to 2,000 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 statutes of the Issuer say that the General Meeting of Shareholders of the Company has the exceptional right to amend the statutes other than the exceptions provided in the Law on Companies of the Republic of Lithuania. The resolution on the amendment of the Company’s statutes 2/3 qualified majority of votes of the members participating in the meeting of shareholders is needed.

The statutes of the Company were amended on 6 January 2014 by the decision of the Extraordinary General Meeting of Shareholders. Increased Company’s share capital was indicated in them and the amendments of legislation assessed. The new version of the statutes was registered in the Register of Legal Entities of the Republic of Lithuania on 20 March 2014. It can be found in the Internet website of the Company at www.kaunoenergija.lt.

20. Issuer‘s management bodies

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

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

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

3 (three) General Meetings of Shareholders were convoked in 2014. Company's chairman of the Board, General Manager, and Head of Department of finances took part in them. One member of the Supervisory Board took part in one of the General Meetings of Shareholders. Issuers' shareholders are allowed to ask questions and to get answers or explanations from Company's managers and speakers.

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

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

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

The Supervisory Board of the Company approved a new version of the internal rules of procedure of the Audit Committee of AB Kauno Energija on 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 analyses and estimates Company's annual financial statements, profit (loss) allocation project, and along with response and proposals on them and with Company's annual report renders to Supervisory Board and General Meeting of Shareholders. Also the Board pursues functions of shareholder in companies where holds all the shares and written decisions of the Board are equated to the decisions of the General Meeting of Shareholders in them.

The Board elects and removes from office the Company's General manager, determines his salary and sets other terms of the employment contract, approves his job description, provides incentives for him and impose penalties; makes other decisions assigned to the competence of the Board by the Law on Companies of the Republic of Lithuania, statutes or the Company or resolutions of the General Meeting of Shareholders.

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

20.1. Data on the committees in the Company

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

On 21 February 2013 the Supervisory Board elected Valerija Stankūnienė, deputy chief accountant of the Company until May 2014, 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 as independent member of the Company's Audit Committee. It carries out the activities of the member of Audit Committee since 11 April 2013.

Full name	Position	Beginning of term	End of term*
Edita Gudišauskienė	Independent member of Audit Committee	11 April 2013	30 April 2016
Inga Dragūnienė	Member of Audit Committee	21 February 2013	30 April 2016
Valerija Stankūnienė	Member of Audit Committee	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 2013 of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. The Audit Committee had 5 sessions during the year 2014. The attendance of the Audit Committee members was 87 per cent.

Mrs. Inga Dragūnienė is 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. She has a higher university education from Kaunas University of Technology, Master of Management Science in the field of Financial Management (2001). Workplaces in the last 10 years, and positions held: 1998-10–2006-07-25 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.
Mrs. Inga Dragūnienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Valerija Stankūnienė is a chief accountant of UAB Texera. Valerija was a deputy senior accountant of the Company. She held the position of the Audit Committee member 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. Valerija has a higher university education from Vilnius University, accounting specialty (1983). Workplaces in the last 10 years, and positions held: 2003-02–2010-01 chief accountant of UAB Aris Baltija, 2010-01–2014-05 deputy chief accountant of the Company.
Mrs. Valerija Stankūnienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Edita Gudišauskienė is a Chief Officer of economics and finance of UAB Kauno autobusai, member of the Supervisory Board of the Company. Mrs. Edita Gudišauskienė is the independent member of Company's Audit Committee, acting in the Audit Committee since 11 April 2013. Mrs. Edita Gudišauskienė has a higher university education from 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 the Children rights 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 Adviser to the Minister of Agriculture of Republic of Lithuania.
Mrs. Edita Gudišauskienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

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

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

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

Members of the Supervisory Board of the Company as at 31 December 2014:

Full name	Position	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
Židrūnas Garšva	Member of the Supervisory Board	6 January 2014	30 April 2016
Edita Gudišauskienė	Member of the Supervisory Board	28 September 2012	30 April 2016
Ričardas Juška	Member of the Supervisory Board	29 April 2014	30 April 2016
Aušra Ručienė	Member of the Supervisory Board	28 September 2012	30 April 2016
Gediminas Žukauskas	Member of the Supervisory Board	28 September 2012	30 April 2016

The Company's Supervisory Board consists of seven dependant members. Six of them are also the members of the Kaunas City Council, as they partially represent the controlling shareholder, i.e. Kaunas City Municipality holding 92.82 per cent of the Company's voting shares. One member partially represents shareholder holding 1.75 per cent of the Company's voting shares – Jurbarkas district municipality.

2 sessions of the Supervisory Board were held during the year 2014. More than 2/3 members of the Supervisory Board attended all the sessions.

Mr. Andrius Kupčinskas is a Mayor of Kaunas city, 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.
Mr. Andrius Kupčinskas holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Stanislovas Buškevičius is a Deputy Mayor of 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.
Mr. Stanislovas Buškevičius holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Židrūnas Garšva is a Member of the Kaunas City Municipality Council, Head of Committee of City Economy of Kaunas City Council, Head of Commission of privatization, Member of Commission of Strategic Planning, representative of Kaunas city municipality in business Council.
Mr. Židrūnas Garšva holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Edita Gudišauskienė is a Chief Officer of Finances service of UAB Kauno autobusai, an 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.
Mrs. Edita Gudišauskienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Ričardas Juška is a Mayor of Jurbarkas distric municipality, member of Jurbarkas district municipality council, chairman of Commission of Privatization of Jurbarkas district municipality council, member of the Board of Association of Lithuanian Municipalities (ALM) since 2011, chairman of Committee of Health Issues of ALM, member of Council of Regional Development of Tauragė county, member of the Supervisory Board of Tauragė Regional Waste Management Center, member of Movement of Liberals of the Republic of Lithuania starting from 2013, chairman of Jurbarkas section of Movement of Liberals of the Republic of Lithuania. Mr. Ričardas Juška is a member of the Supervisory Board of the Company starting from 29 April 2014.
Mr. Ričardas Juška holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Aušra Ručienė is a lawyer, member of Kaunas City Municipality Council, chairman of City Development, Investments and Tourism Committee of Kaunas City Municipality Council, member of Control committee, member of Anticorruption Commission, member of Strategic Planning Commission, also a member of Council of Academic Issues.
Mrs. Aušra Ručienė holds no shares of the Company. She is a shareholder of UAB Ručenta.

Mr. Gediminas Žukauskas is 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.
Mr. Gediminas Žukauskas holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Artūras Tepelys is a 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, member of Company’s Supervisory Board from 28 September 2012 to 29 April 2014.
Mr. Artūras Tepelys charged 65.1 thousand litas of salary in the year 2014. No bonuses, no transfer of other assets and no granted guarantees.
Mr. Artūras Tepelys holds no shares of the Company. Shareholder of UAB AISTEKA.

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

As at 31 December 2014 the members of the Company's Board were as follows:

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

The Company's Board held 30 sessions in the year 2014. More than 2/3 members of the Management Board attended all the sessions.

Mr. Valdas Lukoševičius is a Doctor of technical sciences, Manager of Strategy and Investment Projects division of the Company till 13 February 2014, Associated Professor of Thermal and Nuclear Energy Department of Kaunas University of Technology (KUT). Chairman of the Company's Board since 28 September 2012.
Mr. Valdas Lukoševičius holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Valdas Lukoševičius charged 9 thousand litas of salary, also 11.8 thousand litas of tantiemes from the profit of the year 2013 in the year 2014. No transfer of other assets and no granted guarantees.

Mr. Sigitas Groblys is a Partner in Law Firm *Foresta* Business Law Group, member of the Board of UAB Litpirma, chairman of the Board of Gintaras Steponavičius Support Fund. Member of the Company's Board since 28 September 2012.
Mr. Sigitas Groblys holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Sigitas Groblys charged 11.8 thousand litas of tantiemes from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees.

Mr. Juozas Augutis is a Habilitated Doctor of Technology sciences, laureate of National Science Award, Vice-Rector of Vytautas Magnus University, Professor at Mathematics and Statistics Department of Vytautas Magnus University (VMU), full member of the Lithuanian Academy of Sciences, NATO SPS (Science for Peace and Security) programme expert, 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), member of the editorial boards of magazines "Energetics", "Journal of Civil Engineering and Management" and "Mathematics and mathematical modelling", 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". Member of the Company's Board since 28 September 2012.
Mr. Juozas Augutis holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Juozas Augutis charged 11.8 thousand litas of tantiemes from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees.

Mr. Rimantas Bakas is a Doctor of Technical sciences, General Manager of the Company, member of the Lithuanian Thermal Engineers Association, 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 the Company‘s Board since 2012 September 28.
Mr. Rimantas Bakas holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Rimantas Bakas charged 172.5 thousand litas of salary. Mr. Rimantas Bakas charged 11.8 thousand litas of tantiemes from the profit of the year 2013 during reporting period. No transfer of other assets and no granted guarantees. Mr. Rimantas Bakas refused tantiemes from the profit of the year 2013.

Mr. Saulius Meškauskas is a Deputy Head of Energy Department of Kaunas City Municipality Administration. Member of the Board of the Company since 28 September 2012.
Mr. Saulius Meškauskas holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Saulius Meškauskas charged 11.8 thousand litas of tantiemes from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees.

Mr. Vaclovas Miškinis is a Habilitated Doctor, Head of Complex Energy Research Laboratory of the Lithuanian Energy Institute, professor. Member of the Board of the Company since 28 September 2012.
Mr. Vaclovas Miškinis holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Vaclovas Miškinis charged 11.8 thousand litas of tantiemes from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees.

Mr. Mindaugas Varža is a Director at UAB Kauno Verslo Grupė. Member of the Board of the Company since 28 September 2012.
Mr. Mindaugas Varža holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Mindaugas Varža charged 11.8 thousand litas of tantiemes from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees during the reporting period. Mr. Mindaugas Varža refused tantiemes from the profit of the year 2013.

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

Mr. Rimantas Bakas is a Doctor of Technical science. The Company's General Manager since 24 November 2008, Member of the Board of the Company since 28 September 2012. Member of the Lithuanian Thermal Engineers Association, member of council of PI Kaunas Regional Energy Agency, Member of Council of The Lithuanian District Heating Association, Member of Scientific Council of Lithuanian Energy Institute, Chairman of Master Qualification Committee of the Thermal and Nuclear Energy Department of Kaunas University of Technology, certified expert of the PET Lithuanian Committee on Energy approved by the Lithuanian committee of the World Energy Council, Member of the Board of the Company from 3 May 2011 to 2 January 2012. Mr. Rimantas Bakas has a higher university education of Kaunas University of Technology, finished in 1985, industrial thermal energy engineer. Work experience and positions over the last 10 years: Chief Project Manager of Strategy Division of the Company 2003-05–2006-01, Head of Strategy Division – 2006-01–2008-11.
Mr. Rimantas Bakas was awarded with letters of appreciation from the Lithuanian District Heating Association (2007), Lithuanian Electricity Association (2008), Lithuanian Committee of World Energy Council (2010),

Minister of Energy of the Republic of Lithuania (2013), Chairman of the Seimas of the Republic of Lithuania (2013), Lithuanian Committee of World Energy Council (2013), and the 600th Anniversary medal of Kaunas City Municipality (2008), Medal of Honour of Lithuanian energetics (2011), silver-plated brassy medal of Jonas Vileišis, burgomaster of Kaunas city for the merits in development of energy economy of the city (2015).
Mr. Rimantas Bakas holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Violeta Staškūnienė is a Company's Chief Accountant since 16 January 2003. She has a University education from Vilnius University, finished in 1984, labour economics, profession – economist. Work experience and positions over the last 10 years: 2003-01–2004-06 UAB Energijos realizacijos centras, chief accountant.
Mrs. Violeta Staškūnienė holds 2,641 of the Company's shares, which represent less than 5 per cent of the authorised capital. No interest in the capital of other Lithuanian companies.

The total amount of money incurred to the General Manager and the Chief Accountant of the Company during the year 2014 is 274.9 thousand litas, while the average amount per member is 137.46 thousand litas. No other assets have been transferred, no guarantees granted.

22. Information on significant agreements

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

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

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

24. Information on major transactions with related parties

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

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

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

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

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

27. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information 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	Announcement category	Language	Time
Convocation of Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-03-05 08:35
12-month economic performance in 2014	Interim information	EN, LT	2015-01-30 13:54
Resolutions of the extraordinary general meeting of shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2014-11-13 14:11
9-month economic performance in 2014	Notice of stock event	EN, LT	2014-10-31 08:39
Addition to agenda of convoked Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2014-10-24 09:41
Convocation of Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2014-10-09 17:16
Interim information of the 1st half of 2014 of AB Kauno Energija	Interim information	EN, LT	2014-08-22 14:13
Economic performance in the 1st half of 2014	Notice of stock event	EN, LT	2014-08-01 11:20:10
Economic performance in the 1st quarter of 2014	Notice of stock event	EN, LT	2014-04-30 16:22:53
Financial statements with Annual report	Annual information	EN, LT	2014-04-30 11:05:40
Resolutions of the General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2014-04-29 17:17:47
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General Manager of AB Kauno Energija — Rimantas Bakas

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

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
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
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 heat production and supply system development every year, specifies investment plans and the sources of their financing. 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 Company's interim and annual reports and company's website. Periodic reports and notifications are disclosing the directions for Company's growth. Those reports, notification on stock 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 during the year.

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	The Company's supervisory and managing bodies aim to ensure with their activities all interests of the persons concerned. The Company's management and the separate areas managers spend a lot of time communicating with customers, suppliers, contractors, representatives of the municipalities, in order to find optimal solutions, related to the Company's activities. 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 Corporate Social Responsibility reports. The specific of Company's activities ensures that consumers (customers) are periodically, i. e 3-4 times per year 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.
Principle II: The corporate governance framework **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.**		
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	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. Division of Company's management bodies' competences and responsibility is determined in Company's statute, regulations of management bodies' activities, are published Company's web site and in Company's managers' job description.
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	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.
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.[1]	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.[2]	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.
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	Yes	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.

[1] 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.

[2] Definitions *'executive director'* and *'non-executive director'* are used in cases when a company has only one collegial body.

recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.		
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **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.**[3]		
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.	Yes	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 management body.
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.	Yes	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.
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.	Yes	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.
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	Yes	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

[3] 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.

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.		tasks properly. Audit Committee as a unit, has up-to-date knowledge and relevant experience in finance, accounting, and (or) auditing.
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.	Yes	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.
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[4] number of independent[5] members.	No	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. Detailed information is provided in article 3.7.
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: 1) He/she is not an executive director or member of the board (if a collegial body elected	No	Elected Company's Supervisory Board consists of seven dependent members. Six of them are also the members of the Kaunas City Council, and one member is the member of Jurbarkas District Municipality Council. All the members of Supervisory Board meet criteria indicated in item 3.7 of recommendations, except criteria 4, because six members of Supervisory Board partly represent controlling shareholder, i.e. Kaunas city municipality having 92.82 % of votes. One member (Ričardas Juška) partially represents shareholder – Jurbarkas District municipality, holding 1.75 per cent of the Company's voting shares.

[4] 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.

[5] 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.

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; 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; 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); 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); 5) He/she does not have and did not have any material business relations with the company or associated company within the 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; 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; 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; 8) He/she has not been in the position of a		

member of the collegial body for over than 12 years; 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.		
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.	Yes	Company's Supervisory Board does not determine if a particular member meets all the requirements for independence indicated in this Code.
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.	Yes	The Company discloses dependence of the members of Supervisory Board in this report.
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.	Not applicable	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.
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.[6]. The general shareholders' meeting should approve the	Not applicable	The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company.

[6] 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.

amount of such remuneration.		
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **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[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
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 management bodies and monitor and control the company's management performance.[8]	Yes	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 other functions allotted to the Supervisory Board competence regarding the Company's and it's 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.
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).	Yes	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.
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	Yes	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

[7] See Footnote 3.

[8] 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.

event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.		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 2014. Members of Supervisory Board participating in session are registered in session protocol and in list of session participants.
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.	Yes	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.
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.	Yes	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. More detailed information is provided in Note 25 of explanatory notes to the financial statements.
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[10]. 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	Yes	As members of the Supervisory Board are partly related with Kaunas city municipality because they are members of Kaunas city and Jurbarkas district municipalities' councils, because they are members of these councils, 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

[9] 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.

[10] 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.

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 advice the human resources department, executive directors or collegial management organs of the company concerned.		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 variable part of salary is detailed in this schedule.
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[11]. 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 the collegial body as a whole.	Not applicable	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.
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	Yes	Audit committee is being formed in the Company. One member of this Committee is independent. The Committee acts independently and principally and renders recommendations and prepares reports that are presented to Supervisory Board.. The Supervisory Board is responsible for

[11]The Law on Audit of the Republic of Lithuania (*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).

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.		decisions made within its competence.
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 membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	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.
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 2014 is being announced in this Annual Report.
4.11. In order to ensure independence and	No	The Company does not follow this

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.		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 regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 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.	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.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the	Not applicable	The Committee of Remuneration is not formed according to the circumstances shown in the article No 4.6.

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; •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; •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 members of the company; •Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; •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); •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.		

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: •Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; •Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; •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. 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. 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.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: •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); •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; •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	Yes	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.

need for one should be reviewed at least annually; •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; •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 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 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. 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.		
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.	No	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.

Principle V: The working procedure of the company's collegial bodies		
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.		
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.	Yes	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.
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 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[12].	Yes	This recommendation is implemented by the Supervisory Board and by the Management Board.
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.	Yes	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. 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.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective	Yes	The chairmen of Company's supervisory and management bodies coordinate dates of the

[12] 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.

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.		meetings, their agendas and cooperate in solving other issues of corporate governance.
Principle VI: The equitable treatment of shareholders and shareholder rights **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.**		
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.	Yes	The ordinary registered shares which make the authorized capital of the Company give the equal rights for all share owners.
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.[13] 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.	Yes	In compliance with the Law on the 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 Meeting of Shareholders, as it is prescribed in Company's statutes.
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	Yes	Information about the draft shareholders decisions and the decisions taken by the shareholders meeting the Company publicly places

[13] 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.

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 is not detrimental to the company or the company's commercial secrets are not revealed.		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.
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.	Yes	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.
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.	Not applicable	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.
Principle VII: The avoidance of conflicts of interest and their disclosure **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.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in	Yes	The members of the Company's Supervisory and of the managing bodies act in according with the interests of the Company and their competences

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.		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.**		
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	Not applicable	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

remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.		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 meeting of shareholders. For the first time remuneration was allocated for the members of the Board for the results of the year 2013. It was never been allotted up to this time. 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.
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.	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.
8.3. Remuneration statement should leastwise include the following information: •Explanation of the relative importance of the variable and non-variable components of directors' remuneration; •Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; •An explanation how the choice of performance criteria contributes to the long-term interests of the company; •An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; •Sufficient information on deferment periods with regard to variable components of	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.

remuneration; •Sufficient information on the linkage between the remuneration and performance; •The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; •Sufficient information on the policy regarding termination payments; •Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; •Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; •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; •A description of the main characteristics of supplementary pension or early retirement schemes for directors; •Remuneration statement should not include commercially sensitive information.		
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.	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, 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).
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. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: •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; •The remuneration and advantages received	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.

from any undertaking belonging to the same group; •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; •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; •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; •Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 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: •The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • 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; • 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; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; •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. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial **report** 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.		
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.	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.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	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.
8.8. 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.		
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.		
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.		
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.		
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	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.
8.15. 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).		
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	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.
8.18. 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.	Not applicable	
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.	Not applicable	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.
8.20. The following issues should be subject to approval by the shareholders' annual general	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the Company does not

meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 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.		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.
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.	Not applicable	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.
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.		
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		

<table>
<tr><td>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.</td><td></td><td></td></tr>
<tr><td colspan="3">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.</td></tr>
<tr><td>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</td><td rowspan="3">Yes</td><td rowspan="3">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.</td></tr>
<tr><td>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.</td></tr>
<tr><td>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</td></tr>
<tr><td colspan="3">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.</td></tr>
<tr><td>10.1. The company should disclose information on:
1) The financial and operating results of the company;
2) Company objectives;
3) Persons holding by the right of ownership or in control of a block of shares in the company;
4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;
5) Material foreseeable risk factors;
6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's</td><td>Yes</td><td>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</td></tr>
</table>

regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. 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. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 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. 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.		by the meeting of shareholders. The remuneration has not been allotted for the members of Company's Supervisory Board Up to now, but in the year 2014 remuneration has been allotted for the members of Company's Management Board for the results of the year 2013 for the first time – (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.
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.	Yes	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.
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 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.	Yes	Company's information is published on its website in Lithuanian.
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.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
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 2014.

FOREWORD OF GENERAL MANAGER

AB Kauno Energija (hereinafter – the Company) is the second largest heat supplies company in Lithuania, supplying heat for consumers in Kaunas city and district, and Jurbarkas for more than 50 years already. It is tremendous direct responsibility for the living and working conditions of these people, of their wellbeing and even health, because people cannot live without heat.

This is why we – heat suppliers must work insomuch that to make certain reliable uninterrupted heat supplies at any circumstances. Therefore heat supplies may be considered more as social favour, not a profit seeking business.

This report provides the information on Company's progress during the year 2014, considering economic, social and environmental aspects.

In 2014, in order to reduce heat price for consumers, to reduce demand in fossil fuel, pollution and environmental impact, to increase the efficiency of heat production and the usage of renewable energy sources, the Company has intensively worked on modernization of its heat production facilities installing biofuel burning equipment. We implemented even three massive projects of biofuel boilers construction. Implementation of these projects allowed reducing heat price for consumers at more than 15 per cent already in the beginning of 2015.

We also implemented even five projects of network reconstructions in 2014, partly financed from European Union (hereinafter – EU) Structural Funds that allowed reducing of heat losses and increase reliability of pipelines in reconstructed sections.

In 2014 we actively publicized problems, emerging cooperating with independent heat producers (hereinafter – IHP). In order to resolve them we initiated meetings with the representatives of authorities, regulating institutions and IHP. The result is that problems publicized by us and proposed their resolution methods are considered when improvements of legal regulatory basis of heat purchase and of connection to the network are made.

In order to encourage society's progress, the Company further supported academic community, cooperated with Kaunas University of Technology, with Lithuanian Energy Institute and other scientific institutions.

The Company intends to further follow principles of social responsibility in its activities, allowing remaining reliable and responsible company.

Rimantas Bakas
General Manager of
AB Kauno Energija

COMPANY'S SOCIAL RESPONSIBILITY POLICY

We conceptualize social responsibility as:

- Responsibility against consumers that heat will be supplied reliably even in coldest periods of the year,
- Properly an on time paid salaries to employees,
- Taking care on working conditions of employees and their social and medical security,
- Properly and on time pursued obligations to business partners,
- Strict pursuance of environmental requirements, determined in EU and national legal acts,
- Pursuance of declared values.

The basement of Company's social responsibility consists of the following main fields of implementation of responsible activity:

- **Economic.** It is the field, showing, how Company conceptualizes the importance of its activity to the economy of the country, how, considering aims of profitability to shareholders, joins creation of economic welfare of the society.
- **Social**. It is the field, reflecting Company's care of employees and society, showing, how openly Company operates, how follows good practice in relations with the parties concerned.
- **Environmental**. It is the field, showing implementation of Company's activities considering requirements of environmental, pollution reduction and spare of natural resources.

PHILOSOPHY OF ACTIVITIES

Vision – modern, effective and competitive Company, creating a surplus value for shareholders and developing heat production and supplies business.

Mission – to reliably supply qualitative heat and hot water to the consumers of Kaunas city and district as well as Jurbarkas city and to render other services related to supplies of heat and hot water.

Values that Company follows performing its activities:

- More than 50 years of experience in activities of heat production and supplies;
- Responsibility against consumers for reliable supplies of heat and hot water at lowest expenditures;
- Competitive heat production allowing to reduce heat price for consumers;
- high qualifications of employees, allowing to reach a highest rates of efficiency;
- ability to implement latest scientific achievements in the activities of the Group and the Company;
- analysis and implementation in Company of good management, technological and technical practise of other Lithuanian and foreign companies;
- close cooperation with state and municipal institutions, universities, research institutions and with academic institutions;
- ability to participate in development and implementation of scientific programs;
- partnership in international projects;
- Reputation of reliable, modern and solid group of companies.

ECONOMIC RESPONSIBILITY

Economical responsibility is being seen by the Company as a creation of economic benefits to consumers and shareholders. These benefits are created by Company by coherent decrease of heat production expenditures, costs of heat supplies and heat losses in network. The decrease in expenditures of production, supplies and losses allows decrease in final price of heat and this is direct economic benefit for consumers. Also it is direct economic benefit to shareholders, because decrease in costs allows reaching better economic – financial results.

The Company decreased production expenditures, supplies costs and losses in 2014 by investing in reconstructions of heat production facilities installing modern biofuel boilers also in renovation of heat supplies network.

DECREASE IN EXPENDITURES OF HEAT PRODUCTION

In order to decrease expenditures of heat production and heat price for consumers the Company assigned a most part of investments in 2014 for development and modernization of facilities of heat production from renewable energy resources. The following projects were implemented in 2014:

1. "Reconstruction of Šilkas boiler-house changing used fuel to bio-fuel (II stage)"

The second 8 MW capacity bio-fuel burned water heating boiler along with 4 MW capacity condensational economizer was installed instead of former 9 MW capacity boiler in Šilkas boiler-house while implementing this project. EU Structural Funds support in amount of up to 3.99 million litas was allocated for this project. Total value of the project is approx. 8.1 million litas. Along with 10 MW capacity biofuel boiler installed in 2013, total biofuel capacity of Šilkas boiler-house consists of 22 MW. Up to 10 per cent of heat consumed in Kaunas integrated network can be produced with these facilities.

Photo: new water heating boiler and condensational economizer in Šilkas boiler-house

2. "Reconstruction of Inkaras boiler-house changing used fuel to bio-fuel"

Two bio-fuel burned water heating boilers with capacity of 8 MW each and a 4 MW capacity condensational economizer were installed during implementation of project (the total capacity 20 MW). Total anticipated value of the project is 19.4 million litas. EU Structural Funds support for this project is 6 million litas is included. Starting from the year 2000 Inkaras boiler-house was mothballed and did not produce any heat.

Photo: new biofuel boilers and renewed Inkaras boiler-house building

3. "Reconstruction of Petrašiūnai power-plant changing used fuel to bio-fuel (I stage)"

Two biofuel burned water heating boilers with capacity of 12 MW each and 6 MW capacity condensational economizer were installed (the total capacity of new facilities reaches 30 MW). The total anticipated value of the project is 25 million litas. EU Structural Funds support for this project is 6 million litas (included).

Photo: new water heating boilers and biofuel depot in Petrašiūnai power-plant

Total capacity of newly installed biofuel burned boilers with condensational economizers in Kaunas integrated network amounts to 62 MW. Total biofuel capacities in Kaunas integrated network amounts to 72 MW at the moment, which is approx. 25 per cent of average heating season demand.

When new Company's biofuel burned boiler-houses are started to operate in full power, the part of heat, produced using biofuel in integrated network increased up to 70-80 per cent. It means that if the price of fuel will not change significantly, Kaunas citizens will pay for heat even less. Increased effectiveness of the system, increased competition in heat production sector and the usage of biofuel in AB Kauno Energija heat production facilities allowed Kaunas citizens to save approx. 60 million litas over the year.

INCREASE IN RELIABILITY OF HEAT SUPPLIES

Reconstructions of heat supplies network

Reconstructions of heat supplies network allows the Company decreasing heat supplies losses and increasing reliability of heat supplies. In 2014 the Company implemented five projects of heat supplies network reconstructions:

1. "Modernization of the main 5T of Kaunas integrated network". 329 metres long section of 900 mm diameter pipeline was reconstructed during implementation of the project. Annual savings are up to 922 MWh of heat. Value of the project is 3.61 million litas. EU Structural Funds support is 1.706 million litas.

2. "Modernization of the main 6Ž of Kaunas integrated network". 527 metres long section of 400 mm diameter pipeline was reconstructed during implementation of the project. Annual savings are up to 400.3 MWh of heat. Value of the project is 2.152 million litas. EU Structural Funds support is up to 1.023 million litas.


3. "Modernization of the main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12 in Chemijos str." 267 metres long section of 700 mm diameter pipeline and 271 metres long section of 500 mm diameter pipeline was reconstructed during implementation of the project. Annual savings are up to 773.4 MWh of heat. Value of the project is 4.691 million litas. EU Structural Funds support is up to 2.000 million litas.


4. "Modernization of the main 3Ž between heat cameras 3Ž-9 and 3Ž-9-5c in A. Baranausko str." 438.9 metres long section of 300 mm diameter pipeline was reconstructed during implementation of the project. Annual savings are up to 310 MWh of heat. Value of the project is 1.555 million litas. EU Structural Funds support is up to 0.717 million litas.


5. "Modernization of the main 4Ž between heat cameras 4Ž-10 and 4Ž-15 in Taikos av." 403 metres long section of 600 mm diameter pipeline was reconstructed during implementation of the project. Value of the project is 2.115 million litas. EU Structural Funds support is up to 1.055 million litas.

Participation in research and society activities

In the year 2014 VTT Technical Research Centre of Finland invited AB Kauno Energija to take part in the EU H2020 Secure Societies research project I-ACT (Identification and Development of standardised decision support methods for city Adaptation to Climate change) to which it is coordinating. I-ACT proposal aims to develop a decision support system for co-creation and adaptive management of city resilience based on long-term climate and socioeconomic scenarios with related uncertainties. AB Kauno Energija is ready to be involved as end-user in order to reach I-ACT project objectives. Should the contract be forthcoming to the I-ACT consortium, the Company will make the best effort to provide input, advice and support to the project, depending on its competencies, capabilities and availability.

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

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

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. 8 students performed their practice in Company in 2014. In case of demand in employees, a possibility to employ is given to the best and most active students.

The Company took part in 2014 in implementing of State purposive financing studies programme and in cooperation with Kaunas University of Technology signed a tripartite agreement of Studies purposive financing with two first course students of Heat Energy and Technology studies programme.

On 27 March 2014 an open discussion "National peculiarities of heat sector, assessing practical experience and forecasts" arranged by AB Kauno energija has been held at Lithuanian Energy Institute at which representatives of authorities, scientifical institutions and energetics specialists – practicians shared their experience and providences regarding problems of Lithuanian and separately Kaunas heat sector, regarding valid order of heat purchase from independent heat producers (hereinafter – IHP) and offered a suggestions on what could be done in order to decrease heat price for consumers even more.

On 9 December 2014 the meeting of representatives of NCC administration, IHP and Company took place. The problems of heat purchase from IHP, heat supplies to the network and dispatcher control have been discussed in it. Positive effect of increasing competition for the decrease in heat price, topicality of heat purchase and supplies have also been discussed during this meeting, proposals regarding improvement of heat purchase order, and regarding expedition supplying bigger quantities of heat from biofuel boilers when consumption is increasing, etc. were made.

CONSUMERS SERVICE AND INFORMATION

Seeking to make better the quality of services and consumers' service, the Company improves services, allowing saving consumers' time and expenses.

Propagation of electronic services

It is essential to the Company that consumers should more easily and conveniently pay for heat. This is why service of delivering electronic bills was further developed in 2014. Consumers get electronic bills at 5–7 days earlier on an average, they can more conveniently declare readings of meters of hot water, pay for consumed heat connecting to an electronic banking systems using Company's electronic services system, pay for a few objects. In 2014 approx. 14 per cent of household consumers used this service and more than 65 per cent legal entities.

Publicizing of information

Seeking that consumers would know better benefits and advantages of district heating, legal, political and economic processes going in heat supply sector and seeking to increase confidence of consumers, that Company constantly properly informs consumers on Company's activities. The Company informs consumers on change in heat prices, pursued projects of modernization of heat production facilities and supplies network, on possibilities of decreasing of bills for heat decreasing its consumption, renovating buildings, etc. Various channels are used for information of consumers.

In 2014 58 press releases, 30 articles were prepared. Articles were published in Company's and Kaunas city municipality's websites, distributed to media directly or via news agency BNS, also some of them were published in daily Kauno Diena or newspaper Laikinoji Sostinė. Not less than 10 articles, prepared under Company's information were published in media. Company's representatives took part or gave an interview for not less than 4 television and 6 radio broadcasts, not less than once per week they rendered various comments on issues media was interested in. Information topical for consumers is also presented in Company's website www.kaunoenergija.lt. Information provided here is both permanent and periodically renewed. Information publication on the results of 2013 was published in 2014.

Meetings with consumers

In order to directly inform consumers on Company's activities and answer the concerning questions, the Company periodically arranges meetings with consumers. 2 Meetings were held in 2014. Consumers were informed on decrease in heating price in consequence of projects, implemented by the Company, on possibilities of heat savings, etc. Answers on common questions, topical for most part of consumers regarding circulation of hot water, maintenance of heat supply equipment units, issues on accounting of heat and hot water were provided. Members of public movements, Company's Board and Kaunas city municipality took part in those meetings.

"Open door" days

"Open door" days are organized in the Company. It is immediately shown for all interested in activities of heat supplier, how and where the heat is produced and from where and how it is supplied to our homes. Company's activities are presented to attendance, as well as principles of heat production and supplies, performance of dispatcher office of network control is shown, free excursions to the places of reconstructions of network are arranged. It is presented, what is done in order the grass above heat supplies pipelines not to be "verdant" in winter. Also cognitive excursions to 83 years old Petrašiūnai power-plant

are arranged. They are arranged using Company's transport.

SOCIAL RESPONSIBILITY

Employees

The Company implements its social responsibility by strictly following provisions of Labour Code and other legislation, by paying salaries properly and at the time, by following rules of inner working order and provisions of other inner documents.

Rules of Working Order and the Ethical Code

AB Kauno Energija rules of working order were renewed on 31 December 2013. The goal of the rules is to determine Company's working order and discipline, working time and rest, payment, confidential information, requirements of safety, health and working behaviour of employees.

Employees are also following Ethical Code in Company, which determines principles of employees' behaviour and standards of ethics and helps to make certain their observance. The Code indicates how Company's employees must work and behave in working place in respect of both place and other employees, how they must behave in public places, communicate with consumers and other external groups of interest.

Collective agreement

The collective agreement, signed by representatives of employees and employer operates in AB Kauno Energija. It determines work, salary, social, economic and professional conditions and warranties, which are not regulated by the law or other legal acts, but making certain and better working and social conditions for employees.

Only 8 per cent of companies in Lithuania have collective agreements. AB Kauno Energija can be proud to be one of them. Agreement is applicable to all employees of the Company.

Under the Collective agreement:

1. For continuous employment within the Company employees are granted additional paid leave:

1.1. After working for 5 years	1 calendar day.
1.2. from 6 to 10 years	2 calendar days;
1.3. After working for more than 10 years	3 calendar days;
1.4. for every subsequent 5 years	1 calendar day.

2. 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.

3. At the agreement of the employer and employee, the employee may be granted unpaid leave for family related issues and other important reasons.

4. Company's employees are entitled to additional paid leave in the following cases:

4.1. Creating a family	3 calendar days;
4.2. 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;
4.3. Wife's birth giving	1 calendar day;
4.4. Wedding of the employee's daughter, son or legal foster-child	3 calendar days;

5. 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.

6. 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 2,000 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.

Salary of employees
The salary of employees of the Company consists of the constant some part of salary, variable part of salary, benefits and allocations paid according to the Labour Code of the Republic of Lithuania and other laws, Collective agreement of the Company, and bonuses. Bonuses are paid from net profit, if the General Meeting of Shareholders allocates part of the profit for the bonuses of the Company employees.

Safety and health of employees
A lot importance is paid by Company for creation of safe working environment. Conditions for preventive medical check-up or rehabilitation treatment are established in Company, free services are rendered in Company’s working health station. Preventive medical check-up has been performed for 225 employees in 2014. 507 Company’s employees heard a compulsory education of first aid and hygiene. Employees affected by risk factors are inoculated against flu, mite encephalitis for free every year. 102 employees were inoculated against flu and 87 against mite encephalitis in 2014. Special outfit, footwear and other implements of personal safety are given on time and for free if necessary. Preventive measures, designed to avoid accidents, extreme situations, breakdowns, working troubles and incidents are constituted in Company and the control of their implementation is pursued. No accidents in work were committed over 2014.

Trade union of employees

The Company supports clustering of employees to trade union and cooperates with it. Trade union of strives to increase employees' level of confidence in the Company, encourages loyalty to the Company, increases employees involvement in the reaching the goals of the Company.

The Company assigns funds and supports employees' cultural, sports and other activities, unifying collective, concerns about maintenance, repair and upkeep of Company's sports complex, allows Company's employees to use sports and wellness complexes for free. Premises for organization of meetings and conferences are rendered for trade union if necessary.

Company's administration delegates teams to take part in competition of energetics professionals.
Trade union of AB Kauno Energija supports donor activities and medical check-up actions, concerns, that employees should get various discounts for goods and services, etc.

Trade union of AB Kauno Energija employees assigned 2,068.66 litas for Company's employees ill with oncological diseases transferred from 2 per cent of income-tax.

Trainings for employees

The Company also allocates funds for training of employees and improvement of their qualifications and skills. Every year employees are encouraged to take part in refresher courses, trainings and conferences. At the time of professional trainings employees refresh their knowledge, compulsory to their job and get all the necessary qualification certificates. All of that allows creation of bigger value for consumers, partners and society. 125 employees took part in 231 refresher courses and trainings, in 2014.

Inner events

At the beginning of every year meetings of employees are being arranged. Results of the activities of the past year and the plans for the current year are being discussed in them. Employees who reached best results during the past year are being awarded with acknowledgments and bonuses.

Traditionally the Day of Energy professionals is being commemorated every year on 17 April. Meritorious employees are also being honoured and awarded at this holiday.

Responsibility to society

The main achievement in this field is decrease in heat price for consumers at more than 12 per cent due to the implemented investments in biofuel boiler-houses during 2014. In the beginning of 2015 after 5 new biofuel boilers built in 2014 were started to operate heat price decreased at 16.4 per cent more. Therefore more than at 28 per cent decreased price of heat should be considered as the biggest achievement of the year 2014. Due to the decreased heat price Kaunas citizens saved more than 60 million litas during 2014, which they didn't need to pay for heat.

Allocation of support

In 2014 as every year the Company allocated not inconsiderable part of funds (1.375 million litas) for various projects of support and charity. 1.2 million litas from that sum was allocated to Public Institution "Žalgirio" krepšinio centras ("Žalgiris" Basketball Centre).

Also support has been rendered to the festival of lighting up of Kaunas Christmas tree, "Kauno dienos" festival, for Christmas decoration of Kaunas, for social organizations, sports, cultural and environmental activities.

ENVIRONMENTAL RESPONSIBILITY

Air pollution reduction

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.

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

Main 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 order to reduce heat price for consumers, 5 new effective heat production facilities started to operate in 2014 that were built still in 2013. They are as follows: biofuel boilers in Company’s Ežerėlis and Noreikiškės boiler-houses, big effectiveness gas burned boilers in Company’s Pergalė and Šilkas boiler-houses and a 10 MW capacity condensational economizer in Petrašiūnai power-plant.

After Company started to produce more heat, total quantity of pollutants increased. But it is essential to notice, that quantity of pollutants did not exceed permissible rates, determined in permits of integrated prevention and control and pollution in neither Company’s heat production facility.

Cyclones for smoke cleaning from particulates are installed in Šilkas, Ežerėlis, Girionys, Noreikiškės, Inkaras boiler-houses and Petrašiūnai power-plant. Their working efficiency is checked every year. The Company is involved in the greenhouse gas emissions trading system. This system includes pollution trade permits (PTP) allocated to Petrašiūnai power-plant, Šilkas, Pergalė, Garliava, Jurbarkas boiler-houses and Noreikiškės boiler-house with a cogeneration power-plant.

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

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 2014, there have been no pollution-related incidents and the Company was not imposed any penalties.

Below is the comparison of the Company's emissions to the atmosphere from stationary air pollution sources in 2014 with the amount in 2010-2013.

Period	Particulates, t	Nitrogen oxides, t	Carbon monoxide, t	Sulphur dioxide, t	Hydrocarbons, t	Vanadium pentoxide, t	Other pollutants, t
2014	23.613	154.570	534.443	47.158	16.294	0.0000	0.440
2013	10.5967	101.3197	299.6656	5.0747	14.9647	0.0000	0.770
2012	7.6130	54.3160	135.1510	6.0280	1.2080	0.0000	0.4397
2011	7.2641	57.0909	125.3107	6.1983	3.0555	0.0000	0.4397
2010	8.4833	65.8444	146.8925	7.3386	2.6571	0.0000	0.4397

Waste and wastewater management

The Company have organized the waste collection, sorting and transfer of them to waste managers, i.e. to licensed waste management businesses. In 2014, the Company transferred for recycling 12.508 tons of mixed municipal waste, which can be accounted, 303.360 tons of ash, 632.080 tons of debris, 1.660 tons of used tires, and 780 pieces of fluorescent lamps.

In accordance with the schedule agreed with Environmental Protection Agency, 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.

Other environmental activities

The Company pursues green purchases when suppliers must fulfil one or several environmental criteria, included in terms of public purchase, when choosing goods, services or works. Purchases of total 98,738.42 thousand litas were made in 2014.

AB Kauno Energija delivers to consumers approx. 1.4 million of bills over the year, so, in order to reduce usage of paper and thus save natural resources, the Company constantly encourages consumers to sign agreements on electronic services. Almost 13 per cent more electronic bills were delivered to consumers in the year 2014 as compared to the year 2013.