



AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS
FOR THE FIRST QUARTER 2015,
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING
STANDARDS,
AS ADOPTED BY THE EUROPEAN UNION

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

Following the guidelines of 22 article of the Law on Securities Market of the Republic of Lithuania and Lithuanian Securities Commission periodical and additional information preparation and presentation regulations, we General Manager Rimantas Bakas and Chief Accountant Violeta Staškūnienė AB Kauno Energija approve, that according to our knowledge the AB Kauno Energija interim financial reporting of the I quarter of the year 2015 is prepared according to the International Financial Reporting Standards, generally accredited in European Union, satisfies actuality and correctly indicate assets, liabilities, financial state, profit (loss) and cash flows.

General Manager



Rimantas Bakas

Chief Accountant



Violeta Staškūnienė

Statements of Financial Position

	Notes	Group		Company	
		As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
ASSETS					
Non-current assets					
Intangible assets	3	69	75	69	75
Property, plant and equipment	4	-	-	-	-
Land and buildings		7,199	7,312	6,844	6,952
Structures and machinery		96,167	96,981	96,170	96,984
Vehicles		273	260	300	287
Equipment and tools		4,513	4,738	4,512	4,738
Construction in progress and prepayments		14,498	12,825	14,498	12,825
Total property, plant and equipment		122,650	122,116	122,324	121,786
Non-current financial assets					
Investments into subsidiary	1	-	-	1,074	1,074
Non-current accounts receivable	5	-	6	-	6
Other financial assets	6	28	28	28	28
Total non-current financial assets		28	34	1,102	1,108
Total non-current assets		122,747	122,225	123,495	122,969
Current assets					
Inventories and prepayments					
Inventories	7	192	175	189	170
Prepayments		487	601	487	601
Total inventories and prepayments		679	776	676	771
Current accounts receivable	8				
Trade receivables	23	12,048	15,120	12,048	15,120
Other receivables		2,790	6,620	2,776	6,609
Total accounts receivable		14,838	21,740	14,824	21,729
Cash and cash equivalents	9,23	983	389	981	384
Total current assets		16,500	22,905	16,481	22,884
			-		-
Total assets		139,247	145,130	139,976	145,853



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Statements of Financial Position (cont'd)

	Notes	Group		Company	
		As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
EQUITY AND LIABILITIES					
Equity					
Share capital	1	74,476	74,378	74,476	74,378
Legal reserve	10	2,082	2,082	2,082	2,082
Other reserve	10	521	521	521	521
Retained earnings (deficit)		-	-	-	-
Profit for the current year	1	4,942	862	4,948	867
Profit (loss) for the prior year	1	401	(461)	934	67
Total retained earnings (deficit)		5,343	401	5,882	934
Total equity		82,422	77,382	82,961	77,915
Liabilities					
Non-current liabilities					
Non-current borrowings	11,23	20,907	17,028	20,907	17,028
Financial lease obligations	12,23	29	11	29	11
Deferred tax liability	21	2,856	2,856	3,048	3,048
Grants (deferred income)	13	15,331	13,764	15,331	13,764
Employee benefit liability	14	620	620	620	620
Other non-current liabilities	23	129	129	129	129
Non-current trade liabilities	23	5	1	5	1
Total non-current liabilities		39,877	34,409	40,069	34,601
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12,23	3,001	4,446	3,001	4,446
Current borrowings	11,23	2,591	7,706	2,591	7,706
Trade payables	23	9,468	19,465	9,467	19,463
Payroll-related liabilities		765	551	763	551
Advances received		399	429	399	429
Taxes payable		54	15	56	16
Derivative financial instruments	15	-	-	-	-
Current portion of employee benefit liability	14	229	265	229	265
Other current liabilities		441	462	440	461
Total current liabilities		16,948	33,339	16,946	33,337
Total liabilities		56,825	67,748	57,015	67,938
Total equity and liabilities		139,247	145,130	139,976	145,853

(the end)



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

General Manager	Rimantas Bakas		24 April 2015
Chief Accountant	Violeta Staškūnienė		24 April 2015

Statements of Profit (loss) and other comprehensive income

Group	Notes	2015 I quarter	2015	2014 I quarter	2014	2013
Operating revenue						
Sales income	16	29,727	29,727	37,760	75,746	93,363
Other operating income	18	159	159	140	1,222	1,031
Total income		29,886	29,886	37,900	76,968	94,394
Expenses				-		
Fuel and heat acquired		(18,889)	(18,889)	(28,152)	(57,620)	(74,477)
Salaries and social security		(1,577)	(1,577)	(1,468)	(6,198)	(6,265)
Depreciation and amortisation	3,4	(1,333)	(1,333)	(1,277)	(5,189)	(4,615)
Repairs and maintenance		(149)	(149)	(102)	(720)	(776)
Write-offs and change in allowance for accounts receivable	5,8	(1,088)	(1,088)	(1,754)	2,082	(2,891)
Taxes other than income tax		(339)	(339)	(351)	(1,467)	(1,477)
Electricity		(316)	(316)	(272)	(896)	(845)
Raw materials and consumables		(115)	(115)	(129)	(560)	(543)
Maintenance of heating and hot water systems		-	-	-	-	(1)
Water		(212)	(212)	(212)	(733)	(628)
Change in write-down to net realisable value of inventories	7	10	10	1	(954)	(19)
Other expenses	17	(668)	(668)	(984)	(2,773)	(2,797)
Other activities expenses	18	(93)	(93)	(65)	(513)	(508)
Total expenses		(24,769)	(24,769)	(34,765)	(75,541)	(95,842)
Profit		5,117	5,117	3,135	1,427	(1,448)
Finance income	19	65	65	91	350	2,943
Finance costs	20	(240)	(240)	(116)	(475)	(554)
Finance cost, net		(175)	(175)	(25)	(125)	2,389
Profit before income tax		4,942	4,942	3,110	1,302	941
Income tax	21	-	-	-	(440)	(67)
Net profit		4,942	4,942	3,110	862	874
Basic and diluted earnings per share (EUR)	22	0.12	0.12	0.07	0.02	0.02



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

<u>General Manager</u>	<u>Rimantas Bakas</u>		<u>24 April 2015</u>
<u>Chief Accountant</u>	<u>Violeta Staškūnienė</u>		<u>24 April 2015</u>

Statements of Profit (loss) and other comprehensive income

Company	Notes	2015 I quarter	2015	2014 I quarter	2014	2013
Operating revenue						
Sales income	16	29,732	29,732	37,765	75,755	93,356
Other operating income	18	139	139	110	1,137	973
Total income		29,871	29,871	37,875	76,892	94,329
Expenses						
Fuel and heat acquired		(18,889)	(18,889)	(28,152)	(57,620)	(74,477)
Salaries and social security		(1,577)	(1,577)	(1,452)	(6,185)	(6,214)
Depreciation and amortisation	3,4	(1,333)	(1,333)	(1,282)	(5,198)	(4,638)
Repairs and maintenance		(149)	(149)	(102)	(720)	(776)
Write-offs and change in allowance for accounts receivable	5,8	(1,085)	(1,085)	(1,754)	2,093	(2,940)
Taxes other than income tax		(339)	(339)	(351)	(1,467)	(1,477)
Electricity		(316)	(316)	(272)	(896)	(845)
Raw materials and consumables		(115)	(115)	(137)	(561)	(545)
Maintenance of heating and hot water systems		-	-	(1)	(1)	(28)
Water		(212)	(212)	(212)	(733)	(628)
Change in write-down to net realisable value of inventories	7	10	10	1	(954)	(19)
Other expenses	17	(668)	(668)	(981)	(2,770)	(2,806)
Other activities expenses	18	(75)	(75)	(55)	(445)	(382)
Total expenses		(24,748)	(24,748)	(34,750)	(75,457)	(95,775)
Profit		5,123	5,123	3,125	1,435	(1,446)
Finance income	19	65	65	91	350	2,943
Finance costs	20	(240)	(240)	(116)	(478)	(898)
Finance cost, net		(175)	(175)	(25)	(128)	2,045
Profit before income tax		4,948	4,948	3,100	1,307	599
Income tax	21	-	-	-	(440)	(60)
Net profit		4,948	4,948	3,100	867	539
Basic and diluted earnings per share (EUR)	22	0.12	0.12	0.07	0.02	0.02



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

General Manager	Rimantas Bakas		24 April 2015
Chief Accountant	Violeta Staškūnienė		24 April 2015

Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2013		74,256	1,983	72	211	76,522
Total comprehensive income		-	-	-	3,110	3,110
Increase in share capital	1	122	-	-	-	122
Balance as of 31 March 2014		74,378	1,983	72	3,321	79,754
Total comprehensive income		-	-	-	(2,248)	(2,248)
Dividends	1	-	-	-	(124)	(124)
Transferred to reserves	10	-	99	521	(620)	-
Transferred from reserves	10	-	-	(72)	72	-
Balance as of 31 December 2014		74,378	2,082	521	401	77,382
Total comprehensive income	1	98	-	-	4,942	5,040
Balance as of 31 March 2015		74,476	2,082	521	5,343	82,422

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

General Manager	Rimantas Bakas		24 April 2015
Chief Accountant	Violeta Staškūnienė		24 April 2015

Statement of Changes in Equity

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2013		74,256	1,983	72	739	77,050
Total comprehensive income		-	-	-	3,100	3,100
Increase in share capital	1	122	-	-	-	122
Balance as of 31 March 2014		74,378	1,983	72	3,839	80,272
Total comprehensive income		-	-	-	(2,233)	(2,233)
Dividends	1	-	-	-	(124)	(124)
Transferred to reserves	10	-	99	521	(620)	-
Transferred from reserves	10	-	-	(72)	72	-
Balance as of 31 December 2014		74,378	2,082	521	934	77,915
Total comprehensive income	1	98	-	-	4,948	5,046
Balance as of 31 March 2015		74,476	2,082	521	5,882	82,961

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

General Manager	Rimantas Bakas		24 April 2015
Chief Accountant	Violeta Staškūnienė		24 April 2015

Statements of Cash Flows

	Group		Company	
	2015 I quarter	2014 I quarter	2015 I quarter	2014 I quarter
Cash flows from (to) operating activities				
Net profit	4,942	3,110	4,948	3,100
Adjustments for non-cash items:				
Depreciation and amortisation	1,563	1,481	1,559	1,477
Write-offs and change in allowance for accounts receivable	1,092	1,755	1,089	1,756
Interest expenses	118	116	118	116
Change in fair value of derivatives	-	(7)	-	(7)
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	(21)	1	(21)	1
(Amortisation) of grants (deferred income)	(136)	(105)	(136)	(105)
Change in write-down to net realisable value of inventories	(10)	(2)	(10)	(2)
Change employee benefit liability	-	-	-	-
Calculation of the value of shares	98	-	98	-
Change in accruals	-	-	-	-
Impairment of investment in subsidiary	-	-	-	-
Elimination of other financial and investing activity results	(41)	(84)	(41)	(84)
Total adjustments for non-cash items:	2,663	3,155	2,656	3,152
Changes in working capital:				
(Increase) decrease in inventories	(7)	(7)	(9)	(12)
(Increase) decrease in prepayments	114	100	118	100
(Increase) decrease in trade receivables	2,192	(1,272)	2,193	(1,275)
(Increase) in other receivables	3,632	(1,238)	3,633	(1,233)
(Decrease) increase in other non-current liabilities	4	-	4	-
(Increase) decrease in current trade payables and advances received	(10,027)	(3,518)	(10,026)	(3,519)
(Decrease) increase in payroll-related liabilities	178	109	176	119
Increase (decrease) in other liabilities to budget	39	(285)	40	(283)
Increase (decrease) in other current liabilities	(18)	98	(18)	99
Total changes in working capital:	(3,893)	(6,013)	(3,889)	(6,004)
Net cash flows from operating activities	3,712	252	3,715	248



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

	Group		Company	
	2015 I quarter	2014 I quarter	2015 I quarter	2014 I quarter
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(2,042)	(1,744)	(2,042)	(1,744)
Proceeds from sale of tangible assets	55	25	55	24
Interest received for overdue accounts receivable	65	84	65	84
Penalties received	-	-	-	-
Decrease of non-current accounts receivable	6	-	6	-
Interest received	-	-	-	-
Net cash (used in) investing activities	(1,916)	(1,635)	(1,916)	(1,636)
Cash flows from (to) financing activities				
Proceeds from loans	4,413	2,694	4,413	2,694
(Repayment) of loans	(7,097)	(634)	(7,097)	(634)
Interest (paid)	(168)	(184)	(168)	(184)
Financial lease (payments)	(15)	(8)	(15)	(8)
Penalties and fines (paid)	(24)	-	(24)	-
Shareholder (contributions) to a subsidiary	-	-	-	-
Dividends (paid)	-	-	-	-
Received grants	1,689	14	1,689	14
Net cash flows from (used in) financing activities	(1,202)	1,882	(1,202)	1,882
Net (decrease) increase in cash and cash equivalents	594	499	597	494
Cash and cash equivalents at the beginning of the period	389	624	384	619
Cash and cash equivalents at the end of the period	983	1,123	981	1,113

(the end)

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

General Manager	Rimantas Bakas		24 April 2015
Chief Accountant	Violeta Staškūnienė		24 April 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 March 2015 and of 31 December 2014 the shareholders of the Company were as follows:

	As of 31 March 2015		As of 31 December 2014	
	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	39,736,058	92.84
Kaunas district municipality	1,606,168	3.75	1,606,168	3.75
Jurbarkas district municipality	746,405	1.74	746,405	1.74
Other minor shareholders	713,512	1.67	713,512	1.67
	42,802,143	100.00	42,802,143	100.00

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

According to the Law on the Euro Adoption in the Republic of Lithuania No XII-828 of 17 April 2014 that determines order of adoption of Euro in Lithuania starting from 1 January 2015, the value of one Company's share has been recalculated to 1.74 Euro on 31 March 2015 (on 31 December 2014 it was 1.73772 Euro). Result of recalculation of value of the share is EUR 98 thousand and it is reflected in Expenses of financial and investing activities of Group's and Company's Statements of Profit (loss) and other comprehensive income. The Company holds right of registering change in share capital due to recalculation up to 31 December 2016.

On 23 July 2009 in the Company's Shareholders Meeting it was decided to increase the share capital by issuing 22,700,000 ordinary shares with the par value EUR 1.73772 each. Priority right to acquire issued shares was granted to Kaunas city municipality. The issue price of shares is equal to their nominal value. For this share the Company received a contribution in-kind comprising manifolds in Kaunas city with the value of EUR 39,446 thousand which was established by the independent property valutors under the replacement cost method.

On 17 February 2010 in the Company's Extraordinary Shareholders Meeting it was decided to increase the share capital by EUR 197 thousand (from EUR 74,059 thousand to EUR 74,256 thousand) issuing 113,595 ordinary shares with the par value EUR 1.73772 each. The issue price of shares is equal to their nominal value. A building of a boiler house located in Kaunas city, owned by Kaunas City Municipality, and engineering networks located in Jurbarkas city, owned by Jurbarkas Region Municipality, were received as a non-monetary contribution in kind for these shares. The value of this non-monetary contribution as of the transfer date was determined by independent valutors under the replacement cost method.

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

All shares were fully paid as of 31 March 2015 and as of 31 December 2014.

On 29 April 2014 the Annual General Meeting of Shareholders has made a decision to pay EUR 124 thousand, i.e. at 0.28962 cents a share in dividends and EUR 24 thousand tantiemes for Company's board members from the profit of the year 2013. Two board members refused tantiemes for board members – EUR 7 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 EUR 3 thousand as of 31 March 2015 (31 December 2014 – EUR 3 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	1,888	(555)	31	1,364	Maintenance of heating and hot water systems
UAB Pastatų Priežiūros Paslaugos**	Savanorių Ave. 347, Kaunas	100 percent	3	(3)	(3)	-	Maintenance of heating and hot water systems
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	1,330	(256)	(9)	1,296	Rent

- *The data presented as of 31 March, 2013 – until company's separation;
- ** The data presented as of 31 March, 2015 – after company's separation.

As of 31 March 2015 accumulated impairment loss on investment in subsidiaries amounted to EUR 814 thousand (31 December 2014 – EUR 814 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 EUR 1,333 thousand by withdrawing accumulated loss of EUR 44 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 EUR 13 thousand shareholder's contribution in, and EUR 32 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 561.456 MW (including 37.5 MW – condensing economizers) and electricity – 8.75 MW, respectively, out of which 294.8 MW (including 16 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 570.206 MW (including 37.5 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 2012 came into force since that date. Following changes of Heat Energy Purchase Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of EUR 101 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of EUR 3 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 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, 2012 by this claim regarding investments in Company heat economy in amount of EUR 3 million and the terms of implementation as well as forfeit (penalties) determined if those investments would not be implemented. According 19th February, 2014 Arbitration decision Company and KTE began negotiations for a peaceful settlement of investment dispute, however on 26th May Company has informed Arbitration court that compromise has not been reached. KTE specified it's claim requisitions in the case, by which alternatively asks Arbitration court to terminate Investment agreement. Arbitration court conjoined this case with the case in which the Company placed a claim seeking that KTE would pay to the Company EUR 0.94 million for inappropriate implementation of its obligations to finance in the years 2012 – 2013 Company's investments according to 31 March 2003 Investment agreement changes, signed on 13 August 2012 and 28 September 2012. The case is still pending and a decision is not taken. As KTE continuously did not implement its obligations, the Company applied to Arbitration on 30 January 2015 with specified requirements to adjudge in addition EUR 652 thousand for non financed Company's investments of the year 2014. Total requirements – EUR 1,593 thousand. The case is still not investigated and the decision is not made.

In 2015 the average number of employees at the Group was 551 (554 employees in 2014). In 2015 the average number of employees at the Company was 548 (551 employees in 2014).

Strategic Decisions

On 22 January 2015 the Kaunas city council approved corrected Company's investment plan for the years 2012 – 2015, according to which investments in amount of EUR 67.14 million are intended to invest into Company's assets during the period of the years 2012 – 2015. The Group and the Company invested EUR 2,125 thousand and EUR 2,125 thousand in the own assets respectively during the year 2015 (during 2014 – EUR 19,630 thousand and EUR 19,651 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 EUR 1.94 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 EUR 1.36 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 EUR 1.18 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 condensational economizer 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 EUR 1.56 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.

The Company started in the year 2013 and plans to accomplish in May 2015 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 EUR 2.32 million.

The Company started in 2015 replacement of biofuel burned boiler No. 6 in Šilkas boiler-house. It is planned to install a new 9 MW capacity biofuel burned boiler instead of existing DKVR type boiler No. 6 adjusted for work with biofuel in order to reduce heat production expenditures. Value of the project is EUR 637 thousand (EUR 232 thousand of them is support from LEIF).

Started in 2013, The Company plans to accomplish on April 2015 a reconstruction project of Inkaras boiler-house installing here two biofuel burned water heating boilers at capacity of 8 MW each along with furnaces and combined condensational economizer at capacity of 4 MW. Total value of the project with the support from LBSA (EUR 1.74 million) is EUR 5.62 million.

In order to change currently used fuel into biofuel, the Company started in 2014 and plans to accomplish in 2015 the reconstruction project of Petrašiūnai power-plant performing the installation of two biofuel water heating boilers at capacity of 12 MW each and combined condensational economizer at capacity of 6 MW. Total installed capacity of this equipment will reach 30 MW. Up to 244 GWh of heat energy are planned to produce with this new equipment. It would consume 93 thousand tons of wooden fuel per year. Predictable value of the project with the support from LBSA (EUR 1.74 million) is EUR 7.24 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 its own main pipelines named 5T, 6Ž, 1Ž, 3Ž and 4Ž of the integrated heat supply network. Total estimated value of these projects is EUR 4,098 thousand (including LBSA support in amount of EUR 1.883 million).

On March 2015 after UAB Ekopartneris biofuel burned boiler house with total capacity of 19.4 MW was connected to Company's heat supply network the total maximum capacity of biofuel burned boiler houses of all

independent heat producers (hereinafter – IHP) amounts to 140 MW. In total the Company purchases heat from nine IHP (eight 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.

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

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

2.2. Statement of Compliance

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

2.3. Basis of the preparation of financial statements

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

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

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

Starting from 1 January 2015 the local currency of the Republic of Lithuania is Euro, the rate of which in regard to other currencies is set daily by European Central Bank. Starting from 2002 till 31 December 2014 local currency was litas which was pegged to Euro at the rate of 3.4528 LTL for 1 Euro and the exchange rates in regard to other currencies was set daily by the Bank of Lithuania.

2.4. Principles of consolidation

Principles of consolidation

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

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

Subsidiary is the company which is directly or indirectly controlled by the parent company. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50 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 EUR 144.81.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the

difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of Profit (loss) and other comprehensive income in the year the asset is derecognized.

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

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

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

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

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

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

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

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

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

2.10. Financial assets

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

Effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the

effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

Derecognition of financial assets

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

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

2.11. Derivative financial instruments

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

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

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

2.12. Inventories

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

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

2.13. Provisions

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

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

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

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

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

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

2.16. Borrowing costs

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

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

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

2.17. Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

2.18. Leasing

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

The Group and the Company as lessor

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

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

The Group and the Company as lessee

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

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

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

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

2.20. Income tax

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

Current tax

Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2015 the income tax applied to the Group and the Company was 15 percent (2014 – 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 Euro (EUR). All transactions made in foreign currency are converted into Euros at the official exchange rate determined daily by the European Central Bank. Financial assets and liabilities are converted into Euros at currency rate of creation day of Statements of financial state. Gains and losses arising on exchange are included in profit or loss for the period at the moment of its appearance. Income or expenditures arising on exchange when converting financial assets or liabilities into euros are included in profit or loss.

The applicable rates used for principal currencies were as follows:

	As of 31 March 2015		As of 31 December 2014	
1 EUR	=	1.0759 USD	1 EUR	= 1.2141 USD
1 EUR	=	0.7273 GBP	1 EUR	= 0.7789 GBP
			1 EUR	= 3.4528 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 valutors using depreciated replacement costs method amounted to EUR 39.446 million.

In 2010 a new shares issue was paid by contribution in-kind: i.e. building – boiler-house situated in Kaunas city and by networks system situated in Jurbarkas city. Market value of assets estimated upon their transfer by local qualified valutors by using depreciated replacement costs method amounted to EUR 0.178 million.

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 valutors by using depreciated replacement costs method amounted to EUR 0.122 million.

As of 31 March 2015 carrying value of total contribution in-kind amounted to EUR 36,586 thousand, including the manifolds, which amounted to EUR 36,320 thousand (31 December 2014: EUR 36,741 thousand and EUR 36,461 thousand respectively).

Allowances for accounts receivable

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

Deferred Tax Asset

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

Litigations

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

2.26. Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

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

As of 31 March 2015 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,355 thousand (as of 31 December 2014 – EUR 1,346 thousand) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for the half ended as of 31 March 2015 amounts to EUR 1,421 thousand and EUR 1,417 thousand, respectively (as of 31 December 2014: EUR 5,542 thousand and EUR 5,533 thousand respectively). The amounts of EUR 1,411 thousand and EUR 1,411 thousand (as of 31 December 2014: EUR 5,509 thousand and EUR 5,509 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 March 2015 part of the property, plant and equipment of the Group with acquisition cost of EUR 33,770 thousand (EUR 33,288 thousand as of 31 December 2014) and the Company – EUR 33,737 thousand were fully depreciated (EUR 33,251 thousand as of 31 December 2014), but were still in active use.

As of 31 March 2015 and as of 31 December 2014 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 March 2015 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to EUR 13,104 thousand (as of 31 December 2014 – EUR 14,712 thousand).

As of 31 March 2015 property, plant and equipment of the Group and the Company with the net book value of EUR 40,841 thousand (EUR 42,914 thousand as of 31 December 2014) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal to EUR 52 thousand in 2015 (in 2014 – EUR 49 thousand). The capitalization rate varied from 1.06 percent to 1.67 percent in 2015 (in 2014 – from 1.01 percent to 2.87 percent).

As of 31 March 2015 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 286 thousand in the category Equipment and tools (EUR 307 thousand as of 31 December 2014).

5. Non-current accounts receivable

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Long-term loans granted to the Company's employees	-	6	-	6

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 March 2015 and as of 31 December 2014 using 3.7 percent interest rate. In 2014 effect of reversed discounting amounted to EUR 1 thousand. The reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statement of comprehensive income.

As of 31 March 2015 and as of 31 December 2014 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 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
<i>Available-for-sale financial assets</i>				
Fair value of shares	28	28	28	28

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

7. Inventories

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Technological fuel	1,040	1,017	1,040	1,017
Spare parts	315	322	315	322
Materials	337	346	334	341
	1,692	1,685	1,689	1,680
Less: write-down to net realisable value of inventory at the end of the period	(1,500)	(1,510)	(1,500)	(1,510)
Carrying amount of inventories	192	175	189	170

As of 31 March 2015 Group's and Company's amounted to EUR 1,500 thousand (as of 31 December 2014 – EUR 1,510 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2015 and for the year 2014 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statement of Profit (loss) and other comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Trade receivables, gross	25,702	27,894	25,752	27,945
Less: impairment of doubtful receivables	(13,654)	(12,774)	(13,704)	(12,825)
	12,048	15,120	12,048	15,120

Of 31 March 2015 Group's and Company's receivables as include the factored receivables amounting to EUR 1,098 thousand under the agreement with AB DNB Bank (as of 31 December 2014 – EUR 585 thousand).

Change in impairment of doubtful receivables in 2015 and 2014 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of Profit (loss) and other comprehensive income.

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

	Group	Company
Balance as of 31 December 2013	15,886	15,937
Additional allowance formed	(2,227)	(2,227)
Write-off	(885)	(885)
Balance as of 31 December 2014	12,774	12,825
Additional allowance formed	880	879
Write-off	-	-
Balance as of 31 March 2015	13,654	13,704

In 2014 the Group and the Company wrote off EUR 885 thousand and EUR 885 thousand of bad debts respectively. In 2015 the Group and the Company also recovered EUR 4 thousand (in 2014 – EUR 7 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 March 2015 and 31 December 2014 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2015	9,075	1,411	606	66	88	802	12,048
2014	12,559	683	179	212	250	1,237	15,120

The ageing analysis of the Company's net value of trade receivables as of 31 March 2015 and 31 December 2014 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2015	9,075	1,411	606	66	88	802	12,048
2014	12,559	683	179	212	250	1,237	15,120

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 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Taxes	1,234	4,713	1,231	4,713
Other receivables	1,941	2,080	2,006	2,147
Less: value impairment of doubtful receivables	(385)	(173)	(461)	(251)
	2,790	6,620	2,776	6,609

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 2013	57	146
Additional allowance formed	153	142
Write-off	(37)	(37)
Balance as of 31 December 2014	173	251
Additional allowance formed	212	210
Write-off	-	-
Balance as of 31 March 2015	385	461

As of 31 March 2015 and 31 December 2014 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 March 2015 and 31 December 2014 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	
2015	1,206	130	13	30	159	18	1,556
2014	783	16	52	159	1	896	1,907

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 31 March 2015 and 31 December 2014 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	
2015	1,195	130	13	30	159	18	1,545
2014	772	16	52	159	1	896	1,896

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 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Cash in transit	401	116	401	116
Cash at bank	566	267	564	262
Cash on hand	16	6	16	6
	983	389	981	384

The Group's and the Company's accounts in banks amounting to EUR 148 thousand as of 31 March 2015 (31 December 2014 – EUR 220 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 29 April, 2014 the Company annulled other reserves (EUR 72 thousand) by the decision of shareholders, EUR 99 thousand transferred from retained earnings to legal reserve and EUR 521 thousand to other reserves. Reserve was formed for investments EUR 231 thousand and for support – EUR 290 thousand.

11. Borrowings

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Non-current borrowings	20,902	17,028	20,902	17,028
Current portion of non-current borrowings (except leasing which is disclosed in Note 12)	2,978	4,421	2,978	4,421
Current borrowings (including credit line)	1,493	7,121	1,493	7,121
Factoring with recourse agreement	1,098	585	1,098	585
Current borrowings	5,569	12,127	5,569	12,127
	26,471	29,155	26,471	29,155

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

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
2015	2,978	4,421	2,978	4,421
2016	3,022	2,784	3,022	2,784
2017	2,486	2,247	2,486	2,247
2018	2,371	2,132	2,371	2,132
2019	2,036	1,798	2,036	1,798
2020	1,573	1,352	1,573	1,352
2021	679	487	679	487
2022	672	480	672	480
2023	672	479	672	479
2024	672	479	672	479
2025	672	479	672	479
2026	672	479	672	479
2027	672	479	672	479
2028	672	479	672	479
2029	672	479	672	479
2030	672	479	672	479
2031	672	479	672	479
2032	672	479	672	479
2033	672	479	672	479
2034	671	479	671	479
	23,880	21,449	23,880	21,449

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

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Current borrowings	1.21	1.24	1.21	1.24
Non-current borrowings	2.77	2.66	2.77	2.66

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

Currency of the loan:	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
EUR	25,373	13,289	25,373	13,289
LTL	-	15,281	-	15,281
	25,373	28,570	25,373	28,570

Detailed information on loans as of 31 March 2015:

AB KAUNO ENERGIJA, Company code 235014830, Raudondvario rd. 84, Kaunas, Lithuania
CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE FIRST QUARTER 2015
(all amounts are in EUR thousand unless otherwise stated)

	Credit institution	Date of contract	Currency	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 31.03.2015 EUR thousand	A part of 2015, EUR thousand
1.	AB SEB Bank	23/08/2005	EUR	8,776	8,776	31/12/2014	-	-
2.	Nordea*	01/12/2006	LTL	6,090	1,764	31/12/2015	169	169
3.	AB SEB Bank	21/12/2006	EUR	2,059	2,059	30/11/2016	115	86
4.	AB DNB Bank	14/11/2007	EUR	576	576	31/12/2016	126	54
5.	Danske**	31/07/2008	EUR	984	984	31/12/2018	376	76
6.	Danske**	31/07/2008	EUR	1,158	1,158	30/09/2017	356	108
7.	Swedbank, AB	02/12/2009	EUR	3,815	3,815	02/12/2016	502	261
8.	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,778	-
9.	Swedbank, AB	21/06/2010	EUR	649	649	21/06/2017	27	27
10.	Nordea*	17/09/2010	EUR	1,625	1,625	31/05/2016	334	215
11.	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	732	-
12.	AB SEB Bank	11/02/2011	EUR	1,031	1,031	10/02/2019	621	119
13.	Nordea*	19/04/2011	EUR	921	921	30/04/2019	645	118
14.	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,651	-
15.	AB SEB Bank	13/10/2011	EUR	290	290	30/11/2019	79	31
16.	AB SEB Bank	23/05/2013	LTL	10,567	3,060	30/11/2014	-	-
17.	AB DNB Bank	01/07/2014	LTL	15,000	4,344	30/06/2015	421	421
18.	AB SEB Bank	29/08/2014	LTL	10,000	2,896	28/08/2015	1,072	1,072
19.	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	1,381	188
20.	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	244	12
21.	Nordea*	03/06/2013	LTL	9,000	2,607	03/06/2020	1,082	155
22.	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	700	100
23.	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	1,070	154
24.	Nordea*	27/09/2013	EUR	655	655	30/09/2020	592	81
25.	Nordea*	28/11/2013	LTL	2,000	579	27/11/2020	417	55
26.	AB DNB Bank	28/02/2014	LTL	5,227	1,514	30/05/2015	773	773
27.	AB SEB Bank	31/03/2014	LTL	5,400	1,564	15/01/2021	1,506	196
28.	MF Lithuania***	31/03/2014	EUR	7,881	7,881	01/12/2034	7,814	-
29.	MF Lithuania***	15/01/2014	EUR	793	793	01/12/2034	790	-
							25,373	4,471

* Nordea Bank Finland Plc. Lithuanian branch;

** Danske Bank A/S Lithuania branch;

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

On 2 January 2014 the Group and the Company signed a factoring with recourse agreement with AB DNB Bank amounted to the limit EUR 2,462 thousand. Factoring advance is 90 percent. The term of validity of agreement is 30 April 2015. Liability of the factoring with recourse, amounting to EUR 1,098 thousand as of 31 March 2015 (as of 31 December 2014 – EUR 585 thousand) 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 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Within one year	23	26	23	26
From one to five years	29	11	29	11
Total financial lease obligations	52	37	52	37
Interest	(1)	(1)	(1)	(1)
Present value of financial lease obligations	51	36	51	36
Financial lease obligations are accounted for as:				
- current	23	25	23	25
- non-current	28	11	28	11

13. Grants (deferred income)

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Balance at the beginning of the reporting period	13,764	8,395	13,764	8,395
Received during the year	1,703	5,857	1,703	5,857
Amortisation	(136)	(488)	(136)	(488)
Balance at the end of the reporting period	15,331	13,764	15,331	13,764

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at V. Krėvės Ave. 82 A, 118 H, Kaunas)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 1,738 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 1,692 thousand by 31 March 2015. 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 EUR 1,735 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 1,279 thousand by 31 March 2015. 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 EUR 676 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 500 thousand by 31 March 2015. 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 EUR 454 thousand after

terms and conditions of the agreement are fulfilled. As of 31 March 2015 financing in amount of EUR 413 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 EUR 807 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2015 financing in amount of EUR 732 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 EUR 452 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2015 financial support in amount of EUR 431 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 EUR 469 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2015 financial support in amount of EUR 469 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 Viliampolė area heating network of Kaunas integrated network (9K)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 172 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2015 financial support in amount of EUR 172 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 EUR 579 thousand after terms and conditions of the agreement are fulfilled. As of 31 March 2015 financing in amount of EUR 579 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 EUR 519 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 31 March 2015 financial support in amount of EUR 517 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 EUR 666 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 31 March 2015 financial support in amount of EUR 664 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 EUR 185 thousand is provided for the Company from Lithuanian Environmental Investment Fund after the terms of agreement are fulfilled. As of 31 March 2015 financial support in amount of EUR 111 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 EUR 1,156 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 March 2015 financial support in amount of EUR 1,118 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 EUR 1,738 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 March 2015 financial support in amount of EUR 1,433 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 EUR 1,738 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 March 2015 financial support in amount of EUR 1,695 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 EUR 307 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 March 2015 financial support in amount of EUR 306 thousand has been received. The project is completed.

On 20 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 3Ž between heat cameras 3Ž-9 and 3Ž-9-5 A. Baranausko str." under which a financing in amount of EUR 228 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 March 2015 financial support in amount of EUR 208 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 EUR 579 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 March 2015 financial support in amount of EUR 579 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 EUR 299 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 March 2015 financial support in amount of EUR 296 thousand has been received. The project is completed.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 5T" under which a financing in amount of EUR 494 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 March 2015 financial support in amount of EUR 494 thousand has been received. The project is completed.

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	
	2015	2014	2015	2014
Employee benefit liability at the beginning of the year	885	873	885	857
Paid	(36)	(91)	(36)	(73)
Formed	-	103	-	101
Employee benefit liability at the end of the year	849	885	849	885
Non-current employee benefit liability	620	620	620	620
Current employee benefit liability	229	265	229	265

During the 2015 total amount of the benefit paid to the employees by the Group amounted to EUR 36 thousand (in 2014 – EUR 91 thousand), and by the Company – EUR 36 thousand (in 2014 – EUR 73 thousand) and are

included in the caption of salaries and social security expenses in the Group's and the Company's statement of Profit (loss) and other comprehensive income.

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

	<u>As of 31 March 2015</u>	<u>As of 31 December 2014</u>
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

As at 31 March 2015 and 31 December 2014 the Company did not have valid transactions concerning derivative financial instruments.

16. Sales income

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

	<u>Group</u>		<u>Company</u>	
	2015	2014	2015	2014
Heat supplies	28,798	72,484	28,803	72,494
Hot water supplies	738	2,633	738	2,633
Maintenance of manifolds	56	227	56	227
Maintenance of heat and hot water systems	3	27	3	26
Electric energy	70	220	70	220
Maintenance of hot water meters	62	155	62	155
	<u>29,727</u>	<u>75,746</u>	<u>29,732</u>	<u>75,755</u>

17. Other expenses

	<u>Group</u>		<u>Company</u>	
	2015	2014	2015	2014
Cash collection expenses	50	358	50	358
Equipment verification and inspection	146	500	146	501
Maintenance of manifolds	100	402	100	402
Debts collection expenses	12	54	12	54
Sponsorship	87	400	87	400
Consulting expenses	14	171	14	171
Customer bills issue and delivery expenses	33	126	33	126
Communication expenses	12	52	12	52
Employees related expenses	25	86	25	86
Insurance	56	85	56	85
Long term assets maintenance and related services	20	75	20	75
Membership fee	15	81	15	81
Transport expenses	15	24	15	23
Advertising expenses	8	34	8	34
Audit expenses	-	15	-	15
Rent of equipment and machinery	5	9	5	9
Other expenses	70	301	70	298
	<u>668</u>	<u>2,773</u>	<u>668</u>	<u>2,770</u>

18. Other activities income and expenses

	Group		Company	
	2015	2014	2015	2014
Income from other operating activities				
Miscellaneous services	114	481	94	412
Materials sold	8	29	8	15
Gain from sale of non-current assets	24	121	24	121
Other	13	591	13	589
	159	1,222	139	1,137
Expenses from other operating activities				
Cost of miscellaneous services	(68)	(241)	(50)	(194)
Cost of materials sold	(11)	(23)	(11)	(1)
Write off of non-current assets	(3)	(212)	(3)	(213)
Loss from sale of non-current assets	-	(37)	-	(37)
Other	(11)	-	(11)	-
	(93)	(513)	(75)	(445)

19. Finance income

	Group		Company	
	2015	2014	2015	2014
Interest from late payment of accounts receivable	65	335	65	335
Fines	-	-	-	-
Impairment of non-current financial assets	-	-	-	-
Change in fair value of derivative financial instruments	-	15	-	15
Bank interest	-	-	-	-
Other	-	-	-	-
	65	350	65	350

20. Finance costs

	Group		Company	
	2015	2014	2015	2014
Interest on bank loans and overdrafts	(118)	(475)	(118)	(475)
Impairment of non-current financial assets	(98)	-	(98)	(3)
Penalties	(24)	-	(24)	-
Shareholder's contributions in subsidiary	-	-	-	-
Exchange rate change	-	-	-	-
	(240)	(475)	(240)	(478)

21. Income tax

As of 31 March 2015 and 31 December 2014 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 Profit (loss) and others comprehensive income.

22. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2015	2014	2015	2014
Net profit	4,942	862	4,948	867
Number of shares (thousand), opening balance	42,802	42,802	42,802	42,802
Number of shares (thousand), closing balance	42,802	42,802	42,802	42,802
Average number of shares (thousand)	42,802	42,802	42,802	42,802
Basic and diluted earnings per share (EUR)	0.12	0.02	0.12	0.02

23. Financial assets and liabilities and risk management

Credit risk

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

Number of customers	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Individuals	114,149	114,151	114,149	114,151
Other legal entities	2,138	2,122	2,138	2,122
Legal entities financed from municipalities' and state budget	580	571	580	571
	116,867	116,844	116,867	116,844

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

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Individuals	8,239	10,928	8,239	10,928
Other legal entities	2,135	2,186	2,135	2,186
Legal entities financed from municipalities' and state budget	1,674	2,006	1,674	2,006
	12,048	15,120	12,048	15,120

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 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
A	132	57	130	52
A+	345	166	345	166
AA-	6	7	6	7
Bank with no rating attributed	83	37	83	37
	566	267	564	262

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

The Group and the Company do not guarantee obligations of the other parties in 2015 and in 2014.

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

Interest rate risk

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

risk. In the year 2015 and as at 31 December 2014 the Group and the Company had not been entered into valid interest rate swap agreements in order to manage variable rate risk.

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

	<u>Increase/decrease in basis points</u>	<u>Effect on income tax</u>
2015		
EUR	50	(9)
EUR	(50)	9
2014		
EUR	50	(11)
EUR	(50)	11

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 31 March 2015 were 0.97 and 0.96, respectively (0.69 and 0.68 as of 31 December 2014). The Company's liquidity and quick ratios as of 31 March 2015 were 0.97 and 0.96, respectively (0.69 and 0.68 as of 31 December 2014). As at 31 March 2015 Groups' and Company's net working capital was minus respectively (EUR 448 thousand and EUR 465 thousand) (as at 31 December 2014 it was also minus – EUR 10,434 thousand and EUR 10,453 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 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Amount used	1,493	7,121	1,493	7,121
Amount unused	5,747	119	5,747	119
	7,240	7,240	7,240	7,240

The table below summarises the maturity profile of the Group's financial liabilities as of 31 March 2015 and as of 31 December 2014 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 9 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,125	2,851	11,902	13,760	30,638
Trade payables	7,671	1,797	5	-	9,473
Balance as of 31 March 2015	9,796	4,648	11,907	13,760	40,111

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	1,637	10,495	10,481	10,087	32,700
Trade payables	17,382	2,083	1	-	19,466
Balance as of 31 December 2014	19,019	12,578	10,482	10,087	52,166

The table below summarises the maturity profile of the Company's financial liabilities, as of 31 March 2015 and as of 31 December 2014 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 9 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	2,125	2,851	11,902	13,760	30,638
Trade payables	7,670	1,797	5	-	9,472
Balance as of 31 March 2015	9,795	4,648	11,907	13,760	40,110

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	1,637	10,495	10,481	10,087	32,700
Trade payables	17,381	2,082	1	-	19,464
Balance as of 31 December 2014	19,018	12,577	10,482	10,087	52,164

Trade payables

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

	Group		Company	
	As of 31 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
For heat purchased	6,072	9,477	6,072	9,477
Contractors	1,294	6,508	1,294	6,508
Other suppliers	2,107	3,481	2,106	3,479
	9,473	19,466	9,472	19,464

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 March 2015 the Group and the Company had an EUR 2,594 thousand (31 December 2014 – EUR 2,057 thousand) of overdue trade creditors, out of which an EUR 2,480 thousand (31 December 2014 – EUR 2,026 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 EUR, therefore, material foreign currency risk is not incurred.

Fair value of financial instruments

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

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

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

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

Financial assets:	Group			Company		
	As of 31 March 2015	As of 31 December 2014	As of 31 December 2013	As of 31 March 2015	As of 31 December 2014	As of 31 December 2013
Cash and bank balances	983	389	624	981	384	618
Loans and receivables	14,838	21,746	19,257	14,824	21,735	19,253
Financial assets	28	28	28	28	28	28
	15,849	22,163	19,909	15,833	22,147	19,899

Financial liabilities:	Group			Company		
	As of 31 March 2015	As of 31 December 2014	As of 31 December 2013	As of 31 March 2015	As of 31 December 2014	As of 31 December 2013
Carried at fair value through profit or loss (level 2 in the fair value hierarchy)	-	-	15	-	-	15
Carried at amortised cost	36,130	48,786	39,939	36,129	48,784	39,935
	36,130	48,786	39,954	36,129	48,784	39,950

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 March 2015 and 31 December 2014.

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 March 2015	As of 31 December 2014	As of 31 March 2015	As of 31 December 2014
Non-current liabilities (including deferred tax and grants (deferred income))	39,877	34,409	40,069	34,601
Current liabilities	16,948	33,339	16,946	33,337
Liabilities	56,825	67,748	57,015	67,938
Equity	82,422	77,382	82,961	77,915
Debt* to equity ratio (percent)	68.94	87.55	68.73	87.20

* 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 September 2013 the Company has been incorporated as a third party in the civil case under claimant's UAB KTE claim to defendant BAB Ūkio Bankas regarding the termination of factoring contract and regarding the recognizing as a property of UAB KTE a sum of EUR 887 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 EUR 887 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 EUR 887 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 its decision. 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.

On January 2014 insurance company AB Lietuvos Draudimas placed a claim in amount of EUR 33 thousand in case of damage compensation to UAB Korelita, in which AB Litgrid, UAB DK PZU Lietuva and the Company are defendants. A claimant suffered damage due to a fault in the electrical system. The Company placed a response to the court in which asked to ignore a claim as unfounded. The case is explored.

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. Agreement is valid until 31 May 2015.

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 March 2015 amounted to EUR 18,181 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 2015 and 2014 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 2015 and 2014 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:

2015	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	249	3,194	2,137	625
Jurbarkas city municipality	-	204	110	-
2014	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	852	8,359	2,554	315
Jurbarkas city municipality	1	507	48	7

The Group's and the Company's as of 31 March 2015 allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 821 thousand (as of 31 December 2014 – EUR 800 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

In 2015 and 2014 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
2015	-	-	-	-
2014	25	-	-	-
Kauno Energija NT UAB	Purchases	Sales	Receivables	Payables
2015	2	5	132	-
2014	6	10	134	-

As of 31 March, 2015 the Company has formed an EUR 132 thousand (as of 31 December 2014 – EUR 134 thousand) of common postponements for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 31 March 2015 the Group's and the Company's management team comprised 6 and 4 persons respectively (as at 31 December 2014 – 6 and 4).

	Group		Company	
	2015	2014	2015	2014
Key management remuneration	49	135	46	128
Calculated post-employment benefits	19	19	19	19

In the year 2015 and 2014 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

26. Post balance sheet events

There were no post balance sheet events.
