



**AB KAUNO ENERGIJA**  
SET OF CONSOLIDATED AND PARENT COMPANY'S  
FINANCIAL STATEMENTS FOR THE YEAR, ENDED  
31 DECEMBER 2015, PREPARED ACCORDING TO  
INTERNATIONAL FINANCIAL REPORTING STANDARDS,  
AS ADOPTED BY THE EUROPEAN UNION, PRESENTED  
TOGETHER WITH CONSOLIDATED ANNUAL REPORT  
AND INDEPENDENT AUDITOR'S REPORT

*Translation note*

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

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## INDEPENDENT AUDITOR'S REPORT

### To the shareholders of KAUNO ENERGIJA, AB

#### Report on the Financial Statements

We have audited the accompanying stand-alone and consolidated financial statements of Kauno Energija, AB (hereafter – the Company) and its subsidiary (hereafter – the Group) set out on pages 5 to 55, which comprise the stand-alone and consolidated statements of financial position as of December 31, 2015, profit and loss and other comprehensive income, changes in equity, cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information (hereafter – the financial statements).

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as at December 31, 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



### **Report on Other Legal and Regulatory Requirements**

Furthermore, we have read the consolidated Annual Report for the year ended at December 31, 2015 set out on pages 56 to 152 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended at December 31, 2015.

25 March, 2016

Lithuanian Certified Auditor Jūratė Sakalauskiene  
Licence No 000241

Accounting and Control CJSC "Auditas"  
Audit Company License No 001234  
Gedimino Ave. 24-11, LT-01103, Vilnius

## Statements of Financial Position

	Notes	Group		Company	
		As of 31 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
<b>ASSETS</b>					
<b>Non-current assets</b>					
<b>Intangible assets</b>	<b>3</b>	<b>116</b>	<b>75</b>	<b>116</b>	<b>75</b>
Property, plant and equipment	4	-	-	-	-
Land and buildings		8.175	7.312	7.832	6.952
Structures		84.833	83.394	84.833	83.397
Machinery and equipment		24.469	15.233	24.472	15.233
Vehicles		383	260	410	287
Devices and tools		2.790	3.092	2.790	3.092
Construction in progress and prepayments		304	12.825	304	12.825
<b>Total property, plant and equipment</b>		<b>120.954</b>	<b>122.116</b>	<b>120.641</b>	<b>121.786</b>
Non-current financial assets					
Investments into subsidiary	1	-	-	1.074	1.074
Non-current accounts receivable	5	1	6	1	6
Other financial assets	6	1	28	1	28
<b>Total non-current financial assets</b>		<b>2</b>	<b>34</b>	<b>1.076</b>	<b>1.108</b>
<b>Total non-current assets</b>		<b>121.072</b>	<b>122.225</b>	<b>121.833</b>	<b>122.969</b>
<b>Current assets</b>					
Inventories and prepayments					
Inventories	7	289	175	285	170
Prepayments		716	601	716	601
<b>Total inventories and prepayments</b>		<b>1.005</b>	<b>776</b>	<b>1.001</b>	<b>771</b>
Current accounts receivable					
Trade receivables	23;25	8.975	15.120	8.975	15.120
Other receivables		859	6.620	846	6.609
<b>Total accounts receivable</b>		<b>9.834</b>	<b>21.740</b>	<b>9.821</b>	<b>21.729</b>
Cash and cash equivalents	9;23	2.531	389	2.518	384
<b>Total current assets</b>		<b>13.370</b>	<b>22.905</b>	<b>13.340</b>	<b>22.884</b>
<b>Total assets</b>		<b>134.442</b>	<b>145.130</b>	<b>135.173</b>	<b>145.853</b>


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Statements of Financial Position (cont'd)

	Notes	Group		Company	
		As of 31 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	1	74,476	74,378	74,476	74,378
Legal reserve	10	2,695	2,082	2,695	2,082
Other reserve	10	713	521	713	521
Retained earnings (deficit)					
Profit for the current year	1	4,509	862	4,528	867
Profit (loss) for the prior year	1	(533)	(461)	-	67
<b>Total retained earnings (deficit)</b>		<b>3,976</b>	<b>401</b>	<b>4,528</b>	<b>934</b>
<b>Total equity</b>		<b>81,860</b>	<b>77,382</b>	<b>82,412</b>	<b>77,915</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Non-current borrowings	11;23	19,481	17,028	19,481	17,028
Financial lease obligations	12;23	35	11	35	11
Deferred tax liability	21	3,503	2,856	3,695	3,048
Grants (deferred income)	13	16,761	13,764	16,761	13,764
Employee benefit liability	14;25	585	620	585	620
Other non-current liabilities	23	-	129	-	129
Non-current trade liabilities	23	26	1	26	1
<b>Total non-current liabilities</b>		<b>40,391</b>	<b>34,409</b>	<b>40,583</b>	<b>34,601</b>
<b>Current liabilities</b>					
Current portion of non-current borrowings and financial lease	11;12;23	2,436	4,446	2,436	4,446
Current borrowings	11;23	-	7,706	-	7,706
Trade payables	23	7,778	19,465	7,777	19,463
Payroll-related liabilities		604	551	601	551
Advances received		499	429	499	429
Taxes payable		282	15	280	16
Liabilities payable for companies of the Group	25	-	-	-	-
Current portion of employee benefit liability	14	306	265	306	265
Other current liabilities		286	462	279	461
<b>Total current liabilities</b>		<b>12,191</b>	<b>33,339</b>	<b>12,178</b>	<b>33,337</b>
<b>Total liabilities</b>		<b>52,582</b>	<b>67,748</b>	<b>52,761</b>	<b>67,938</b>
<b>Total equity and liabilities</b>		<b>134,442</b>	<b>145,130</b>	<b>135,173</b>	<b>145,853</b>

(the end)

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

General Manager	Rimantas Bakas		25 March 2016
Chief Accountant	Violeta Staškūnienė		25 March 2016

Statements of Profit (loss) and other comprehensive income

Group	Notes	2015	2014
<b>Income</b>			
Sales income	16	60,725	75,746
Other operating income	18	597	1,222
<b>Total income</b>		<b>61,322</b>	<b>76,968</b>
<b>Expenses</b>			
Fuel and heat acquired		(34,885)	(57,620)
Salaries and social security		(6,639)	(6,198)
Depreciation and amortisation	3;4	(5,890)	(5,189)
Repairs and maintenance		(788)	(720)
Write-offs and change in allowance for accounts receivable	5;8	145	2,082
Taxes other than income tax		(1,416)	(1,467)
Electricity		(1,218)	(896)
Raw materials and consumables		(619)	(560)
Maintenance of heating and hot water systems		-	-
Water		(786)	(733)
Change in write-down to net realisable value of inventories and non-current assets	7	(570)	(954)
Other expenses	17	(2,503)	(2,773)
Other activities expenses	18	(449)	(513)
<b>Total expenses</b>		<b>(55,618)</b>	<b>(75,541)</b>
<b>Operating profit (losses)</b>		<b>5,704</b>	<b>1,427</b>
These investments of the parent, subsidiaries and associated companies' shares income	19	-	-
Other long-term investments and loan income	19	-	-
Other interest and similar income	19	264	350
Financial assets and short-term investments impairment	20	(27)	-
Interest and other similar expenses	20	(776)	(475)
<b>Finance cost, net</b>		<b>(539)</b>	<b>(125)</b>
<b>Profit before income tax</b>		<b>5,165</b>	<b>1,302</b>
Income tax	21	(656)	(440)
<b>Net profit</b>		<b>4,509</b>	<b>862</b>
Basic and diluted earnings per share (EUR)	22	0.11	0.02

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



General Manager	Rimantas Bakas		25 March 2016
Chief Accountant	Violeta Staškūnienė		25 March 2016



Statements of Profit (loss) and other comprehensive income

Company	Notes	2015	2014
<b>Income</b>			
Sales income	16	60,733	75,755
Other operating income	18	519	1,137
<b>Total income</b>		<b>61,252</b>	<b>76,892</b>
<b>Expenses</b>			
Fuel and heat acquired		(34,885)	(57,620)
Salaries and social security		(6,639)	(6,185)
Depreciation and amortisation	3,4	(5,890)	(5,198)
Repairs and maintenance		(788)	(720)
Write-offs and change in allowance for accounts receivable	5,8	157	2,093
Taxes other than income tax		(1,416)	(1,467)
Electricity		(1,218)	(896)
Raw materials and consumables		(619)	(561)
Maintenance of heating and hot water systems		-	(1)
Water		(786)	(733)
Change in write-down to net realisable value of inventories and non-current assets	7	(570)	(954)
Other expenses	17	(2,503)	(2,770)
Other activities expenses	18	(372)	(445)
<b>Total expenses</b>		<b>(55,529)</b>	<b>(75,457)</b>
<b>Operating profit (losses)</b>		<b>5,723</b>	<b>1,435</b>
These investments of the parent, subsidiaries and associated companies' shares income		-	-
Other long-term investments and loan income		-	-
Other interest and similar income	19	264	350
Financial assets and short-term investments Impairment		(27)	(3)
Interest and other similar expenses	20	(776)	(475)
<b>Finance cost, net</b>		<b>(539)</b>	<b>(128)</b>
<b>Profit before income tax</b>		<b>5,184</b>	<b>1,307</b>
Income tax	21	(656)	(440)
<b>Net profit</b>		<b>4,528</b>	<b>867</b>
Basic and diluted earnings per share (EUR)	22	0.11	0.02

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

<u>General Manager</u>	<u>Rimantas Bakas</u>		<u>25 March 2016</u>
<u>Chief Accountant</u>	<u>Violeta Staškūnienė</u>		<u>25 March 2016</u>




### Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
<b>Balance as of 31 December 2013</b>		<b>74,256</b>	<b>1,983</b>	<b>72</b>	<b>211</b>	<b>76,522</b>
Increase in share capital	1	122	-	-	-	122
Transferred to reserves	10	-	99	521	(620)	-
Transferred from reserves	10	-	-	(72)	72	-
Dividends	1	-	-	-	(124)	(124)
Total comprehensive income		-	-	-	862	862
<b>Balance as of 31 December 2014</b>		<b>74,378</b>	<b>2,082</b>	<b>521</b>	<b>401</b>	<b>77,382</b>
Transferred to reserves	10	-	613	713	(1,326)	-
Transferred from reserves	10	-	-	(521)	521	-
Dividends	1	-	-	-	(129)	(129)
Total comprehensive income	1	98	-	-	4,509	4,607
<b>Balance as of 31 December 2015</b>		<b>74,476</b>	<b>2,695</b>	<b>713</b>	<b>3,976</b>	<b>81,860</b>

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
<b>Balance as of 31 December 2013</b>		<b>74,256</b>	<b>1,983</b>	<b>72</b>	<b>739</b>	<b>77,050</b>
Increase in share capital	1	122	-	-	-	122
Transferred to reserves	10	-	99	521	(620)	-
Transferred from reserves	10	-	-	(72)	72	-
Dividends	1	-	-	-	(124)	(124)
Total comprehensive income		-	-	-	867	867
<b>Balance as of 31 December 2014</b>		<b>74,378</b>	<b>2,082</b>	<b>521</b>	<b>934</b>	<b>77,915</b>
Transferred to reserves	10	-	613	713	(1,326)	-
Transferred from reserves	10	-	-	(521)	521	-
Dividends	1	-	-	-	(129)	(129)
Total comprehensive income	1	98	-	-	4,528	4,626
<b>Balance as of 31 December 2015</b>		<b>74,476</b>	<b>2,695</b>	<b>713</b>	<b>4,528</b>	<b>82,412</b>

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

General Manager	Rimantas Bakas		25 March 2016
Chief Accountant	Violeta Staškūnienė		25 March 2016

**Statements of Cash Flows**

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from (to) operating activities</b>				
Net profit	<b>4,509</b>	<b>862</b>	<b>4,528</b>	<b>867</b>
<b>Adjustments for non-cash items:</b>				
Depreciation and amortisation	7,134	6,055	7,117	6,046
Write-offs and change in allowance for accounts receivable	(136)	(2,074)	(148)	(2,086)
Interest expenses	650	475	650	475
Change in fair value of derivatives	-	(15)	-	(15)
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	43	128	43	129
(Amortisation) of grants (deferred income)	(866)	(488)	(866)	(488)
Change in write-down to net realisable value of inventories and non-current assets	570	954	570	954
Change employee benefit liability	141	103	141	101
Calculation of the value of shares	98	-	98	-
Income tax expenses	647	440	647	440
Change in accruals	58	1	55	(1)
Impairment of investment in subsidiary	-	-	-	3
Elimination of other financial and investing activity results	(236)	(335)	(236)	(335)
<b>Total adjustments for non-cash items:</b>	<b>8,103</b>	<b>5,244</b>	<b>8,071</b>	<b>5,223</b>
<b>Changes in working capital:</b>				
(Increase) in inventories	(261)	24	(262)	12
(Increase) decrease in prepayments	(115)	(370)	(105)	(358)
(Increase) decrease in trade receivables	6,378	3,621	6,381	3,618
(Increase) in other receivables	5,991	(3,852)	5,992	(3,842)
(Decrease) increase in other non-current liabilities	(72)	126	(72)	126
Increase in current trade payables and advances received	(11,617)	1,716	(11,616)	1,719
(Decrease) increase in payroll-related liabilities	(132)	(106)	(132)	(79)
Increase (decrease) in other liabilities to budget	267	(316)	264	(314)
Increase (decrease) in other current liabilities	(229)	224	(235)	223
<b>Total changes in working capital:</b>	<b>210</b>	<b>1,067</b>	<b>215</b>	<b>1,105</b>
<b>Net cash flows from operating activities</b>	<b>12,822</b>	<b>7,173</b>	<b>12,814</b>	<b>7,195</b>


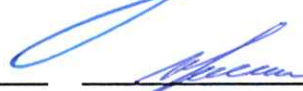
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The accompanying notes are an integral part of these financial statements.

	<u>Group</u>		<u>Company</u>	
	2015	2014	2015	2014
<b>Cash flows from (to) the investing activities</b>				
(Acquisition) of tangible and intangible assets	(4.722)	(19.581)	(4.722)	(19.601)
Proceeds from sale of tangible assets	121	320	121	319
Interest received for overdue accounts receivable	264	335	264	335
Penalties received	-	-	-	-
Decrease of non-current accounts receivable	3	6	3	6
Interest received	-	-	-	-
<b>Net cash (used in) investing activities</b>	<b>(4.334)</b>	<b>(18.920)</b>	<b>(4.334)</b>	<b>(18.941)</b>
<b>Cash flows from (to) financing activities</b>				
Proceeds from loans	9.642	13.150	9.642	13.150
(Repayment) of loans	(16.914)	(6.088)	(16.914)	(6.088)
Interest (paid)	(645)	(515)	(645)	(515)
Financial lease (payments)	(64)	(32)	(64)	(32)
Penalties and fines (paid)	(28)	-	(28)	-
Shareholder (contributions) to a subsidiary	-	-	-	-
Dividends, tantiemes (paid)	(128)	(124)	(128)	(124)
Received grants	1.791	5.121	1.791	5.121
<b>Net cash flows from (used in) financing activities</b>	<b>(6.346)</b>	<b>11.512</b>	<b>(6.346)</b>	<b>11.512</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>2.142</b>	<b>(235)</b>	<b>2.134</b>	<b>(234)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>389</b>	<b>624</b>	<b>384</b>	<b>618</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2.531</b>	<b>389</b>	<b>2.518</b>	<b>384</b>

(the end)

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

<u>General Manager</u>	<u>Rimantas Bakas</u>		<u>25 March 2016</u>
<u>Chief Accountant</u>	<u>Violeta Staškūnienė</u>		<u>25 March 2016</u>

## Notes to the Financial Statements

### 1. General information

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

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

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

As of 31 December 2015 and of 31 December 2014 the shareholders of the Company were as follows:

	As of 31 December 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
	<u>42,802,143</u>	<u>100.00</u>	<u>42,802,143</u>	<u>100.00</u>

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

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

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

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

It was decided at the Company's Extraordinary meeting of shareholders held on 6 January 2014 to increase Company's authorised capital with EUR 122 thousand from EUR 74,256 thousand to EUR 74,378 thousand by issuing 70,166 ordinary shares at a nominal value of EUR 1.73772, whose emission price is equal to nominal value of the share, enabling Kaunas city municipality to purchase those shares, seeking that Kaunas

city municipality would dispose its own heat supply pipeline – heat network, situated in Karaliaus Mindaugo av. 50, Kaunas. A newly issued Company's Statutes were registered on 20 March 2014 after increase of authorised capital.

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

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

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 4 thousand as of 31 December 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. PPP has been removed from the Register of Legal Entities on 7 September, 2015.

As of 31 December 2015 the Group consists of the Company and the subsidiary KENT (hereinafter – the Group):

<b>Company</b>	<b>Principal place of business</b>	<b>Share held by the Group</b>	<b>Cost of investment</b>	<b>Writing-off cost of investment reducing the capital</b>	<b>Profit (loss) for the year</b>	<b>Total equity</b>	<b>Main activities</b>
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	1,330	(256)	(28)	1,277	Rent

Accumulated impairment loss of investment in subsidiaries amounted to EUR 814 thousand as of 31 December, 2015 (as of 31 December, 2014 – EUR 814 thousand) and they were accounted in article of financial activity expenses of Company's profit or loss (Note 20).

### 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. 03-413 a new basic heat rates force components for the period from 1 January 2013 till 31 December 2016.

### Operational Activity

Company's generation capacities include Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 regional boiler-house in Jurbarkas city, 13 boiler-houses in isolated networks and 28 local gas burned boiler-house in Kaunas city and 8 water heating boiler-houses in Sargėnai catchment.

Total installed heat generation capacities amount to 564.476 MW (including 37.5 MW of condensing economizers). Electricity generation capacities amount up to 8.75 MW. 294.8 MW of heat generation capacities (including 16 MW condensing economizer) and 8 MW of electricity generation capacities are located in Petrašiūnai power plant. 29.8 MW of heat generation capacities (including 2.8 MW condensing economizer) are located in Jurbarkas city. Total Company's power generation capacities amount to 573.226 MW (including 37.5 MW of condensing economizers).

By selling a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) the Company committed in Heat purchase contract of 31 March 2003 to purchase at least 80 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 13<sup>th</sup> 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 30<sup>th</sup> 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 10<sup>th</sup> 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 19<sup>th</sup> February, 2014 Arbitration decision Company and KTE began negotiations for a peaceful settlement of investment dispute, however on 26<sup>th</sup> May Company has informed Arbitration court that compromise has not been reached. KTE specified it's claim requisitions in the case, by which alternatively asks Arbitration court to terminate Investment agreement. Arbitration court conjoined this case with the case in which the Company placed a claim seeking that KTE would pay to the Company EUR 0.94 million for inappropriate implementation of its obligations to finance in the years 2012 – 2013 Company's investments according to 31 March 2003 Investment agreement changes, signed on 13 August 2012 and 28 September 2012. The case is still pending and a decision is not taken. As KTE continuously did not implement its obligations, the Company applied to Arbitration on 30 January 2015 with specified requirements to adjudge in addition EUR 652 thousand for non financed Company's investments of the year 2014. Total requirements – EUR 1,593 thousand. On 30 April 2015 KTE offered in written the renewal of negotiations regarding peaceful settlement of the case and the Arbitration continued investigation of the case. Both sides agreed project of peaceful agreement in pursuance of negotiations, considering negotiable guidelines, determined on 22 June, 2015 during the meeting in Kaunas city municipality, in which the Mayor of Kaunas city municipality and Director of Administration took part. On 9 October, 2015 Company's Board decided to approve project of peaceful agreement with KTE regarding termination of Investment agreement of 31 March, 2003 and dismissal of litigation in court. Kaunas City Municipality Council approved by the decision No T-568 of 20 October, 2015 the essential terms of peaceful agreement and dismissal of litigation in court. On 17 December 2015 the Extraordinary General Meeting of Shareholders approved the project of peaceful agreement with KTE. On 28 December 2015 the Company and KTE signed a peaceful agreement. Further progress of the case is described in Note 26.

In 2015 the average number of employees at the Group was 543 (554 employees in 2014). In 2015 the average number of employees at the Company was 540 (551 employees in 2014).

#### Strategic Decisions

In the year 2012 estimating conditionally high price of the heat bought from KTE, which owns a main Kaunas heat production source, and seeking to contribute to the international liabilities of Lithuania to increase usage of renewable energy sources in heat production, to reduce Lithuania's dependence from imported fossil fuel and to provide the heat energy at a competitive price, the Company initiated reconstruction projects of existing boiler-houses, fitting them to work on wood fuel (wooden chips, waste of deforestation, sawdust).

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

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

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

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

On September 2015 the Company started procedures of purchase of project of instalment of 15 MW capacity gas burned boiler No 2 with 1.5 MW capacity condensational economizer in Šilkas boiler-house. Estimated value of the purchase is EUR 579 thousand .

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

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

A reconstruction of nine heat supplies pipelines in Kaunas city is being planned in 2016 – 2018 according to Investment Plan agreed with Commission as well. Heat energy supplies to consumers will be more reliable and qualitative after the reconstruction of these pipelines; new possibilities of connecting new consumers to centralized heat supplies network will be created. A total of EUR 16 million are being planned for these purposes. A part of necessary funds are being anticipated from European Union Structural Funds.

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

On 1 September 2015 the Company, Kaunas city municipality and UAB Litesko signed a triangular agreement on acquisition of Sargėnai heat economy. UAB Litesko sold to the Company 8 completely automated gas burned water heating boiler-houses, installed in the year 1998, located in Sargėnai catchment according to this agreement. Total power capacity of these boiler-houses is 4.083 MW. They serve to 14 houses and an average of 4.40 GWh of heat is being produced in them per year. Starting from 1 October 2015 the Company started to perform a heat and hot water supplies activity in Sargėnai following the legislation.

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

The Company supplied to the network a total of 522 GWh of heat energy with its own production capacities during the year 2015 (426 GWh were produced using biofuel). This is a 80 per cent more than in the year

2014 respectively (292 GWh (80 GWh of them were produced using biofuel)). Usage of biofuel had a significant influence in the heat price reduction for heat and hot water consumers.

In the year 2015 the common index of Company's fuel usage was 82,4 kg<sub>ne</sub>/MWh, i.e. at 6.1 kg<sub>ne</sub>/MWh lower than in the year 2014 and at 8,7 kg<sub>ne</sub>/MWh lower than as compared to the index (91.1 kg<sub>ne</sub>/MWh) used in a base heat price accounting.

Company's annual technological heat losses in centralized heat supplies network in the year 2015 were at 221 GWh or at 23 GWh (10 per cent) lower than in the year 2014. As compared to the index (280 GWh) used in a base heat price accounting, approximately 59 GWh of heat were saved.

Company's annual water consumption for technological purposes in the year 2015 was 177 thousand tons or at 78 thousand tons (30.5 per cent) lower than in the year 2014. Compared to the index (518 thousand tons) used in a base heat price accounting, approximately 341 tons of water were saved.

Effectiveness of biofuel burned water heating boiler-houses, installed in the year 2015 reached approximately 90 per cent.

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

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

Responding to Lietuvos Energija, UAB invitation to put forward proposals of cooperation on implementation of projects of cogeneration plants, the Company placed an application on 22 July 2014 regarding participation 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. On March 2015 Company's application has been recognized as suitable. On 20 May 2015 Lietuvos Energija, UAB signed a contract with UAB Fortum Heat Lietuva regarding development of a project of new cogeneration power-plant in Kaunas. It is anticipated in contract that except UAB Fortum Heat Lietuva, the shares of new power-plant can be offered for purchasing to the Company.

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

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

## 2. Accounting principles

### 2.1. Adoption of new and/or amended IFRS

The following new or amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the EU are effective for the annual accounting periods beginning on after 2015 and relevant to the Company and the Group:

- **IFRS 3 Business combinations, IFRS 13 Fair value measurement, IAS 40 Investment property** are amended in accordance with the amendments to IFRS 3, adopted by the ES on 18 December 2014 (effective for annual periods beginning on or after 1 January 2015). Amendments are clarifications or corrections to the respective standards of inconsistency in International Financial Reporting Standards (IFRS) or where clarification of wording is required.
- **21 IFRIC interpretation Levies**, adopted by the ES on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014). The objective of the Interpretation is to provide guidance on the appropriate accounting treatment of levies that are within the scope of International Accounting Standard 37, in order to increase the comparability of financial statements for users.

The following new or amended IFRS and IFRIC interpretations adopted by the EU that are mandatory for annual accounting periods beginning on or after 2015 but not relevant to the Group/Company are as follows:

- **IFRS 2 Share-based payment, IFRS 3 Business combinations, IAS 24 Related party disclosures, IAS 38 Intangible assets and 39 Financial instruments: recognition and measurement** are amended in accordance with the amendments to IFRS 3, adopted by the ES on 17 December 2014
- **IFRS 3 Business combinations, IAS 40 Investment property** adopted by the ES on 18 December 2014 (effective for annual periods beginning on or after 1 January 2015). Amendments are clarifications or corrections to the respective standards of inconsistency in International Financial Reporting Standards (IFRS) or where clarification of wording is required.

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

- **IFRS 2 Share-based payment, IFRS 3 Business combinations, IFRS 8 Operating segments, IAS 16 Property, plant and equipment, IAS 24 Related party disclosures, IAS 38 Intangible assets, IAS 37 Provisions, contingent liabilities and contingent assets and 39 Financial instruments: recognition and measurement** are amended in accordance with the amendments to IFRS 3, adopted by the ES on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015)
- **IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions** are amended in accordance with the amendments to IFRS 3, adopted by the ES on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015). The amendments aim to simplify and clarify the accounting for employee or third party contributions linked to defined benefit plans.
- **IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets** adopted by the ES on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments aim to clarify, whether it is appropriate to use revenue-based methods to calculate the depreciation or amortisation of an asset.
- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IAS 19 Employee Benefits, IAS 34 Interim Financial Reporting** adopted by the ES on 15 December 2015 (effective for annual periods beginning on or after 1 January 2016). The objective of the annual improvements is to address non-urgent, but necessary, issues discussed by the IASB of inconsistency in international financial reporting standards (IFRS) and international accounting standards (IAS) or where clarification of wording is required.

- **IAS 1 Presentation of Financial Statements, IAS 34 Interim Financial Reporting and IFRS 7 Financial Instruments: Disclosures** are amended in accordance with the amendments to IAS 1, adopted by the ES on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments aim to improve the effectiveness of disclosure and to encourage companies to apply professional judgement in determining what information to disclose in their financial statements when applying IAS 1.

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

## 2.2. Statement of Compliance

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

## 2.3. Basis of the preparation of financial statements

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

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

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

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

## 2.4. Principles of consolidation

### Principles of consolidation

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

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

Subsidiary is the company which is directly or indirectly controlled by the parent company. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50 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 IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### **2.5. Investments in subsidiaries**

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

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

### **2.6. Intangible assets**

#### Intangible assets acquired separately

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

#### Derecognition of intangible assets

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

#### Licenses

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

#### Software

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



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

## 2.7. Accounting for emission rights

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

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

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

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

## 2.8. Property, plant and equipment

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

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

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

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

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

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

Freehold land is not depreciated.

The Group and the Company capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above EUR 144.81.

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

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

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

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

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

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

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

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

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

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

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

## **2.10. Financial assets**

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. All purchases and sales of financial assets

are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

#### Effective interest rate method

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

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

#### Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

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

#### Loans and receivables

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

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

#### Impairment of financial assets

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

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

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

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

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

#### Derecognition of financial assets

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

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

### **2.11. Derivative financial instruments**

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

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

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

### **2.12. Inventories**

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

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

### **2.13. Provisions**

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

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

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

### **2.14. Cash and cash equivalents**

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

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

### **2.15. Employee benefits**

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

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

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

## 2.16. Borrowing costs

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

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

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

## 2.17. Financial liabilities and equity instruments

### Classification as debt or equity

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

### Equity instruments

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

### Financial liabilities

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

### Financial liabilities at FVTPL

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

### Other financial liabilities

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

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

### Derecognition of financial liabilities

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

## 2.18. Leasing

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

### The Group and the Company as lessor

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



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

#### The Group and the Company as lessee

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

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

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

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

#### **2.19. Grants (deferred income)**

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

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

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

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

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

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

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

## **2.20. Income tax**

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

### Current tax

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

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

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

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

### Current and deferred tax for the period

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

## **2.21. Basic and diluted earnings per share**

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

## 2.22. Revenue recognition

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

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

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

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

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

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

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

The Group's and the Company's policy for recognition of revenue from operating leases is described in Note 2.18 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 December 2015			As of 31 December 2014		
1 EUR	=	1.09260 USD	1 EUR	=	1.2141 USD
1 EUR	=	0.73799 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 valuers using depreciated replacement costs method amounted to EUR 39.446 million.

In 2010 a new shares issue was paid by contribution in-kind: i.e. building – boiler-house situated in Kaunas city and by networks system situated in Jurbarkas city. Market value of assets estimated upon their transfer by local qualified valutors by using depreciated replacement costs method amounted to EUR 0.178 million. Building – boiler-house was sold in March 2015.

In 2014 a new shares issue was paid by contribution in-kind: i.e. networks system situated in 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 December 2015 carrying value of total contribution in-kind amounted to EUR 36,190 thousand, including the manifolds, which amounted to EUR 35,933 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

Movements of intangible assets for the current and prior reporting periods are as follows:

	<b>Group</b>	<b>Company</b>
	<b>Patents, licenses</b>	
<b>Cost:</b>		
<b>Balance as of 31 December 2013</b>	<b>1,558</b>	<b>1,558</b>
Additions	2	2
Disposals and write-offs	(17)	(17)
Transfers from property, plant and equipment	41	41
<b>Balance as of 31 December 2014</b>	<b>1,584</b>	<b>1,584</b>
Additions	60	59
Disposals and write-offs	(252)	(252)
Transfers from property, plant and equipment	13	13
<b>Balance as of 31 December 2015</b>	<b>1,405</b>	<b>1,404</b>
<b>Amortisation:</b>	-	-
<b>Balance as of 31 December 2013</b>	<b>1,498</b>	<b>1,498</b>
Charge for the year	28	28
Disposals and write-offs	(17)	(17)
<b>Balance as of 31 December 2014</b>	<b>1,509</b>	<b>1,509</b>
Charge for the year	32	31
Disposals and write-offs	(252)	(252)
<b>Balance as of 31 December 2015</b>	<b>1,289</b>	<b>1,288</b>
<b>Net book value as of 31 December 2013</b>	<b>60</b>	<b>60</b>
<b>Net book value as of 31 December 2014</b>	<b>75</b>	<b>75</b>
<b>Net book value as of 31 December 2015</b>	<b>116</b>	<b>116</b>

Amortisation expenses of intangible assets are included in the operating expenses in the statement of Profit (loss) and other comprehensive income.

As of 31 December 2015 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,245 thousand (as of 31 December 2014 – EUR 1,346 thousand) were fully amortised but were still in active use.

#### 4. Property, plant and equipment

Group	Land and buildings	Structures	Machinery and equipment	Vehicles	Instruments and tools	Construction in progress and prepayments	Total
<b>Cost:</b>							
<b>Balance as of 31 December 2013</b>	<b>16,907</b>	<b>140,190</b>	<b>37,340</b>	<b>1,488</b>	<b>10,296</b>	<b>2,111</b>	<b>208,332</b>
Additions	-	1,673	114	2	(294)	18,802	20,297
Disposals and write-offs	(960)	(85)	(966)	(4)	(74)	-	(2,089)
Reclassifications	85	5,182	2,367	83	330	(8,047)	-
Transfers to intangible assets	-	-	-	-	-	(41)	(41)
<b>Balance as of 31 December 2014</b>	<b>16,032</b>	<b>146,960</b>	<b>38,855</b>	<b>1,569</b>	<b>10,258</b>	<b>12,825</b>	<b>226,499</b>
Additions	-	-	32	75	357	6,049	6,513
Disposals and write-offs	(140)	(34)	(591)	(11)	(98)	-	(874)
Reclassifications	1,659	4,582	12,012	136	168	(18,557)	-
Transfers to intangible assets	-	-	-	-	-	(13)	(13)
Impairment loss(-)	(384)	(31)	(8)	-	-	-	(423)
<b>Balance as of 31 December 2015</b>	<b>17,167</b>	<b>151,477</b>	<b>50,300</b>	<b>1,769</b>	<b>10,685</b>	<b>304</b>	<b>231,702</b>
<b>Accumulated depreciation:</b>							
<b>Balance as of 31 December 2013</b>	<b>9,060</b>	<b>60,521</b>	<b>22,650</b>	<b>1,243</b>	<b>6,499</b>	<b>-</b>	<b>99,973</b>
Charge for the year	345	3,054	1,831	60	737	-	6,027
Disposals and write-offs	(684)	(9)	(850)	(4)	(70)	-	(1,617)
Reclassifications	(1)	-	(9)	10	-	-	-
<b>Balance as of 31 December 2014</b>	<b>8,720</b>	<b>63,566</b>	<b>23,622</b>	<b>1,309</b>	<b>7,166</b>	<b>-</b>	<b>104,383</b>
Charge for the year	358	3,234	2,638	88	784	-	7,102
Disposals and write-offs	(86)	(31)	(512)	(11)	(97)	-	(737)
Reclassifications	-	(125)	83	-	42	-	-
<b>Balance as of 31 December 2015</b>	<b>8,992</b>	<b>66,644</b>	<b>25,831</b>	<b>1,386</b>	<b>7,895</b>	<b>-</b>	<b>110,748</b>
<b>Net book value as of 31 December 2013</b>	<b>7,847</b>	<b>79,669</b>	<b>14,690</b>	<b>245</b>	<b>3,797</b>	<b>2,111</b>	<b>108,359</b>
<b>Net book value as of 31 December 2014</b>	<b>7,312</b>	<b>83,394</b>	<b>15,233</b>	<b>260</b>	<b>3,092</b>	<b>12,825</b>	<b>122,116</b>
<b>Net book value as of 31 December 2015</b>	<b>8,175</b>	<b>84,833</b>	<b>24,469</b>	<b>383</b>	<b>2,790</b>	<b>304</b>	<b>120,954</b>



Company	Land and buildings	Structures	Machinery and equipment	Vehicles	Instruments and tools	Construction in progress and prepayments	Total
<b>Cost:</b>							
<b>Balance as of 31 December 2013</b>	<b>16,171</b>	<b>140,193</b>	<b>37,186</b>	<b>1,253</b>	<b>10,239</b>	<b>2,111</b>	<b>207,153</b>
Additions	-	1,673	116	21	(294)	18,802	20,318
Disposals and write-offs	(960)	(84)	(967)	(4)	(72)	-	(2,087)
Reclassifications	85	5,182	2,367	83	330	(8,047)	-
Transfers to intangible assets	-	-	-	-	-	(41)	(41)
<b>Balance as of 31 December 2014</b>	<b>15,296</b>	<b>146,964</b>	<b>38,702</b>	<b>1,353</b>	<b>10,203</b>	<b>12,825</b>	<b>225,343</b>
Additions	1	-	32	75	357	6,049	6,514
Disposals and write-offs	(140)	(34)	(591)	(11)	(98)	-	(874)
Reclassifications	1,658	4,578	12,016	136	169	(18,557)	-
Transfers to intangible assets	-	-	-	-	-	(13)	(13)
Impairment loss(-)	(384)	(31)	(8)	-	-	-	(423)
<b>Balance as of 31 December 2015</b>	<b>16,431</b>	<b>151,477</b>	<b>50,151</b>	<b>1,553</b>	<b>10,631</b>	<b>304</b>	<b>230,547</b>
<b>Accumulated depreciation:</b>							
<b>Balance as of 31 December 2013</b>	<b>8,700</b>	<b>60,520</b>	<b>22,497</b>	<b>991</b>	<b>6,445</b>	<b>-</b>	<b>99,153</b>
Charge for the year	329	3,055	1,830	69	735	-	18,506
Disposals and write-offs	(684)	(9)	(849)	(4)	(68)	-	(1,614)
Reclassifications	(1)	1	(9)	10	(1)	-	-
<b>Balance as of 31 December 2014</b>	<b>8,344</b>	<b>63,567</b>	<b>23,469</b>	<b>1,066</b>	<b>7,111</b>	<b>-</b>	<b>103,557</b>
Charge for the year	342	3,235	2,638	88	783	-	7,086
Disposals and write-offs	(87)	(31)	(512)	(11)	(96)	-	(737)
Reclassifications	-	(127)	84	-	43	-	-
<b>Balance as of 31 December 2015</b>	<b>8,599</b>	<b>66,644</b>	<b>25,679</b>	<b>1,143</b>	<b>7,841</b>	<b>-</b>	<b>109,906</b>
<b>Net book value as of 31 December 2013</b>	<b>7,471</b>	<b>79,673</b>	<b>14,689</b>	<b>262</b>	<b>3,794</b>	<b>2,111</b>	<b>108,000</b>
<b>Net book value as of 31 December 2014</b>	<b>6,952</b>	<b>83,397</b>	<b>15,233</b>	<b>287</b>	<b>3,092</b>	<b>12,825</b>	<b>121,786</b>
<b>Net book value as of 31 December 2015</b>	<b>7,832</b>	<b>84,833</b>	<b>24,472</b>	<b>410</b>	<b>2,790</b>	<b>304</b>	<b>120,641</b>

The depreciation charge of the Group's and Company's property, plant and equipment for the half ended as of 31 December 2015 amounts to EUR 6,238 thousand and EUR 6,221 thousand, respectively (as of 31 December 2014 – EUR 5,542 thousand and EUR 5,533 thousand respectively). The amounts of EUR 6,201 thousand and EUR 6,201 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 statements of Profit (loss) and other comprehensive income. The remaining amounts were included into other activity expenses.

As of 31 December 2015 part of the property, plant and equipment of the Group with acquisition cost of EUR 42,036 thousand (EUR 33,288 thousand as of 31 December 2014) and the Company – EUR 41,918 thousand were fully depreciated (EUR 33,251 thousand as of 31 December 2014), but were still in active use.

As of 31 December 2015 and as of 31 December 2014 the major part of the Group's and Company's construction in progress consisted of reconstruction and overhaul works of boiler-houses equipment and heat supply networks.

As of 31 December 2015 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to EUR 2,945 thousand (as of 31 December 2014 – EUR 14,712 thousand).

As of 31 December 2015 property, plant and equipment of the Group and the Company with the net book value of EUR 57,556 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 9 thousand in 2015 (in 2014 – EUR 49 thousand). The capitalization rate varied from 0.15 percent to 4.51 percent in 2015 (in 2014 – from 1.01 percent to 2.87 percent).

As of 31 December 2015 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 152 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 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
Long-term loans granted to the Company's employees	1	6	1	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 December 2015 and as of 31 December 2014 using 3.7 percent interest rate. In 2015 effect of reversed discounting amounted to EUR 1 thousand (in 2014 – EUR 1 thousand). The reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statements of Profit (loss) and other comprehensive income.

As of 31 December 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 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
<i>Available-for-sale financial assets</i>				
Fair value of shares	1	28	1	28

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

## 7. Inventories

	Group		Company	
	As of 31 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
Technological fuel	1,078	1,017	1,078	1,017
Spare parts	385	322	385	322
Materials	483	346	479	341
	<u>1,946</u>	<u>1,685</u>	<u>1,942</u>	<u>1,680</u>
Less: write-down to net realisable value of inventory at the end of the period	(1,657)	(1,510)	(1,657)	(1,510)
Carrying amount of inventories	<u>289</u>	<u>175</u>	<u>285</u>	<u>170</u>

As of 31 December 2015 Group's and Company's amounted to EUR 1,657 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 statements of Profit (loss) and other comprehensive income.

## 8. Current accounts receivable

	Group		Company	
	As of 31 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
Trade receivables, gross	21,385	27,894	21,433	27,945
Less: impairment of doubtful receivables	(12,410)	(12,774)	(12,458)	(12,825)
	<u>8,975</u>	<u>15,120</u>	<u>8,975</u>	<u>15,120</u>

Of 31 December 2014 Group's and Company's receivables as include the factored receivables amounting to EUR 585 thousand under the agreement with AB DNB Bank.

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
<b>Balance as of 31 December 2013</b>	<u>15,886</u>	<u>15,937</u>
Additional allowance formed	(2,227)	(2,227)
Write-off	(885)	(885)
<b>Balance as of 31 December 2014</b>	<u>12,774</u>	<u>12,825</u>
Additional allowance formed	(233)	(236)
Write-off	(131)	(131)
<b>Balance as of 31 December 2015</b>	<u>12,410</u>	<u>12,458</u>

In 2015 the Group and the Company wrote off EUR 131 thousand and EUR 131 thousand of bad debts respectively (in 2014 – EUR 885 thousand and EUR 885 thousand). In 2015 the Group and the Company also recovered EUR 9 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 December 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	7,225	849	177	175	180	369	8,975
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 December 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	7,225	849	177	175	180	369	8,975
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 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
Taxes	165	4,713	161	4,713
Other receivables	961	2,080	1,021	2,147
Less: value impairment of doubtful receivables	(267)	(173)	(336)	(251)
	<b>859</b>	<b>6,620</b>	<b>846</b>	<b>6,609</b>

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

	Group	Company
<b>Balance as of 31 December 2013</b>	<b>57</b>	<b>146</b>
Additional allowance formed	153	142
Write-off	(37)	(37)
<b>Balance as of 31 December 2014</b>	<b>173</b>	<b>251</b>
Additional allowance formed	97	88
Write-off	(3)	(3)
<b>Balance as of 31 December 2015</b>	<b>267</b>	<b>336</b>

As of 31 December 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 December 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	335	170	17	6	3	163	694
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 December 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	326	170	17	6	3	163	685
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 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
Cash in transit	196	116	196	116
Cash at bank	2,328	267	2,315	262
Cash on hand	7	6	7	6
	<u>2,531</u>	<u>389</u>	<u>2,518</u>	<u>384</u>

The Group's and the Company's accounts in banks amounting to EUR 1,853 thousand as of 31 December 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.

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

## 11. Borrowings

	Group		Company	
	As of 31 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
<b>Non-current borrowings</b>	<u>19,481</u>	<u>17,028</u>	<u>19,481</u>	<u>17,028</u>
Current portion of non-current borrowings (except leasing which is disclosed in Note 12)	2,402	4,421	2,402	4,421
Current borrowings (including credit line)	-	7,121	-	7,121
Factoring with recourse agreement	-	585	-	585
<b>Current borrowings</b>	<u>2,402</u>	<u>12,127</u>	<u>2,402</u>	<u>12,127</u>
	<u>21,883</u>	<u>29,155</u>	<u>21,883</u>	<u>29,155</u>

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

	<b>Group</b>		<b>Company</b>	
	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>
	<b>December 2015</b>	<b>December 2014</b>	<b>December 2015</b>	<b>December 2014</b>
2015	-	4,421	-	4,421
2016	2,402	2,784	2,402	2,784
2017	2,223	2,247	2,223	2,247
2018	2,223	2,132	2,223	2,132
2019	2,223	1,798	2,223	1,798
2020	1,985	1,352	1,985	1,352
2021	1,373	487	1,373	487
2022	1,366	480	1,366	480
2023	674	479	674	479
2024	674	479	674	479
2025	674	479	674	479
2026	674	479	674	479
2027	674	479	674	479
2028	674	479	674	479
2029	674	479	674	479
2030	674	479	674	479
2031	674	479	674	479
2032	674	479	674	479
2033	674	479	674	479
2034	674	479	674	479
	<b>21,883</b>	<b>21,449</b>	<b>21,883</b>	<b>21,449</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>
	<b>December 2015</b>	<b>December 2014</b>	<b>December 2015</b>	<b>December 2014</b>
Current borrowings	0.00	1.24	0.00	1.24
Non-current borrowings	2.58	2.66	2.58	2.66

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

<b>Currency of the loan:</b>	<b>Group</b>		<b>Company</b>	
	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>
	<b>December 2015</b>	<b>December 2014</b>	<b>December 2015</b>	<b>December 2014</b>
EUR	21,883	13,289	21,883	13,289
LTL	-	15,281	-	15,281
	<b>21,883</b>	<b>28,570</b>	<b>21,883</b>	<b>28,570</b>

Detailed information on loans as of 31 December 2015:

	Credit institution	Date of contract	Currency	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 31.12.2015 EUR thousand	A part of 2016, EUR thousand
1	Nordea*	01/12/2006	LTL	6,090	1,764	31/12/2015	-	-
2	AB SEB Bank	21/12/2006	EUR	2,059	2,059	30/11/2016	29	29
3	AB DNB Bank	14/11/2007	EUR	576	576	31/12/2016	72	72
4	Danske**	31/07/2008	EUR	984	984	31/12/2018	-	-
5	Danske**	31/07/2008	EUR	1,158	1,158	30/09/2017	-	-
6	Swedbank, AB	02/12/2009	EUR	3,815	3,815	02/12/2016	-	-
7	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,778	94
8	Swedbank, AB	21/06/2010	EUR	649	649	21/06/2017	-	-
9	Nordea*	17/09/2010	EUR	1,625	1,625	31/05/2016	-	-
10	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	731	39
11	AB SEB Bank	11/02/2011	EUR	1,031	1,031	10/02/2019	-	-
12	Nordea*	19/04/2011	EUR	921	921	30/04/2019	-	-
13	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,651	87
14	AB SEB Bank	13/10/2011	EUR	290	290	30/11/2019	-	-
15	Nordea*	03/06/2013	LTL	9,000	2,607	03/06/2020	-	-
16	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	600	133
17	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	916	204
18	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	1,192	251
19	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	35	7
20	Nordea*	27/09/2013	EUR	655	655	30/09/2020	-	-
21	Nordea*	28/11/2013	LTL	2,000	579	27/11/2020	-	-
22	MF Lithuania***	15/01/2014	EUR	793	793	01/12/2034	790	42
23	AB SEB Bank	31/03/2014	LTL	5,400	1,564	15/01/2021	1,311	260
24	MF Lithuania***	31/03/2014	EUR	7,881	7,881	01/12/2034	7,858	414
25	AB SEB Bank	29/08/2014	LTL	10,000	2,896	28/08/2015	-	-
26	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	18	18
27	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	60	60
28	Nordea*	31/08/2015	LTL	4,344	4,344	31/08/2016	-	-
29	Pohjola****	02/12/2015	EUR	4,842	4,842	02/12/2022	4,842	692
							21,883	2,402

\* Nordea Bank Finland Plc. Lithuanian branch;

\*\* Danske Bank A/S Lithuania branch;

\*\*\* Ministry of Finance of the Republic of Lithuania;

\*\*\*\* Pohjola Bank Plc Lithuanian branch.

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. As of 31 December 2014 liability of the factoring with recourse, amounting to 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 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
Within one year	-	26	-	26
From one to five years	70	11	70	11
Total financial lease obligations	70	37	70	37
Interest	(2)	(1)	(2)	(1)
<b>Present value of financial lease obligations</b>	<b>68</b>	<b>36</b>	<b>68</b>	<b>36</b>
Financial lease obligations are accounted for as:				
- current	34	25	34	25
- non-current	34	11	34	11

### 13. Grants (deferred income)

	Group		Company	
	As of 31 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
<b>Balance at the beginning of the reporting period</b>	<b>13,764</b>	<b>8,395</b>	<b>13,764</b>	<b>8,395</b>
Received during the year	3,863	5,857	3,863	5,857
Amortisation	(866)	(488)	(866)	(488)
<b>Balance at the end of the reporting period</b>	<b>16,761</b>	<b>13,764</b>	<b>16,761</b>	<b>13,764</b>

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 December 2015. The project is accomplished.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project “Modernisation of Kaunas City Integrated Network Centre Main (4T)”, according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 1,735 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 1,279 thousand by 31 December 2015. The project is accomplished.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project “Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies”, according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 676 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 500 thousand by 31 December 2015. The project is accomplished.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project “The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90)”, according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 454 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2015 financing in amount of EUR 413 thousand has been received. The project is accomplished.



On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 807 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2015 financing in amount of EUR 731 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Dainava area main of Kaunas integrated network (1T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 452 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2015 financial support in amount of EUR 431 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Aukštieji Šančiai area main of Kaunas integrated network (2Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 469 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2015 financial support in amount of EUR 469 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Viliampolė area heating network of Kaunas integrated network (9K)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 172 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2015 financial support in amount of EUR 172 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of 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 December 2015 financing in amount of EUR 579 thousand has been received. The project is accomplished.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water boiler", according to which the financing in amount of EUR 519 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 31 December 2015 the Company has got a financial support in amount of EUR 517 thousand, EUR 71 thousand are accounted in Group's and Company's other receivables line. The project is accomplished.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler", according to which the financing in amount of EUR 666 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 31 December 2015 the Company has got a financial support in amount of EUR 664 thousand, EUR 84 thousand are accounted in Group's and Company's other receivables line. The project is accomplished.

On 8 July 2013 the Group and the Company signed a financing agreement of the project "Reconstruction of Pergalė boiler-house equipping it with condensational economizer", under which financing in amount of EUR 185 thousand is provided for the Company from Lithuanian Environmental Investment Fund after the terms of agreement are fulfilled. As of 31 December 2015 the Company has got a financial support in amount of EUR 185 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Šilkas boiler-house, changing used fuel to biofuel (stage II)" under which a financing in amount of EUR 1,156 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2015 the Company has got a financial support in amount of EUR 1,154 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Petrašiūnai power plant, changing used fuel to biofuel (stage I)" under which a financing in amount of EUR 1,738 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2015 the Company has got a financial support in amount of EUR 1,523 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Inkaras boiler-house, changing used fuel to biofuel" under which a financing in amount of EUR 1,738 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2015 the Company has got a financial support in amount of EUR 1,738 thousand. The project is accomplished.

On 20 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 4Ž between heat cameras 4Ž-10 and 4Ž-15 Taikos av." under which a financing in amount of EUR 307 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2015 financial support in amount of EUR 306 thousand has been received. The project is accomplished.

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

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12 in Chemijos str." under which a financing in amount of EUR 579 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2015 financial support in amount of EUR 579 thousand has been received. The project is accomplished.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 6Ž" under which a financing in amount of EUR 299 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2015 financial support in amount of EUR 296 thousand has been received. The project is accomplished.

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

On 4 October 2015 the Group and the Company signed a financing with the funds of Climate Change Programme rendering subsidy agreement for the project "Reconstruction of Šilkas boiler-house, replacing depreciated boiler with the new one" under which a financing in amount of EUR 150 thousand is allocated for the Company from LEIF. Financing in amount of EUR 141 thousand was assigned for the Company for implementation of the project. EUR 141 thousand are accounted in Group's and Company's other receivables line.

#### **14. Employee benefit liability**

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

	Group		Company	
	2015	2014	2015	2014
<b>Employee benefit liability at the beginning of the year</b>	<b>885</b>	<b>873</b>	<b>885</b>	<b>857</b>
Paid	(135)	(91)	(135)	(73)
Formed	141	103	141	101
<b>Employee benefit liability at the end of the year</b>	<b>891</b>	<b>885</b>	<b>891</b>	<b>885</b>
Non-current employee benefit liability	585	620	585	620
Current employee benefit liability	306	265	306	265

During the 2015 total amount of the benefit paid to the employees by the Group amounted to EUR 135 thousand (in 2014 – EUR 91 thousand), and by the Company – EUR 135 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 statements of Profit (loss) and other comprehensive income.

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

	As of 31 December 2015	As of 31 December 2014
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 December 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.

	Group		Company	
	2015	2014	2015	2014
Heat supplies	57,396	72,484	57,404	72,494
Hot water supplies	2,569	2,633	2,569	2,633
Maintenance of manifolds	226	227	226	227
Maintenance of heat and hot water systems	21	27	21	26
Electric energy	253	220	253	220
Maintenance of hot water meters	260	155	260	155
	<b>60,725</b>	<b>75,746</b>	<b>60,733</b>	<b>75,755</b>

### 17. Other expenses

	Group		Company	
	2015	2014	2015	2014
Cash collection expenses	207	358	207	358
Equipment verification and inspection	545	501	545	501
Maintenance of manifolds	394	402	394	402
Debts collection expenses	54	54	54	54
Sponsorship	93	400	93	400
Consulting expenses	87	171	87	171
Customer bills issue and delivery expenses	126	126	126	126
Communication expenses	47	52	47	52
Employees related expenses	89	86	89	86
Insurance	75	85	75	85
Long term assets maintenance and related services	70	74	70	75
Membership fee	83	81	83	81
Transport expenses	129	24	129	23
Advertising expenses	43	34	43	34
Audit expenses	20	15	20	15
Rent of equipment and machinery	16	9	16	9
Other expenses	425	301	425	298
	<b>2,503</b>	<b>2,773</b>	<b>2,503</b>	<b>2,770</b>

### 18. Other activities income and expenses

	Group		Company	
	2015	2014	2015	2014
Income from other operating activities				
Miscellaneous services	453	481	375	412
Materials sold	37	29	37	15
Gain from sale of non-current assets	68	121	68	121
Other	39	591	39	589
	<b>597</b>	<b>1,222</b>	<b>519</b>	<b>1,137</b>
Expenses from other operating activities				
Cost of miscellaneous services	(268)	(241)	(191)	(194)
Cost of materials sold	(68)	(23)	(68)	(1)
Write off of non-current assets	(84)	(212)	(84)	(213)
Loss from sale of non-current assets	-	(37)	-	(37)
Other	(29)	-	(29)	-
	<b>(449)</b>	<b>(513)</b>	<b>(372)</b>	<b>(445)</b>

### 19. Finance income

	Group		Company	
	2015	2014	2015	2014
Interest from late payment of accounts receivable	264	335	264	335
Fines	-	-	-	-
Impairment of non-current financial assets	-	-	-	-
Change in fair value of derivative financial instruments	-	15	-	15
Bank interest	-	-	-	-
Other	-	-	-	-
	<b>264</b>	<b>350</b>	<b>264</b>	<b>350</b>

## 20. Finance costs

	Group		Company	
	2015	2014	2015	2014
Interest on bank loans and overdrafts	(650)	(475)	(650)	(475)
Calculation of the value of shares	(98)	-	(98)	-
Penalties	(28)	-	(28)	-
Long-term financial assets impairment	(27)	-	(27)	(3)
Exchange rate change	-	-	-	-
	<b>(803)</b>	<b>(475)</b>	<b>(803)</b>	<b>(478)</b>

## 21. Income tax

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

	Group		Company	
	2015	2014	2015	2014
Profit before tax	5,165	1,302	5,184	1,307
Income tax (expenses) calculated at statutory rate	(775)	(195)	(778)	(196)
Permanent differences and impact of valuation allowance of deferred income tax asset	119	(245)	122	(244)
Income tax (expenses) reported in the statement of comprehensive income	(656)	(440)	(656)	(440)
<b>Effective rate of income tax ( percent)</b>	<b>12.70</b>	<b>33.79</b>	<b>12.65</b>	<b>33.67</b>

	Group		Company	
	2015	2014	2015	2014
<b>Components of the income tax expense</b>				
Current income tax for the reporting year	(9)	-	(9)	-
Deferred income tax (expenses)	(647)	(440)	(647)	(440)
Income tax (expenses) recorded in the statement of comprehensive income	(656)	(440)	(656)	(440)

As of 31 December 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 other comprehensive income.

As of 31 December deferred income tax consists of:

	Group		Company	
	2015	2014	2015	2014
<b>Net deferred income tax asset</b>				
Tax loss carried forward	2,595	2,611	2,595	2,611
Accruals	151	156	151	156
The change in value of financial assets	4	-	4	-
<b>Deferred income tax asset</b>	<b>2,750</b>	<b>2,767</b>	<b>2,750</b>	<b>2,767</b>
<b>Deferred income tax liability</b>				
Differences of depreciation	(6,222)	(5,164)	(6,222)	(5,164)
Investment relief	(31)	(459)	(31)	(459)
Revaluation of the assets transferred to subsidiary	-	-	(192)	(192)
Deferred income tax liabilities	<b>(6,253)</b>	<b>(5,623)</b>	<b>(6,445)</b>	<b>(5,815)</b>
<b>Deferred income tax, net</b>	<b>(3,503)</b>	<b>(2,856)</b>	<b>(3,695)</b>	<b>(3,048)</b>

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

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

	Group		Company	
	2015	2014	2015	2014
Allowance for trade receivables	1,862	2,005	1,869	2,013
Property, plant and equipment depreciation	32	32	32	32
Allowance for other accounts receivable	33	19	45	31
Impairment for the investment into subsidiary	-	-	122	122
Accruals	86	226	86	226
<b>Unrecognized deferred tax asset, net</b>	<b>2,013</b>	<b>2,282</b>	<b>2,154</b>	<b>2,424</b>

## 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	4,509	862	4,528	867
Number of shares (thousand), opening balance	42,802	42,732	42,802	42,732
Number of shares (thousand), closing balance	42,802	42,802	42,802	42,802
Average number of shares (thousand)	42,802	42,787	42,802	42,787
Basic and diluted earnings per share (EUR)	0.11	0.02	0.11	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	As of 31	As of 31	As of 31
	December 2015	December 2014	December 2015	December 2014
Individuals	114,494	114,151	114,494	114,151
Other legal entities	2,159	2,122	2,159	2,122
Legal entities financed from municipalities' and state budget	591	571	591	571
	<b>117,244</b>	<b>116,844</b>	<b>117,244</b>	<b>116,844</b>

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

	Group		Company	
	As of 31	As of 31	As of 31	As of 31
	December 2015	December 2014	December 2015	December 2014
Individuals	7,370	10,928	7,370	10,928
Other legal entities	934	2,186	934	2,186
Legal entities financed from municipalities' and state budget	671	2,006	671	2,006
	<b>8,975</b>	<b>15,120</b>	<b>8,975</b>	<b>15,120</b>

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\*:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>	<b>As of 31</b>
	<b>December 2015</b>	<b>December 2014</b>	<b>December 2015</b>	<b>December 2014</b>
A	353	57	340	52
A+	1,587	166	1,587	166
AA-	370	7	370	7
Bank with no rating attributed	18	37	18	37
	<b>2,328</b>	<b>267</b>	<b>2,315</b>	<b>262</b>

\*- 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>
<b>2015</b>		
EUR	50	(7)
EUR	(50)	7
<b>2014</b>		
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 December 2015 were 1.10 and 1.07, respectively (0.69 and 0.68 as of 31 December 2014). The Company's liquidity and quick ratios as of 31 December 2015 were 1.10 and 1.07, respectively (0.69 and 0.68 as of 31 December 2014). As at 31 December 2015 Groups' and Company's net working capital was plus respectively (EUR 1,179 thousand and EUR 1,162 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 implemented the following action plan:

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

Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 31 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
Amount used	-	7,121	-	7,121
Amount unused	4,344	119	4,344	119
	<b>4,344</b>	<b>7,240</b>	<b>4,344</b>	<b>7,240</b>

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

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	724	2,260	10,430	12,041	25,455
Trade payables	7,744	34	26	-	7,804
<b>Balance as of 31 December 2015</b>	<b>8,468</b>	<b>2,294</b>	<b>10,456</b>	<b>12,041</b>	<b>33,259</b>
	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
<b>Balance as of 31 December 2014</b>	<b>19,019</b>	<b>12,578</b>	<b>10,482</b>	<b>10,087</b>	<b>52,166</b>

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

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	724	2,260	10,430	12,041	25,455
Trade payables	7,743	34	26	-	7,803
<b>Balance as of 31 December 2015</b>	<b>8,467</b>	<b>2,294</b>	<b>10,456</b>	<b>12,041</b>	<b>33,258</b>
	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
<b>Balance as of 31 December 2014</b>	<b>19,018</b>	<b>12,577</b>	<b>10,482</b>	<b>10,087</b>	<b>52,164</b>



Trade payables

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

	Group		Company	
	As of 31 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
For heat purchased	4,989	9,477	4,989	9,477
Contractors	399	6,508	399	6,508
Other suppliers	2,416	3,481	2,415	3,479
	<b>7,804</b>	<b>19,466</b>	<b>7,803</b>	<b>19,464</b>

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

As of 31 December 2015 the Group and the Company had an EUR 1,691 thousand (31 December 2014 – EUR 2,057 thousand) of overdue trade creditors, out of which an EUR 1,593 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:

	Group			Company		
	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Financial assets:						
Cash and bank balances	2,531	389	624	2,518	384	618
Loans and receivables	9,835	21,746	19,257	9,822	21,735	19,253
Financial assets, carried at fair value through profit or loss (level 3 in the fair value hierarchy)	1	28	28	1	28	28
	<b>12,367</b>	<b>22,163</b>	<b>19,909</b>	<b>12,341</b>	<b>22,147</b>	<b>19,899</b>

	Group			Company		
	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Financial liabilities:						
Carried at fair value through profit or loss (level 2 in the fair value hierarchy)	-	-	15	-	-	15
Carried at amortised cost	29,883	48,786	39,939	29,882	48,784	39,935
	<b>29,883</b>	<b>48,786</b>	<b>39,954</b>	<b>29,882</b>	<b>48,784</b>	<b>39,950</b>

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

#### Capital management

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, reconsider the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management as of 31 December 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 December 2015	As of 31 December 2014	As of 31 December 2015	As of 31 December 2014
Non-current liabilities (including deferred tax and grants (deferred income))	40,391	34,409	40,583	34,601
Current liabilities	12,191	33,339	12,178	33,337
Liabilities	<b>52,582</b>	<b>67,748</b>	<b>52,761</b>	<b>67,938</b>
Equity	<b>81,860</b>	<b>77,382</b>	<b>82,412</b>	<b>77,915</b>
Debt* to equity ratio ( percent)	<b>64.23</b>	<b>87.55</b>	<b>64.02</b>	<b>87.20</b>

\* 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 KTE claim to defendant BAB Ūkio Bankas regarding the termination of factoring contract and regarding the recognizing as a property of 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. On September 2013 a preliminary court decision under the specified claim of claimant BAB Ūkio Bankas to the Company and KTE 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. On 30 April 2015 accounts with BAB Ūkio Bankas were settled.

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 June 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. On 7 October, 2015 the Supreme Court of Lithuania rejected by its decision Company's cassation complaint and left decisions of lower courts valid.

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. On 22 April 2015 Kaunas District Court rejected a claim. Claimant placed an appeal, but it was left unmet by the decision of Kaunas District Court on 29 October 2015. The decision came into force, but a claimant still has a possibility of placing a cassation appeal to the Supreme Court of Lithuania in 3 months.

### 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 2016.

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

Future liabilities of Group and the Company under valid purchase arrangements as of 31 December 2015 amounted to EUR 8,048 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:

<b>2015</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,010	5,327	873	296
Jurbarkas city municipality	1	325	13	-
<b>2014</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
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 December 2015 allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 341 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	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
<b>2015</b>	-	-	-	-
<b>2014</b>	25	-	-	-
Kauno Energija NT UAB	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
<b>2015</b>	6	8	125	-
<b>2014</b>	6	10	134	-

As of 31 December, 2015 the Company has formed an EUR 125 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 December 2015 the Group's and the Company's management team comprised 6 and 4 persons respectively (as at 31 December 2014 – 6 and 4).

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Key management remuneration	175	135	160	128
Calculated post-employment benefits	7	19	7	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**

On 4 January 2016 the Company placed the peaceful agreement with KTE regarding termination of Investment agreement with further changes of 31 March 2003 for Arbitration approval, as it is described in Note 1. Arbitration approved on 29 January 2016 a peaceful agreement concluded between the Company and KTE on 23 December 2015 by which a litigation in case No. 268 regarding noncompliance of Investment

agreement of 31 March 2003 was terminated. The litigation continued since April 2013. Following essential terms of peaceful agreement:

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

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# CONSOLIDATED ANNUAL REPORT OF AB KAUNO ENERGIJA OF THE YEAR 2015



Kaunas, 2016



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

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

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules for presentation and delivery of periodic and additional formation, approved by the decision No O3-48 of 28 February 2013 of the Board of the Bank of Lithuania, we hereby confirm that, to our best knowledge, the consolidated annual report and audited consolidated and parent company financial statements of the year 2015 reviewed by auditors of private limited liability company Kauno Energija (hereinafter the Company or the Issuer), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, represent a true and fair view of the total consolidated assets, liabilities, financial position and profit or loss and cash flows, that the consolidated annual report of the year 2015 includes a fair business development and performance review of the Company and the situation of consolidated, together with the description of principal risks and uncertainties encountered.

General Manager of AB Kauno Energija



Rimantas Bakas

Chief Accountant of AB Kauno Energija



Violeta Staškūnienė



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## 1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Report of AB Kauno Energija was prepared, is the year 2015.

## 2. Companies composing the group of companies and their contact details

AB Kauno Energija (hereinafter referred to as the Company or the Issuer) prepares both the Company's and the consolidated financial statements. The group (hereinafter referred to as the Group) consists of AB Kauno Energija and its subsidiary – UAB Kauno Energija NT, in which the Issuer directly controls 100 per cent of the shares. The subsidiary UAB Pastatų Priežiūros Paslaugos, the shares of which were also 100 per cent controlled by the Issuer, was also a part of the Group up to 7 September 2015. Status of liquidated company was attached to UAB Pastatų Priežiūros Paslaugos on 8 January 2014 and on 7 September 2015 the company was removed from the Register of Legal Entities of VĮ Registrų Centras.

### Main details of the Company:

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

### Main information about the subsidiaries:

Company name	Private Limited Liability Company Pastatų Priežiūros Paslaugos
Legal-organizational form	Private Limited Liability Company
Status of legal entity	Liquidated
Headquarters address	Savanorių pr. 347, 49423 Kaunas
Code of legal entity	300580563
Telephone	-
Registration date and place	1 July 2006, Kaunas
Removal date and place	7 September 2015, Kaunas
Register manager	Kaunas Branch of State Enterprise Centre of Registers
Company name	Private Limited Liability Company Kauno Energija NT
Legal-organizational form	Private Limited Liability Company
Headquarters address	Savanorių pr. 347, 49423 Kaunas
Code of legal entity	303042623
Telephone	(8 37) 305 693
E-mail	kent@kaunoenergija.lt
Registration date and place	16 April 2013, Kaunas
Register manager	Kaunas Branch of State Enterprise Centre of Registers

## 3. Nature of core activities of the companies composing the group of companies

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

Also, following provisions of the Law on Heat Sector, the Company supplies hot water (is engaged in hot domestic water supplier activities) from 1 May 2010 for consumers in the cities of Kaunas and Jurbarkas and



Kaunas district (hereinafter the supplies of heat and hot domestic water without cold water are referred to as heat, with the exception of information provided in Tables 7 and 8 “Comparison of financial indicators of the Group and the Company of the year 2015 with the indicators of the years 2011–2014”), who chose the Company as a hot water supplier. As at 31 December 2015, the Company was a hot water supplier for 428 residential buildings in Kaunas and Kaunas district and 5 in Jurbarkas. Income from hot water supplies amounts to approximately 4.2 per cent of all of Company’s sales revenue.

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

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

Values of the Group and the Company:

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

Strategic goals of the Group and the Company:

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



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

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

#### **4. Issuer's agreements with credit institutions**

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

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

20,031,977 (twenty million thirty one thousand nine hundred seventy seven) of the Issuer's ordinary registered shares (VP ISIN code LT0000123010) with the total nominal value equal to EUR 34,855,639.98 (thirty four million eight hundred fifty five thousand six hundred thirty nine euro and 98 cents) as at 31 December 2015 were listed in the secondary trade list of Nasdaq Vilnius Baltic stock exchange. The beginning of listing of the Company's shares is 28 December 1998.

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

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

In the year 2015 the Company performed its activities with a main focus on development of capacities of production sources and increase of reliability of CHS network, considering Strategic guidelines of centralized heat supplies of Kaunas city.

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

The Company covers a major part of heat production and supply market in the cities of Kaunas and Jurbarkas and Kaunas district. Company's generation capacities consist of Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 boiler-house in Jurbarkas city, 13 boiler-houses of isolated networks and 28 local gas burning boiler-houses in Kaunas city, also 8 local water heating boiler-houses in Sargėnai catchment. Total installed heat generation capacity in the year 2015 was 564.476 MW (including 37.5 MW capacities of condensational economizers) and also 8.75 MW of electricity generation capacities. 294.8 MW of heat generation capacities (including 16 MW capacities of condensational economizers) and 8 MW of electricity production capacities of Petrašiūnai power plant are among them. 29.8 MW of heat generation capacities (including 2.8 MW capacities of condensational economizer) is situated in Jurbarkas city. Total Company's power generation capacity is 573.226 MW (including 37.5 MW of condensational economizers' capacities).



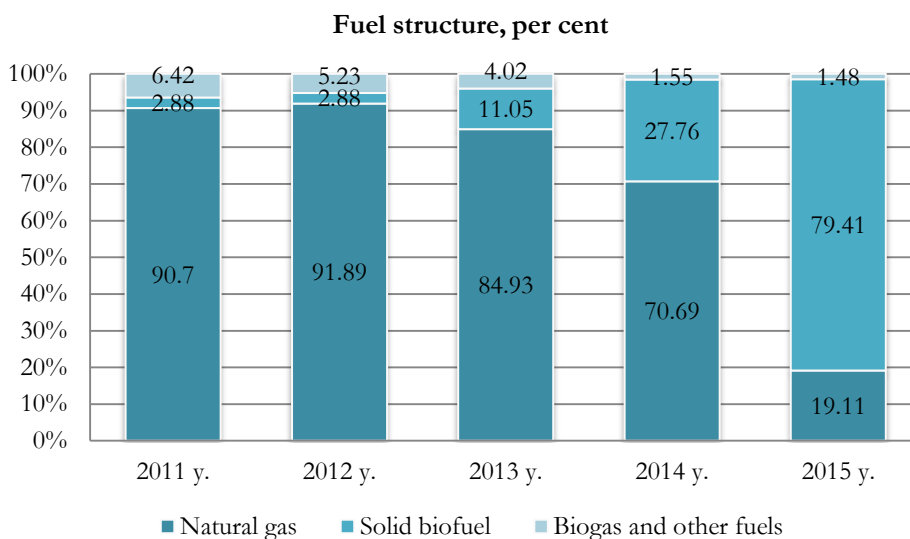
Almost 40 per cent of heat supplied to consumers in 2015 was produced in Company’s heat production facilities. The rest of required quantity of heat was purchased from independent heat producers (hereinafter – IHP) in monthly auctions, according to legal acts.

UAB Kauno Termofikacijos Elektrinė already was not a dominant heat production facility in Kaunas in 2015. The amount of heat, purchased from UAB Kauno Termofikacijos Elektrinė amounted to 28.5 per cent of all heat purchased and consumed in Kaunas integrated network. In comparison, it amounted to 49.9 per cent of the all purchased heat in the year 2014 and to 72.6 per cent of the all purchased heat in the year 2013. The heat was not purchased from UAB Kauno Termofikacijos Elektrinė during non-heating season in 2015.

Fuel, used by the Company for heat and electricity production in the year 2015 was as follows:

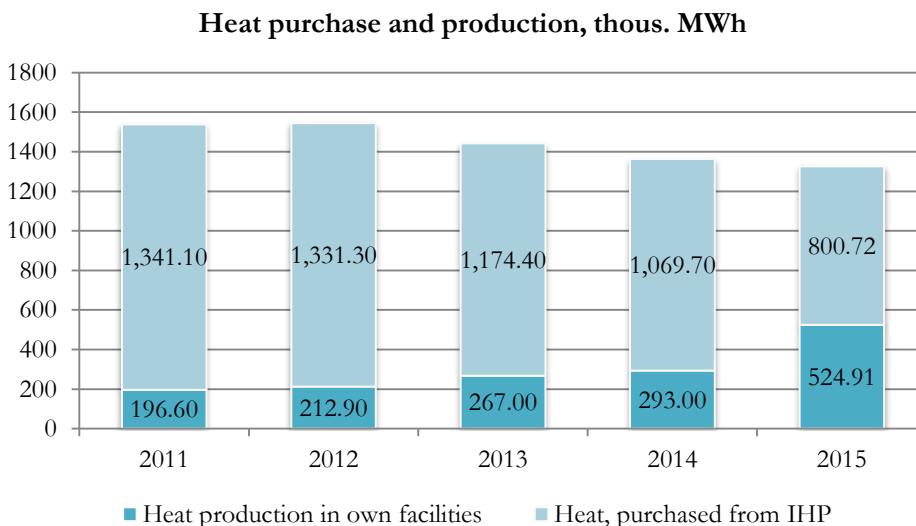
- Solid biofuel – 79.41 per cent,
- Natural gas – 19.11 per cent,
- Biogas and other fuels – 1.48 per cent.

Chart 1



In the year 2015, the Company purchased heat from 9 independent heat producers in Kaunas and Kaunas district: from UAB Kauno Termofikacijos Elektrinė, UAB GECO Kaunas, UAB Lorizon Energy, UAB Ekoresursai, UAB Pramonės Energija, UAB Aldec General, UAB ENG, UAB Oneks Invest and UAB Ekopartneris. Total purchases consisted of 800.72 thousand MWh of heat, i.e. 60.4 per cent of heat supplied to the network (in the year 2014 – 78.5 per cent). Amounts of heat purchased from IHP and produced with Company’s equipment during the period of 2011 – 2015 are presented in chart 2, thousand MWh:

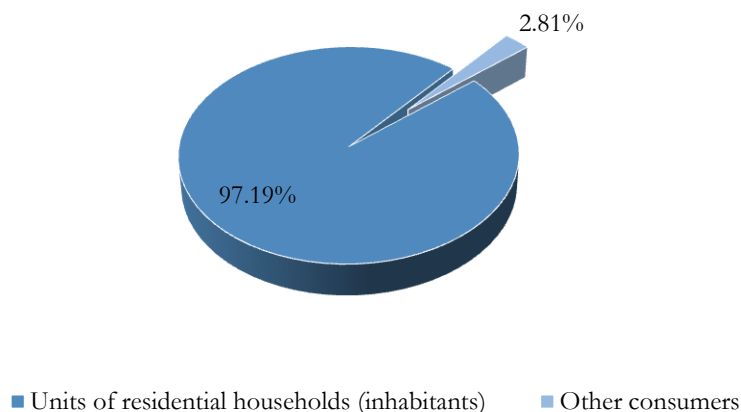
Chart 2



As at 31 December 2015 the Company supplied heat with integrated heating and local area networks to 3,331 business organization as well as to 115,073 households, in total – to 118,404 consumers (objects by addresses).

Chart 3

### Repartition of Company's heat consumers by groups



Company's turnover from sales of the year 2015 was amounted to EUR 60,733 thousand and decreased by 19.83 per cent in comparison with the year 2014 (in the year 2014 it was amounted to EUR 75,755 thousand). Turnover from sales of the Group of the year 2015 was amounted to EUR 60,725 thousand (in the year 2014 it was amounted to EUR 75,746 thousand).

Company's income for the heat sold comprised the majority of income both Company's and the Group's: Group's – 97.27 per cent, Company's 97.27 per cent (supplies of heat and hot water, excluding expenditures for cold water).

Net profit of the Group of the year 2015 was amounted to EUR 4,509 thousand and of the Company – EUR 4,528 thousand.

#### Investments

Investments of the Company are being made in accordance with Company's revised investment plan for the years 2012–2015, which was approved by decision No T-477 of Kaunas City Municipality Council of 8 September 2015 “Regarding change of decision of Kaunas City Municipality Council No T-9 of 22 January 2015 “Regarding revised investment plan of AB Kauno Energija for the years 2012–2015” and authorisation to sign changes”. EUR 92.08 million were planned to invest in Company's assets according to approved investment plan during the period of 2012-2015.

The Company implements trunk pipeline replacement projects co-financed by the European Union structural funds, it also optimizes pipeline diameters, connects new objects to the DHN and modernises heat production facilities according to Investment plan. With the start of a new period (for the years 2013–2016) of the basic heat price approved by the National Commission for Energy Control and Prices (hereinafter – NCC), and with changes in the regulating environment, in order to reduce the heat production costs and heat price to consumers, the Company refocused guidelines of development of its activities and the major part of investments of the years 2013–2015 is being allocated to the development and modernisation of heat generating facilities from renewable energy sources.

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



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

In order to reach those goals, the Company continued modernization of its' own heat generation facilities, installing new heat generation equipment in them. The following projects of heat generation facilities modernization were finished to implement:

1. "Reconstruction of Šilkas boiler-house changing used fuel to bio-fuel (II stage)". 8 MW capacity bio-fuel burned water heating boiler along with 4 MW capacity condensational economizer in Šilkas boiler-house were installed while implementing this project. Project activities were started in June 2014 and on 6 February 2015 a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of legal acts and can be used in accordance with purpose has been received from the State Energy Inspectorate. Total value of the project is EUR 2.327 million, European Union Structural Funds support in amount of EUR 1.154 million is among them;
2. "Reconstruction of Petrašiūnai power-plant changing used fuel to bio-fuel (I stage)". While implementing this project, a steam boiler BKZ No 1 was changed with two bio-fuel burned water heating boilers with total capacity of 24 MW. A 6 MW capacity condensational economizer was installed as well. The total capacity of new equipment reached to approximately 30 MW. Project activities were started in the spring of 2014 and on 17 February 2015 a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of legal acts and can be used in accordance with purpose has been received from the State Energy Inspectorate. The total value of the project was EUR 6.298 million. European Union Structural Funds support for this project in amount of EUR 1.523 million is among them. A total of 189.9 thousand MWh of heat were produced with this equipment during the year 2015.
3. "Reconstruction of Inkaras boiler-house changing used fuel to bio-fuel". Starting from the year 2000 Inkaras boiler-house was mothballed and did not produce any heat. During implementation of project two bio-fuel burned water heating boilers with capacity of 8 MW each and 4 MW capacity condensational economizer were installed (the total capacity 20 MW). The contract on boiler-house reconstruction works was signed on 5 August 2014 and on 17 February 2015 a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of project and legal acts and can be used in accordance with purpose has been received from the State Energy Inspectorate. The total value of the project was EUR 5.709 million. European Union Structural Funds support for this project in amount of EUR 1.738 million is among them. A total of 140.5 thousand MWh of heat were produced with this equipment during the year 2015.

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

One more bio-fuel equipment installation project, which was co-financed by Lithuanian Environmental Investment Fund (LEIF), was implemented by the Company in the year 2015:

4. "Reconstruction of Šilkas boiler-house changing depreciated boiler with the new one". A new 9 MW capacity biofuel burned water heating boiler was installed instead of depreciated boiler, that was in operation since the year 1959, during implementation of project. The new boiler was installed by connecting it to biofuel burned furnace that was installed in the year 2013. The contract on project works was signed on 24 July 2015. The operation of boiler was officially started on 10 December 2015. More than 150 thousand EUR support was allocated for this project under the 2014 year estimate of use of funds elaborating plan measure "Installation of biofuel boilers, changing depreciated boilers with a new ones" of the Climate Change Special Programme. Total value of the project "Reconstruction of Šilkas boiler-house changing depreciated boiler with the new one" was EUR 0.7 million.

The result of all of these implemented projects was at approximately 20 per cent decreased price of heat for Company's heat consumers. An average price of the heat sold was 5.40 ct/kWh in the year 2015 and in the year 2014 it was 6.69 ct/kWh. As a result of these investments (as well as of warmer weather and slightly cheaper fuel) Company's heat consumers saved more than EUR 15 million during the year 2015.



Year 2015 can be considered as a breakthrough of AB Kauno Energija in Kaunas heat economy, where after building and start of operation of even 6 new biofuel burned heat generation facilities in city integrated network (with total capacity of 72 MW) the Company strengthened heat generation business in Kaunas significantly and braked through with its' generation amounts into positions of heat generation leader.

It's emphasizing, that any other Lithuanian heat supplies company is being done such a big breakthrough in one year period, i.e. implemented that amount of new capacities of heat production from biofuel. The Company started production of heat with these capacities at the cheapest prices, thus making IHP to reduce price of the heat sold.

After start of operation of Company's new biofuel boiler-houses, the part of heat produced using biofuel in integrated network increase up to 70 – 100 per cent, estimating currently working biofuel equipment of IHP.

The Company builds biofuel equipment coherently pursuing strategy of Company's development, approved by city municipality council and reaching to further reduce heat price for consumers. By increasing and modernizing production capacities the Company increasingly occupies part of heat production market and it seems likely that it will produce in own production facilities and will supply to DHN more than 80 per cent of all heat demand in 2016.

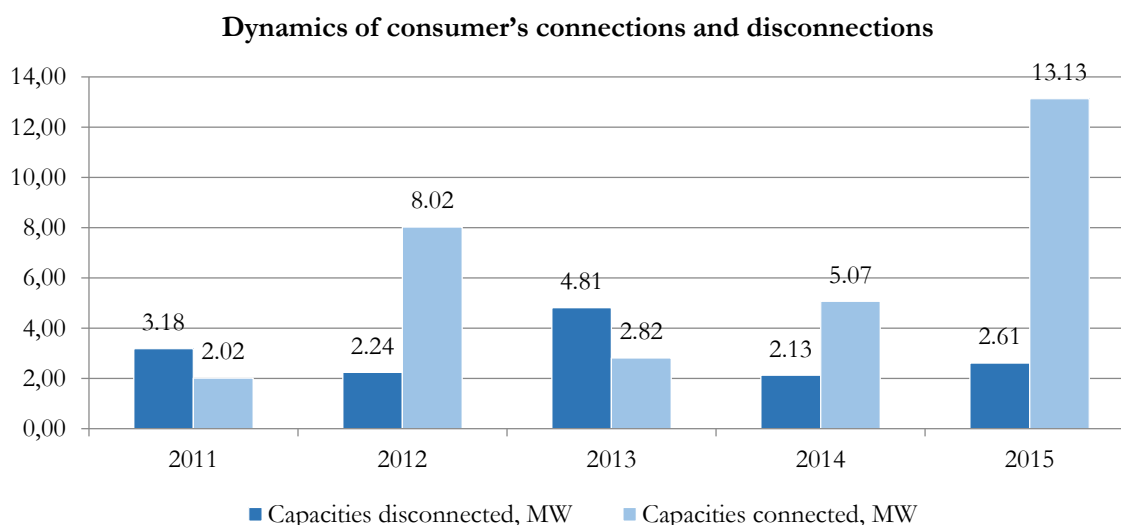
27 new objects with total installed capacity of 13.13 MW were connected to Company's heat supplies network during the year 2015.

On 1 September 2015 the triangular agreement between UAB Litesko, Kaunas city municipality and AB Kauno Energija on acquisition of Sargėnai (catchment of Kaunas city) heat economy has been signed, according to which UAB Litesko disposed obligations to start performance of heat and hot water supplies activity in Sargėnai to the Company starting from 1 October 2015. Also UAB Litesko sold equipment which is necessary for this activity.

Sargėnai heat economy consists of 8 fully automatized gas burned water heating boiler-houses, which are installed in 1998. The heat from them is being supplied with local heat network to one or several residential buildings. Total capacity of boiler-houses is 4.083 MW. On an average 4.40 thousand MWh of heat are being produced in them per year. Approximately 580 consumers of centrally supplied heat reside in Sargėnai catchment.

The dynamics of consumer's connections to Company's DHN and disconnections from it in 2011 – 2015 is shown in Chart 4.

Chart 4



3.67 MW of newly connected consumption capacities is capacities of Sargėnai catchment consumers, for whom AB Kauno Energija started to supply heat and hot water from 1 October 2015, after disposal of these activities from UAB Litesko. Starting from that date Kaunas city municipality has no need to pay subsidy to UAB Litesko





for covering difference between price of heat supplied by its own and by AB Kauno Energija, consumed by Sargėnai consumers. This subsidy amounted to approximately EUR 50 thousand in 2014 – 2015 heating season. Also treatment purposes buildings of VšĮ Kauno Klinikinė Ligoninė (Public institution Kaunas Clinical Hospital) at Josvainių str, 2, for which heat was started to supply from 28 December 2015, are included in the list of objects connected in 2015. Hospital's consumption capacity is 6.18 MW. Earlier the heat for this object was supplied from gas burned boiler-house, operated by UAB Litesko.

The list of objects newly connected to DHN is given in Table 1.

Table 1

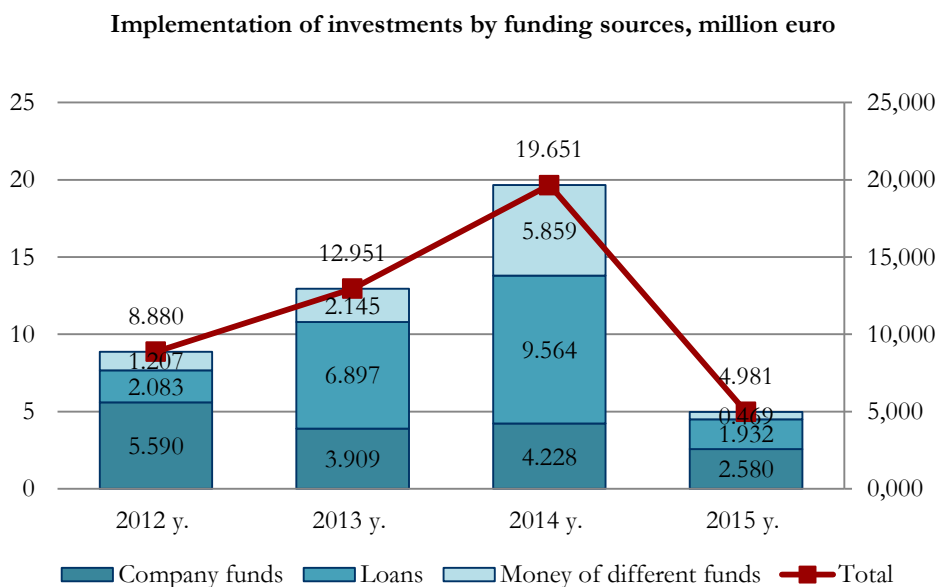
No.	Denomination of heat consumer	Address	Capacities, MW	Heating square, m <sup>2</sup>
1	Lithuanian University of Health Sciences	Tilžės str. 18 (ŠP14)	0.514000	5200.00
2	UAB Kauno Rudondvario PC, UAB Hakonlita shopping centre	Raudondvario av. 94B	0.503600	3302.50
3	UAB Akmenis (Maxima LT)	V. Krėvės av. 108	0.275000	1734.93
4	R. Petkevičius (office building) Accounting in Style, UAB	Raudondvario av. 94	0.080000	536.38
5	UAB Norfos Mažmena	Baltų av. 195	0.217000	2541.89
6	UAB Liprimus Group residential building	Vasario 16-osios str. 23, Garliava	0.185000	1189.47
7	UAB Nuova Capital residential building	Baltų av. 193B	0.370000	3243.84
8	Vytautas Magnus University	V. Putvinskio str. 23	0.438000	8505.14
9	UAB Mitnija (Lidl)	Šiaurės av. 1A	0.171000	1937.12
10	UAB Mitnija (Lidl)	Baltų av. 10	0.171000	1906.03
11	Residential building	Biržiškų str. 1F	0.177000	825.00
12	Residential building	Biržiškų str. 1G	0.177000	974.00
13	Residential building	Pienių str. 2, Sargėnai	0.198300	1342.89
14	Residential building	Pienių str. 4, Sargėnai	0.196500	1310.04
15	Residential building	Pienių str. 6, Sargėnai	0.120700	802.81
16	Residential building	Pienių str. 8, Sargėnai	0.593100	3954.76
17	Residential building	Vandžiogalos str. 8, Sargėnai	0.385900	2579.92
18	Residential building	Vandžiogalos str. 10, Sargėnai	0.384600	2578.13
19	Residential building	Vandžiogalos str. 12, Sargėnai	0.387600	2582.94
20	Residential building	Vandžiogalos str. 4, Sargėnai	0.702000	4681.26
21	Residential building	Vandžiogalos str. 84A, Sargėnai	0.356100	2382.68
22	Residential building	Vandžiogalos str. 9, Sargėnai	0.076500	522.42
23	Residential building	Vandžiogalos str. 11, Sargėnai	0.053500	306.73
24	Residential building	Garso str. 4, Sargėnai	0.045300	309.07
25	Residential building	Garso g. str, Sargėnai	0.023500	170.90
26	Nursery Klumpelė	Pienių str. 14, Sargėnai	0.147900	1619.43
27	VšĮ Kauno Klinikinė Ligoninė	Josvainių str. 2	6.179100	50658.00
<b>Total:</b>			<b>13.12920</b>	<b>107698.28</b>



In 2015 the Company has invested EUR 4.981 million (among them, funds from other sources, i.e. EUR 1.932 million were loans from commercial banks, EUR 0.469 million was financial support from European Union Structural Funds and Lithuanian Environmental Investment Fund). A major part of these investments were assigned for instalment of biofuel boilers (EUR 2.099 million). EUR 0.189 million were assigned for connection of new objects, a total consumption capacity of whose is 13.13 MW, to DHN.

Company's investments by funding sources for the years 2012–2015 are shown in Chart 5.

Chart 5



The change of investment uptake of the Issuer during period of 2012–2015 reflects changes in macro-economic processes in the country and in the European Union: the Company's investments in equity in 2013, in comparison with 2012, increased by 45.84 per cent and consisted of EUR 12.951 million, but in 2014 Company's investment volumes reached EUR 19.651 million and in comparison with 2013 increased by 51.73 per cent. Company's investment volumes reached EUR 4.981 million in 2015.

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

On 1 October 2015 National Commission for Energy Control and Prices (hereinafter – Commission) approved Company's investments – reconstructions of heat supplies networks and building of biofuel boiler-house in the city of Jurbarkas. Commission approved for the Company planned installation of biofuel boiler in 2016 for more than EUR 2.1 million in Jurbarkas boiler-house and EUR 8 million worth reconstruction of heat supplies pipelines in the city of Kaunas, for implementation of which a co-financing will be asked from European Union Structural funds.

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

In order to expand its' consumer market, the Company started to build a new heat supply pipeline in 2015 to Brasta residential quarter in Kaunas, which is in process of construction. Following the project "Heat supply networks to residential quarter from HC 8K-14-5 near the building at Jurbarko str. 81 to the point "A" at the address Brastos str. 24, Kaunas" a 487 meters length, 200 mm diameter pipeline will be built. The heat will be



supplied to this residential quarter using this pipeline. According to publicly announced information 10 residential buildings with approximately 500 flats will be built in this residential quarter. Approximately of 4.4 MW capacities consumption equipment are being planned to install in them. A new pipeline will allow supplies of an up to 10 MW flow of heat at the coldest period of the year, so it will be possible to connect even more new consumers if it will be necessary. Total value of the project is EUR 244 thousand. Project is being implemented using efforts and funds of AB Kauno Energija. Construction works of the project were started in December 2015. Project completion is planned in the year 2016.

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

On 4 December 2014 NCC issued for the Company Licence of Energy operation No. L2-38(GDT), which allows the Company to be engaged in natural gas supplies business. It allows the Company to sell surplus of natural gas in natural gas exchange.

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

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

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

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

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

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

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

*Risk of decline in consumption:* Company's performance is affected by the decline in sales due to reduced and further reducing heat demand (in pursuance of residential buildings renovation and by installing a heat saving equipment), due to consumer's disconnections from DHN (due to the various reasons). Risks can be mitigated by Company current and further investments in heat and electricity production facilities, using renewable energy sources, reducing heat production expenditures and the price heat, purchased from IHP as well as the price of



heat supplied for consumers, and continually reasonably informing customers on the benefits of DHN systems (safety, reliability, correlation with one sort of fuel, fuel conversion, local pollution sources in residential areas, total environmental pollution, etc.) in comparison with autonomous heating.

The effects of other competing companies, propagating the only usage of natural gas, irrespective of approved special heating supplies plan, supplies reliability, affection to the only source of fuel, not yet regulated local pollution, in the heat supply sector with the Company are disconnections of consumers from DHN system. During 2015, consumers disconnected approximately 2.61 MW of installed capacities. Heating equipment disconnection from the DHN and heating mode changes are carried out in accordance with the procedures specified in the Civil Code of the Republic of Lithuania, the Law on Heat Sector and the Law on Construction, and secondary legislation implementing the aforementioned legal acts. Heat disconnection is governed by the "Rules on heat supply and consumption" approved by order No 1-297 of 25 October 2010 of the Minister of Energy of the Republic of Lithuania (and their further amendments) and the Description of procedure for disconnection of the building or heating facilities of premises from heat supply networks at the initiative of consumers approved by order No A 1830 of the director of administration of Kaunas City Municipality of 14 May 2012. Kaunas City Municipality has approved a special heat supply plan, which provides a way to separate the heat supply in different urban areas. Disconnection of buildings in the district heating area from the DH network is only possible with the appropriate permit of Kaunas City Municipality. A special heat supply plan of Kaunas District Municipality was approved by the decision of Kaunas District Municipality No TS-43 of 26 January 2012. A special heat supply plan of Jurbarkas City and District was approved by the decision of Jurbarkas District Municipality No T2-67 of 10 March 2005.

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

Detailed information on risk management policy and of risks of credit, currency rates, interest rates and liquidity is provided in Note 23 of Company's explanatory notes to the financial statements of the year 2015.

During the year 2015 in comparison with the year 2014, heat consumer debts decreased by approximately 10 % and consisted of EUR 13.8 million. In the year 2014 in comparison with the year 2013 heat consumer debts decreased by approximately 21 % and consisted of EUR 15.4 million and in the year 2013 – EUR 19.5 million. Decrease was affected by application of effective methods of debts administration, decrease in heat price, and more high average air temperature during heating seasons and conditionally lower heat consumption.

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

In all cases, the Company first notifies the user of his indebtedness. When debtors respond to warnings and contact the Company, the Company discusses the options of debt settlement with them, signs documents guaranteeing the repayment of the debt. If the debtor does not respond to warnings and if pre-trial measures are not effective, the judicial recovery begins. The Company then applies to the court and after a decision accompanied with receiving-order – to bailiff. In such case the debtor must pay not only the debt but also the court and execution expenditures. A number of debt prevention and pre-trial actions were made in 2015. A referral of information on debtors to Collection Company is among them. The Company placed to consumers 1.4 million bills during 2015. There were more than 60.5 thousand telephone calls from consumers; more than 13 thousand of them were advised verbally.

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

*Political and legal factors:* Energy activities are governed by the Law on Heat Sector, the Law on Energy, the Law on Electricity, the Law on Natural Gas, the Law on Drinking Water Supply and Wastewater Management,



Government resolutions, Heat supply and consumption rules, Methodology of heat prices and payments for heat of the National Control Commission for Prices and other legislation. Their amendments affect the heating industry.

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

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

On 7 March 2013 Gazprom OAO transferred ownership of the shares of KTE to Clement Power Venture Inc. The changes of Agreement on Investments and of Heat Energy Purchase Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and Gazprom OAO on 13 August 2013 came into force since that date. Following changes of Heat Energy Purchase Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of EUR 101.367 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of EUR 2.896 million, which will be fulfilled during the period of 2012 – 2016. Notwithstanding agreements reached, on 30 April 2013 KTE placed a claim to Vilnius Court of Commercial Arbitration, arguing KTE obligations regarding investments in Company heat economy in amount of EUR 2.896 million and postponing the terms of implementation (alternative claim) (Arbitration case No. 268), and on 17 February 2014 it told in written, that it stops implementation of all obligations taken by Investment agreement. In February 2014 both sides began negotiations for a peaceful settlement of investment dispute; however on 26 May 2014 the Arbitration court was informed that compromise has not been reached. Considering that, the Company placed a claim to Arbitration Court on 30 June 2014 reaching to adjudge from KTE the sum in amount of EUR 0.941 million for inappropriate implementation of its obligations to finance in the years 2012 – 2013 Company's investments (the case No. 304 started; later it was integrated with Arbitration case No. 268), but KTE specified on 9 July 2014 its claims in the case, by which asked Arbitration Court in addition to terminate overall Investment agreement. On 30 January 2015 the Company asked Arbitration by specified claims to adjudge in addition from KTE the sum in amount of EUR 0.652 million for non-financed Company's investments in 2014 (total claims in amount of EUR 1.593 million).

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

The essential terms of peaceful agreement: Investment agreement between both sides is terminated and KTE obliges to pay compensation for the Company in amount of EUR 2,317 thousand As an additional non-financial



compensation KTE disposes a part of Kaunas critical centralized heat supplies infrastructure to the Company for proprietorship, i.e. immovable property (manifolds building and coherent pipelines) as well as part of technological circuit equipment, necessary to the Company.

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

*Social factors:* social factors that have had an impact on the Company's operations in recent years include consumers' disconnections from the system of centralized heat supplies (55 consumers (mostly households) with total consumption capacity of 2.61 MW were disconnected), limited purchasing power of consumers and slow growth of it, unemployment and exceptionally negative opinion about district heating supplier in the public domain.

However, an increased number of consumers (from 117,786 in the year 2014 to 118,404 in the year 2015) had a positive impact. The number of consumers increased after a taking over a heat supplies to Sargėnai catchment from UAB Litesko, and also after connection of several residential and office buildings to centralized heat supplies system. Total installed capacities of new consumer's amounts to 13.13 MW (mostly business organizations owning big, i.e. heated areas).

*Social risk:* Company's activities are socially sensitive to many Kaunas region residents and businesses due to the conditionally high costs for heating and hot water. These costs constitute a significant part of expenses for households. But as the price of heat sold is decreasing, a number of complaints regarding big bills also decrease. This decrease was determined by the latest Company's investments in production facilities that allowed reducing the prices of heat and hot water significantly. As measured in terms of Lithuania, the Company's heat price in the year 2015 was one of the lowest among all heat supply companies.

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

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

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

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

The other risk factor is the lack of own heat generation capacities after selling the main heat generation facility – Kaunas Termofication power-plant in 2003. Existing Company's own capacities of approx. 409 MW cannot secure customers demand (maximum instantaneous demand according to data of three last years is 448 MW) in Kaunas integrated network. In addition, heat supplies companies must have reserve capacities that must be a 30 per cent bigger, than the maximum instantaneous demand of heat according to Lithuanian legal acts. This is why the Company is obliged by NCC to buy a reserve capacity security service. In the year 2015 this service was bought from KTE. Considering that and estimating common trends in development of heat economies in



Kaunas and Lithuania, one of the aims of the Company is to continually reasonably invest in own heat production facilities, i.e. to modernize existing and to build new additional heat production capacities. More detailed information on Company's investments and modernization of production facilities is provided in chapters 6.1 and 7.

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

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

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

The Company pays taxes for atmospheric and water pollution. If allowable emission rate limits or annual limits are exceeded, the Company must pay the fines under the applicable laws of the Republic of Lithuania. There have been no pollution-related incidents and the Company was not imposed any penalties in 2015.

Main Company's emission reduction measures: modernization of heat generation sources, heat transfer loss reduction by replacing the existing pipes to the pipes with polyurethane foam insulation, installation of new technology and improvement of existing facilities, use of less polluting fuels, and continuous emission monitoring (in 2015, the fuel balance was dominated by solid biofuel – 79.41%, natural gas – 19.11%, biogas and other fuels – 1.48 %).

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

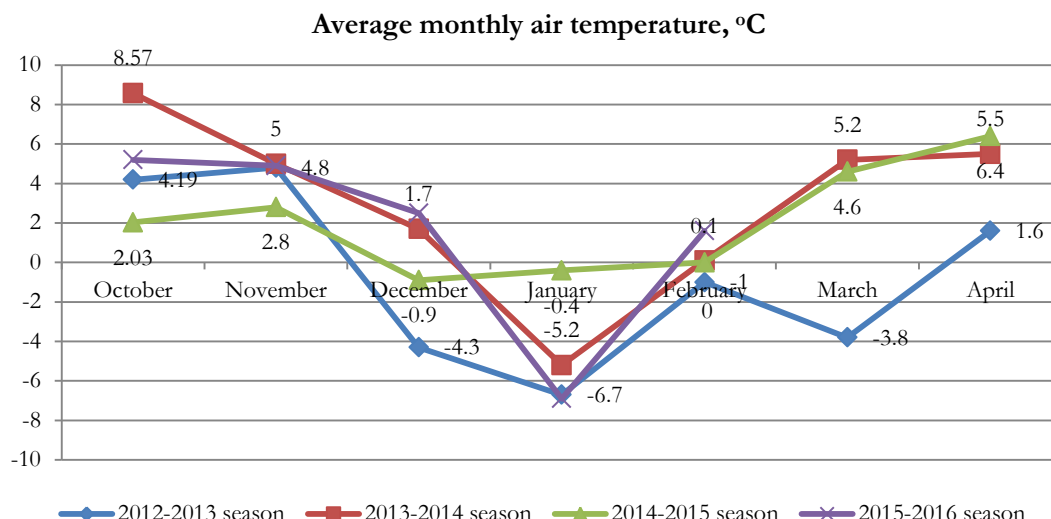
The main aims of the Company are to renew heat supply networks, because they are operated approx. 30 years and are obsolete, and to modernize heat production facilities. Every year, significant part of funds for facility upgrade are borrowed, as own resources, i.e. accumulated depreciation and amortization,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

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

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

Sales revenue from the main activities, in comparison with the year 2014 was at 19.8 per cent lower. This change was mainly affected by the price of heat, the main part of which contains of purchased heat and fuel constituent. In the year 2015 the average price of heat decreased at 19.3 per cent (in 2015 it was 5.40 ct/kWh, and in 2014 it was 6.69 ct/kWh). The amount of heat sold in the year 2015 in comparison with the year 2014 was at 1.45 per cent lower. Average air temperature of heating season of the year 2015 was 3.2 °C, and of the year 2014 – 0.9 °C.





Comparison of financial indicators of the Group of the year 2015 with the indicators of the years 2011–2014 is presented in Table 2.

Table 2

No	Indicator of the Group	2011	2012	2013	2014	2015
1	Net profitability,% (net profit / sales and services)*100	4.4	0.3	0.9	1.1	7.4
2	Return on tangible assets,% (net profit / average value of tangible assets)*100	4.1	0.4	0.8	0.7	3.7
3	Debt ratio (liabilities / assets)	0.34	0.42	0.41	0.47	0.39
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.7	0.7	0.9	0.6
5	General liquidity ratio (short-term assets / short-term liabilities)	0.96	0.85	0.70	0.69	1.10
6	Asset turnover ratio ( sales and services / assets)	0.75	0.83	0.72	0.52	0.45
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	9,629	6,151	6,384	7,344	12,083
8	Profitability of core business, per cent (operating profit / sales and services)* 100	2.4	0.2	-2.1	0.9	9.1
9	Return on equity (ROE)% (net profit / average equity)*100	5.1	0.5	1.1	1.1	5.7
10	Return on assets (ROA)% (net profit / average assets)*100	3.3	0.3	0.7	0.6	3.2
11	Quick ratio ((short-term assets-inventory) / short-term liabilities)	0.90	0.81	0.66	0.68	1.07
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.08	0.05	0.02	0.01	0.21
13	Net earnings per share (net profit / average weighted number of shares in issue)	0.09	0.01	0.02	0.02	0.11
14	Net profit, thousand euros	3,921	346	874	862	4,509
15	Assets, thousand euros	119,397	129,524	129,688	145,130	134,442
16	Equity, thousand euros	78,395	75,647	76,522	77,382	81,860



No	Indicator of the Group	2011	2012	2013	2014	2015
17	Equity per share, euros	1.8	1.8	1.8	1.8	1.9
18	Revenue from sales, thousand euros	89,593	107,079	93,363	75,746	60,725
18.1	Including: Heat energy	87,709	105,036	90,239	72,484	57,396
18.2	Electric energy	165	133	222	220	253
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	373	209	81	27	21
18.4	Income from the maintenance of collectors	251	224	226	227	226
18.5	Hot water supply including cold water price	1,079	1,395	2,494	2,633	2,569
18.6	Income from maintenance of hot water meters	16	82	101	155	260
19	P / E ratio (last share market price of the year / (net profit / number of shares at year-end)	1.11	20.66	8.34	6.99	4.36
20	Share capital, thousand euros	74,256	74,256	74,256	74,378	74,476
21	Share capital-to-assets ratio	0.62	0.57	0.57	0.51	0.55
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	5.2	0.5	1.1	1.1	5.8
23	Dividend payment ratio (dividend per share / earnings per share)	0.78	0.00	0.23	0.03	0.00

Comparison of financial indicators of the Company of the year 2015 with the indicators of the years 2011–2014 is presented in Table 3.

Table 3

No	Indicator of the Company	2011	2012	2013	2014	2015
1	Net profitability,% (net profit /sales and services)*100	4.4	0.2	0.6	1.1	7.5
2	Return on tangible assets,% (net profit / average value of tangible assets)*100	4.1	0.2	0.5	0.7	1.8
3	Debt ratio (liabilities /assets)	0.34	0.41	0.41	0.47	0.39
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.7	0.7	0.9	0.6
5	General liquidity ratio (short-term assets / short-term liabilities)	0.97	0.85	0.70	0.69	1.10
6	Asset turnover ratio ( sales and services / assets)	0.74	0.82	0.72	0.52	0.45
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	9,560	6,028	6,007	7,339	12,085
8	Profitability of core business, per cent (operating profit / sales and services)*100	2.4	0.2	-2.2	1.0	9.2
9	Return on equity (ROE)% (net profit / average equity)*100	5.0	0.3	0.7	1.1	2.6
10	Return on assets (ROA)% (net profit / average assets)*100	3.3	0.2	0.4	0.6	1.5



No	Indicator of the Company	2011	2012	2013	2014	2015
11	Quick ratio ((short-term assets-inventory) / short-term liabilities)	0.91	0.82	0.66	0.68	1.07
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.08	0.05	0.02	0.01	0.21
13	Net earnings per share (net profit / average weighted number of shares in issue)	0.09	0.01	0.01	0.02	0.11
14	Net profit, thousand euros	3,893	242	538	867	4,528
15	Assets, thousand euros	120,502	130,447	130,380	145,853	135,173
16	Equity, thousand euros	79,364	76,512	77,050	77,915	82,412
17	Equity per share, euros	1.9	1.8	1.8	1.8	1.9
18	Revenue from sales, thousand euros	89,383	107,004	93,356	75,755	60,733
18.1	Including: Heat energy	87,724	105,054	90,255	72,494	57,404
18.2	Electric energy	165	133	222	220	253
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	148	116	58	26	21
18.4	Income from the maintenance of collectors	251	224	226	227	226
18.5	Hot water supply including cold water price	1,079	1,395	2,494	2,633	2,569
18.6	Income from maintenance of hot water meters	16	82	101	155	260
19	P / E ratio (last share market price of the year / (net profit / number of shares at year-end))	1.11	29.51	13.55	6.95	4.34
20	Share capital, thousand euros	74,256	74,256	74,256	74,378	74,476
21	Share capital-to-assets ratio	0.62	0.57	0.57	0.51	0.55
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	5.2	0.3	0.7	1.1	5.8
23	Dividend payment ratio (dividend per share / earnings per share)	0.78	0.00	0.23	0.03	0.00

Comparison of financial results of the Group and the Company for the years 2011–2015 (sales revenue, operating profit, and net profit) is given in Charts 7, 8 and 9.



Chart 7

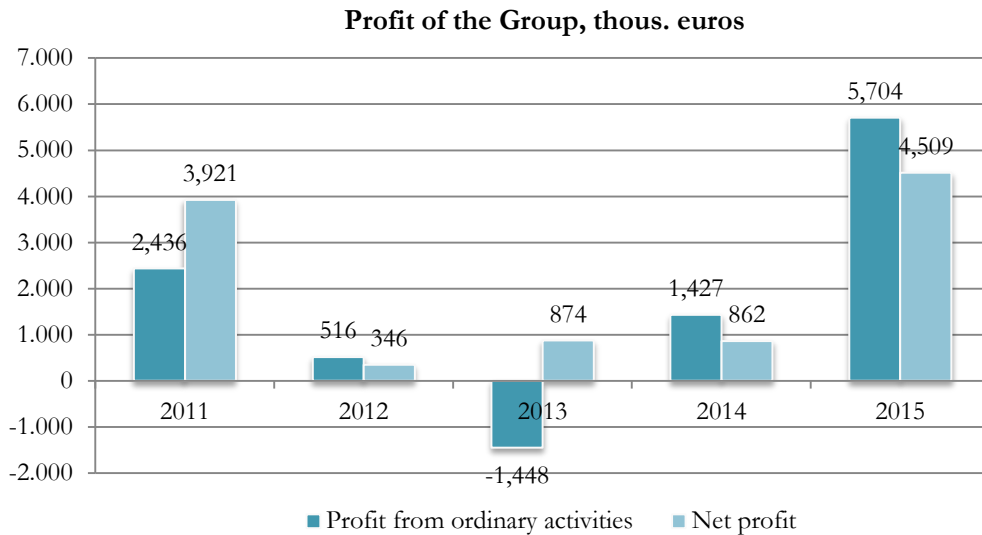


Chart 8

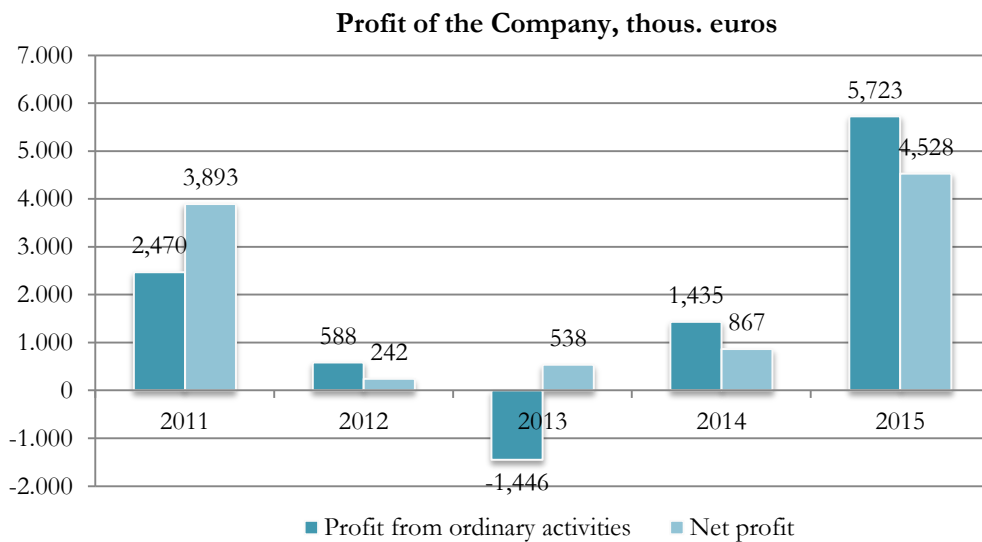
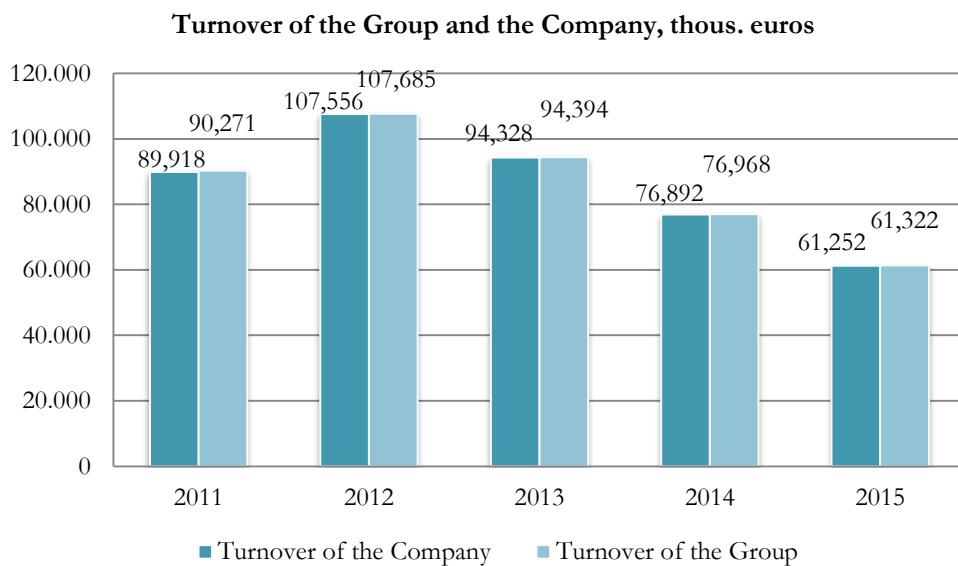


Chart 9



Notwithstanding that Group's and the Company's turnover decreased in 15 million euros, Company's profit of the year 2015 in comparison with the year 2014 became at more than 5 times higher. This increase was determined by effective Company's activities that allowed to significantly reduce expenses of fuel and purchased heat with starting of usage of biofuel in heat production instead of the natural gas. All of these allowed making heat cheaper, both produced by the Company and purchased from IHP.

The Group and the Company accounts impairment loss in doubtful receivables. Change of impairment loss in doubtful receivables in 2015 in the Group's and the Company's write-offs and change in allowance for accounts receivable is included in the item of the cost of changes in the impairment of receivables and in 2015 amounted to EUR -233 and -236 million respectively, i.e. expenditures decreased an because of that profit increased (in 2014 – EUR -2,227 and -2,227 thousand). During 2015, the Group and the Company wrote off EUR 131 thousand and EUR 131 thousand of bad debts respectively (in 2014 – EUR 885 and 885 thousand). During 2015 the Group and the Company recovered EUR 9 thousand (in 2014 – EUR 7 thousand) of bad debts which were written off in prior years.

The Company's profit decreases also because of the maintenance costs of individual heating units owned by the Company. Those costs may not be included in heat and hot water prices as in accordance with amendments of articles 2, 3, 20, 22, 28, 31, and 32 of the Law on Heat Sector No XI-1608 of the Republic of Lithuania that came in affect from 1 November 2011, “any costs related with the indoor building heating (including heating units), and hot water systems may not be included in heat and hot water prices”. Starting from 1 November 2011 in accordance with the law the costs of maintenance and repair of heating units equipment are not included in the heat price. The Company suffers approx. EUR 0.7 million of losses every year uncovered by income due to this maintenance.

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

A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to Financial Statements for the year 2015.

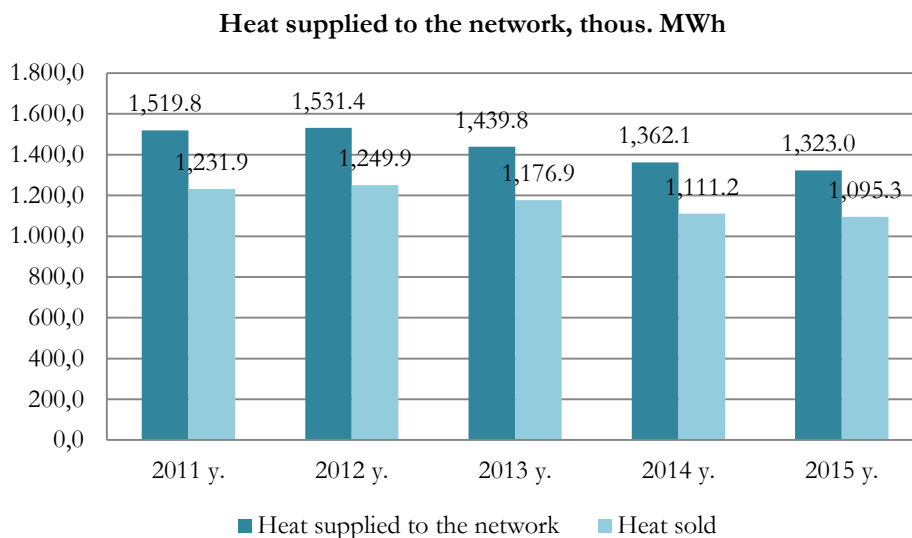
Comparison of non-financial indicators of the year 2015 with the indicators of the years 2011-2014 is presented in Table 4.

Table 4

No	Denomination of Indicator	2011	2012	2013	2014	2015
1.	Energy produced, purchased and supplied to the network, thous. MWh	1,521.8	1,532.9	1,442.2	1,364.8	1,326.3
1.1.	thermal energy	1,519.8	1,531.4	1,439.8	1,362.1	1,323.0
1.2.	electric energy	2.0	1.5	2.4	2.7	3.3
2.	Energy sold thous. MWh	1,233.9	1,251.4	1,179.3	1,113.9	1,098.6
2.1.	thermal energy	1,231.9	1,249.9	1,176.9	1,111.2	1,095.3
2.2.	electric energy	2.0	1.5	2.4	2.7	3.3
3.	Reconstructed heat supply pipelines, m	8,990	7,970	4,789	4,197	1,835
4.	Newly built heat supply pipelines, m	1,317	1,496	893	759	1,062



Chart 10



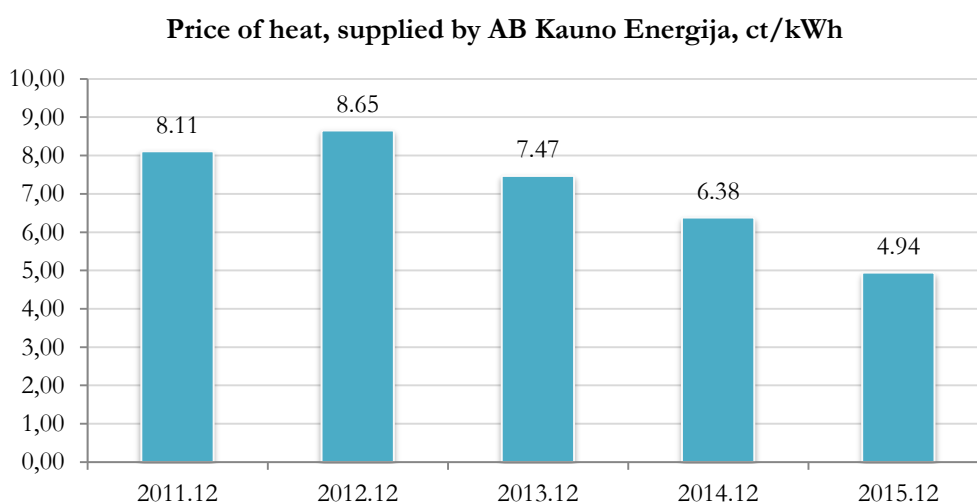
*Environmental impact on operations:* The Company’s performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher or lower outdoor temperature during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

Company’s reconstructed heat production facilities changing fossil fuel to biofuel will make a serious competition with their costs of production to IHP, operating in Kaunas. With modernization of its own production facilities the Company reduced heat price for its consumers by 43 per cent during the last 3 years.

Decreased prices, increased effectiveness of the system, usage of biofuel in Company’s and IHP heat production facilities as well as warmer weather allowed consumers to save approx. 15 million euros.

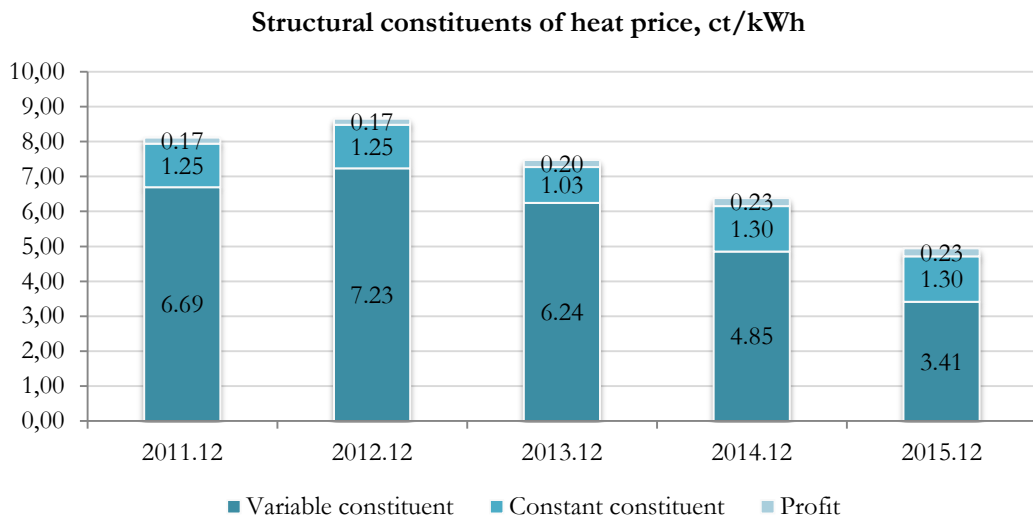
The dynamics of heat price of the Company in 2011–2015 is presented in Chart 11.

Chart 11

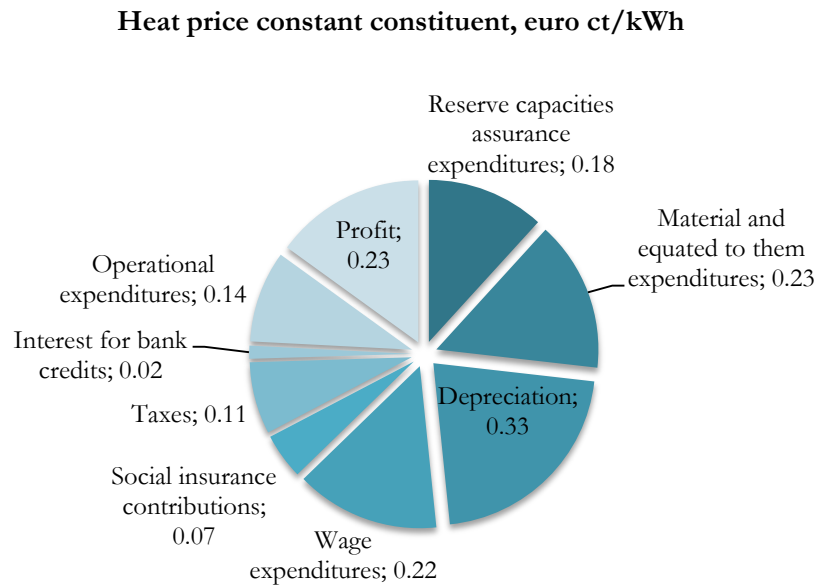


Components of Company’s heat price structure in 2011–2015 are presented in Chart 12.



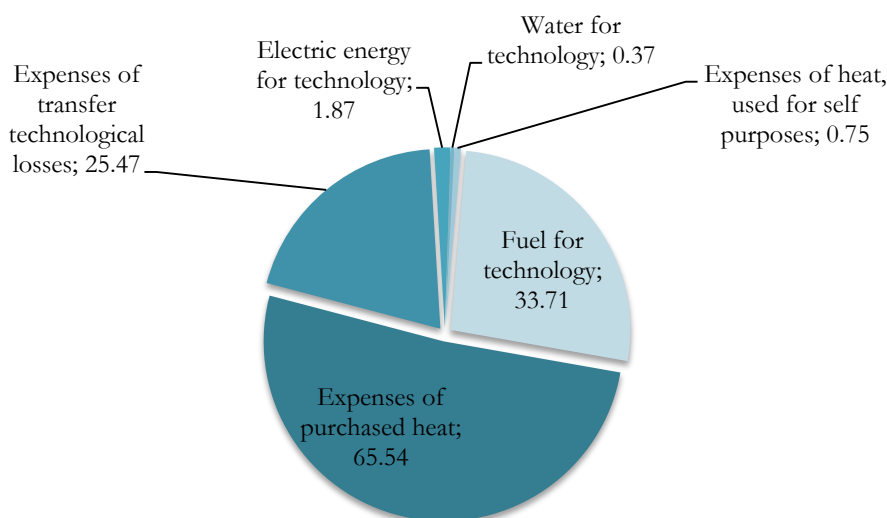


Management Board of AB Kauno Energija determined by its decision of 28 March 2014 No. 2014-8-1 a heat price constituents for the second year of validity of basic heat price, which were agreed by NCC’s decision of 6 May 2014 No. O3-120. Constant constituent of heat price, valid until 31 May 2014 was 1.23 euro ct/kWh, and a new constant constituent, valid from 1 June 2014 is 1.53 euro ct/kWh (increase of constant constituent was determined by change in realized heat quantity, inflation, change in investment depreciation and new “expenditures of assurance of reserve capacities” – 0.18 euro ct/kWh). Details of constant heat price constituent are presented in Chart 13.



The Company recalculates values of variable constituents of heat price and final heat prices every month, considering changes in prices of fuel and purchased heat. Details of variable heat price constituent are presented in Chart 14.

Heat price variable constituent in December 2015, per cent



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

*Waste management.* The Group and the Company have organized the waste collection, sorting and transfer of them to waste managers, i.e. to licensed waste management businesses. In 2015, the Group and the Company transferred for recycling 0.3289 tons of waste of electric and electronic equipment, 850.248 tons of ash, 364.050 tons of debris, 0.860 tons of used tires, and 0.150 tons of fluorescent lamps.

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

*Air pollution.* The measurement laboratory of stationary air pollution sources of the Group and the Company, having the permit issued by the Environmental Protection Agency, continuously monitors that the emissions to the atmosphere from stationary sources would not exceed the permissible limits established in integrated pollution prevention and control permits. Boiler-houses of Šilkas, Ežerėlis, Girionys and Noreikiškės, and starting from 2015 – Inkaras boiler-house and Petrašiūnai power-plant use biofuels, thus reducing atmospheric pollution. Below in Table 5 you will find the comparison of the Company's pollutions to the atmosphere from stationary air pollution sources in 2015 with the amount in 2011-2014.

Table 5

Period	Particulates, t	Nitrogen oxides, t	Carbon monoxide, t	Sulphur dioxide, t	Hydrocarbons, t	Vanadium pentoxide, t	Other pollutants, t
2015	43.5783	203.6775	904.8513	193.3228	20.1586	0.0000	0.2818
2014	23.613	154.570	534.443	47.158	16.294	0.0000	0.440
2013	10.5967	101.3197	299.6656	5.0747	14.9647	0.0000	0.770
2012	7.6130	54.3160	135.1510	6.0280	1.2080	0.0000	0.4397
2011	7.2641	57.0909	125.3107	6.1983	3.0555	0.0000	0.4397

Cyclones for smoke cleaning from particulates are installed in Šilkas, Ežerėlis, Girionys, Noreikiškės, Inkaras boiler-houses and Petrašiūnai power-plant. Their working efficiency is checked every year. The Company is involved in the greenhouse gas emissions trading system. This system includes pollution trade permits (P'TP)



allocated to Petrašiūnai power-plant, Šilkas, Pergalė, Garliava, Jurbarkas boiler-houses and Noreikiškės boiler-house with a cogeneration power-plant.

*Information related to human resource issues.* Company's management pays a lot of attention on increase of work efficiency, for making better the working conditions of employees, provision of the latest working tools, improvement of qualifications, planning of internal activities and control inculcation and to making better a consumers service. A level of qualifications of managers and specialists meets the requirements of office. The experience and practical know-how of other employees allows them to work in their positions. Fluctuation of employees in Company is not big.

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

In order to make certain fluent and consistent Company's activity, the competence of employees is particularly important. A lot of attention is paid for training of employees and improvement of their qualifications and skills. 75 employees took part in conferences and seminars during 2015. Company's employees acquired knowledge in law, taxing, and public purchase and in other fields. 257 employees participated in professional trainings, after completion of which the special certificates allowing performance of special works were given for them.

The Company actively cooperates with educational institutions and allows higher school students to perform their field practice at the Company, to apply theoretical knowledge and gain practical skills. 9 students performed their practice in Company in 2015. In case of demand in employees, a possibility to employ is given to the best and most active students.

The Company took part in 2015 in implementing of State purposive financing studies programme and in cooperation with Kaunas University of Technology signed a tripartite agreement of Studies purposive financing with two first course students of Heat Energy and Technology studies programme.

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

## **8. References and additional explanations**

All main financial data of the Group and the Company are presented in the explanatory notes to the consolidated financial statements and financial statements of AB Kauno Energija for the year 2015.

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

For the purpose of the consolidated financial statements of the Group, the financial statements of the Company and subsidiaries are prepared for the same date.

It's being controlled if the accounting policy of the company and its subsidiaries for accounting of similar transactions is the same. The subsidiaries' income and expenses are included into the consolidated financial statements as of the date of acquisition.





## 9. Significant events after the end of the year 2015

On 25 March 2016 the audit of the financial statements for the year 2015 was accomplished. It was performed by the accounting and control UAB Auditas (Auditor Certificate No 001234). Candidacy of the company performing audit of the financial statements for the years 2013-2015 was proposed to General Meeting of Shareholders by Company's Board, following results of procurement, accomplished in 2013. The financial statements of the year 2015 with the independent auditor's conclusion on them are presented along with this Annual Report.

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

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

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

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

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

It is planned that in 2016 in comparison with 2015, the Group's sales turnover will be similar as in 2015 or a little bit lower due to the decreased price of heating; the amount of heat sold to consumers will remain at the comparable level as in 2015. The greatest impact on the Group's and the Company's income and expenses will be made by fuel and purchased heat price changes, as the price of heat under the requirements of the law is recalculated every month. The Group profit in comparison with 2015 is planned to be lower due to the recalculated constituents of heat price. The submitted data may be adjusted by the heat demand change, i.e. consumption, which is mainly affected by the average outdoor air temperature, the size of user investment in housing renovation, energy-saving and its rational use, as well as changes in the economic situation in Lithuania.

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

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

On 27 March 2014 an open discussion "National peculiarities of heat sector, assessing practical experience and forecasts" arranged by AB Kauno energija has been held at Lithuanian Energy Institute at which representatives of authorities, scientific institutions and energetics specialists – practitioners shared their experience and providences regarding problems of Lithuanian and separately Kaunas heat sector, regarding valid order of heat



purchase from independent heat producers and offered a suggestions on what could be done in order to decrease heat price for consumers even more.

In 2014 the Company had placed an application to Lietuvos Energija, UAB for participation in competition “Regarding cooperation offer for implementation of projects of modernization of Vilnius and Kaunas centrally supplied heat economies, by installing here cogeneration power-plants using local and renewable sources”. In March 2015 Company’s offer was recognized as proper. On 20 May 2015 Lietuvos Energija, UAB signed a contract with UAB Fortum Heat Lietuva regarding development of the new cogeneration power-plant in Kaunas. It is anticipated in contract that the shares of the new power-plant can be offered also to the Company.

On 29 April 2015 a circuit session of Commission of Seimas of the Republic of Lithuania took place in the Company. Changes in heat economy after start of usage of biofuel for heat production in Kaunas were presented. Except members of Seimas of the Republic of Lithuania – commission chairman Kęstutis Daukšys, Vydas Gedvilas, Linas Balsys and Ričardas Sargūnas – Mayor of Kaunas city Visvaldas Matijošaitis, Vicemayor Povilas Mačiulis, Director of City Municipality Administration Gintaras Petrauskas, President of Lithuanian Biomass Energy Association LITBIOMA Virginijus Ramanauskas, Managers of AB Kauno Energija and other energy and forestry specialists also attended the session.

The development of AB Kauno Energija in heat production sector, increase in competition in it, reaching to decrease heat prices for consumers was presented to the commission and city leadership at the session. It was emphasized, that after selling of Kaunas Termofication Power-plant for private investor in 2003, AB Kauno Energija became the only heat supplies company in Lithuania devoid of own main heat production facility. Also, current situation in biomass energy in Lithuania and especially in Kaunas, resources of Lithuanian forests and also the main environmental aspects of burning of biomass in energy sector were discussed.

On 30 September 2015 the Company arranged seminar in Kaunas city municipality “Advantages of centralized heat supplies and assertions of special plan”. Developers of real estate and projectors were invited to this seminar. Principles of composition and assertions of special plans of heat supply to the cities, coherence of modernization of residential buildings and development of plans of centralized heat supply also new possibilities and advantages of centralized heat supply were presented to them.

Presentations on principles of composition of special plans of heat supply, on position of city municipality regarding heat supply, on modernization of residential buildings and coherence of modernization of residential buildings and development of plans of centralized heat supply were made by Assoc. prof. of Department of Thermal and Nuclear Energy of Kaunas University of Technology dr. Juozas Gudzinskas, Rimantas Čekauskas, senior specialist of Energy department of Kaunas city municipality and dr. Ramūnas Gatautis, Research associate of Laboratory of Energy Systems Research of Lithuanian Energy Institute.

Participants of seminar were especially interested in possibilities of self-adjustment of heat consumption, possibility of installation of collector heating systems and low capacity heating modules which allow not only self-adjusting indoor air temperature, but also having individual accounting, to make hot water by them and to have full comfort.

On 7 October 2015 the Company was invited to “Days of Industry” organized by Student Union of Faculty of Mechanical Engineering and Design of Kaunas University of Technology. “Days of Industry” is completely new, quality and mutual platform between students and business sectors. Representatives of AB Kauno Energija were invited for presentation of the Company and its’ activities in the seminar and for arrangement of excursion in Company’s heat production facilities.

On 2 November 2015 the meeting with administrators of projects of residential buildings renovation (modernisation), contractors of construction works and other participants of the process, organized by Housing Energy Efficiency Agency (HEEA) has been held at the Company. Actual issues of projects implementation were discussed at the meeting. Daiva Matonienė, Vice minister of the Ministry of Environment of the Republic of Lithuania attended the meeting. Valius Serbenta, Director of HEEA, other specialists of HEEA, representatives of European Investment bank, State territorial planning and construction inspectorate, Šiauliai bank, Public Investment Development Agency as well as administrators of projects of residential buildings renovation and contractors from Kaunas, Raseiniai, Alytus, Prienai and other surrounded regions also attended the meeting. Issues on state support for renovation projects were discussed at the meeting. General Manager of



AB Kauno Energija Dr. Rimantas Bakas, who also attended the meeting, emphasized, that the Company is also interested in renovation process. General Manager noticed that the Company itself actively contributes to reduction of energy expenses by decreasing heat prices at more than a third. He also presented information on Company's investments that allowed reducing heat prices significantly in the last three years, also the information on consumers possibilities of individual adjustment of heat consumption in their flats by installing there equipment of individual adjustment.

On 10 November 2015 the meeting of representatives of National Commission for Energy Control and Prices, IHP and the Company initiated by the Company has been held at Company's premises. The Company publicly raised a problems heat supplies companies are facing with when purchasing heat from IHP. Quite a trenchant discussion on frequent interferences that heat supplies companies are facing with when obligatorily purchasing heat from IHP, that in turn rebound both to consumers and to condition of heat supplies network occurred at the meeting. Due to uneven deployment of biofuel facilities and operation, the condition of network worsen and only heat suppliers are responsible for its' conditioning, exploitation and renovation.

Other problem is that heat suppliers are constrained under the legislation to render free services of IHP heat production facilities reservation, notwithstanding that they face a real expenses because of that. But IHP has no such responsibility at the same time.

Representatives of NCC – General Advisor Medina Augustinavičienė, Head of Heat Department Vilma Skinderytė and Heat of Department of Heat Producers and Competition Matas Taparauskas who took part in the meeting, said, that Commission understands problems raised by heat suppliers and in turn will consider them when improving rules of heat purchase from IHP.

On 30 November 2015 the Company announced intentions for acquisition of heat generation facility (boiler-house) from 15 MW capacity using biofuel with completely developed infrastructure (including land plot on which it is built) in Kaunas city in order to reduce costs of heat production and heat price for consumers. Heat produced will be supplies into Kaunas DHN integrated system ensuring necessary quality parameters of thermofunctional water (pressure, temperature), therefore object must be fully functional and connected to Kaunas city DHN system. AB Kauno Energija announced public purchase and invited companies to present offers regarding selling of heat generation facility using biofuel.

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

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

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

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

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



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

All relevant information on this issue is presented in Notes 2.11, 15, 23 to the consolidated financial statements for the year 2015 of AB Kauno Energija.

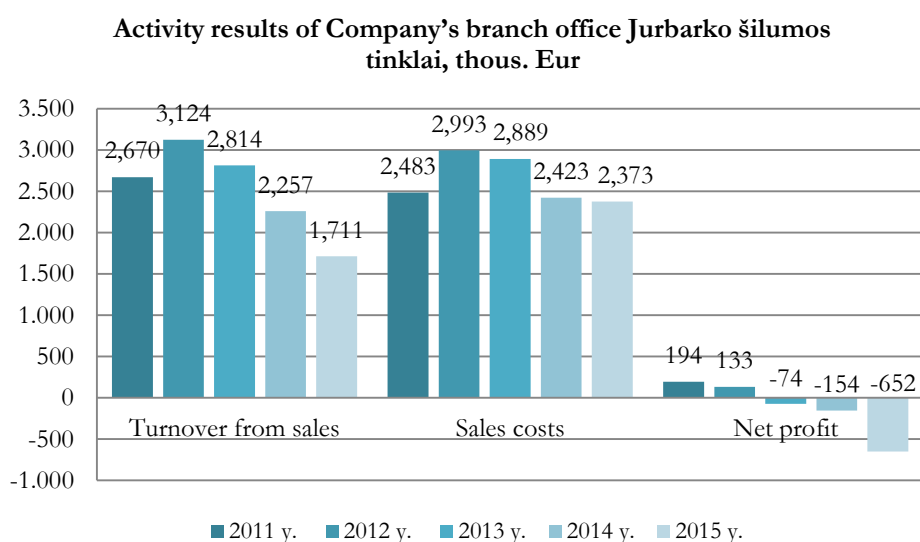
### 14. Information on the Issuer's branch office and subsidiary undertakings

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

The Company's branch Jurbarko Šilumos Tinklai had 30 employees as at 31 December 2015.

Comparison of financial indicators of Company's branch office Jurbarko Šilumos Tinklai of the year 2015 (turnover from sales, sales costs, net profit) with the indicators of the years 2011-2014 are given in Chart 15.

Chart 15



On 1 July 2006 the Company registered a subsidiary UAB Pastatų Priežiūros Paslaugos, headquarters address Savanorių pr. 347, 49423 Kaunas, company code 300580563. Starting from 8 January 2014 a status of liquidated is registered at the Register of Legal Entities. On 11 December 2013, following the decision of AB Kauno Energija performing the functions of the sole shareholder of UAB Pastatų Priežiūros Paslaugos, it was decided to liquidate the UAB Pastatų Priežiūros Paslaugos (company code 300580563) and starting from 8 January 2014 a status of liquidated is registered at the Register of Legal Entities. On 7 September 2015 after completion of liquidation procedures UAB Pastatų Priežiūros Paslaugos was removed from the Register of Legal Entities.

An authorised capital of the subsidiary UAB Pastatų Priežiūros Paslaugos was EUR 2,896 at the time of removal and it was divided in into 100 ordinary nominal shares at the par value of EUR 28,962 each.

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

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

As from 5 July 2012, in accordance with item 2 of article 20 of the Law on Heat Sector of the Republic of Lithuania, "Heat suppliers or the persons associated with the heat supplier in employment relations or prices providing services or products to the heat supplier, or the manufacturers of heating units and devices used for heat production and heat metering, or other equipment, also persons engaged in the retail and wholesale trade of fuel used for heat production, or persons belonging in conjunction with the aforementioned entities to the group



of related economic entities according to the Law on Competition cannot be supervisors (operators) of heating and hot water system in residential buildings”. According to the item 2 of article 20 of the Law on Heat Sector of the Republic of Lithuania valid from 1 June 2014, “Heat suppliers, supplying heat for particular building or natural persons associated with the heat supplier in employment relations, except cases when natural persons associated in employment relations live in that houses and supervises by themselves building or other buildings that belong to their societies, also the persons engaged in the retail and wholesale trade of fuel used for heat production, or persons belonging in conjunction with the aforementioned entities to the group of related economic entities according to the Law on Competition cannot be supervisors (operators) of heating and hot water system in residential buildings”. Following 4 item of article 20 of the Law on Heat Sector of the Republic of Lithuania, valid from 5 July 2012 this restriction is not applied for the maintenance of the heating and hot water systems of residential buildings in the locations in which, according to the information of the Lithuanian Department of statistics, the population is less than 150,000, also for heat supplies companies, which maintain less than 500 connected consumers or heat supplies companies, which realize less than 50,000 MWh of heat per year.

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

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

The authorised capital of UAB Kauno Energija NT registered in the Register of Legal Entities on 31 December 2015 in total of 1,329,872 euros is divided into 45,921 ordinary nominal shares with the par value of 28.96 euros each.

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

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

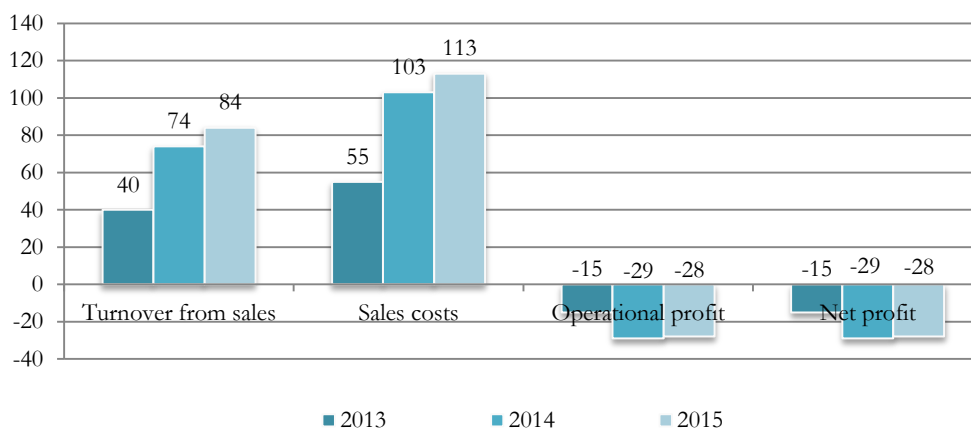
Turnover of UAB Kauno Energija NT of the year 2015 was EUR 84 thousand, profit (loss) was amounted to EUR (28) thousand.

As at 31 December 2015 UAB Kauno Energija NT had 3 employees.

Comparison of financial indicators of UAB Kauno Energija NT of the year 2015 (turnover from sales, sales costs, operational profit, net profit) with the year 2013-2014 are given in Chart 16.

Chart 16

Activity results of UAB Kauno Energija NT, thous. euros



## 15. Structure of authorized capital

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

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

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

The authorised capital of the Company registered in the Register of Legal Entities of the Republic of Lithuania on 31 December 2015 is EUR 74,475,728.82 (seventy four million four hundred seventy five thousand seven hundred twenty eight euros and 82 cents).

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

Table 6

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

## 16. Data on shares issued by the Issuer

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

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

There are no limitations on the transfer of securities.

### 16.1. Main characteristics of shares released into free circulation of securities (as at 31 December 2015).

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

### 16.2. Main characteristics of shares issued and registered for non-public trading (as at 31 December 2015).

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



History of trade in Company's securities in 2011–2015 is given in Table 7.

Table 7

Indicator	2011	2012	2013	2014	2015
Opening price, euro	0.600	0.565	0.578	0.589	0.486
Highest price, euro	0.770	0.590	0.589	0.600	0.479
Lowest price, euro	0.320	0.415	0.458	0.430	0.400
Last price, euro	0.350	0.578	0.589	0.486	0.459
Circulation, units	90,239	80,421	36,355	70,160	41,193
Circulation, million euro	0.05	0.04	0.02	0.04	0.02
Capitalisation, million euro	7.01	11.58	11.80	9.74	9.19

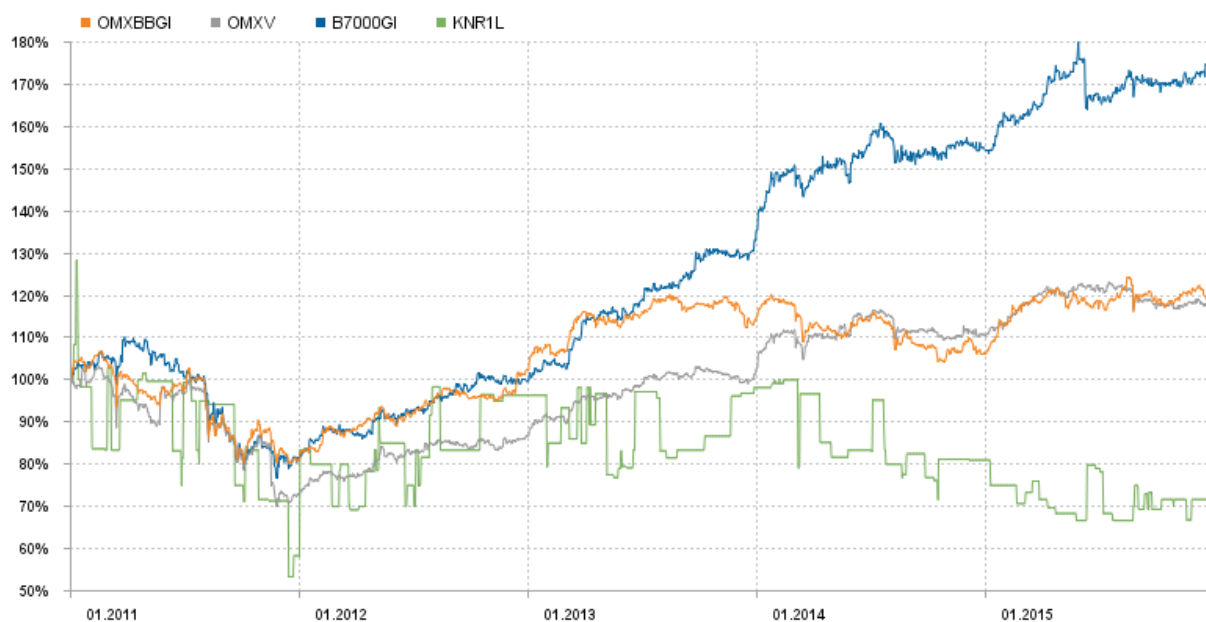
Historical data on share prices (in euro) and turnovers in 2011–2015 are given in Chart 17.

Chart 17



Comparison of Company's share price with the index of own sector (utility services) and OMX Vilnius index is given in Chart 18.

Chart 18



Data of Chart 18:

Index/Shares	01.01.2011	31.12.2015	+/-%
—OMX Baltic Benchmark GI	533.99	648.32	21.41
—OMX Vilnius	409.65	485.99	18.64
—B7000GI Utilities	992.02	1,742.95	75.70
—KNR1L	0.600 EUR	0.459 EUR	-23.50

### 17. Information on the Issuer's shareholders

The total number of Company's shareholders as at 31 December 2015 was 294.

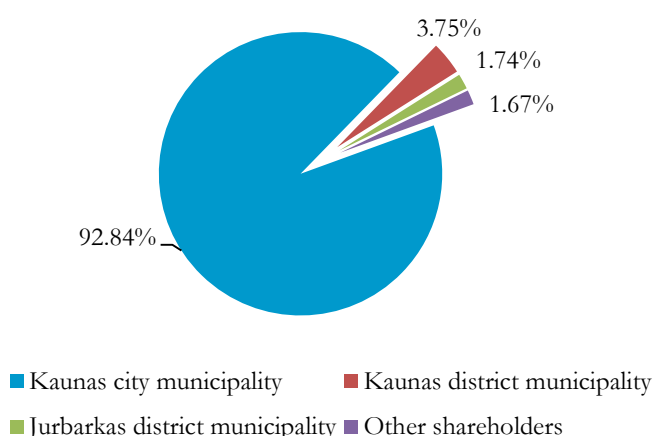
Information on Shareholders of the Issuer who owned as at 31 December 2015 more than 5 per cent of the authorised capital of the Company registered on 18 May 2015 (42,802,143 ordinary nominal shares), is given in Table 8 and Chart 19.

Table 8

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

Chart 19

### Structure of shareholders as at 31 December 2015



Repartition of shareholders in accordance with groups at the end of the period is given in table 9.





Table 9

The name of the Group	Number of shares owned by the Group, pcs.	Own part of share capital, per cent from all the shares
Local authorities	42,088,631	98.33
Households	361,037	0.84
Securities of other accounts keepers clients	241,767	0.56
Private non-financial enterprises	83,508	0.20
Other financial brokers, except insurance companies and pension funds and other auxiliary enterprises	25,000	0.06
Other shareholders (non-financial enterprises controlled from abroad, financial auxiliary enterprises, companies holding deposits, except central bank	2,200	0.01
<b>Total</b>	<b>42,802,143</b>	<b>100</b>

17.1. The shareholders, who owned more than 5 per cent of the Company's shares (20,031,977 ORS) issued for public trading (reg. No. A01031430, VP ISIN code – LT0000123010) as at 31 December 2015 are listed in Table 10.

Table 10

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

17.2. The shareholders, who owned more than 5 per cent of the Company's shares (22,770,166 ORS) issued for non-public trading (VP ISIN code – LT0000128407) as at 31 December 2015 are listed in Table 11.

Table 11

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

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

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



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

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

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

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

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

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

## 18. Employees

As at 31 December 2015, in total 526 employees were employed in the Group. Changes in the number of employees in 2013–2015 are specified in Table 12.

Table 12

Abdul number of employees	Company 2013-12-31	Group 2013-12-31	Company 2014-12-31	Group 2014-12-31	Company 2015-12-31	Group 2015-12-31
Total:	548	561	542	545	523	526
including:						
management	5	7	4	5	3	4
specialists	288	292	290	291	278	279
workers	255	262	248	249	242	243

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

Table 13

No	Education	Company 2013-12-31	Group 2013-12-31	Company 2014-12-31	Group 2014-12-31	Company 2015-12-31	Group 2015-12-31
1	Secondary incomplete	5	6	6	6	7	7
2	Secondary	211	217	205	206	194	195
3	College	78	80	77	77	72	72
4	Higher	254	258	254	256	250	252
	Total:	548	561	542	545	523	526

Average conditional number of employees and average monthly salary (at the end of 2015 before taxes) is given in Table 14.



Table 14

No	Employees	Company	Group
1.1.	Average conditional number of managers	3	4,9
1.2.	Average monthly salary of managers	3,476.1	2,379.4
2.1.	Average conditional number of specialists	263.2	263.2
2.2.	Average monthly salary of specialists	924.8	924.8
3.1.	Average conditional number of workers	237.0	238.0
3.2.	Average monthly salary of workers	659.7	657.7

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

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

1. For continuous employment within the Company employees are granted additional paid leave:
  2. After working for 5 years 1 calendar day.
  3. from 6 to 10 years 2 calendar days;
  4. After working for more than 10 years 3 calendar days;
  5. for every subsequent 5 years 1 calendar day.
6. The length of service of employees of the Lithuanian power system companies transferred to the Company according to the corporate employer agreement, i.e. when the transfer was carried out according to the Labour Code or the Law on Employment Contract, is considered not interrupted, and such employees are granted additional paid leave for a continuous period of employment with the Company.
7. At the agreement of the employer and employee, the employee may be granted unpaid leave for family related issues and other important reasons.
8. Company's employees are entitled to additional paid leave in the following cases:
  9. Creating a family 3 calendar days;
  10. Death of a close relative (one of the parents or parents of the spouse, the spouse, brother, sister, daughter, or legal foster son, foster daughter, grandson, granddaughter) 3 calendar days;
  11. Wife's birth giving 1 calendar day;
  12. Wedding of the employee's daughter, son or legal foster-child 3 calendar days;
  13. employees, raising a child studying at a general education school under twelve years of age, are given a day off during the first day of the academic year, paying such employees the average wage.
  14. Employees who take entrance exams to universities, higher schools and colleges and successfully study in them, if their chosen specialty is within the interests of the Company and the job carried out, are granted the statutory paid educational leave, by paying 50 per cent of the employee's average salary.
  15. The employer undertakes:
    - 15.1. To ensure the conditions of preventive health check and, if necessary, rehabilitation treatment of employees, to provide free health services at the Company's occupational health unit;
    - 15.2. In case of death of an employee, the Company pays an allowance in the amount of two monthly average salaries of the last year of the Company or a branch (depending on where the employee has worked), gives free transport or covers transport costs. The allowance is granted to the burying person;
    - 15.3. in case of death of a close relative of the employee (father, mother, child, or spouse), the employee is granted the allowance of the average salary of the previous year of the Company or an affiliate (depending on where the employee works), given free transport or transport costs are covered;
    - 15.4. In case of birth of one or more children, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) for each child;
    - 15.5. In case of wedding, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works);
    - 15.6. employees who are raising three or more children under the age of 16, widows (widowers) and unmarried persons who raise one child or children alone, if they are studying at secondary schools until the age



of 19, and while studying at higher schools or colleges full-time till the age of 21, or if they are caring for other family members with heavy or moderate disability level or lower than 55 per cent working ability level, or family members who have reached the retirement age, which according to the laws are established a major or moderate level of special needs, once a year are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) according to the date of request;

15.7. for the 40th, 50th and 60th anniversary, as proposed by the head of the division, for excellent performance of employees having the 15 and 20 years of continuous employment with the Company are granted a monetary gift of 25 per cent, and having over 20 years of continuous work experience – a monetary gift of 50 per cent of the average salary of the previous year of the Company or an affiliate (depending on where the employee worked);

15.8. in other cases, where the material support is needed (loss due to natural disasters or other reasons beyond the employee's control), at the mutual agreement of the representatives who have signed the Collective Agreement, employees are granted a benefit of up to 580 euros,

15.9. In the event of a serious illness or accident of the employee, he is granted an allowance of up to 5 average salaries of the previous year of the Company or an affiliate (depending on where the employee worked) at the mutual agreement of the representatives who have signed the Collective Agreement;

15.10. For the occasions of the Lithuanian Energy Day and jubilees of the Company deserving employees are granted a monetary gift of up to 145 euros.

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

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

The statutes of the Company were amended on 28 April 2015 by the decision of the General Meeting of Shareholders. Company's share capital was indicated in euros in them and the amendments of legislation assessed. The new version of the statutes was registered in the Register of Legal Entities of the Republic of Lithuania on 18 May 2015. It can be found in the Internet website of the Company at [www.kaunoenergija.lt](http://www.kaunoenergija.lt).

## 20. Issuer's management bodies

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

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

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

5 (five) General Meetings of Shareholders were convoked in 2015. Company's chairman of the Board, General Manager, and Head of Department of finances took part in them. One member of the Supervisory Board took part in one of the General Meetings of Shareholders. Issuers' shareholders are allowed to ask questions and to get answers or explanations from Company's managers and speakers.

The collegial management body – Supervisory Board is selected by the General Meeting of Shareholders according to the procedure specified in the Law on Companies of the Republic of Lithuania. The Supervisory Board consists of 7 (seven) members. The Supervisory Board is elected for a term of 4 (four) years. The



Supervisory Board elects the chairman of the Supervisory Board from among its members. The General Meeting of shareholders may remove from office the entire Supervisory Board or its individual members before the expiry of the term of office of the Supervisory Board. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

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

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

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

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

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

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

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

#### **20.1. Data on the committees in the Company**

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

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

On 26 October 2015 the Supervisory Board appointed by the decision No. 2015-4 Mrs. Edita Plūkienė, Member of Kaunas City Municipality Council, Mr. Židružas Garšva, Member of Supervisory Board and Mr. Audrius



Lukoševičius, Director of budgetary institution “Kauno biudžetinių įstaigų buhalterinė apskaita” (Accounting of budgetary institutions of Kaunas city) as an independent members of the Company's Audit Committee and determined, that members of Audit Committee carry out their activities starting from 27 October 2015.

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

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

In carrying out its activities, the Audit Committee follows the internal rules of procedure of the Company's Audit Committee approved by decision No 2015-4 of 26 October 2015 of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. The Audit Committee had 2 sessions during the year 2015. The attendance of the Audit Committee members was 83 per cent.

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

Mr. Židrūnas Garšva is a member of the Kaunas City Municipality Council, member of Committee of City Economy and Services, Director of UAB Dextera, member of supervisory board of Public Institution K. Grinius Nursing and Sustaining Treatment Hospital, Chairman of the Supervisory Board of Public institution Kaunas Central Clinic, also involved in personal business (activities such as head offices and management consultancy activities). He was elected as a member of Company's independent Audit Committee on 26 October 2015. Education – University degree, bachelor in economy from Kaunas University of Technology (2007). Workplaces and positions held over the last 10 years: 1996 – 2008 and from 2015 – Director of UAB Dextera. Mr. Židrūnas Garšva holds no shares of the Company. Mr. Ž. Garšva holds the shares of UAB Dextera Holding.

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

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



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

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

Members of Audit Committee of the Company until 29 May 2015:

Mrs. Inga Dragūnienė is senior economist of the Economics and Planning Division of the Financial Department of the Company. She held the position of the Audit Committee members from 18 August 2011. On January 3, 2012 was re-elected to the members of the Audit Committee and held the position until the withdrawal date of the Supervisory Board, i.e. 28 September 2012. On 21 February 2013 she was elected as a member of Audit Committee again and carried out these functions until 29 May 2015. Education – University degree from Kaunas University of Technology, Master of Management Science in the field of Financial Management (2001). Workplaces and the positions held in the last years: 15.10.1998–25.07.2006 – senior accountant of the Company, 26.07.2006–01.11.2009 – deputy chief accountant of UAB Pastatų Priežiūros Paslaugos, 02.11.2009–07.05.2010 – referent of administration of UAB Pastatų Priežiūros Paslaugos. Mrs. Inga Dragūnienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Valerija Stankūnienė is a chief accountant of UAB Texera. Valerija Stankūnienė was a deputy senior accountant of the Company. She held the position of the Audit Committee member from 18 August 2011, on 3 January 2012 re-elected to the members of the Audit Committee and held the position until the cancellation date of the Supervisory Board, i.e. 28 September 2012. On 21 February 2013 she was elected as a member of Audit Committee again and carried out these functions until 29 May 2015. Education - University degree from Vilnius University, accounting specialty (1983). Workplaces in the last 10 years and positions held: 02.2003–01.2010 – chief accountant of UAB Aris Baltija, 01.2010–05.2014 – deputy chief accountant of the Company. Mrs. Valerija Stankūnienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Edita Gudišauskienė was a Chief Officer of Finance Department of UAB Kauno Autobusai and member of the Supervisory Board of the Company when she was an independent member of Company's Audit Committee until 29 May 2015. Mrs. Edita Gudišauskienė was the independent member of Company's Audit Committee, acting in the Audit Committee since 11 April 2013. Education – University degree from Kaunas University of Technology, Faculty of Mechanical Engineering – Master of Science of Thermal Engineering (1995), Faculty of Economics and Management, Master of Science of Financial Management, (2001), Faculty of Social Sciences, Master of Regional Development – Public Administration. Workplaces in the last 10 years, and positions held: 02.04.2000–30.08.2006 – senior accountant in the Children rights service of Kaunas City Municipality, 31.08.2006–29.03.2007 – senior specialist, 2007–2010 Deputy Mayor of Kaunas City Municipality on the matters of communities and social issues, 2010–2011 director of administration of Kaunas City Municipality, 2011–2012 Adviser to the Minister of Agriculture of Republic of Lithuania. Mrs. Edita Gudišauskienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

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

*(full name, information on participation in the authorised capital of the issuer, beginning and end dates of the term of office of each person, information on the amounts of money calculated by the issuer during the reporting period, other transferred assets and granted guarantees for those persons in total, and average values per one member of the Company's Supervisory Board, board member,*



*members of administration (head of the Company, senior financier), information on participation in the activities of other companies, institutions and organisations (names of the company, institution and organisation, and position title)*

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

*Members of the Supervisory Board of the Company as at 31 December 2015:*

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

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

4 sessions of the Supervisory Board were held during the year 2015. More than ½ of members of the Supervisory Board attended all the sessions.



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



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





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



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



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



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



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

Mr. Andrius Kupčinskas is a member of the Kaunas City Municipality Council. He was a Mayor of Kaunas city until 16 April 2015. Chairman of the Strategic Planning Commission of Kaunas City Council, member of the Board of Academic Affairs, chairman of Business Council, member of the board of Lithuanian Association of Local Authorities (LSA), member of the Kaunas Regional Development Council (KRPT) and member of the EU Committee of the Regions. He was a Member of Company's Supervisory Board from 28 September 2012 until 7 May 2015. Mr. Andrius Kupčinskas holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Stanislovas Buškevičius was a Deputy Mayor of Kaunas city until 16 April 2015, member of the Kaunas City Municipality Council, member of Culture and Art Committee of Kaunas City Council, Chairman of the Award Council. He was a Member of Company's Supervisory Board from 28 September 2012 until 29 May 2015. Mr. Stanislovas Buškevičius holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Židrūnas Garšva is a member of the Kaunas City Municipality Council. Head of Committee of City Economy of Kaunas City Municipality Council until 16 April 2015, chairman of Commission of Privatization, member of Commission of Strategic Planning, representative of Kaunas city municipality in Business Council. He was a member of Company's Supervisory Board from 6 January 2014 until 29 May 2015. Mr. Židrūnas Garšva holds no shares of the Company. Mr. Ž. Garšva holds the shares of UAB Dextera Holding.

Mrs. Edita Gudišauskienė is a member of the Kaunas City Municipality Council, an independent member of Company's Audit Committee until 29 May 2015, chairman of the Budget and Finance Committee of Kaunas City Municipality until 16 April 2015, chairman of Lampėdžiai community centre. She was a member of Company's Supervisory Board from 28 September 2012 until 29 May 2015. Mrs. Edita Gudišauskienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Ričardas Juška is a member of Jurbarkas district municipality council, Mayor of Jurbarkas district municipality until 14 April 2015. Member of the Board of Association of Lithuanian Municipalities (ALM) since 2011, chairman of Committee of Health Issues of ALM, member of Council of Regional Development of Tauragė county since 2009, member of the Supervisory Board of Tauragė Regional Waste Management Centre, member of Movement of Liberals of the Republic of Lithuania starting from 2013, chairman of Jurbarkas section of Movement of Liberals of the Republic of Lithuania. Mr. Ričardas Juška was a member of the Supervisory Board of the Company from 29 April 2014 to 29 May 2015. Mr. Ričardas Juška holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Aušra Ručienė is a lawyer, member of Kaunas City Municipality Council until 16 April 2015, chairman of City Development, Investments and Tourism Committee of Kaunas City Municipality Council, member of Control committee, member of Anticorruption Commission, member of Strategic Planning Commission, also a member of Council of Academic Issues. She was a member of Company's Supervisory Board from 28 September 2012 until 29 May 2015. Mrs. Aušra Ručienė holds no shares of the Company. She is a shareholder of UAB Ručenta.

Mr. Gediminas Žukauskas is a member of the Kaunas City Municipality Council, chairman of Self-Government and Communities Development Committee of Kaunas City Municipality Council, member of Titles Contriving and Perpetuation of Memories Commission, member of Privatization Commission, member of Strategic Planning Commission, chairman of Panemunė Community centre. He was a member of Company's Supervisory Board from 28 September 2012 until 8 May 2015. Mr. Gediminas Žukauskas holds no shares of the Company. No interest in the capital of other Lithuanian companies.

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

*As at 31 December 2015 the members of the Company's Board were as follows:*

Full name	Position	Beginning of term	End of term
Vytautas Mikaila	Chairman of the Board	1 June 2015	1 June 2019
Justas Jankauskas	Deputy chairman of the Board	1 June 2015	23 March 2016



Algimantas Stasys Anužis	Member of the Board	1 June 2015	1 June 2019
Eugenijus Ušpuras	Member of the Board	1 June 2015	1 June 2019
Ramūnas Gatautis	Member of the Board	1 June 2015	23 March 2016
Nerijus Mordas	Member of the Board	1 June 2015	1 June 2019
Giedrius Bielskus	Member of the Board	1 June 2015	1 June 2019

The Company's Board held 26 sessions in the year 2015. More than 2/3 members of the Management Board attended all the sessions.



Mr. Vytautas Mikaila is a doctor in engineering, Director of UAB MVE Group, member of Association of Heating Technicians Engineers, member of Rotary Club Kauno Taurus, honorary consul of Slovak Republic in Lithuania. Starting from 1 July 2015 – head of Company's Strategy and Investment Projects department. He is a chairman of Company's Board from 1 June 2015. Mr. Vytautas Mikaila holds no shares of the Company. He holds 55% of shares in UAB MVE Group. Mr. Vytautas Mikaila charged 5.7 thousand euros of salary, no bonuses were estimated, nor any assets were transferred or guarantees issued during the reporting period.



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



Mr. Algimantas Stasys Anužis is a member of the Board of UAB Kauno Švara, member of board of Kaunas Chamber of Commerce, Industry and Crafts, president of Lithuanian Veterans Basketball League, member of Company's Board from 1 June 2015. Mr. Algimantas Stasys Anužis holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued during the reporting period.



Mr. Eugenijus Ušpuras is a habilitated doctor, chief of Laboratory of Nuclear Installation Safety, Lithuanian Energetic, full member of the Lithuanian Academy of Sciences, professor, and member of Company's Board from 1 June 2015. Mr. Eugenijus Ušpuras holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued during the reporting period.



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



Mr. Giedrius Bielskus is a director of public institution S. Darius ir S. Girėno Sporto Centras (S. Darius and S. Girėnas Sports Centre), member of Company's Board from 1 June 2015. Mr. Giedrius Bielskus holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued during the reporting period.



Mr. Nerijus Mordas is a chief finance officer for Eastern European and Asian markets of UAB Vičiūnų Grupė (UAB Vičiūnai Group), auditor of UAB E. Mordas ir Partneriai (UAB E. Mordas and Partners), deputy director (for finances) of OOO Vičiūnai-Rus, member of Company's Board from 1 June 2015. Mr. Nerijus Mordas holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated, nor any assets were transferred or guarantees issued during the reporting period.

#### Members of Company's Board until 1 June 2015:

Mr. Valdas Lukoševičius is a Doctor of technical sciences, associated professor of Thermal and Nuclear Energy Department of Kaunas University of Technology (KUT). Chairman of the Company's Board since 28 September 2012 to 1 June 2015. Mr. Valdas Lukoševičius holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated for former member of the Board, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Sigitas Groblys is a lawyer of law firm Foresta (business law group), partner, member of the board of UAB Litpirma, chairman of the board of Gintaras Steponavičius Support Fund. Member of the Company's Board from 28 September 2012 to 1 June 2015. Mr. Sigitas Groblys holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated for former member of the Board, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Juozas Augutis is a Habilitated Doctor of Technology sciences, laureate of National Science Award, Rector of Vytautas Magnus University, Professor at Mathematics and Statistics Department of Vytautas Magnus University (VMU), full member of the Lithuanian Academy of Sciences, NATO SPS (Science for Peace and Security) programme expert, FP6 and FP7 expert, Expert of the Lithuanian Council of Science, Expert of the Lithuanian State Science and Studies Foundation, manager of the Energy Security Centre of Vytautas Magnus University (VMU), member of the editorial boards of magazines "Energetics", "Journal of Civil Engineering and Management" and "Mathematics and mathematical modelling", member of the European Safety Reliability and Data Association ESREDA SRA, Senate and Board member of Vytautas Magnus University (VMU), member of the Lithuanian Society of Mathematicians and Statisticians Association, Chairman of the group panel the National Research Programme "Sustainable Energy" and Chairman of the group panel the National Research Programme "Energy for the Future". Member of the Company's Board from 28 September 2012 to 1 June 2015. Mr. Juozas Augutis holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated for former member of the Board, nor any assets were transferred or guarantees issued during the reporting period.



Mr. Rimantas Bakas is a Doctor in Technical sciences, General Manager of the Company, member of the Lithuanian Thermal Engineers Association, member of Scientific Council of the Lithuanian Energy Institute, member of the Lithuanian District Heating Association Council, Chairman of Master Qualification Committee of the Thermal and Nuclear Energy Department of Kaunas University of Technology, certified expert of the PET Lithuanian Committee on Energy approved by the Lithuanian committee of the World Energy Council. Member of the Company's Board from 3 May 2011 to 2 January 2012 and from 28 September 2012 to 1 June 2015. Mr. Rimantas Bakas holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr. Rimantas Bakas charged 60 thousand euros of salary during 2015. No bonuses estimated during reporting period, no transfer of other assets and no granted guarantees.

Mr. Saulius Meškauskas was a member of the Board of the Company from 28 September 2012 to 1 June 2015. Starting from 1 October 2015 he is a head of Division of Assets Management of Financial Department of the Company. Mr. Saulius Meškauskas holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr. Saulius Meškauskas charged 3.8 thousand euros of salary. No bonuses estimated during reporting period, no transfer of other assets and no granted guarantees.

Mr. Vaclovas Miškinis is a Habilitated Doctor in technology sciences, head of Complex Energy Research Laboratory of the Lithuanian Energy Institute, professor. Member of the Board of the Company from 28 September 2012 to 1 June 2015. Mr. Vaclovas Miškinis holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated for former member of the Board, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Mindaugas Varža is a Director at UAB Kauno Verslo Grupė. Member of the Board of the Company from 28 September 2012 to 1 June 2015. Mr. Mindaugas Varža holds no shares of the Company. No interest in the capital of other Lithuanian companies. No remuneration amounts (salary, bonuses) were estimated for former member of the Board, nor any assets were transferred or guarantees issued during the reporting period.

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

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

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

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

Mrs. Violeta Staškūnienė is a Company's Chief Accountant since 16 January 2003. She has a University education from Vilnius University, graduated in 1984, labour economics, profession – economist. Workplaces and positions held over the last 10 years: 01.2003–06.2004 – UAB Energijos realizacijos centras, chief accountant. Mrs. Violeta Staškūnienė holds 2,641 of the Company's shares, which represent less than 5 per cent of the authorised capital. No interest in the capital of other Lithuanian companies.

The total amount of money incurred to the General Manager and the Chief Accountant of the Company during the year 2015 is 88.0 thousand euros, and the average amount per member is 44.0 thousand euros. No other assets have been transferred, no guarantees granted.



## 22. Information on significant agreements

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

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

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

## 24. Information on major transactions with related parties

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

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

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

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

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

## 27. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information starting from 1 January 2015 over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. This information was also posted on the website of the Issuer. All information is available on **Nasdaq Vilnius** websites (<http://www.baltic.omxgroup.com/?id=3304>) and the issuer's website (<http://www.kaunoenergija.lt>).

Title	Announcement category	Language	Time
Information on recall of the members of Management Board of AB Kauno Energija	Notice of stock event	EN, LT	2016-03-24 13:50
Vilnius Commercial Arbitration Court approved a peaceful agreement between AB Kauno Energija and UAB Kauno Termofikacijos Elektrinė by which a litigation in case No. 268 was terminated	Notice of stock event	EN, LT	2016-02-02 16:26
Activity results of 12 months of the year 2015	Interim information	EN, LT	2016-01-28 16:00
Regarding conclusion of peaceful agreement with UAB Kauno Termofikacijos Elektrinė	Notice of stock event	EN, LT	2015-12-29 11:18
Regarding the publishing of AB Kauno energija interim reports	Notice of stock event	EN, LT	2015-12-23 14:04
Decisions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-12-17 16:00





Title	Announcement category	Language	Time
Convocation of the Extraordinary General Meeting of AB Kauno Energija shareholders	Notice of stock event	EN, LT	2015-11-25 16:00
Activity results of the 9 months of the year 2015	Interim information	EN, LT	2015-10-29 16:38
Regarding the approval of essential conditions of the peace agreement with UAB Kauno termofikacijos elektrinė	Notice of stock event	EN, LT	2015-10-13 11:02
Decisions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-10-02 13:59
Regarding liquidation of subsidiary	Notice of stock event	EN, LT	2015-09-10 15:41
Regarding a convocation of the Extraordinary General Meeting of AB Kauno Energija shareholders	Notice of stock event	EN, LT	2015-09-08 16:06
Agreement on acquisition of Sargėnai heat economy has been signed	Notice of stock event	EN, LT	2015-09-01 17:34
Intermediate information on AB Kauno Energija for the first half of the year 2015	Interim information	EN, LT	2015-08-24 16:00
The activity results of the 1 half of the year 2015	Notice of stock event	EN, LT	2015-07-29 14:30
Information on started payment of dividends to the shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-06-30 16:00
Information on election of managing bodies of AB Kauno Energija	Notice of stock event	EN, LT	2015-06-02 16:17
Regarding recall and election of new managing bodies of AB Kauno Energija	Notice of stock event	EN, LT	2015-06-01 17:39
Decisions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-05-29 12:37
Information on unpaid dividends as it is stated by the law	Notice of stock event	EN, LT	2015-05-28 16:23
Information on the resignation of AB Kauno Energija Supervisory Board members	Notice of stock event	EN, LT	2015-05-14 16:01
Regarding convocation of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-05-04 17:07
The activity results of I quarter of the year 2015	Interim information	EN, LT	2015-04-30 16:01
Financial statements with the annual report and Social Responsibility Report	Annual information	EN, LT	2015-04-28 17:05
Resolutions of the General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-04-28 16:01
Resolutions projects of General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-04-02 19:14
The audited activity results of AB Kauno Energija of the year 2014	Notice of stock event	EN, LT	2015-04-02 19:01
Convocation of General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-03-30 16:47
Decisions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	EN, LT	2015-03-30 16:02
Regarding a convocation of the Extraordinary General Meeting of AB Kauno Energija shareholders	Notice of stock event	EN, LT	2015-03-05 09:35
The activity results of 12 months of the year 2014	Interim information	EN, LT	2015-01-30 13:54

General Manager of AB Kauno Energija

Rimantas Bakas



**AB Kauno Energija report on the compliance with the Governance Code for the companies listed on the Stock Exchange Nasdaq Vilnius**

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

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



		held during the year.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's supervisory and managing bodies aim to ensure with their activities all interests of the persons concerned. The Company's management and the separate areas managers spend a lot of time communicating with customers, suppliers, contractors, representatives of the municipalities, in order to find optimal solutions, related to the Company's activities. Company's politics in respect of employees, customers and local society is stated in Company's Social Responsibility politics and implementation of this politics is described in Company's Corporate Social Responsibility reports. The specific of Company's activities ensures that consumers (customers) are periodically, i.e. 2-3 times per year invited to attend meetings where the relevant issues related to the activity of the Company are discussed. In addition the "Open doors days" are being arranged in order to better inform customers and to ensure closer relations with them.
<b>Principle II: The corporate governance framework</b>		
<b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b>		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The General Meeting of Shareholders and the Company's general manager are compulsory management bodies of the Company set by the Law on Joint Stock Companies of the Republic of Lithuania. The collegial supervisory body - the Supervisory Board and the collegial management body – the Management Board are also being formed. Division of Company's management bodies' competences and responsibility is determined in Company's statute, regulations of management bodies' activities, are published Company's web site and in Company's managers' job description.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	A collegial management body of the Company – the Management Board is responsible for the strategic management of the Company and also performs other key functions of the Company management. A collegial supervisory body – the Supervisory Board is responsible for the effective supervision of activities of the Company's managing bodies.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive	Not applicable	The Supervisory Board and the Management Board is being formed.

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

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

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

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

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

<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	<p>The shareholders of the Company by offering candidates for the collegial body must ensure that these members have the required competence. The Company publishes only the information which is provided by the members of the collegial body. Information which is presented in the annual and in interim report (data on participation of the issuer's statute capital, data on participation in other undertakings, bodies and organisations (title of the company, institution or organization and personal occupation), is publicized in Company's website.</p>
<p>3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>According to the Company's structure and activities, the main shareholder of the Company introduces candidates for members of the collegial body with relevant qualifications. The Collegial body as a unit has a versatile knowledge, opinions and experience enabling them to perform their tasks properly. Audit Committee as a unit, has up-to-date knowledge and relevant experience in finance, accounting, and (or) auditing.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p>	<p>In the practice of the Company all the new members of Supervisory Board are regularly informed about Company's activities and its alterations, as well as substantial changes of legal acts, regulating Company's activities and of circumstances, making an influence on Company's activities at the sessions of Supervisory Board of individually if there is such need or upon request of members.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient<sup>4</sup> number of independent<sup>5</sup> members.</p>	<p>No</p>	<p>The Company does not make any influence on the composition of the collegial body. Candidates to the members of the Company's collegial body are offered by the main shareholder. Detailed information is provided in article 3.7.</p>

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

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

<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> <li>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</li> <li>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</li> <li>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</li> <li>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</li> <li>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to</li> </ol>	<p>No</p>	<p>Elected Company's Supervisory Board consists of seven dependent members who are also the members of the Kaunas City Council. All the members of Supervisory Board meet criteria indicated in item 3.7 of recommendations, except criteria 4, because all the members of Supervisory Board partly represent controlling shareholder, i.e. Kaunas city municipality having 92.84 % of votes.</p>
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<p>have business relations when it is a major supplier or service provider (inclusive of financial, legal, advisory and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	<p>Yes</p>	<p>Company's Supervisory Board does not determine the term of independence, notwithstanding that a particular member meets all the requirements for independence indicated in this Code, because the elected Company's Supervisory Board consists of seven dependent members who are also the members of Kaunas City Municipality Council.</p>
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should</p>	<p>Yes</p>	<p>The Company discloses dependence of the members of Supervisory Board in this report.</p>

annually disclose which members of the collegial body it considers to be independent.		
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	Information provided by members of the Supervisory Board regarding their education, qualifications, professional experience, occupation and other important professional obligations and their relations with the Company is being presented in Company's annual and interim reports as well as in Company's website.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. <sup>6</sup> The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company.
<p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p><b>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring<sup>7</sup> of the company's management bodies and protection of interests of all the company's shareholders.</b></p>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. <sup>8</sup>	Yes	The Supervisory Board presents to the general shareholders meeting their opinions and proposals about the Company's activities, set of the annual financial statements, profit allocation project, the Company's annual report, the activity of the Company's general manager and the Management Board, and also carries out other functions allotted to the Supervisory Board competence regarding the Company's and it's managing bodies activity supervision. The Chairman of the Supervisory Board regularly meets the Chairman of the Management Board and the General Manager to discuss the events or changes of the Company that have taken place, also the essential questions of the Company's activity.

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

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

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

<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes</p>	<p>According to the knowledge of the Company all the members of the Supervisory Board are acting in good faith in the interests of the Company following the Company's but not the own interests or interests of the third persons.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half<sup>9</sup> of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>The members of the Company's Supervisory Board devote enough time and pay enough attention individually and collectively for the functions assigned to the competence of the Supervisory Board to carry properly. All the members of Supervisory Board took part in more than a half sessions of the Supervisory Board during Company's financial year. A quorum determined in all standard acts was present in all sessions (was attended by more than 2/3 of the Supervisory Board members) of Supervisory Board in 2015. Members of Supervisory Board participating in session are registered in session protocol and in list of session participants.</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>The Company's Supervisory Board in its work aim to behave honestly and impartially with all of the Company's shareholders and by the knowledge of the Company, there was no such kind of the contrary case. The Chairman of the Company's Supervisory Board and the Chairman of the Management Board harmonizes and coordinates interaction with Company's General Manager and in the name of Supervisory and Management Boards communicates with shareholders, informs the shareholders about the Company's strategy, activity and other essential questions.</p>

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



<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes</p>	<p>Company's management bodies conclude and approve their contracts following requirements of legal acts and Company's Statute. Members of Company's supervision or management bodies or shareholders are not concluded any contracts with Company, including of a big value or concluded in non-standard conditions. More detailed information is provided in Note 25 of explanatory notes to the financial statements.</p>
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies<sup>10</sup>. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.</p>	<p>Yes</p>	<p>As members of the Supervisory Board are partly related with Kaunas city municipality because they are members of Kaunas City Municipality Council, all their decisions are made only following Company's interests. Company's Supervisory Board is independent from Company's management bodies.</p> <p>Based on the Company's opinion, the collegial body and the Audit Committee are provided with sufficient resources, including their right to get all the necessary information, especially from the employees of the Company.</p> <p>Remuneration Committee is not set up in the Company because the salaries of the managers of the Company, their deputies and of the chief accountant are determined according to the schedule approved by Kaunas Municipality used in the municipality enterprises.</p> <p>Salary of Company's General Manager is determined by the Company's Board.</p> <p>The schedule of accounting and allocation of employees' variable part of salary is presented in the annex of the Company's collective agreement. Determination of per cent of variable part of salary, accounting and allocation of variable part of salary is detailed in this schedule.</p>

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

<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees<sup>11</sup>. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>Not applicable</p>	<p>Company's Audit Committee is formed by the Supervisory Board starting from 31 March 2009. The Supervisory Board appointed six member of Audit Committee from 29 May 2015. The Nomination and the Remuneration Committees are not formed in the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No. 4.6. Nomination Committee, which would be obliged to perform all the functions appointed for this committee is not formed in Company and these functions are partly performed by the Supervisory Board and / or Company's Board. The Company will seek to implement this provision In the future.</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters</p>	<p>Yes</p>	<p>Audit committee is being formed in the Company. At least one member of this Committee is independent. Three independent members act in Audit committee starting from 29 May 2015. The Committee acts independently and principally and renders recommendations and prepares reports that are presented to Supervisory Board.. The Supervisory Board is responsible for decisions made within its competence.</p>

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

<p>considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>		
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>Yes</p>	<p>Audit Committee acts in the Company and it consists of six members, three of whom are independent members. Term of office of this Committee coincides with the term of office of the Company's Supervisory Board.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>No</p>	<p>The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. Allocation Committee, which would be obliged to implement all the functions allocated to this committee, is not being formed in Company and all these functions are being performed by the Supervisory Board and / or Management Board. The information on composition of the Audit Committee, the number of sessions and attendance during the year 2015 is being announced in this Annual Report.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events</p>	<p>No</p>	<p>The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6.</p>

<p>when such are to be performed should be specified in the regulations for committee activities.</p>		
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ul style="list-style-type: none"> <li>• Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;</li> <li>• Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;</li> <li>• Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>• Properly consider issues related to succession planning;</li> <li>• Review the policy of the management bodies for selection and appointment of senior management.</li> </ul> <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>No</p>	<p>The Company does not form the committee which would be obligated to perform all of the tasks that were designated for the Nomination Committee. These functions are partly being performed by Supervisory Board and / or Company's Management Board.</p>
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <ul style="list-style-type: none"> <li>• Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive</li> </ul>	<p>Not applicable</p>	<p>The Committee of Remuneration is not formed according to the circumstances shown in the article No 4.6.</p>

director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;

- Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;

- Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;

- Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;

- Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;

- Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);

- Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:

- Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;

- Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders

<p>meeting;</p> <ul style="list-style-type: none"> <li>• Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</li> </ul> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> <li>• Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</li> <li>• At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</li> <li>• Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</li> <li>• Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such</li> </ul>	Yes	<p>However, as of 31 March 2009 the Audit Committee was formed by the Supervisory Board. The term of office of this committee coincides with the term of office of the Company's Supervisory Board. This committee will seek to fully implement functions assigned to it by this recommendation.</p>

situations;

- Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;
- Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.

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

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

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

<p>auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor’s work program, and should be furnished with internal audit’s reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body’s structure, work organization and ability to act as a group, evaluation of each of the collegial body member’s and committee’s competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	<p>There was no practice of assessment of the activity of Supervisory Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Supervisory Board exhaustively knows the experiences and competences of each candidate.</p>
<p><b>Principle V: The working procedure of the company’s collegial bodies</b></p> <p><b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company’s bodies.</b></p>		
<p>5.1. The company’s supervisory and management bodies (hereinafter in this Principle the concept ‘collegial bodies’ covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by</p>	Yes	<p>The Company fully implements this recommendation. The Company's Supervisory Board and Management Board are run by the Chairman de jure and de facto. In accordance with the work regulations of the bodies the chairmen</p>



<p>chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>		<p>of Supervisory Board and Managing Board convenes meetings, ensures proper informing about convening meeting and about agenda of the meeting. This recommendation is fully implemented by the Supervisory Board and by the Managing Board.</p>
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month<sup>12</sup>.</p>	<p>Yes</p>	<p>This recommendation is implemented by the Supervisory Board and by the Management Board.</p>
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	<p>The Company follows the order foreseen in the work regulations of the Supervisory Board and the Management Board and the information about the convened meeting is presented in advance together with an agenda and all the necessary information and documents related to the meeting agenda. The Supervisory Board and the Board meeting agenda may be changed or added during the meeting, in the presence of all members of the collegial body, or when there is an urgent need to deal with Company's certain key issues.</p>
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are</p>	<p>Yes</p>	<p>The chairmen of Company's supervisory and management bodies coordinate dates of the meetings, their agendas and cooperate in solving other issues of corporate governance.</p>

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

discussed.		
<b>Principle VI: The equitable treatment of shareholders and shareholder rights</b>		
<b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b>		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The ordinary registered shares which make the authorized capital of the Company give the equal rights for all share owners.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company allows investors to take a look at the rights conceded by newly issued or already issued shares. Company's Statute in which the rights conceded to Company's shareholders are determined, are publicized in Company's website.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. <sup>13</sup> All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	In compliance with the Law on the Companies and the Company's statutes the transactions confirmation issues foreseen in this recommendation are ascribed to the competence of the Management Board but in individual cases for the asset disposal transactions the Company applies to the Meeting of Shareholders, as it is prescribed in Company's statutes.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	There is a possibility for shareholders to vote in advance by filling up a general vote bulletin.

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

<p>6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>Yes</p>	<p>Draft decisions of convoked meeting and decisions taken by meeting are being disclosed publicly by the Company in Company's website and using GlobeNewswire information dissemination system of Nasdaq Vilnius Stock Exchange as it is foreseen in the Law on Companies not only in Lithuanian, but also in English.</p>
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>The shareholders of the Company can implement the right to participate in the General meeting of shareholders personally or through their representatives if the person has a proper authorization or the voting right delegation agreement is made with him in compliance with the legal acts order. The Company also creates conditions for the shareholders to vote in advance in writing by completing the general voting bulletin as it is foreseen by the Law on the Joint Stock Companies.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>Not applicable</p>	<p>According to the order of the Company's shareholders meetings and the lists of shareholders, there was no need to implement this recommendation in the Company up to now.</p>
<p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b></p> <p><b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b></p>		

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

<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p>	<p>Not applicable</p>	<p>The Company publicizes average wages of employees of the Company (by category) and the average wage of all employees of the Company. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not determined by the valid legal acts. The remuneration for the Supervisory Board and the Management Board of the Company is determined by the meeting of shareholders. Remuneration for the members of the Management Board for the results of the year 2014 was not allocated. The remuneration of the managing director is determined by the Managing Board considering the schedule of remuneration order of managers of municipal enterprises, companies, municipal controlled joint-stock and close-end companies, their deputies and chief accountants approved by Kaunas municipality. Considering this schedule the remuneration of the General Manager and chief accountant of the Company is determined. Estimating this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information on the termination payments and loans for the members of the Supervisory Board, the Management Board and administration (General Manager, Chief accountant) in the annual report. The information regarding average remuneration of employees of the Company is also announced in Company's website.</p>
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> <li>• Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>• Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>• An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>• An explanation of the methods, applied in order to determine whether performance criteria</li> </ul>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>

<p>have been fulfilled;</p> <ul style="list-style-type: none"> <li>• Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>• Sufficient information on the linkage between the remuneration and performance;</li> <li>• The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>• Sufficient information on the policy regarding termination payments;</li> <li>• Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>• Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>• Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</li> <li>• A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>• Remuneration statement should not include commercially sensitive information.</li> </ul>		
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company, but the information on the termination and other payments is publicly announced in the Company's annual report.. Also Company publicizes average wages of employees of the Company (by category).</p>
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> <li>• The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where</li> </ul>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>

relevant, attendance fees fixed by the annual general shareholders meeting;

- The remuneration and advantages received from any undertaking belonging to the same group;
- The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;
- If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;
- Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;
- Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.

8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:

- The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;
- The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;
- The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;
- All changes in the terms and conditions of existing share options occurring during the financial year.

8.5.3. The following supplementary pension schemes-related information should be disclosed:

- When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;
- When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.

8.5.4. The statement should also state amounts that the company or any subsidiary company or

<p>entity included in the consolidated annual financial <b>report</b> of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
<p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	<p>Not applicable</p>	
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p>	<p>Not applicable</p>	
<p>8.11. Termination payments should not be paid if the termination is due to inadequate performance</p>	<p>Not applicable</p>	



<p>8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.</p>
<p>8.13. Shares should not vest for at least three years after their award.</p>	<p>Not applicable</p>	
<p>8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.</p>	<p>Not applicable</p>	
<p>8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).</p>	<p>Not applicable</p>	
<p>8.16. Remuneration of non-executive or supervisory directors should not include share options.</p>	<p>Not applicable</p>	
<p>8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.</p>	<p>Not applicable</p>	
<p>8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	<p>Not applicable</p>	

<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1., remuneration policy according to which the report on remuneration would be prepared is not approved by the Company. Nevertheless, the Company publishes information on the remuneration and other payments of the members of the Supervisory Board, Management Board, General Manager and to the chief accountant in Company's annual reports in accordance with the legislation. Information on average remuneration of Company's employees is also announced in Company's website. The Company does not use schemes under which the directors can be paid with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</li> </ol>	<p>Not applicable</p>	<p>Because of the reasons foreseen in the recommendation No. 8.1. the Company does not use schemes under which the directors can be remunerated with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.</p>
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	<p>Not applicable</p>	

<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company’s employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders’ annual general meeting.</p>	<p>Not applicable</p>	
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company’s website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company’s website.</p>		
<p><b>Principle IX: The role of stakeholders in corporate governance</b></p>		
<p><b>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</b></p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>The Company follows all the requirements foreseen by the law for the stakeholders' opportunities to participate in the management of</p>

<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>		<p>the Company, but any group of interest, having the right to participate in management of the Company, determined by the law, is not created yet in accordance with law.</p>
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>		
<p><b>Principle X: Information disclosure and transparency</b></p> <p><b>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</b></p>		
<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> <li>1) The financial and operating results of the company;</li> <li>2) Company objectives;</li> <li>3) Persons holding by the right of ownership or in control of a block of shares in the company;</li> <li>4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</li> <li>5) Material foreseeable risk factors;</li> <li>6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</li> <li>7) Material issues regarding employees and other stakeholders;</li> <li>8) Governance structures and strategy.</li> </ol> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the</p>	<p>Yes</p>	<p>The Company discloses information, provided in this recommendation, in the reports, in the annual and interim reports, the Company's website and Centre of Registers electronic publication, in which the public information of legal persons are announced, except the report of remuneration policy determined in VIII principle. This report is not prepared in the Company because of the reasons foreseen in the article No. 8.1., and it is not approved, as it is not required by the law. According to the Law on Companies and to Company's Statute the remuneration for the members of the Company's Supervisory Board and of the Management Board can be determined by the meeting of shareholders. In the year 2014 remuneration has been allotted for the members of Company's Management Board for the results of the year 2013 for the first and the only time. The company also attempts not to disclose the information that can affect the price of Securities issued by the Company in the comments, interviews or other means, as long as such information will be publicly announced at the Nasdaq Vilnius Stock Exchange GlobeNewswire dissemination system on the Company's website.</p>

<p>professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>		
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	<p>The Company simultaneously presents the information using the Nasdaq Vilnius Stock Exchange information dissemination system GlobeNewswire in Lithuanian and English languages as it possible. The Stock Exchange places received information on its website and in trading system assuring simultaneous presentation of this information to all. In addition, the Company strives to announce the information before or after a trading session on the Nasdaq Vilnius Stock Exchange and to present it to all the markets in whom the trade in Company's stocks is being in progress at the same time. The Company does not provide the information which can have an influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced using the Nasdaq Vilnius Stock Exchange dissemination system.</p>
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and,</p>	<p>Yes</p>	<p>Company's information is published on its website in Lithuanian.</p>

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

## FOREWORD OF GENERAL MANAGER

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

As a heat generating enterprise, our Company is directly related with emissions of combustion products into environment, therefore it is especially sensitively observed by both institutions responsible for environment protection and citizens of the city. This is why we – heat suppliers must work insomuch not to only making certain reliable uninterrupted heat supplies at any circumstances, but also that equipment used in our activities would not pollute environment or at least would not exceed permissible limits. Therefore heat supplies may be considered more as social favour, not a profit seeking business.

In 2015, in order to reduce heat price for consumers, to reduce demand in fossil fuel, pollution and environmental impact, to increase the efficiency of heat production and the usage of renewable energy sources, the Company continued and accomplished modernization of its heat production facilities in “Inkaras”, “Šilkas” boiler-houses and Petrašiūnai power-plant. We implemented even three massive projects of biofuel boilers construction that allowed reducing heat price for consumers at more than 20 per cent already in 2015.

In 2015 we actively publicized problems, emerging cooperating with independent heat producers (hereinafter – IHP). In order to resolve them we initiated meetings with the representatives of authorities, regulating institutions and IHP. The result is that problems publicized by us and proposed their resolution methods are considered when improvements of legal regulatory basis of heat purchase and of connection to the network are made.

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

This report provides the information on Company’s progress during the year 2015, considering economic, social and environmental aspects, as well as our Company’s environmental policy and indicators.

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

**Dr. Rimantas Bakas**  
General Manager of AB Kauno Energija

# COMPANY'S SOCIAL RESPONSIBILITY POLICY

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We conceptualize social responsibility as:

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

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

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

## PHILOSOPHY OF ACTIVITIES

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

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

**Values**, that Company follows performing its activities:

- More than 50 years of experience in heat production and supplies business;
- Social responsibility – responsibility for consumers for fail-safe heat and hot water supplies and for quality maintenance of indoor heating and hot water supplies systems at the lowest expenditures;
- Competitive heat production allowing to reduce heat price for consumers;
- High qualifications of employees, allowing to reach a highest rates of efficiency;



- Ability to implement latest scientific and technological achievements in the activities of the Group and the Company;
- Analysis of good management, technological and technical practice of other Lithuanian and foreign companies and implementation of them in Company activities;
- Close cooperation with state and municipal institutions, universities, research institutions and with academic institutions;
- Ability to participate in development and implementation of scientific programs;
- Partnership in international projects;
- Self-analysis and implementation of alterations;
- Reputation of reliable, modern and solid group of companies.

## ECONOMIC RESPONSIBILITY

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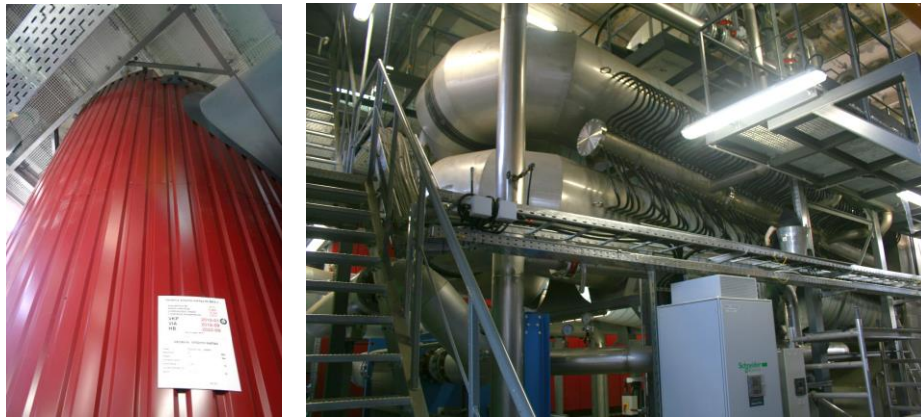
Economical responsibility is being seen by the Company as a creation of economic benefits to consumers and shareholders. These benefits are created by Company by coherent decrease of heat production expenditures, costs of heat supplies and heat losses in network. The decrease in expenditures of production,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

### DECREASE IN EXPENDITURES OF HEAT PRODUCTION

In order to decrease expenditures of heat production and heat price for consumers the Company assigned a most part of investments in 2015 for completion of modernization of facilities of heat production using renewable energy resources. Biofuel burned boilers were installed in these facilities that allowed reducing heat price for citizens of the city at more than 20 per cent 2015. In consequence of start of operation of these boilers the citizens saved approximately EUR 15 million that they must not pay for heat. The following projects were implemented by the Company in 2015:

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

8 MW capacity bio-fuel burned water heating boiler along with 4 MW capacity condensational economizer in Šilkas boiler-house were installed while implementing this project. Project activities were started in June 2014 and on 6 February 2015 a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of legal acts and can be used in accordance with purpose has been received from the State Energy Inspectorate. Total value of the project is EUR 2.327 million, European Union Structural Funds support in amount of EUR 1.154 million is among them;



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

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

Starting from the year 2000 Inkaras boiler-house was mothballed and did not produce any heat. During implementation of project two bio-fuel burned water heating boilers with capacity of 8 MW each and 4 MW capacity condensational economizer were installed (the total capacity 20 MW). The contract on boiler-house reconstruction works was signed on 5 August 2014 and on 17 February 2015 a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of project and legal acts and can be used in accordance with purpose has been received from the State Energy Inspectorate. The total value of the project was EUR 5.709 million. European Union Structural Funds support for this project in amount of EUR 1.738 million is among them. A total of 140.5 thousand MWh of heat were produced with this equipment during the year 2015.



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

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

While implementing this project, a steam boiler BKZ No 1 was changed with two bio-fuel burned water heating boilers with total capacity of 24 MW. A 6 MW capacity condensational economizer was installed as well. The total capacity of new equipment reached to approximately 30 MW. Project activities were started in the spring of 2014 and on 17 February 2015 a certificate of test of energy equipment technical state, confirming that new equipment meets all the requirements of legal acts and can be used in accordance with

purpose has been received from the State Energy Inspectorate. The total value of the project was EUR 6.298 million. European Union Structural Funds support for this project in amount of EUR 1.523 million is among them. A total of 189.9 thousand MWh of heat were produced with this equipment during the year 2015.



*Photo: new water heating boilers and biofuel taking equipment in Petrašiūnai power-plant*

One more bio-fuel equipment installation project, which was co-financed by Lithuanian Environmental Investment Fund (LEIF), was implemented by the Company in the year 2015:

#### **4. "Reconstruction of Šilkas boiler-house changing depreciated boiler with the new one"**

A new 9 MW capacity biofuel burned water heating boiler was installed instead of depreciated boiler, that was in operation since the year 1959, during implementation of project. The new boiler was installed by connecting it to biofuel burned furnace that was installed in the year 2013. The contract on project works was signed on 24 July 2015. The operation of boiler was officially started on 10 December 2015. More than 150 thousand EUR support was allocated for this project under the 2014 year estimate of use of funds elaborating plan measure "Installation of biofuel boilers, changing depreciated boilers with a new ones" of the Climate Change Special Programme. Total value of the project "Reconstruction of Šilkas boiler-house changing depreciated boiler with the new one" was EUR 0.7 million.



*Photo: new biofuel burned water heating boiler is being lifted through the roof of boiler-house and already assembled in its' place*

The result of all of these implemented projects was at approximately 20 per cent decreased price of heat for Company's heat consumers. As a result of these investments (as well as of warmer weather and slightly cheaper fuel) Company's heat consumers saved more than EUR 15 million during the year 2015.

Total capacity of newly installed AB Kauno Energija biofuel using boilers with condensational smoke economizers amounts to 72 MW. These capacities cover approx. 25 per cent of average heating season demand in Kaunas integrated network.

It's emphasizing, that any other Lithuanian heat supplies company is being done such a big breakthrough in one year period, i.e. implemented that amount of new capacities of heat production from biofuel. The Company started production of heat with these capacities at the cheapest prices, thus making IHP to reduce price of the heat sold.

## INCREASE IN RELIABILITY OF HEAT SUPPLIES

### Reconstructions of heat supplies network

Reconstructions of heat supplies network allows the Company decreasing heat supplies losses and increasing reliability of heat supplies.

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

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

### Participation in scientific and social activities

On 29 April 2015 a circuit session of Commission of Seimas of the Republic of Lithuania took place in the Company. Changes in heat economy after start of usage of biofuel for heat production in Kaunas were presented. Except members of Seimas of the Republic of Lithuania – commission chairman Kęstutis Daukšys, Vydas Gedvilas, Linas Balsys and Ričardas Sargūnas – Mayor of Kaunas city Visvaldas Matijošaitis, Vicemayor Povilas Mačiulis, Director of City Municipality Administration Gintaras Petrauskas, President of Lithuanian Biomass Energy Association LITBIOMA Virginijus Ramanauskas, Managers of AB Kauno Energija and other energy and forestry specialists also attended the session.



The development of AB Kauno Energija in heat production sector, increase in competition in it, reaching to decrease heat prices for consumers was presented to the commission and city leadership at the session. It was emphasized, that after selling of Kaunas Termofication Power-plant for private investor in 2003, AB Kauno Energija became the only heat supplies company in Lithuania devoid of own main heat production facility. Also, current situation in biomass energy in Lithuania and especially in Kaunas, resources of Lithuanian forests and also the main environmental aspects of burning of biomass in energy sector were discussed.

On 30 September 2015 the Company arranged seminar in Kaunas city municipality "Advantages of centralized heat supplies and assertions of special plan". Developers of real estate and projectors were invited to this seminar. Principles of composition and assertions of special plans of heat supply to the cities, coherence of modernization of residential buildings and development of plans of centralized heat supply also new possibilities and advantages of centralized heat supply were presented to them.

Presentations on principles of composition of special plans of heat supply, on position of city municipality regarding heat supply, on modernization of residential buildings and coherence of modernization of residential buildings and development of plans of centralized heat supply were made by Assoc. prof. of Department of Thermal and Nuclear Energy of Kaunas University of Technology dr. Juozas Gudzinskas, Rimantas Čekauskas, senior specialist of Energy department of Kaunas city municipality and dr. Ramūnas Gatautis, Research associate of Laboratory of Energy Systems Research of Lithuanian Energy Institute.

Participants of seminar were especially interested in possibilities of self-adjustment of heat consumption, possibility of installation of collector heating systems and low capacity heating modules which allow not only self-adjusting indoor air temperature, but also having individual accounting, to make hot water by them and to have full comfort.

On 7 October 2015 the Company was invited to "Days of Industry" organized by Student Union of Faculty of Mechanical Engineering and Design of Kaunas University of Technology. "Days of Industry" is completely new, quality and mutual platform between students and business sectors. Representatives of AB Kauno Energija were invited for presentation of the Company and its' activities in the seminar and for arrangement of excursion in Company's heat production facilities.

On 2 November 2015 the meeting with administrators of projects of residential buildings renovation (modernisation), contractors of construction works and other participants of the process, organized by Housing Energy Efficiency Agency (HEEA) has been held at the Company. Actual issues of projects implementation were discussed at the meeting. Daiva Matonienė, Vice minister of the Ministry of Environment of the Republic of Lithuania attended the meeting. Valius Serbenta, Director of HEEA, other specialists of HEEA, representatives of European Investment bank, State territorial planning and construction inspectorate, Šiauliai bank, Public Investment Development Agency as well as administrators of projects of residential buildings renovation and contractors from Kaunas, Raseiniai, Alytus, Prienai and other surrounded regions also attended the meeting. Issues on state support for renovation projects were discussed at the

meeting. General Manager of AB Kauno Energija Dr. Rimantas Bakas, who also attended the meeting, emphasized, that the Company is also interested in renovation process. General Manager noticed that the Company itself actively contributes to reduction of energy expenses by decreasing heat prices at more than a third. He also presented information on Company's investments that allowed reducing heat prices significantly in the last three years, also the information on consumers possibilities of individual adjustment of heat consumption in their flats by installing there equipment of individual adjustment.

On 10 November 2015 the meeting of representatives of National Commission for Energy Control and Prices, IHP and the Company initiated by the Company has been held at Company's premises. The Company publicly raised a problems heat supplies companies are facing with when purchasing heat from IHP. Quite a trenchant discussion on frequent interferences that heat supplies companies are facing with when obligatorily purchasing heat from IHP, that in turn rebound both to consumers and to condition of heat supplies network occurred at the meeting. Due to uneven deployment of biofuel facilities and operation, the condition of network worsen and only heat suppliers are responsible for its' conditioning, exploitation and renovation.

Other problem is that heat suppliers are constrained under the legislation to render free services of IHP heat production facilities reservation, notwithstanding that they face a real expenses because of that. But IHP has no such responsibility at the same time.

Representatives of NCC – General Advisor Medeina Augustinavičienė, Head of Hear Department Vilma Skinderytė and Heat of Department of Heat Producers and Competition Matas Taparaukas who took part in the meeting, said, that Commission understands problems raised by heat suppliers and in turn will consider them when improving rules of heat purchase from IHP.

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

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

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

In 2015 the Company started participation in assessment of dissociation of heat generation and supplies activities for the price of heat and reliability of supplies, initiated by Lithuanian District Heating Association. The aim of this research is to determine implementation principles of dissociation of activities of heat generation and supplies in Lithuanian heat economy, anticipated in National Strategy of Energy Independence approved by decision of Seimas of the Republic of Lithuania No XI-2133 of 26 June 2012 and in renewed project of National Energy Strategy.

In pursuance of research the Company allowed meeting with its representatives regarding submission of documentation and information on finance, economic and technical issues.

In the end of the year 2015 the Company started participation in study "Assesment of technical and economic possibilities of installation of heat metering appliances and heat cost allocators in indoor heating and (or) the cooling systems of residential buildings with centralized heat and (or) coolness supply, prepared by Lithuanian Energy Institute (LEI). Technical variants, economic rationality and impact on consumers behaviour of installation of heat metering appliances in residential buildings into which the heat is supplied with centralized heat supplies systems, are investigated in the study.

Also the Company started in 2015 participation in "Research of effectiveness of sustainable energy measures implemented in self-government level" one of the fields of it is research of effectiveness of renovation (modernization) of buildings, implemented by LEI. Company's participation in research consists of presentation of data on heat consumption in buildings in 2004 – 2015.

The Company also started preparation for cooperation with Vytautas Magnus University (VMU) in 2015. An agreement, according to which both sides must oblige to allow each other to use their own infrastructure, creative and organizational resources for implementation of mutual projects and for organization of events had been prepared. The agreement also will anticipate cooperation in organization of educational internships of VMU's students, master classes in order to embed adaptability of knowledge acquired.

Same as every year, the Company took part in "Career days" organized by Kaunas University in 2015. Company's employees told students about activities of AB Kauno Energija, also about functions performed by Company's engineers, boiler-houses operators, electricians, IT and other field's specialists, presented possibilities to get a job in Company.

## CONSUMERS SERVICE AND INFORMATION

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

### Propagation of electronic services

It is essential to the Company that consumers should more easily and conveniently pay for heat. In that case service of delivering of electronic bills was further developed in 2015. Consumers get electronic bills at

5–7 days earlier on an average, they can more conveniently declare readings of meters of hot water, pay for consumed heat connecting to an electronic banking systems using Company's electronic services system, pay for a few objects. In 2015 approx. 15 per cent of household consumers used this service and more than 65 per cent legal entities.

### Publicizing of information

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

In 2015 the Company publicized its' activities using these methods and channels:

- 49 articles were published in Company's and Kaunas city municipality websites, also in newspaper "Kauno diena" and other newspapers or websites;
- 46 pressreleases were prepared and distributed;
- 6 times Company's representatives participated in radio and TV broadcastings, where Company's activities and decrease in heat prices were discussed. Also they answered questions;
- not less than 7 television and radio interview were given by Company's representatives answering questions;
- 3 times meetings with consumers were arranged. Company's activities in different periods was presented and questions of consumers answered;
- Company's activities are also being publicized by publishing financial statements and interim and annual reports, also reports of General Manager of the Company and reports on social responsibility. Once a year the Company publishes printed edittions on its' activities during the last year;
- All public information on Company's activities is published in its' website [www.kaunoenergija.lt](http://www.kaunoenergija.lt). Both constant and periodically renewd information is presented here.

Edition on Company's activities in 2014 was prepared in 2015. It was distributed between Company's shareholders, heat consumers, authorities, Company's business partners, etc.

On 30 June 2015 AB Kauno Energija was evaluated as providing the most information on annual budgets, turnovers gained, taxes paid and management and employees salaries in Report of Evaluation of Transparency of Enterprises Governed by Municipalities conducted by non-governmental organization Transparency International. A maximum of 100 points were allocated to the Company for publicizing of this information. In total, 8 place of rating was allocated to the Company for publicizing of information between 282 evelueted enterprises.



AB Kauno Energija is a company, listed in AB Nasdaq Vilnius stock exchange and, following the order, determined by the Law on Securities of the Republic of Lithuania, announces every notice on stock event in exchange's information system and Company's website, disclosing nature and short content of a notice.

### Meetings with consumers

In order to directly inform consumers on Company's activities and answer the concerning questions, the Company periodically arranges meetings with consumers. 3 Meetings were held in 2015. Consumers were informed on decrease in heating price in consequence of projects, implemented by the Company, on possibilities of heat savings, etc. Answers on common questions, topical for most part of consumers regarding circulation of hot water, maintenance of heat supply equipment units, issues on accounting of heat and hot water were provided. Members of public movements, Company's Board and Kaunas city municipality took part in those meetings.



## SOCIAL RESPONSIBILITY

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### Employees

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

### Rules of Working Order and the Ethical Code

AB Kauno Energija has valid rules of working order. The goal of the rules is to determine Company's working order and discipline, working time and rest, payment, confidential information, requirements of safety, health and working behaviour of employees.

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

### Collective agreement

The collective agreement, signed by representatives of employees and employer operates in AB Kauno Energija. It determines work, salary, social, economic and professional conditions and warranties, which are

not regulated by the law or other legal acts, but making certain and better working and social conditions for employees.

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

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

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

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

2. The length of service of employees of the Lithuanian power system companies transferred to the Company according to the corporate employer agreement, i.e. when the transfer was carried out according to the Labour Code or the Law on Employment Contract, is considered not interrupted, and such employees are granted additional paid leave for a continuous period of employment with the Company.

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

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

- |  |                  |
|--|------------------|
| 4.1. Creating a family   | 3 calendar days; |
| 4.2. Death of a close relative (one of the parents or parents of the spouse, the spouse, brother, sister, daughter, or legal foster son, foster daughter, grandson, granddaughter)                       | 3 calendar days; |
| 4.3. Wife's birth giving   | 1 calendar day;  |
| 4.4. Wedding of the employee's daughter, son or legal foster-child   | 3 calendar days; |
| 4.5. Employees, raising a child studying at a general education school under twelve years of age, are given a day off during the first day of the academic year, paying such employees the average wage. |                  |

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

6. The employer undertakes:

- 6.1. To ensure the conditions of preventive health check and, if necessary, rehabilitation treatment of employees, to provide free health services at the Company's occupational health unit;
- 6.2. In case of death of an employee, the Company pays an allowance in the amount of two monthly average salaries of the last year of the Company or a branch (depending on where the employee has worked), gives free transport or covers transport costs. The allowance is granted to the burying person;

- 6.3. In case of death of a close relative of the employee (father, mother, child, or spouse), the employee is granted the allowance of the average salary of the previous year of the Company or an affiliate (depending on where the employee works), given free transport or transport costs are covered;
- 6.4. In case of birth of one or more children, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) for each child;
- 6.5. In case of wedding, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works);
- 6.6. Employees who are raising three or more children under the age of 16, widows (widowers) and unmarried persons who raise one child or children alone, if they are studying at secondary schools until the age of 19, and while studying at higher schools or colleges full-time till the age of 21, or if they are caring for other family members with heavy or moderate disability level or lower than 55 per cent working ability level, or family members who have reached the retirement age, which according to the laws are established a major or moderate level of special needs, once a year are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) according to the date of request;
- 6.7. For the 40th, 50th and 60th anniversary, as proposed by the head of the division, for excellent performance of employees having the 15 and 20 years of continuous employment with the Company are granted a monetary gift of 25 per cent, and having over 20 years of continuous work experience – a monetary gift of 50 per cent of the average salary of the previous year of the Company or an affiliate (depending on where the employee worked);
- 6.8. In other cases, where the material support is needed (loss due to natural disasters or other reasons beyond the employee's control), at the mutual agreement of the representatives who have signed the Collective Agreement, employees are granted a benefit of up to 580 euros;
- 6.9. In the event of a serious illness or accident of the employee, he is granted an allowance of up to 5 average salaries of the previous year of the Company or an affiliate (depending on where the employee worked) at the mutual agreement of the representatives who have signed the Collective Agreement;
- 6.10. For the occasions of the Lithuanian Energy Day and jubilees of the Company deserving employees are granted a monetary gift of up to 145 euros.

### Salary of employees

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

### Employees health and safety

A lot importance is paid by Company for creation of safe working environment. Conditions for preventive medical check-up or rehabilitation treatment are established in Company, free services are rendered in

Company's working health station. Preventive medical check-up has been performed for 225 employees in 2015. Also a free preventive eye check was performed for 95 Company's employees.

Employees affected by risk factors are inoculated against flu, mite encephalitis for free every year. 106 employees were inoculated against flu and 171 against mite encephalitis in 2015. Special outfit, footwear and other implements of personal safety are given on time and for free if necessary.

Preventive measures, designed to avoid accidents, extreme situations, breakdowns, working troubles and incidents are constituted in Company and the control of their implementation is pursued. No accidents in work were committed over 2015.

### Trade union of employees

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

The Company assigns funds and supports employees' cultural, sports and other activities unifying collective, which can be used by all employees without discrimination and limitations. Also Company's, jubilee and other important holidays are being organized.

Premises for organization of meetings and conferences are rendered for trade union if necessary. Company's administration delegates teams to take part in competition of energetics professionals.

Trade union of AB Kauno Energija supports donor activities and medical check-up actions, concerns, that employees should get various discounts for goods and services, etc. Trade union of AB Kauno Energija employees assigned 570 euros for Company's employees ill with oncological diseases transferred from 2 per cent of income-tax.

### Trainings for employees

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

75 employees took part in refresher courses and trainings in 2015. Employees gained knowledge in the fields of law, taxation, public purchases, and etc. 257 employees took part in professional trainings, after completion of which certificates for special works are being issued for them.

14 employees studying in universities and colleges work in the Company at the moment. For those studying successfully paid studies leave is provided according to legislation, when the field of their studies meet

Company's interests and nature of their job. 50 per cent of employee's average salary is paid and a flexible work schedule is applied if necessary.

### Inner events

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

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

Also the tradition of Christmas celebration is renewed in Company. Approximately 200 employees took part in Christmas Eve celebration in 2015. Singer J. Miliauskaitė performed in the event.

### Responsibility to society

The main achievement in this field is decrease in heat price for consumers at more than 20 per cent due to the implemented investments in biofuel boiler-houses during 2015. Due to the decreased heat price Kaunas citizens saved more than 15 million euros during 2015, which they didn't need to pay for heat.

### Allocation of support

In 2015 as every year the Company allocated not inconsiderable part of funds (92 thousand euros) for various projects of support and charity. 89 thousand euros from that sum was allocated to Public Institution "Žalgirio" krepšinio centras ("Žalgiris" Basketball Centre), pursuing decision of Extraordinary General Meeting of Shareholders, held on 12 November 2014.

## ENVIRONMENTAL RESPONSIBILITY

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In carrying out their activities, the Company seek to prudently use natural resources, install less polluting technologies, and follow with the environmental legislation and applying preventive measures to minimize the negative impact on the environment.

The Company have organized the waste collection, sorting and transfer of them to waste managers, i.e. to licensed waste management businesses. In 2015, the Company transferred for recycling 0.3289 tons of waste of electric and electronic equipment, 850.248 tons of ash, 364.050 tons of debris, 0.860 tons of used tires, and 0.150 tons of fluorescent lamps.

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

The measurement laboratory of stationary air pollution sources of the Company, having the permit issued by the Environmental Protection Agency, continuously monitors that the emissions to the atmosphere from stationary sources would not exceed the permissible limits established in integrated pollution prevention and control permits. Boiler-houses of Šilkas, Ežerėlis, Girionys and Noreikiškės, and starting from 2015 – Inkaras boiler-house and Petrašiūnai power-plant use biofuels, thus reducing atmospheric pollution. Below in the table you will find the comparison of the Company's pollutions to the atmosphere from stationary air pollution sources in 2015 with the amount in 2011-2014.

Period	Particulates, t	Nitrogen oxides, t	Carbon monoxide, t	Sulphur dioxide, t	Hydrocarbons, t	Vanadium pentoxide, t	Other pollutants, t
2015 m.	43,5783	203,6775	904,8513	193,3228	20,1586	0,0000	0,2818
2014 m.	23,613	154,570	534,443	47,158	16,294	0,0000	0,440
2013 m.	10,5967	101,3197	299,6656	5,0747	14,9647	0,0000	0,770
2012 m.	7,6130	54,3160	135,1510	6,0280	1,2080	0,0000	0,4397
2011 m.	7,2641	57,0909	125,3107	6,1983	3,0555	0,0000	0,4397

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

#### Other environmental protection activities

The Company pursues green purchases when suppliers must fulfil one or several environmental criteria, included in terms of public purchase. Such kind of purchases of total 53 thousand euros was made in 2015.

AB Kauno Energija delivers to consumers approx. 1.4 million of bills over the year, so, in order to reduce usage of paper and thus save natural resources, the Company constantly encourages consumers to sign agreements on electronic services.