

**CONSOLIDATED INTERIM REPORT
OF AB KAUNO ENERGIJA
FOR THE 1 HALF OF THE YEAR 2014**



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

Following Article 22 of the Law on Securities of the Republic of Lithuania and Rules of Preparation and submission of Periodic and Additional Information of the Securities Commission of the Republic of Lithuania, we hereby confirm that, to our best knowledge, this Consolidated Interim Report of AB Kauno Energija (hereinafter – the Company or the Issuer) for the 1 half of the year 2014 represents a true and a fair business development and performance review of the Company is encountered.

Head of the Department of Sales and Consumer Service of AB Kauno Energija,
Substitute to General Manager of AB Kauno Energija



Rimas Perevičius

Deputy Chief Accountant of AB Kauno Energija



Inga Šliačkuvienė

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1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Interim Report of AB Kauno Energija was prepared, is the 1 half of the year 2014.

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

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

Main details of the Company:

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

Main information about the subsidiaries:

Company name	Private Limited Liability Company Pastatų Priežiūros Paslaugos
Legal-organizational form	Private Limited Liability Company
Status of legal entity	In liquidation
Headquarters address	Savanorių pr. 347, 49423 Kaunas
Code of legal entity	300580563
Telephone	(8 37) 305 959
E-mail	info@kaunoenergija.lt
Webpage	www.p-p-p.lt
Fax	(8 37) 311 877
Registration date and place	1 July 2006, Kaunas
Register manager	Kaunas Branch of State Enterprise Centre of Registers
VAT payer code	LT100002506015

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

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

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



After amendment of provisions of the Law on Heat Sector, from 1 May 2010 the Company supplies hot water (is engaged in hot domestic water supplier activities) for part of residential apartment buildings in the city of Kaunas and town of Jurbarkas and Kaunas district (hereinafter the supplies of heat and hot domestic water are referred to as heat, with the exception of information provided in Table 1 “Comparison of financial indicators of the 1 half of the year 2014 with the indicators of the 1 half of the years 2012–2013”) to consumers who chose the Company as a hot water supplier according to legislation. As at 30 June 2014, the Company was a hot water supplier for 355 houses in Kaunas, 3 in Kaunas district and 5 in Jurbarkas. Income from hot water supplies amounts to approximately 3.1 per cent of all of Company’s sales revenue.

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

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

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

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

As of 30 June 2014, the 20,031,977 (twenty million thirty one thousand nine hundred seventy seven) of the Issuer’s ordinary registered shares (VP ISIN code LT0000123010) with the total nominal value equal to LTL 120,191,862 (one hundred and twenty million one hundred ninety one thousand eight hundred sixty two litas) as at 30 June 2014 were listed in the secondary trade list of NASDAQ OMX Vilnius Stock Exchange Baltic. The beginning of listing of the Company’s shares is 28 December 1998.

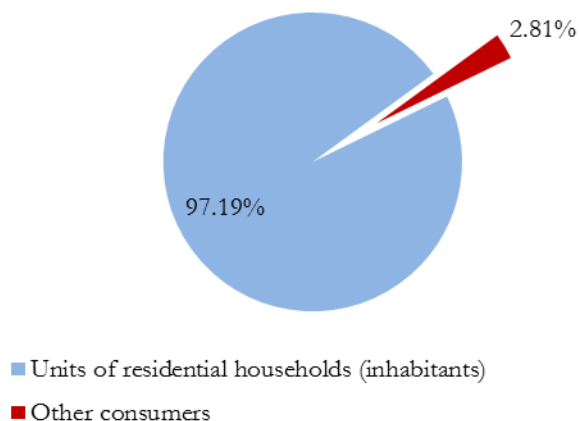
6. Objective overview of the condition, performance and development of the group of companies, and description of exposure to key risks and uncertainties

6.1. Company’s condition, performance and development overview

The Company covers a major part of heat supply market in the city of Kaunas and the town of Jurbarkas and part of Kaunas district. 3,306 businesses, organizations and 114,515 of households, in total 117,821 consumers (objects by addresses) were connected to the Company’s integrated heating and local area networks as at 30 June 2014. Distribution of the number of heat consumers by groups is shown in Chart 1.

Chart 1

Repartition of Company's heat consumers by groups



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

Values of the Group and the Company:

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

Strategic goals of the Group and the Company:

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

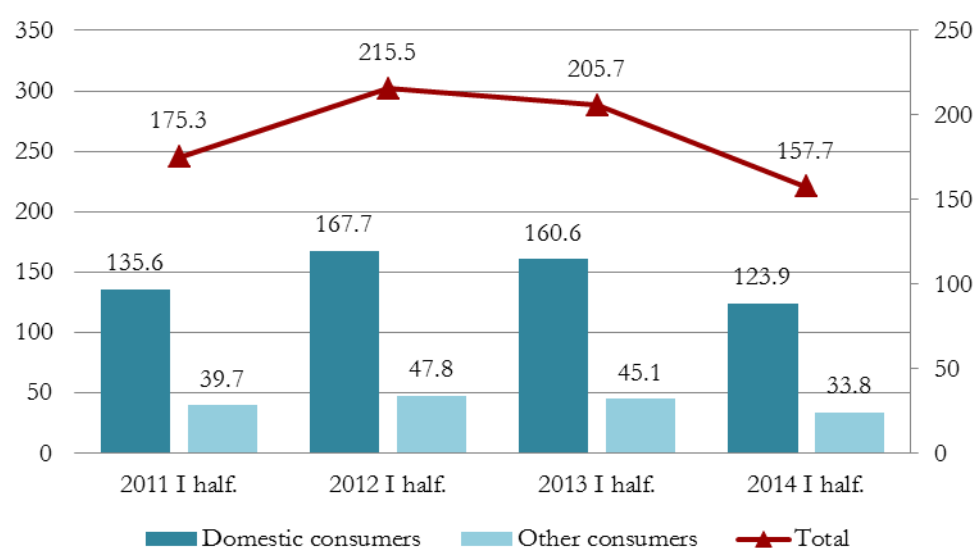
The Company continued its activities in the first half of the year 2014 following the strategic guidelines of Kaunas city central heat supplies, approved by decision No T-236 of Kaunas City Council of 7 April 2011 "On the strategic guidelines of Kaunas city central heat supply" and following the Strategy of Kaunas city central heat supplies accepted by decision No T-626 of Kaunas City Council of 14 November 2012 "On the approval of Strategy of Kaunas city central heat supplies".

In preparing development guidelines, the Company also takes into account the AB Kauno Energija strategy for the heating system development for the years 2007–2020 developed by the Lithuanian Energy Institute. The Company continues to carry out the trunk pipeline replacement projects co-financed by the European Union structural funds, to optimize pipeline diameters, connect new customers to the district heating network and modernise the sources of heat production. With the start of a new period of the basic heat price approved by the Prices and Energy Control Commission (for the year 2013–2016), and changes in the regulating environment, in order to reduce the heat production costs, heat price to consumers, the Company refocused its activity development guidelines and intends to spend most part of investments to the development and modernisation of new heat generating sources from renewable energy resources.

In the 1 half of the year 2014 the Group's net profit was amounted to LTL 6,267 thousand, the Company's – LTL 6,243 thousand. The Group's operating income was amounted to LTL 160,151 thousand, the Company's – LTL 160,170 thousand. Majority of income was generated from the sales of heat: the Group's – 98.47 per cent, the Company's – 98.46 per cent (supplies of the heat and hot water excluding the costs of cold water).

The Company's income from sales of heat was amounted to LTL 157,706 thousand and decreased by 23.33 per cent compared to the 1 half of the year 2013 (Chart 2). The Company's variable costs of heat supplies (fuel, purchased heat, water and electricity for technology) in the 1 half of the year 2014 were at 23.63 per cent lower (38.9 million litas) compared with the 1 half of the year 2013. More detailed information is provided in section 7.



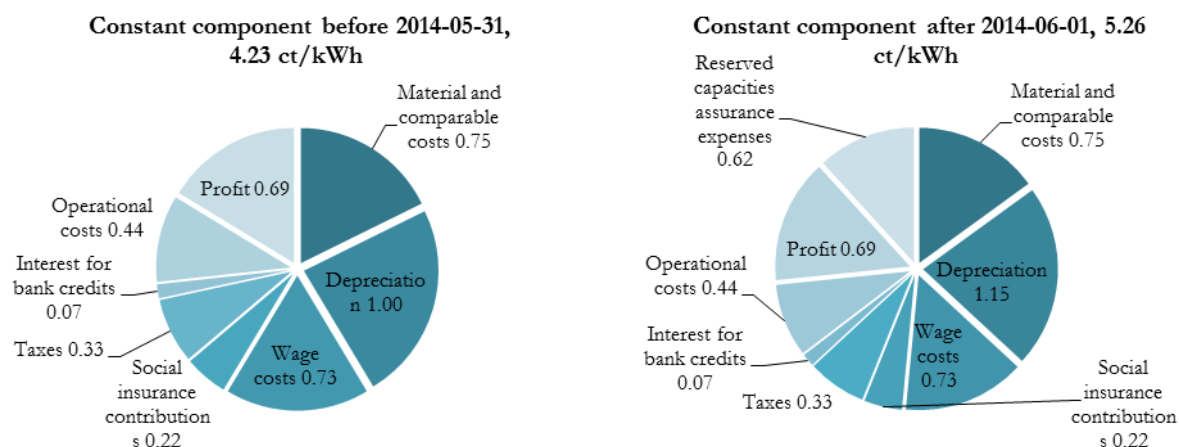
Company's income from heat sales in 2011 – 1 half of the year 2014, million litas


Company's investments in latest technologies (reconstruction of heat production sources, equipping them with, misers, automation of boiler-houses of isolated and integrated networks, e-service system for customers, system of data transfer and processing from remote heat meters, modern customer servicing system based on the 'One Call' principle), reconstruction of heat supply networks helps the Company to reduce heat supply losses, quickly adapt to changes in the market and to become an innovative company of heat and hot water supply, maintenance of heating networks and generation sources in the city of Kaunas and the town of Jurbarkas and in Kaunas district.

In the 1 half of the year 2014 the Company continued to implement new projects of modernization of heat production sources of Kaunas city integrated network. The main projects: installation of new gas burning boilers, condensers (economizers) in existing heat production sources and development of bio-fuel burning projects.

Amendments to the Law on Heat Sector of the Republic of Lithuania and changes in National Commission for Energy Control and Prices (hereinafter – NCC) regulation allowed favourable conditions to invest to construction and reconstruction of heat production sources, thus increasing competition in heat production sector and effectively reducing heat price for consumers.

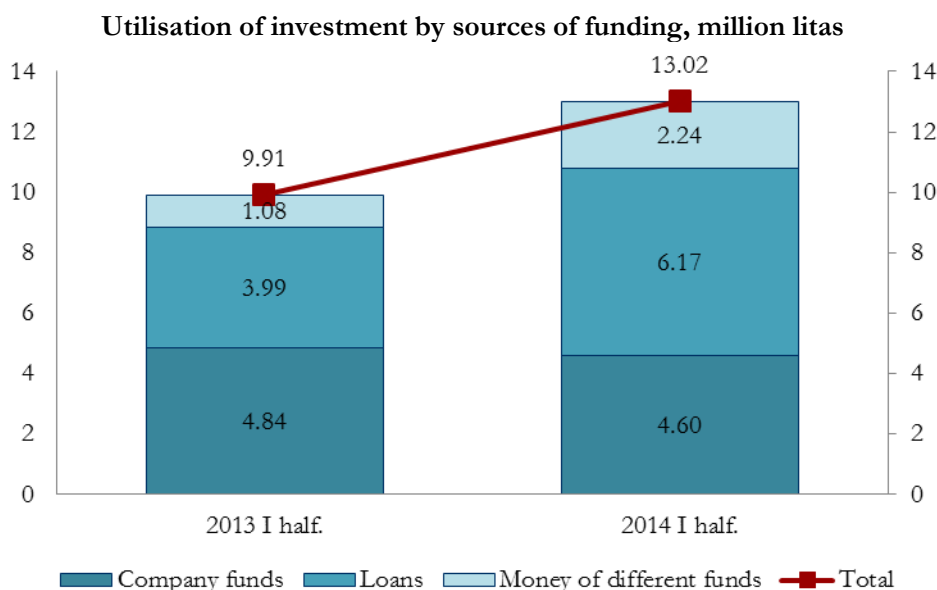
Management Board of AB Kauno Energija determined by its decision of 28 March 2014 No 2014-8-1 a heat price constituents for the second year of validity of basic heat price, which were agreed by NCC's decision of 6 May 2014 No O3-120. A comparison of constant heat price constituent valid until 31 May 2014 and of a new constituent effective from 1 June 2014 and of their components is presented in Chart 3.

Comparison of constant heat price constituent and its components


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

During the 1 half of the year 2014 the Company invested LTL 13.02 million (funds from other sources, among them, i.e. LTL 6.17 million are loans from commercial banks, LTL 2.24 million is a financial support from the European Union Structural Funds and Lithuanian Environmental Investment Fund. Company's investments by funding sources for the 1 half of the years 2013–2014 are shown in Chart 4.

Chart 4



The change of investment uptake of the Issuer during 2009–2013 reflects changes in the amount of investment and macro-economic processes in the country and in the European Union: In 2009, the investment performance was 20.634 million litas, and the volumes of used investments in 2010 amounted to 30.242 million litas. In 2011, the investment volumes compared to 2010 increased by 16.4 per cent. In 2012, compared to 2011, investment volumes changed insignificantly and amounted to 30.661 million litas, while the Company's investments in equity in 2013, compared with 2012, increased by 45.85 per cent. It is planned to implement investments for LTL 109.347 million in the year 2014. Such growth of investment volume is due to the effective operations of the Company, partial investment funding from the European Union structural funds and the Lithuanian Environmental Investment Fund, improved lending conditions (interest rate stabilization), the country's economic recovery from the recession and optimistic expectations.

In the 1 half of the years 2014 the Company conducted new projects of generation source and network modernization:

- (i) 10 MW capacity condenser (economizer) was built in Petrašiūnai power-plant. On 18 March 2014 it was presented to the State Energy Inspectorate, which issued a certificate allowing its operation. A new device is built alongside already existing 100 MW capacity gas boiler PTVM 100. A new device allowed reducing fuel consumption for the production of the same quantity of heat. Total capacity of both devices consists of approximately 110 MW. Along with new condenser (economizer) an automated boiler control system is installed. Common coefficient of efficiency of both devices increased after the installation of condenser (economizer), which now reaches approximately 105 per cent. Existing chimney of the boiler PTVM 100 is also adjusted for the operation with condenser (economizer) (value of the project is LTL 5.4 million);
- (ii) “Reconstruction of Šilkas boiler-house changing used fuel to bio-fuel (II stage)”. It is planned to install 8 MW capacity bio-fuel burned water heating boiler along with 4 MW capacity condenser (economizer) in Šilkas boiler-house by implementing of this project (total value of the project is LTL 8.1 million, support – LTL 3.99 million, project activities were started in June 2014);



- (iii) “Reconstruction of Petrašiūnai power-plant changing used fuel to bio-fuel (I stage)”. It is planned to change steam boiler BKZ No 1 with two bio-fuel burned water heating boilers with capacity of 12 MW each and to install 6 MW capacity condenser (economizer) by implementing of this project (the total capacity of equipment will be 30 MW). The total value of the project is LTL 21.5 million. European Union Structural Funds support for this project in amount of LTL 6 million is already confirmed. Project activities are started in the spring of 2014 and the project is intended to be finished in March 2015.
- (iv) “Reconstruction of Inkaras boiler-house changing used fuel to bio-fuel”. It is planned to install two bio-fuel burned water heating boilers with capacity of 8 MW each and to install 4 MW capacity smoke condenser (economizer) by implementing of this project (the total capacity of equipment will be 20 MW, the total value of the project is LTL 19.3 million, support – LTL 6 million. Starting-up and adjustment works are supposed to be started in the 1 half of this winter. The project is intended to be finished until June 2015). These projects of boiler-houses reconstructions changing used fuel to bio-fuel are implemented under the measure “Use of Renewable Sources for Energy Production” of the 3 priority “Environment and sustainable development” VP3-3.4-ŪM-02-K of Cohesion Promotion Operational Programme.
- (v) “Modernization of the main 5T of Kaunas integrated network” (value of the project is LTL 3.41 million). EU Structural Funds support is LTL 1.71 million;
- (vi) “Modernization of the main 6Ž of Kaunas integrated network” (value of the project is LTL 2.07 million). EU Structural Funds support is LTL 1.03 million;
- (vii) “Modernization of the main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12 in Chemijos str.” (value of the project is LTL 4.26 million). EU Structural Funds support is LTL 2.00 million;
- (viii) “Modernization of the main 3Ž between heat cameras 3Ž-9 and 3Ž-9-5^e in A. Baranausko str.” (value of the project is LTL 1.57 million). EU Structural Funds support is LTL 0.79 million;
- (ix) “Modernization of the main 4Ž between heat cameras 4Ž-10 and 4Ž-15 in Taikos av.” (value of the project is LTL 2.12 million). EU Structural Funds support is LTL 1.06 million. Partial financing from EU Structural Funds for all these projects of the mains reconstructions is allocated under the measure “Modernization and development of heat supply system” of the 4 priority “Basic Economic Infrastructure” VP2-4.2-ŪM-04-K of the annex of Operational Programme for Economic Growth.

All of the above mentioned investment projects are included in corrected AB Kauno Energija investment plan of the years 2012 – 2015 and its financing sources, which was approved by the decision of Kaunas city municipality council of 6 February 2014 No T-60. All the projects are successfully started to implement and will be finished in 2014–2015.

In the 1 half of the year 2014 UAB Ernst & Young Baltic accomplished review of principles of accounting, payment and declaration of Company’s immovable property tax for current and past five fiscal periods, in order to determine evaluation of taxing values. Results of review let to calculate lower taxing values for future taxing periods.

In order to increase effectiveness of Company’s employees work UAB Ernst & Young Baltic accomplished in the 1 half of the year 2014 an assessment of inner control system. Company’s inner control elements were analysed during this assessment, efficiency and validity of inner control system were assessed and, considering to Company’s structural changes, recommendations for development of inner control system were formulated.

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

The rest of information has not changed from that announced in AB Kauno Energija consolidated annual report for the year 2013.



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

External risk factors affecting the Company's core business: inflation, increase of oil prices, ever-changing legal environment, as well as the heat production pricing policies.

The Company, in order to operate effectively and reliably, in creating the added value for shareholders, is faced with specific threats to the sphere of its activity, but also takes advantage of opportunities to work efficiently and effectively by exploiting the available potential. One of the biggest threats that the Company may face is a relatively high price for heat purchased from independent manufacturers of heat, which is regulated in the Description of procedure for purchase of heat from independent suppliers of heat. In turn, the Company invests extensively in modernization and construction of its own manufacturing sources, to reduce the comparative costs of heat production. Thus it takes advantage of the regulatory environment and reduces the energy purchase price.

In the 1 half of the year 2014, the Company bought heat from 6 independent heat producers in Kaunas and Kaunas district: UAB Kauno Termofikacijos Elektrinė, UAB GECO Kaunas, UAB Lorizon energy, UAB Ekoresursai, UAB Pramonės Energija, UAB Aldec General and UAB ENG. Total purchases were 616.9 thousand MWh of heat, i.e. 79.7 per cent of heat supplied to the network (in the 1 half of the year 2013 the indicator was 80.2 per cent).

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

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

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

Financial /economic risk: User solvency decline and debts. Risks can be mitigated by the factoring of debts and applying more stringent debt collection techniques/methods. Other possible financial/economic risk – changes in interest rates in the banking market. Currently, the interest rates are stable.

During the 1 half of the year 2014 compared with the year 2013, heat consumer debts remained almost in the same level. In the 1 half of the year 2014 they were LTL 67.325 million, in the year 2013 – LTL 67.357 million. In the year 2012, the 10 million debt repayment schedule was made with Kaunas city municipality providing the start of debt repayment from 2014. On 3 December 2013 the amendment of the agreement was signed by transferring the final deadline of settlement to 2015. In 2013, the agreement on short-term credit of 10.567 million litas was signed by refinancing the repayment of debts of Kaunas municipality for heat.

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

In all cases, the Company first notifies the user of his indebtedness. When debtors respond to warnings and contact the Company, the Company discusses the options of debt settlement with them, signs documents guaranteeing the repayment of the debt. If the debtor does not respond to warnings, does not cooperate with the Company, it is then applies to the court for the award of the debt. In such case the debtor must pay not only the debt but also the court and execution costs.



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

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

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

In 2013, Lithuania adopted a new methodology for calculating the prices of heat, in force since 1 January 2014. Also, the National Control Commission for Prices approved a new Schedule of heat purchase from independently producers enabling the Company to take part in the heat purchasing auction with its manufacturing resources.

With new amendments of articles 2, 3, 20, 22, 28, 31, and 32 of the Law on Heat Sector No XI-1608 of the Republic of Lithuania coming in affect from 1 November 2011, in accordance with Article 7, the heat and hot water prices may not include any costs related with the indoor building heating (including heat units), and hot water systems. In implementing the legislation, from 1 November 2011, all of these costs directly reduce the profit of the Company as the Company has invested 61.8 million litas to the upgrade of from 1997.

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

The main risks and uncertainties of the financial operations of the Company are provided in Notes 2.25, 2.26 and 23 to the financial statements of the Company for the 1 half of the year 2014 and consolidated statements of AB Kauno Energija.

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

The rest of information on the social factors has not changed from that announced in AB Kauno Energija consolidated annual report for the year 2013.

Social risk: The Company's activities are most important to many Kaunas region residents and businesses due to the value of costs for heating and hot water (as measured in terms of Lithuania, the Company's district heating price was lower than the average among all heat supply companies in the 1 half of the year 2014). This risk is mitigated by raising the awareness of consumers about the Company's activities in order to ensure quality services and greater attention to consumers. The Company receives most complaints for the amount of charges for heat. In order to analyse and resolve these complaints, customer service professionals work with consumers who advise customers in the Company's premises, by phone, in letters and e-mails. Heat users periodically, i.e. 2-4 times per year, are invited to meet with the Company's specialists, and discuss consumer issues related to the Company's activities, and also to mitigate the negative image of the heat suppliers promoted by the media.



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

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

Mains of heating networks in the most worn out places are reconstructed through the use of support from the EU Structural Funds. In the year 2014, 5 new projects of the reconstruction of the mains of heating network are implemented: "Modernization of the main 5T of Kaunas integrated network", "Modernization of the main 6Ž of Kaunas integrated network", "Modernization of the main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12 in Chemijos str.", "Modernization of the main 3Ž between heat cameras 3Ž-9 and 3Ž-9-5c in A. Baranausko str.", "Modernization of the main 4Ž between heat cameras 4Ž-10 and 4Ž-15 in Taikos av."

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

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

Ecological factors: In terms of the Company they may be divided into those affecting the Company and there was influenced by the Company's operations. This information has not changed from that announced in AB Kauno Energija consolidated annual report for the year 2013.

Bank loan repayment: more on this issue is presented in Note 11 to the explanatory notes of financial statements of AB Kauno Energija for the 1 half of the year 2014. The Group and the Company repay the loans on time.

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

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

It has been planned that in 2014, the core business sales revenue will be lower due to reduced heating prices; the amount of heat sold to consumers will remain the same as in 2013. Sales revenue from the main activities, compared with the 1 half of the year 2013, is 22.9 per cent lower. This change was mainly affected by the price of heat, the main part of which contains of purchased heat and fuel component. In the 1 half of the year 2014, the average price of heat (24.80 ct/kWh) was at 10.8 per cent lower than in the 1 half of the year 2013 (27.80 ct/kWh). The amount of heat sold in the 1 half of the year 2014 compared with the 1 half of the year 2013 was at 14.1 per cent less.

Comparison of financial indicators of the 1 half of the year 2014 with the indicators of the 1 half of the years 2013–2013 is presented in Table 1.



Table 1

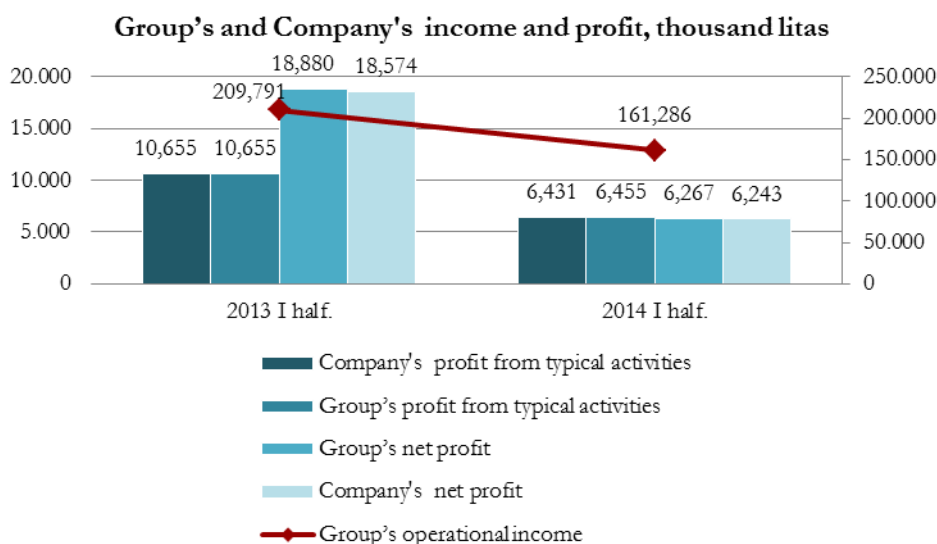
No	Indicator name	Company 1 half of 2012	Group 1 half of 2012	Company 1 half of 2013	Group 1 half of 2013	Company 1 half of 2014	Group 1 half of 2014
1	Net profitability,% (net profit /sales and services)*100	4.6	4.6	8.9	9.1	3.9	3.9
2	Return on tangible assets,% (net profit/average value of tangible assets)*100	2.9	3.0	5.4	5.7	1.7	1.8
3	Debt ratio (liabilities /assets)	0.33	0.33	0.30	0.30	0.35	0.35
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.5	0.4	0.4	0.5	0.5
5	General liquidity ratio (short-term assets / short-term liabilities)	0.87	0.87	1.29	1.29	0.81	0.81
6	Asset turnover ratio (sales and services/ assets)	0.53	0.54	0.51	0.52	0.38	0.38
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand litas	19,418	19,441	27,864	28,226	16,596	16,650
8	Profitability of core business, per cent (operating profit/sales and services)* 100	4.5	4.5	4.5	4.5	3.7	3.7
9	Return on equity (ROE)% (net profit/average equity)*100	3.6	3.8	6.7	7.0	2.3	2.4
10	Return on assets (ROA)% (net profit/ average assets)*100	2.4	2.5	4.5	4.7	1.4	1.5
11	Quick ratio((short-term assets-inventory)/short-term liabilities)	0.80	0.80	1.19	1.19	0.73	0.74
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.06	0.06	0.11	0.12	0.05	0.05
13	Net earnings per share (net profit/average weighted number of shares in issue)	0.23	0.23	0.43	0.44	0.15	0.15
14	Net profit, thousand litas	9,971	9,959	18,574	18,880	6,243	6,267
15	Assets, thousand litas	406,069	402,587	405,515	402,314	419,216	416,760
16	Equity, thousand litas	273,315	269,958	282,755	280,075	272,216	270,415
17	Equity per share, litas	6.4	6.3	6.6	6.6	6.4	6.3
18	Revenue from sales, thousand litas	216,938	216,997	207,739	208,018	160,170	160,151
18.1	Of them: Heat energy	213,725	213,687	202,814	202,771	154,230	154,204
18.2	Electric energy	185	185	206	206	301	301
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	252	349	111	433	65	72
18.4	Income from the maintenance of collectors	387	387	388	388	392	392
18.5	Hot water supply including cold water price	2,264	2,264	4,057	4,057	4,939	4,939
18.6	Income from maintenance of hot water meters	125	125	163	163	243	243
19	P/E ratio (last share market price of the year /(net profit/number of shares at year-end)	6.66	6.67	4.63	4.56	11.83	11.79



No	Indicator name	Company 1 half of 2012	Group 1 half of 2012	Company 1 half of 2013	Group 1 half of 2013	Company 1 half of 2014	Group 1 half of 2014
20	Share capital, thousand litas	256,392	256,392	256,392	256,392	256,813	256,813
21	Share capital-to-assets ratio	0.63	0.64	0.63	0.64	0.61	0.62
22	Return on equity (capital), per cent (net profit/ capital and reserves)*100	3.8	3.8	7.0	7.2	2.3	2.4
23	Dividend payment ratio (dividend per share/earnings per share)	0.79	0.78	0.00	0.00	0.25	0.14

Comparison of the Company's financial results for the 1 half of the year 2014 (sales revenue, operating profit, net profit) with those for the 1 half of the year 2013 is given in Chart 5.

Chart 5



The Group's and the Company's profit of the 1 half of the year 2014 compared to the 1 half of the year 2013 is higher because of the decision of Vilnius Commercial Arbitration Court for the award of 7.054 million litas fine from UAB Kauno Termofikacijos Elektrinė for its failure to perform its obligations under the Investment Agreement.

Starting from 1 July 2013 the Company pays a service fee to UAB Kauno Termofikacijos Elektrinė for guaranteeing the reserve power, i.e. LTL 1.009 million per month for January – February 2014, starting from March 2014 – LTL 0.831 million per month. The fee is included in the price of heat sold to consumers (0.62 cents/kWh), but according to the heat sold in July-December 2013, in 2013 the Company paid to UAB Kauno Termofikacijos Elektrinė 3 million litas more than in the fees collected from users, and during the 1 half of the year 2014 the Company paid almost 1 million more. Consumers will have to cover this difference during 2014–2015.

Company's profit before taxes of the 1 half of the year 2014, compared to the profit of the same period of the year 2013 decreased also due to the decreased heat price and decreased revenue. Company's revenue from the sales of the 1 half of the year 2014 compared to the revenue from the sales of the same period of the year 2013 are lower at 22.9 per cent due to the 14.07 per cent lower quantity of heat sold (useful supplies to the network in the 1 half of the year 2014 was 635.9 thousand MWh, and in the 1 half of the year 2013 – 740.1 thousand MWh), and due to the decreased (at 10.8 per cent) average heat price (in January – June 2014 it was 24.80 ct/kWh, in January – June 2013 it was 27.80 ct/kWh).



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 coming 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.

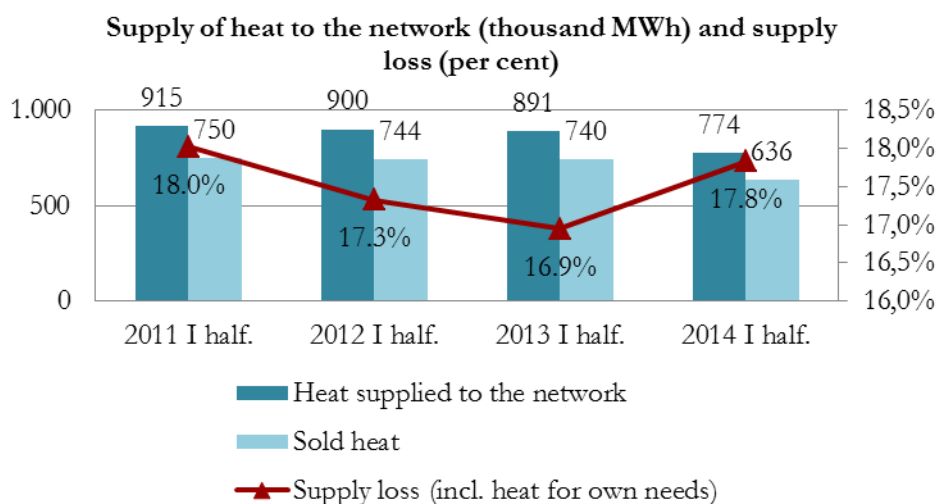
A more detailed analysis of the Group's and the Company's financial results is presented in the Notes to Financial Statements for the 1 half of the year 2014.

Comparison of non-financial indicators of the 1 half of the year 2014 with the indicators of the 1 half of the years 2012-2013 is presented in Table 2.

Table 2

No	Indicator name	Measure units	Company 1 half of 2012	Group 1 half of 2012	Company 1 half of 2013	Group 1 half of 2013	Company 1 half of 2014	Group 1 half of 2014
1.	Energy produced and purchased: of which supplied to the network	thousand MWh	900.4	900.4	891.3	891.3	775.2	775.2
1.1.	thermal energy	thousand MWh	899.8	899.8	890.5	890.5	774.1	774.1
1.2.	electric energy	thousand MWh	0.6	0.6	0.8	0.8	1.1	1.1
2.	Energy sold	thousand MWh	744.5	744.5	740.9	740.9	637.0	637.0
2.1.	thermal energy	thousand MWh	743.9	743.9	740.1	740.1	635.9	635.9
2.2.	electric energy	thousand MWh	0.6	0.6	0.8	0.8	1.1	1.1

Chart 6

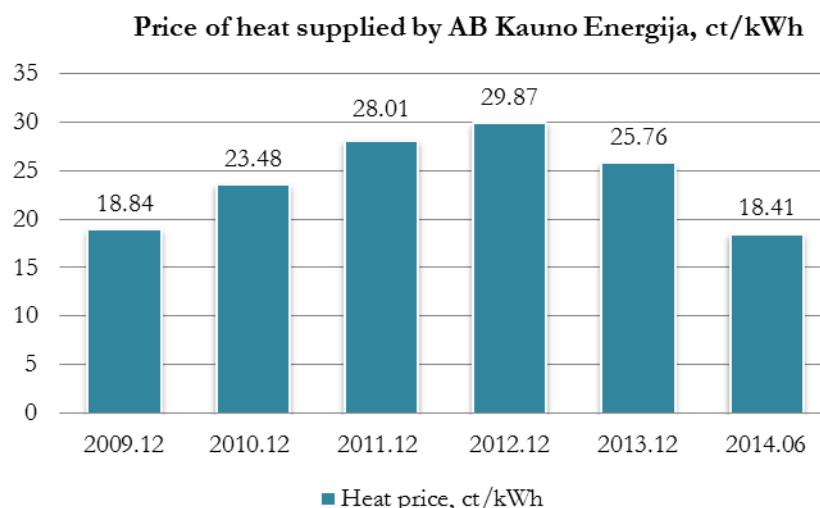


Environmental impact on operations: The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher or lower outdoor temperature during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

The dynamics of heat prices of the Company in 2009–2013 and in June 2014 are presented in Chart 7.

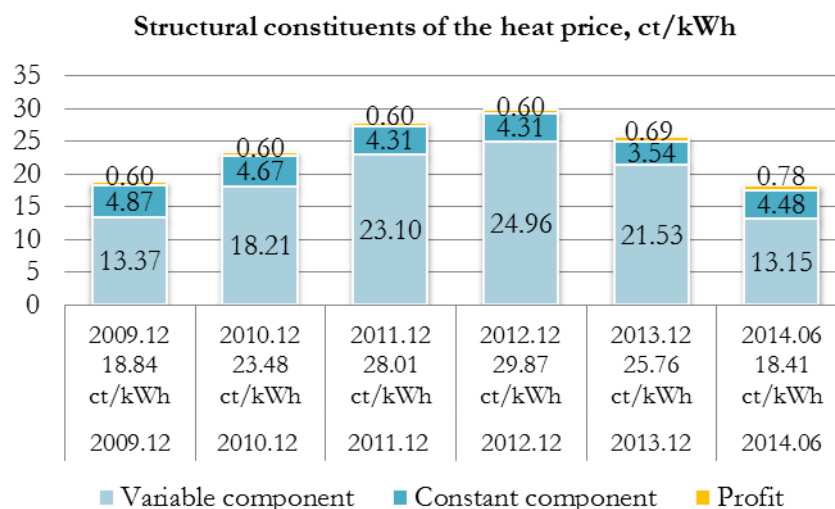


Chart 7



Components of Company's heat price structure in 2009–2013 and in June 2014 are presented in Chart 8.

Chart 8



The rest of information related to environmental issues, management of waste and wastewater, air pollution and human resources issues has not changed from that announced in AB Kauno Energija consolidated annual report for the year 2013.

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

All main financial data of the Group and the Company are presented in the explanatory notes to the consolidated financial statements and financial statements of AB Kauno Energija for the 1 half of the year 2014.

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



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

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

9. Significant events after the end of the 1 half of the year 2014

On 22 July 2014 AB Kauno Energija put an application in reply to Lietuvos Energija, UAB invitation of rendering of non-obligatory proposals of cooperation in implementation of cogeneration power-plants projects. The Company put an application intending for cooperation just in implementation of cogeneration power-plants projects. It's planned that heat capacity of newly installed waste and bio-fuel burned power-plants complex could reach 134 MW and electric capacity – up to 41 MW.

On 29 July 2014 Minister of Energy of the Republic of Lithuania Jaroslav Neverovič visited AB Kauno Energija. Minister was interested in situation of Kaunas heat sector, in implemented bio-fuel and heat networks modernization projects and perspectives of development as well. Situation in Kaunas heat sector was presented to Minister during his visit, as well as already implemented projects of modernization of own heat producing sources and networks. Also projects implemented in the year 2014 were presented to Minister. He was also interested in possibilities of modernization of Petrašiūnai power-plant and of possibilities of co-operation with Lietuvos Energija, UAB.

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

The aim of the Group's and the Company's investment program for the year 2014 is to further develop the Company's heat production, transmission and distribution through increase of use of bio-fuel for heat production, heat supply reliability, expansion of maintenance services of engineering systems and improvement of services quality.

In compliance with the provisions of the plan for the facilities on the implementation of the National Renewable Energy Development Strategy, in order to implement the Company's key business objectives and the provisions of the National Energy Independence Strategy related to the assurance of technical requirements for reliability of heat sources and heat supply networks, to guarantee the quality keeps apply to consumers, the Company adjusted its "Investment plan for the year 2012–2015 and its financing sources" according to which it plans to invest 188.04 million litas.

The main investment goals of the Company for 2013–2016 regulation periods are as follows: to decrease heat production costs in existing sources, increase the share of cheaper types of fuel (bio-fuel) in the total fuels, increase the capacity of own sources until full satisfaction of power demand. In 2013 the Company signed tripartite agreements with the Ministry of Economy and public institution Lithuanian Business Support Agency for the financial support from the European Union Structural Funds, which will grant LTL 15.99 million EU Structural Funds support for projects of boiler-houses reconstructions changing used fuel to bio-fuel and LTL 6.59 million EU Structural Funds support for projects of reconstructions of heat supply networks.

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

In addition to the above mentioned projects the implementation of Company's investment program in 2014 will involve further modernization of boiler-houses owned by the Company automating the production process and mounting condensers (economizers); reconstruction of heat networks; replacement of heat meters. Implementation of these measures will allow to reduce heat production, transmission and selling losses and to perform optimization of heat supply to the consumers and to ensure heat supplies reliability.

due to the future decrease in heat sales, related to the renovation of buildings.



It is planned that by 2014, compared with 2013, the Group's sales revenue will be lower due to the reduced heating rates; the amount of heat sold to consumers will remain the same as in 2013. The greatest impact on the Group's and the Company's income and expenses will be made by fuel and purchased heat price changes, as the price of heat under the requirements of the law is recalculated every month. The Group profit will remain at a similar level compared with 2013. The submitted data may be adjusted by the heat demand change, i.e. consumption, which is mainly affected by the average outdoor air temperature, the size of user investment in housing renovation, energy-saving and its rational use, as well as changes in the economic situation in Lithuania.

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

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.

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

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

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

All relevant information on this issue is presented in Notes 2.11, 15, 23, 24 to the consolidated financial statements for the 1 half of the year 2014 of AB Kauno Energija and the Company.

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

The Company's branch office Jurbarko Šilumos Tinklai was established by the decision of the Company's Management Board, and registered on 9 September 1997 at the address V. Kudirkos g. 11, 4430 Jurbarkas. The Company's branch produces and sells heat to consumers in the town of Jurbarkas.

The Company's branch Jurbarko Šilumos Tinklai had 35 employees as at 30 June 2014.

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

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

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

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

As from 1 July 2012, in accordance with item 2 of article 20 of the Law on Heat Sector of the Republic of Lithuania, "the person maintaining the building heating can hot water system (operator) in apartment houses may not be the heat supplier or persons related with the heat supplier in employment relations or prices providing services or products to the heat supplier, or the manufacturers of heating units and devices used for



heat production and heat metering, or other equipment, also persons engaged in the retail and wholesale trade of fuel used for heat production, or persons belonging in conjunction with the aforementioned entities to the group of related economic entities according to the Law on Competition” (this restriction is not applied for the maintenance of the heating and hot water systems of apartment houses in buildings in the residential locations in which, according to the information of the Athenian Department of statistics, the population is less than 50 000).

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

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

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

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

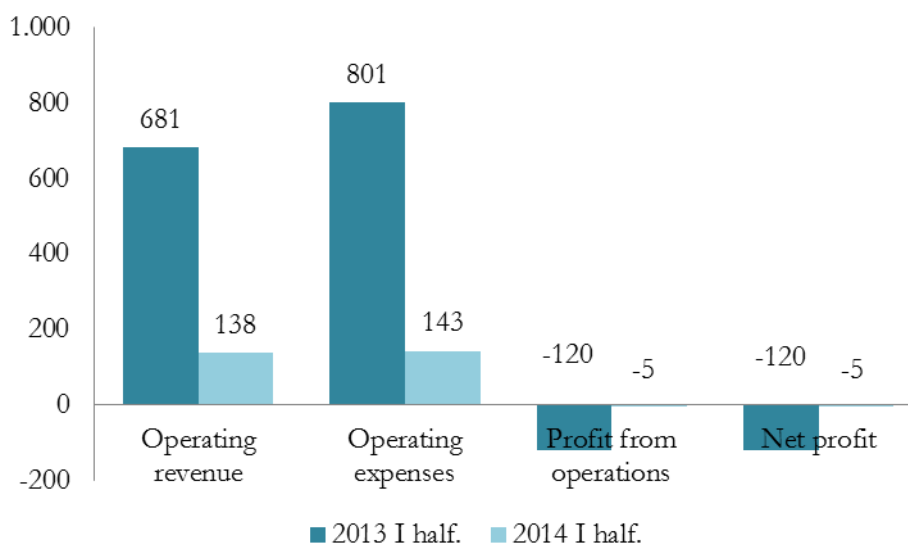
On 11 December 2013, following the decision of AB Kauno Energija performing the functions of the sole shareholder of UAB Pastatų Priežiūros Paslaugos, it was decided to liquidate the open limited liability company Pastatų Priežiūros Paslaugos (company code 300580563) from 16 December 2013; in the same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

As at 30 June 2014, UAB Pastatų Priežiūros Paslaugos had no employees.

The comparison of the financial results of UAB Pastatų Priežiūros Paslaugos for the 1 half of the year 2014 (operating income, operating profit, net profit) with the indicators of the 1 half of the year 2013 is given in Chart 9.

Chart 9

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



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

The authorised capital of UAB Kauno Energija NT registered in the Register of Legal Entities on 30 June 2014 in total 4 592 100 litas was divided into 45 921 ordinary nominal shares with the par value of 100 litas each.

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

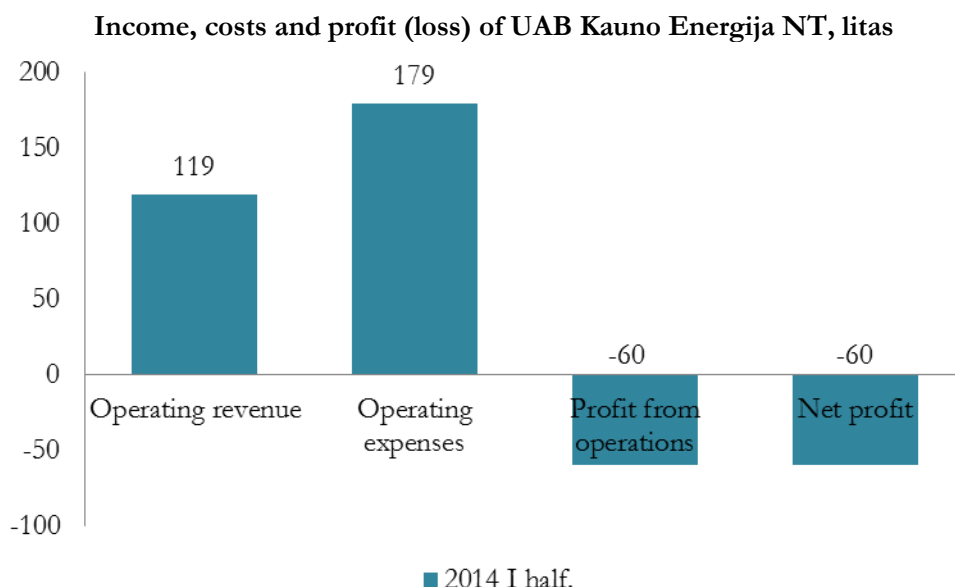
Activities of UAB Kauno Energija NT include the real estate development, management, leases, purchase and sale.

Turnover of UAB Kauno Energija NT – in the 1 half of the year 2014 was LTL 119.1 thousand, profit (loss) was amounted to LTL 60.0 thousand.

As at 30 June 2014 UAB Kauno Energija NT had 3 employees.

Financial indicators of UAB Kauno Energija NT in the 1 half of the year 2014 (operating income, operating profit, net profit) are given in Chart 10.

Chart 10



15. Structure of authorized capital

The authorised capital of the Company registered in the Register of Legal Entities on 30 June 2014 is LTL 256 812 858 (two hundred and fifty six million eight hundred twelve thousand eight hundred fifty eight litas).

Structure of authorized share capital by types of shares is specified in Table 3.

Table 3

Type of shares	Number of shares, units	Nominal value, litas	Total nominal value, litas	Municipal share in the authorised capital, litas	Share of private shareholders in the authorised capital, litas
Ordinary nominal shares	42 802 143	6	256 812 858	98.33	1.67

16. Data on shares issued by the Issuer

The authorised capital registered on 20 March 2014 amounts to LTL 256 812 858 (two hundred and fifty six million eight hundred twelve thousand eight hundred fifty eight litas) and it is divided to LTL 42 802 143 (forty two million eight hundred and two thousand one hundred forty three) ordinary shares of par value of 6 litas.

There are no limitations on the transfer of securities.

16.1. Main characteristics of shares are released into free circulation of securities (as at 30 June 2014).

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

16.2. Main characteristics of shares issued and registered for non-public trading (as at 30 June 2014).

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

History of trade in Company's securities in 2010–2013 and in the 1 half of the year 2014 is given in Table 4.

Table 4

Indicator	2010	2011	2012	2013	2014 06 30
Opening price (litas/euro)	2.45/0.710	2.072/0.600	1.951/0.565	1.996/0.578	2.034/0.589
Highest price (litas/euro)	3.18/0.921	2.659/0.770	2.037/0.590	2.034/0.589	2.072/0.600
Lowest price (litas/euro)	1.903/0.551	1.105/0.320	1.433/0.415	1.581/0.458	1.640/0.475
Last price (litas/euro)	2.072/0.600	1.209/0.350	1.996/0.578	2.034/0.589	1.657/0.480
Circulation, units	77 729	90 239	80 421	36 355	47 547
Circulation, million (litas/euro)	0.2/0.06	0.18/0.05	0.13/0.04	0.06/0.02	0.09 /0.03
Capitalisation, million (litas/euro)	41.5/12.02	24.21/7.01	39.98/11.58	40.74/11.80	33.20 /9.62

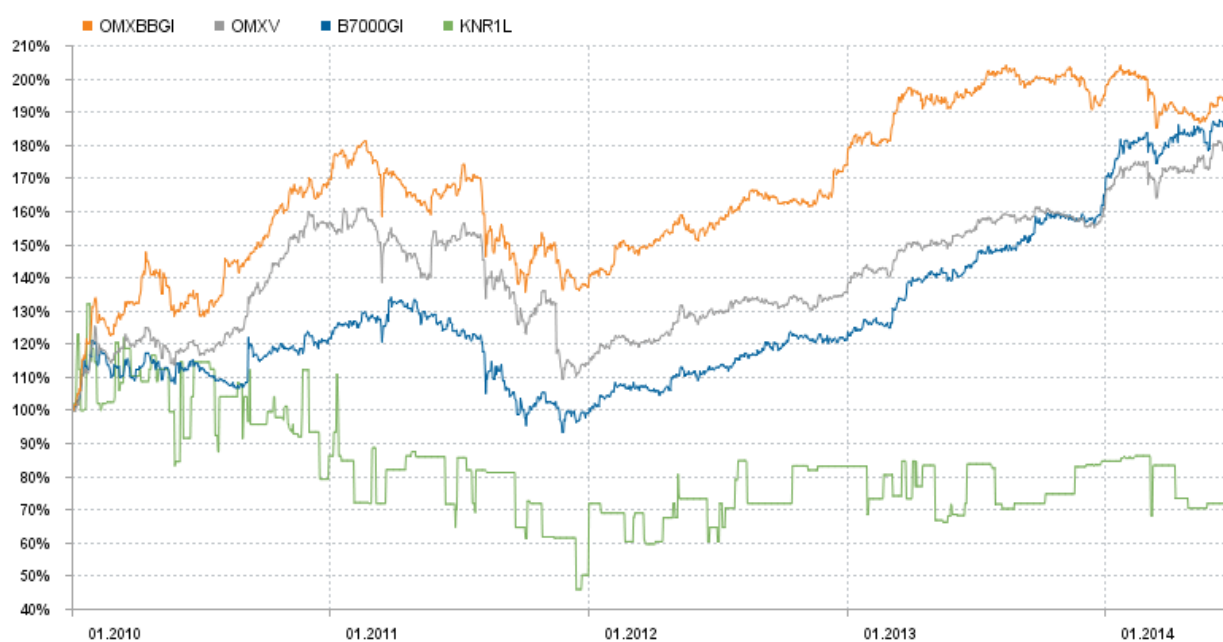
Historical data on share prices (in euro) and turnovers in 2010–2013 and in the 1 half of the year 2014 are given in Chart 11.

Chart 11



Chart 12

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



Details of Chart 12:

Index/Shares	01.01.2010	30.06.2014	+/-%
OMX Baltic Benchmark GI	314.42	611.24	94.40
OMX Vilnius	261.77	471.95	80.29
B7000GI Utility services	814.75	1 549.57	90.19
KNR1L	0.70 EUR	0.50 EUR	-28.07



17. Information on the Issuer's shareholders

The total number of company's shareholders as at 30 June 2014 was 217.

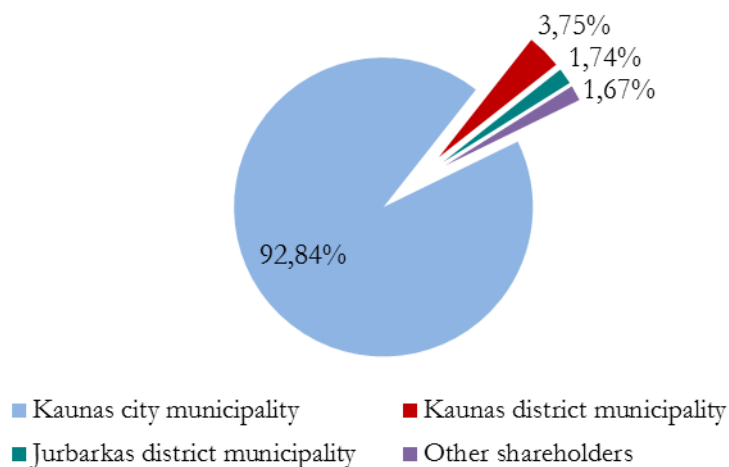
Information on Shareholders of the Issuer as at 30 June 2014 owning more than 5 per cent of the authorised capital of the Company registered on 20 March 2014 (42 802 143 ordinary nominal shares), are given in Table 5 and Chart 13.

Table 5

Full name of shareholder (company name, type, headquartered dress, code)	Number of ordinary nominal shares owned by the shareholder, units	Owned share in the authorised capital, per cent	Share of votes carried by owned shares. per cent	Share of votes owned by the shareholder together with acting entities, per cent
Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319	39 665 892	92.84	92.84	-
Other shareholders	3 066 085	7.16	7.16	-
Total:	42 731 977	100	100	-

Chart 13

Structure of shareholders as at 30 June 2014



17.1. The shareholders, whose ownership interest as at 30 June 2014 exceeded 5 per cent of the Company's shares (20 031 977 PVA) issued for non-public trading (VP ISIN code – LT0000123010), are listed in Table 6.

Table 6

Name	Type of shares	Number of shares, units	Total nominal value of shares, litas	Percentage of shares from those released into the public circulation	Share of the authorise d capital (%)
Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319	Ordinary nominal shares	16 965 892	101 795 352	84.69	39.64



Name	Type of shares	Number of shares, units	Total nominal value of shares, litas	Percentage of shares from those released into the public circulation	Share of the authorised capital (%)
Kaunas District Municipality Savanorių pr. 371, 49500 Kaunas, Code 111100622	Ordinary nominal shares	1 606 168	9 637 008	8.02	3.75
Other shareholders	Ordinary nominal shares	1 459 917	8 759 502	7.29	3.41
Total:		20 031 977	120 191 862	100	46.80

17.2. The shareholders, whose ownership interest as at 30 June 2014 exceeded 5 per cent of the Company's shares (22 770 166 ordinary registered shares) issued for non-public trading (VP ISIN code – LT0000128407), are listed in Table 7.

Table 7

Name	Type of shares	Number of shares, units	Total nominal value of shares, litas	Percentage of shares from those released into the public circulation	Share of the authorised capital (%)
Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319	Ordinary nominal shares	22 770 166	136 620 996	100	53.20

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

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

In 2010, the dividends from the profit of 2009 were allocated and paid to the shareholders of the Issuer. Dividend per share is 0.084 litas, in total – 3.589 million litas.

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

In 2012, the dividends from the profit of the year 2011 were allocated and paid to the shareholders of the Issuer. Dividend per share is LTL 0.25, in total LTL 10.683 million.

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

In 2014, the dividends from the profit of the year 2013 were allocated and paid to the shareholders of the Issuer. Dividend per share is LTL 0.01 (EUR 0.0028962), in total LTL 428,021 (EUR 123,963).

18. Employees

As at 30 June 2014, 547 employees were employed in the Group in total. Changes in the number of employees in 2012 – in the 1 half of the year 2014 are specified in Table 8.



Table 8

Abdul number of employees	Company 2012-06-30	Group 2012-06-30	Company 2013-06-30	Group 2013-06-30	Company 2014-06-30	Group 2014-06-30
Total:	587	625	552	571	544	547
including: management	4	6	4	5	4	5
specialists	313	326	300	305	289	290
workers	270	293	248	261	251	252

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

Table 9

No	Education	Company 2012-06-30	Group 2012-06-30	Company 2013-06-30	Group 2013-06-30	Company 2014-06-30	Group 2014-06-30
1	Secondary incomplete	9	10	7	8	6	6
2	Secondary	219	239	209	219	210	211
3	College	84	90	78	81	75	75
4	Higher	275	286	258	263	253	255
	Total:	587	625	552	571	544	547

Average conditional number and average monthly salary of employees
(at the end 30 June 2014 before taxes)

Table 10

No	Employees	Company	Group
1.1.	Average conditional number of managers	3.8	4.8
1.2.	Average monthly salary of managers	9,854.4	8,009.8
2.1.	Average conditional number of specialists	277.3	281.3
2.2.	Average monthly salary of specialists	2,787.6	2,766.1
3.1.	Average conditional number of workers	240.2	241.2
3.2.	Average monthly salary of workers	2,031.6	2,025.4

The salary of the Issuer consists of the on some part of salary, variable part of salary, benefits and allocations paid according to the Labour Code of the Republic of Lithuania and other laws, collective agreement of the company, and bonuses. Bonuses are paid from net profit, if the general meeting of shareholders allocated part of the profit for the bonuses of the Company employees. From 1998 till 2014, the general meeting of shareholders has never allocated part of the profit for the bonuses of the Issuer's employees.

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

1. For continuous employment with the Company employees are granted additional paid leave:
2. After working for 5 years 1 calendar day.
3. from 6 to 10 years 2 calendar days;
4. After working for more than 10 years 3 calendar days;
5. for every subsequent 5 years 1 calendar day.

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

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

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



- 9. Creating a family 3 calendar days;
- 10. Death of a close relative (one of the parents or parents of the spouse, the spouse, brother, sister, daughter, or legal foster son, foster daughter, grandson, granddaughter) 3 calendar days;
- 11. Wife's birth giving 1 calendar day;
- 12. Wedding of the employee's daughter, son or legal foster-child 3 calendar days;
- 13. employees, raising a child studying at a general education school under twelve years of age, are given a day off during the first day of the academic year, paying such employees the average wage.
- 14. Employees who take entrance exams to universities, higher schools and colleges and successfully study in them, if their chosen specialty is within the interests of the Company and the job carried out, are granted the statutory paid educational leave, by paying 50 per cent of the employee's average salary.

The employer undertakes:

- 1. To ensure the conditions of preventive health check and, if necessary, rehabilitation treatment of employees, to provide free health services at the Company's occupational health unit;
- 2. In case of death of an employee, the Company pays an allowance in the amount of two monthly average salaries of the last year of the Company or a branch (depending on where the employee has worked), gives free transport or covers transport costs. The allowance is granted to the burying person;
- 3. in case of death of a close relative of the employee (father, mother, child, or spouse), the employee is granted the allowance of the average salary of the previous year of the Company or an affiliate (depending on where the employee works), given free transport or transport costs are covered;
- 4. In case of birth of one or more children, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) for each child;
- 5. In case of wedding, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works);
- 6. employees who are raising three or more children under the age of 16, widows (widowers) and unmarried persons who raise one child or children alone, if they are studying at secondary schools until the age of 19, and while studying at higher schools or colleges full-time till the age of 21, or if they are caring for other family members with heavy or moderate disability level or lower than 55 per cent working ability level, or family members who have reached the retirement age, which according to the laws are established a major or moderate level of special needs, once a year are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) according to the date of request;
- 7. for the 40th, 50th and 60th anniversary, as proposed by the head of the division, for excellent performance of employees having the 15 and 20 years of continuous employment with the Company are granted a monetary gift of 25 per cent, and having over 20 years of continuous work experience – a monetary gift of 50 per cent of the average salary of the previous year of the Company or an affiliate (depending on where the employee worked);
- 8. in other cases, where the material support is needed (loss due to natural disasters or other reasons beyond the employee's control), at the mutual agreement of the representatives who have signed the Collective Agreement, employees are granted a benefit of up to 2000 litas;
- 9. In the event of a serious illness or accident of the employee, he is granted an allowance of up to 5 average salaries of the previous year of the Company or an affiliate (depending on where the employee worked) at the mutual agreement of the representatives who have signed the Collective Agreement;
- 10. For the occasions of the Lithuanian Energy Day and jubilees of the Company deserving employees are granted a monetary gift of up to 500 litas.

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

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

Articles of association of the Company were amended on 6 January 2014 by the decision of the extraordinary general meeting of shareholders. Increased Company's share capital was indicated in them and the amendments of legislation assessed. The new version of the articles of association was registered in the Register of Legal Entities of the Republic of Lithuania on 20 March 2014. It can be found in the Internet website of the Company at www.kaunoenergija.lt.



20. Issuer's management bodies

According to the articles of association of the Company, the management bodies of the Company include the general meeting of shareholders, a collegial management body – the Supervisory Board, a collegial management body – the board, and a sole management body – the head of the company – director general.

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

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

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

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

The Supervisory Board, in accordance with resolution No 1K-18 of 21 August 20 weight of the Securities Commission of the Republic of Lithuania „On the requirement for Audit Committees“, „Guidelines for the application of requirements for Audit Committees“ approved in the decision of 28 November 20 weight of the Securities Commission, approved the internal rules of procedure for forming the Audit Committee, and electing the Audit Committee members.

The Supervisory Board of the Company approved a new version of the internal rules of procedure of the Audit Committee of the open limited liability company Kauno Energija on 21 February 2013.

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

The board elect and removes from office the head of the Company, fixes his salary and sets other terms of the employment contract, approves his job description, provides incentives for him and impose penalties; makes other decisions assigned to the competence of the board by the Law on Companies of the Republic of Lithuania, articles of association or the company or resolutions of the general meeting of shareholders.



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

20.1. Data about the committees in the Company

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

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

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

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

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

In carrying out its activities, the Audit Committee follows the internal rules of procedure of the Company's Audit Committee approved by decision No 2013-1 of 21 February 2015 of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. The Audit Committee met 2 times during the 1 half of the year 2014. The attendance of the Audit Committee members was 100 per cent.

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

Inga Dragūnienė holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Mrs. Valerija Stankūnienė is a chief accountant of UAB Texera. Valerija was a deputy senior accountant of the company. She held the position of the Audit Committee member from 18 August 2011, on 3 January 2012. Re-elected to the members of the Audit Committee and held the position until the cancellation date of the Supervisory Board, i.e. 28 September 2012. Valerija has a higher university education, Vilnius University, accounting specialty (1983). Workplaces in the last 10 years, and positions held: 2003-02 – 2010-01 chief accountant of UAB Arisbaltija, 2010-01 – 20014-05 deputy chief accountant of the Company.

Valerija Stankūnienė holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Mrs. Edita Gudīšauskienė is a Chief Officer of economics and finance of UAB Kauno autobusai, member of the Supervisory Board of the Company. Mrs. Edita Gudīšauskienė is the independent member of Company's Audit Committee, acting in the Audit Committee since 11 April 2013. University education, Kaunas University of Technology, Faculty of Mechanical Engineering – Master of Science of Thermal Engineering (1995), Faculty of Economics and Management, Master of Science of Financial Management, (2001), Faculty of Social Sciences,



Master of Regional Development – Public Administration. Workplaces in the last 10 years, and positions held: 2000-04-02 – 2006-08-30 senior accountant in children the right products and service of Kaunas City Municipality, 2006-08-31 – 2007-03-29 senior specialist, 2007–2010 Deputy Mayor of Kaunas City Municipality on the matters of communities and social issues, 2010–2011 director of administration of Kaunas City Municipality, 2011–2012 Deputy Minister of Agriculture of Republic of Lithuania.

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

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

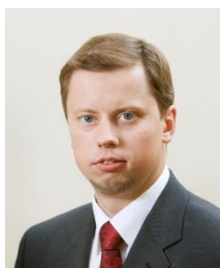
21.1. Information about the members of the Company's Supervisory Board:

Members of the Supervisory Board of the Company as at 30 June 2014:

Full name	Position title	Beginning of term	End of term
Andrius Kupčinskas	Chairman of the Supervisory Board	28 September 2012	30 April 2016
Stanislovas Buškevičius	Member of the Supervisory Board	28 September 2012	30 April 2016
Židrūnas Garšva	Member of the Supervisory Board	6 January 2014	30 April 2016
Edita Gudišauskienė	Member of the Supervisory Board	28 September 2012	30 April 2016
Ričardas Juška	Member of the Supervisory Board	29 April 2014	30 April 2016
Aušra Ručienė	Member of the Supervisory Board	28 September 2012	30 April 2016
Gediminas Žukauskas	Member of the Supervisory Board	28 September 2012	30 April 2016

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

A total of 2 meetings of the Supervisory Board were held during the 1 half of the year 2014. More than 2/3 members of the Supervisory Board attended all the meetings.



Mr. Andrius Kupčinskas is a Mayor of Kaunas city, Member of the Kaunas City Municipality Council.

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

Mr. Andrius Kupčinskas holds no shares of the Company. No interest in the capital of the Lithuanian companies.

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

Mr. Stanislovas Buškevičius holds no shares of the Company. No interest in the capital of the Lithuanian companies.



Mr. Židrūnas Garšva is a Member of the Kaunas City Municipality Council, Head of Committee of City Economy of Kaunas City Council, Head of Commission of privatization, Member of Commission of Strategic Planning, representative of Kaunas city municipality in business Council.

Mr. Židrūnas Garšva holds no shares of the Company. No interest in the capital of the Lithuanian companies.

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

Mrs. Edita Gudišauskienė holds no shares of the Company. No interest in the capital of the Lithuanian companies.



Mr. Ričardas Juška is a Mayor of Jurbarkas district municipality, member of Jurbarkas district municipality council, chairman of Commission of Privatization of Jurbarkas district municipality council, member of the Board of Association of Lithuanian Municipalities (ALM) since 2011, chairman of Committee of Health Issues of ALM, member of Council of Regional Development of Tauragė county, member of the Supervisory Board of Tauragė Regional Waste Management Center, member of Movement of Liberals of the Republic of Lithuania, chairman of Jurbarkas section of Movement of Liberals of the Republic of Lithuania.

Mr. Ričardas Juška is a member of the Supervisory Board of the Company since 29 April 2014.

Mr. Ričardas Juška holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Mrs. Aušra Ručienė is a lawyer, member of Kaunas City Municipality Council, chairman of City Development, Investments and Tourism Committee of Kaunas City Municipality Council, member of Anticorruption Commission, member of Strategic Planning Commission, also a member of Council of Academic Issues.

Mrs. Aušra Ručienė holds no shares of the Company. She is a shareholder of UAB Ručenta.



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

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

Mr. Artūras Tepelys is a member of the Kaunas City Municipality Council. Member of Social, Health and Education Committee of Kaunas City Municipality Council, member of Control Committee, member of Administration Commission, member of Anticorruption Commission, Deputy Director of the Company's branch Jurbarko Šilumos Tinklai, member of Company's Supervisory Board from 28 September 2012 to 29 April 2014.



Mr. Artūras Tepelys charged LTL 32 thousand of salary in the 1 half of the year 2014. No charged bonuses, no transfer of other assets and no granted guarantees.

Mr. Artūras Tepelys holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Mr. Valys Venslovas is a Technical director of UAB Kauno Vandenyys, member of Kaunas City Council, chairman of the Education and Sports Committee of Kaunas City Council, member of the Control Committee, member of the vote counting commission, member of the Traffic Safety Commission, member of the Strategic Planning Commission, member of the Court Decisions and Orders Control Committee, representative of Kaunas City Municipality at Kaunas City Tripartite Council, member of the Board of International Hunting Club Safari, member of Company's Supervisory Board from 15 July 2013 till 6 January 2014.

Mr. Valys Venslovas holds no shares of the Company. No interest in the capital of the Lithuanian companies.

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

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

As at 30 June 2014 the members of the Company's Management Board were as follows:

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

The Company's Board held 17 meetings in the 1 half of the year 2014. More than 2/3 members of the Management Board attended all the sessions.



Mr. Valdas Lukoševičius is a Doctor of technical sciences, Manager of Strategy and Investment Projects division of the Company till 13 February 2014, Chairman of the Company's Management Board since 28 September 2012, President of the Lithuanian Energy Consultants Association (LEKA), Associated Professor of Thermal and Nuclear Energy Department of Kaunas University of Technology (KUT).

Mr. Valdas Lukoševičius holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Mr. Valdas Lukoševičius charged LTL 9 thousand of salary, also LTL 11.8 thousand of bonuses from the profit of the year 2013 in the 1 half of the year 2014. No transfer of other assets and no granted guarantees.

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

Mr. Sigitas Groblys holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Mr. Sigitas Groblys charged LTL 11.8 thousand of bonuses from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees.



Mr. Juozas Augutis is a Habilitated Doctor of Technology, Vice-Rector of Vytautas Magnus University, Professor at Mathematics and Statistics Department of Vytautas Magnus University (VMU), Member of the Company's Management Board since 28 September 2012. Full member of the Lithuanian Academy of Sciences, FP6 and FP7 expert, Expert of the Lithuanian Council of Science, Expert of the Lithuanian State Science and Studies Foundation, manager of the Energy Security Centre of Vytautas Magnus University (VMU), Safety Committee chairman of Ignalina NPP, member of the editorial board of magazines *Energetika*, *Journal of Civil Engineering Management and Mathematics and Mathematical Modelling*, member of the Lithuanian Mathematics Informatics and Lithuanian Energy Institute councils, member of the European Safety Reliability and Data Association ESREDA SRA, Senate and Board member of Vytautas Magnus University (VMU), member of the Lithuanian Society of Mathematicians and Statisticians Association. Chairman of the group panel the National Research Programme "Sustainable Energy" and Chairman of the group panel the National Research Programme "Energy for the Future".

Mr. Juozas Augutis holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Mr. Juozas Augutis charged LTL 11.8 thousand of bonuses from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees.

Mr. Rimantas Bakas is a Doctor of Technical science, General Manager of the Company, Member of the Company's Management Board since 2012 September 28, Member of the Lithuanian Thermal Engineers Association, board member of PI Kaunas Regional Energy Agency, Scientific Council Member of the Lithuanian Energy Institute, Member of the Lithuanian District Heating Association Council, Chairman of Master Qualification Committee of the Thermal and Nuclear Energy Department of Kaunas University of Technology, certified expert of the PET Lithuanian Committee on Energy approved by the Lithuanian committee of the World Energy Council. Member of Company's Management Board from 3 May 2011 until 2 January 2012. In 2008, participated as a working group member in the development of the study "Europe's Vulnerability to Energy Crises" presented to the European Commission.

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

Mr. Rimantas Bakas charged LTL 98 thousand of salary. No bonuses, no transfer of other assets and no granted guarantees. Mr. Rimantas Bakas refused bonuses from the profit of the year 2013.



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

Mr. Saulius Meškauskas holds no shares of the Company. No interest in the capital of the Lithuanian companies.

Mr. Saulius Meškauskas charged LTL 11.8 thousand of bonuses from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees.

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

Mr. Vaclovas Miškinis holds no shares of the Company. No interest in the capital of the Lithuanian companies.



Mr. Vaclovas Miškinis charged LTL 11.8 thousand of bonuses from the profit of the year 2013 during reporting period. No salary, no transfer of other assets and no granted guarantees.



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

Mr. Mindaugas Varža holds no shares of the Company. No interest in the capital of the Lithuanian companies.

No salary, no bonuses, no transfer of other assets and no granted guarantees during the reporting period. Mr. Mindaugas Varža refused bonuses from the profit of the year 2013.

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

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

Mr. Rimantas Bakas was awarded with letters of appreciation from the Lithuanian District Heating Association (2007), Lithuanian Electricity Association (2008), Lithuanian Committee of World Energy Council (2010), Minister of Energy of the Republic of Lithuania (2013), Chairman of the Seimas of the Republic of Lithuania (2013), Lithuanian Committee of World Energy Council (2013), and the 600th Anniversary medal of Kaunas City Municipality (2008), Medal of Honour of Lithuanian energetics (2011).

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

Mrs. Violeta Staškūnienė is a Company's Chief Accountant since 16 January 2003. She has a University education from Vilnius University, finished in 1984, labour economics, profession – economist. Work experience and positions over the last 10 years: 2003-01 – 2004-06 UAB Energijos realizacijos centras, chief accountant.

Mrs. Violeta Staškūnienė holds 2 641 of the Company's shares, which represent less than 5 per cent of the authorised capital. No interest in the capital of the Lithuanian companies.

The total amount of money incurred to the General Manager and the Chief Accountant of the Company during the 1 half of the year 2014 is LTL 149.2 thousand, while the average amount per member is LTL 74.6 thousand. No other assets have been transferred, no guarantees granted.

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

None.

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

None.

24. Information on major transactions with related parties

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

25. Information about harmful transactions concluded on behalf of the Issuer during the reporting period (not complying with the Company's objectives, normal market conditions, detrimental to the interests of shareholders and other interest groups etc.) which were or are likely to have an adverse effect on the Issuer's activities and (or) performance in the future, as well as information on transactions entered into in a conflict of interest between the Issuer's management, controlling shareholders or other related parties' obligations to the Issuer and their private interests and (or) other duties

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

None.

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

Information about compliance with the corporate governance code is presented in Annex 1 to the annual report of AB Kauno Energija of the year 2013. Annual reports on the Company's corporate social initiatives and policies are published on the Company's website.

27. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information over the past 6 months over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. Such information was also posted on the website of the Issuer. All information is available on **NASDAQ OMX Vilnius** websites (<http://www.baltic.omxgroup.com/?id=3304>) and the issuer's website (<http://www.kaunoenergija.lt>).

Title	Notice category	Language	Time
Economic performance in the 1st half of 2014	Notice of stock event	English, Lithuanian	2014-08-01 11:20:10
The activity results of the 3 months of the year 2014	Notice of stock event	English, Lithuanian	2014-04-30 16:22:53
Financial statements with the annual report	Annual information	English, Lithuanian	2014-04-30 11:05:40
Resolutions of the General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2014-04-29 17:17:47
Information on suggested additional candidate for the members of Supervisory Board of AB Kauno Energija	Notice of stock event	English, Lithuanian	2014-04-23 17:34:19
Change of agenda of the General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2014-04-17 15:08:21
Convocation and resolutions projects of General Meeting of Shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2014-04-03 20:11:56
Articles of Association with increased Authorised Capital of AB Kauno Energija were registered at the Register of Legal entities	Other information	English, Lithuanian	2014-03-21 14:05:37
An intermediate unaudited financial statement of 12 months of the year 2013	Notice of stock event	English, Lithuanian	2014-02-05 16:09:35
Information about the notice of Vilnius Court of Commercial Arbitration (addition)	Notice of stock event	English, Lithuanian	2014-01-31 14:27:10



Title	Notice category	Language	Time
Information about the notice of Vilnius Court of Commercial Arbitration	Notice of stock event	English, Lithuanian	2014-01-31 14:00:59
12-month economic performance in 2013	Notice of stock event	English, Lithuanian	2014-01-30 17:43:07
Information on the beginning of consultations with UAB Fortum Heat Lietuva	Other information	English, Lithuanian	2014-01-23 13:04:27
Resolutions of the extraordinary general meeting of shareholders of AB Kauno Energija	Notice of stock event	English, Lithuanian	2014-01-07 09:11:48

Head of the Department of Sales and Consumer Service of AB Kauno Energija,
Substitute to General Manager of AB Kauno Energija

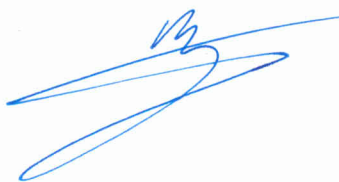

Rimas Perevičius

AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT
COMPANY'S FINANCIAL STATEMENTS FOR
THE FIRST HALF OF THE YEAR 2014,
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING
STANDARDS, AS ADOPTED BY THE
EUROPEAN UNION

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

Following the guidelines of 22 article of the Law on Securities Market of the Republic of Lithuania and Lithuanian Securities Commission periodical and additional information preparation and presentation regulations, we General Manager Rimantas Bakas and Chief Accountant Violeta Staškūnienė AB Kauno Energija approve, that according to our knowledge the AB Kauno Energija interim financial reporting of the I half of the year 2014 is prepared according to the International Financial Reporting Standards, generally accredited in European Union, satisfies actuality and correctly indicate assets, liabilities, financial state, profit (loss) and cash flows.

General Manager



Rimantas Bakas

Chief Accountant



Violeta Staškūnienė

Statements of Financial Position

		Group		Company	
	Notes	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
ASSETS					
Non-current assets					
Intangible assets	3	168	209	168	209
Property, plant and equipment	4	-	-	-	-
Land and buildings		26,096	27,097	24,825	25,798
Structures and machinery		323,134	320,178	323,144	320,187
Vehicles		790	848	846	903
Equipment and tools		21,700	18,730	21,694	18,723
Construction in progress and prepayments		5,112	7,289	5,112	7,289
Total property, plant and equipment		376,832	374,142	375,621	372,900
Non-current financial assets					
Investments into subsidiary	1	-	-	3,719	3,719
Non-current accounts receivable	5	30	40	30	40
Other financial assets	6	95	95	95	95
Total non-current financial assets		125	135	3,844	3,854
Total non-current assets		377,125	374,486	379,633	376,963
Current assets					
Inventories and prepayments					
Inventories	7	3,813	3,897	3,813	3,844
Prepayments		973	800	972	800
Total inventories and prepayments		4,786	4,697	4,785	4,644
Current accounts receivable	8				
Trade receivables	23	20,217	57,021	20,217	57,009
Other receivables		12,115	9,428	12,068	9,424
Total accounts receivable		32,332	66,449	32,285	66,433
Cash and cash equivalents	9,23	2,517	2,155	2,513	2,135
Total current assets		39,635	73,301	39,583	73,212
Total assets		416,760	447,787	419,216	450,175

(cont'd on the next page)

Statements of Financial Position (cont'd)

		Group		Company	
	Notes	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
EQUITY AND LIABILITIES					
Equity					
Share capital	1	256,813	256,392	256,813	256,392
Legal reserve	10	7,187	6,845	7,187	6,845
Other reserve	10	1,799	250	1,799	250
Retained earnings (deficit)		-	-	-	-
Profit for the current year		6,267	3,019	6,243	1,858
Profit (loss) for the prior year		(1,651)	(2,292)	174	694
Total retained earnings (deficit)		4,616	727	6,417	2,552
Total equity		270,415	264,214	272,216	266,039
Liabilities					
Non-current liabilities					
Non-current borrowings	11,23	56,421	38,994	56,421	38,994
Financial lease obligations	12,23	125	125	125	125
Deferred tax liability	21	8,340	8,340	9,004	9,004
Grants (deferred income)	13	30,666	28,987	30,666	28,987
Employee benefit liability	14	2,079	2,079	2,079	2,079
Non-current trade liabilities	23	18	14	18	14
Total non-current liabilities		97,649	78,539	98,313	79,203
Current liabilities					
Current portion of non-current borrowings and financial lease	11,12,23	10,979	20,401	10,979	20,401
Current borrowings	11,23	5,989	16,997	5,989	16,997
Trade payables	23	26,273	61,321	26,265	61,305
Payroll-related liabilities		2,407	1,950	2,407	1,927
Advances received		1,091	1,444	1,087	1,444
Taxes payable		125	1,146	128	1,142
Derivative financial instruments	15	9	51	9	51
Current portion of employee benefit liability	14	701	937	701	879
Other current liabilities		1,122	787	1,122	787
Total current liabilities		48,696	105,034	48,687	104,933
Total liabilities		146,345	183,573	147,000	184,136
Total equity and liabilities		416,760	447,787	419,216	450,175

(the end)

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

General Manager

Rimantas Bakas

23 July 2014

Chief Accountant

Violeta Staškūnienė

23 July 2014

Statements of Comprehensive Income

		Group				
	Notes	2014 II quarter	2014 I half	2013 II quarter	2013 I half	2013
Operating revenue						
Sales income	16	29,772	160,151	41,120	208,018	322,363
Other operating income	18	651	1,135	1,014	1,773	3,561
Total income		30,423	161,286	42,134	209,791	325,924
Expenses						
Fuel and heat acquired		(25,856)	(123,058)	(35,779)	(162,146)	(257,154)
Salaries and social security		(5,153)	(10,221)	(5,150)	(10,540)	(21,631)
Depreciation and amortisation	3,4	(4,486)	(8,895)	(3,984)	(7,989)	(15,936)
Repairs and maintenance		(563)	(914)	(477)	(1,030)	(2,678)
Write-offs and change in allowance for accounts receivable	5,8	6,433	375	(1,270)	(5,731)	(9,982)
Taxes other than income tax		(1,257)	(2,469)	(1,222)	(2,451)	(5,101)
Electricity		(557)	(1,498)	(733)	(1,657)	(2,919)
Raw materials and consumables		(414)	(861)	(569)	(1,037)	(1,876)
Maintenance of heating and hot water systems		-	-	(2)	(2)	(2)
Water		(582)	(1,313)	(497)	(1,015)	(2,167)
Change in write-down to net realisable value of inventories	7	78	83	39	(72)	(67)
Other expenses	17	(2,130)	(5,528)	(2,804)	(4,968)	(9,656)
Other activities expenses	18	(306)	(532)	(202)	(498)	(1,753)
Total expenses		(34,793)	(154,831)	(52,650)	(199,136)	(330,922)
Profit		(4,370)	6,455	(10,516)	10,655	(4,998)
Finance income	19	337	653	8,671	9,101	10,160
Finance costs	20	(439)	(841)	(357)	(876)	(1,913)
Finance cost, net		(102)	(188)	8,314	8,225	8,247
Profit before income tax		(4,472)	6,267	(2,202)	18,880	3,249
Income tax	21	-	-	-	-	(230)
Net profit		(4,472)	6,267	(2,202)	18,880	3,019
Basic and diluted earnings per share (LTL)	22	(0.10)	0.15	(0.05)	0.44	0.07

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

General Manager	Rimantas Bakas		23 July 2014
Chief Accountant	Violeta Staškūnienė		23 July 2014

Statements of Comprehensive Income

Company

	Notes	2014 II quarter	2014 I half	2013 II quarter	2013 I half	2013
Operating revenue						
Sales income	16	29,774	160,170	40,886	207,739	322,338
Other operating income	18	580	960	1,250	1,966	3,358
Total income		30,354	161,130	42,136	209,705	325,696
Expenses						
Fuel and heat acquired		(25,856)	(123,058)	(35,779)	(162,146)	(257,154)
Salaries and social security		(5,153)	(10,168)	(5,090)	(10,214)	(21,455)
Depreciation and amortisation	3,4	(4,468)	(8,895)	(3,948)	(7,944)	(16,014)
Repairs and maintenance		(563)	(914)	(477)	(1,030)	(2,678)
Write-offs and change in allowance for accounts receivable	5,8	6,438	380	(1,287)	(5,816)	(10,151)
Taxes other than income tax		(1,257)	(2,469)	(1,222)	(2,442)	(5,101)
Electricity		(558)	(1,498)	(730)	(1,650)	(2,919)
Raw materials and consumables		(458)	(930)	(533)	(963)	(1,881)
Maintenance of heating and hot water systems		-	(4)	(12)	(78)	(95)
Water		(582)	(1,313)	(497)	(1,014)	(2,167)
Change in write-down to net realisable value of inventories	7	78	83	39	(72)	(67)
Other expenses	17	(2,130)	(5,518)	(2,786)	(4,961)	(9,690)
Other activities expenses	18	(205)	(395)	(339)	(720)	(1,318)
Total expenses		(34,714)	(154,699)	(52,661)	(199,050)	(330,690)
Profit		(4,360)	6,431	(10,525)	10,655	(4,994)
Finance income	19	337	653	8,671	9,101	10,160
Finance costs	20	(439)	(841)	(513)	(1,182)	(3,102)
Finance cost, net		(102)	(188)	8,158	7,919	7,058
Profit before income tax		(4,462)	6,243	(2,367)	18,574	2,064
Income tax	21	-	-	-	-	(206)
Net profit		(4,462)	6,243	(2,367)	18,574	1,858
Basic and diluted earnings per share (LTL)	22	(0.10)	0.15	(0.06)	0.43	0.04



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

General Manager	Rimantas Bakas		23 July 2014
Chief Accountant	Violeta Staškūnienė		23 July 2014

Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2012		256,392	1,307	2,584	912	261,195
Total comprehensive income		-	-	-	18,880	18,880
Transferred to reserves	10	-	5,538	250	(5,788)	-
Transferred from reserves	10	-	-	(2,584)	2,584	-
Balance as of 30 June 2013		256,392	6,845	250	16,588	280,075
Total comprehensive income		-	-	-	(15,861)	(15,861)
Balance as of 31 December 2013		256,392	6,845	250	727	264,214
Profit (loss) not recognised in the comprehensive income statement	1	-	-	-	23	23
Total comprehensive income		-	-	-	6,267	6,267
Dividends	1	-	-	-	(428)	(428)
Tantiemes	1	-	-	-	(82)	(82)
Transferred to reserves	10	-	342	1,799	(2,141)	-
Transferred from reserves	10	-	-	(250)	250	-
Increase in share capital	1	421	-	-	-	421
Balance as of 30 June 2014		256,813	7,187	1,799	4,616	270,415



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

General Manager	Rimantas Bakas		23 July 2014
Chief Accountant	Violeta Staškūnienė		23 July 2014

Statement of Changes in Equity

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2012		256,392	1,307	2,584	3,898	264,181
Total comprehensive income		-	-	-	18,619	18,619
Transferred to reserves	10	-	5,538	250	(5,788)	-
Transferred from reserves	10	-	-	(2,584)	2,584	-
Shareholder (contribution) to cover losses	1	-	-	-	(45)	(45)
Balance as of 30 June 2013		256,392	6,845	250	19,268	282,755
Total comprehensive income		-	-	-	(16,716)	(16,716)
Balance as of 31 December 2013		256,392	6,845	250	2,552	266,039
Profit (loss) not recognised in the comprehensive income statement	1	-	-	-	23	23
Total comprehensive income		-	-	-	6,243	6,243
Dividends	1	-	-	-	(428)	(428)
Tantiemes	1	-	-	-	(82)	(82)
Transferred to reserves	10	-	342	1,799	(2,141)	-
Transferred from reserves	10	-	-	(250)	250	-
Increase in share capital	1	421	-	-	-	421
Balance as of 30 June 2014		256,813	7,187	1,799	6,417	272,216

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

General Manager	Rimantas Bakas		23 July 2014
Chief Accountant	Violeta Staškūnienė		23 July 2014

Statements of Cash Flows

	Group		Company	
	2014 I half	2013 I half	2014 I half	2013 I half
Cash flows from (to) operating activities				
Net profit	6,267	18,880	6,243	18,574
Adjustments for non-cash items:				
Depreciation and amortisation	10,337	9,266	10,307	9,211
Write-offs and change in allowance for accounts receivable	(366)	5,771	(371)	5,822
Interest expenses	839	720	839	720
Change in fair value of derivatives	(42)	(90)	(42)	(90)
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	(190)	32	(189)	33
(Amortisation) of grants (deferred income)	(793)	(640)	(793)	(640)
Change in write-down to net realisable value of inventories	(83)	72	(83)	72
Change employee benefit liability	(15)	25	-	25
Income tax expenses	-	-	-	-
Change in accruals	(5)	(120)	-	(120)
Impairment of investment in subsidiary	-	-	-	152
Elimination of other financial and investing activity results	(610)	(8,855)	(610)	(8,701)
Total adjustments for non-cash items:	9,072	6,181	9,058	6,484
Changes in working capital:				
(Increase) in inventories	168	150	115	131
(Increase) decrease in prepayments	(153)	(394)	(152)	(471)
(Increase) decrease in trade receivables	37,585	41,769	37,578	41,658
(Increase) in other receivables	(3,102)	(2,633)	(3,059)	(2,630)
(Decrease) increase in other non-current liabilities	4	1	4	1
Increase in current trade payables and advances received	(35,401)	(52,890)	(35,397)	(52,892)
(Decrease) increase in payroll-related liabilities	241	17	302	309
Increase (decrease) in other liabilities to budget	(1,021)	(935)	(1,014)	(905)
Increase (decrease) in other current liabilities	71	(95)	71	(94)
Total changes in working capital:	(1,608)	(15,010)	(1,552)	(14,893)
Net cash flows from operating activities	13,731	10,051	13,749	10,165



(cont'd on the next page)

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

	Group		Company	
	2014 I half	2013 I half	2014 I half	2013 I half
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(12,978)	(9,681)	(12,978)	(9,687)
Proceeds from sale of tangible assets	644	199	642	196
Interest received for overdue accounts receivable	610	1,956	610	1,956
Penalties received	-	7,054	-	7,054
Decrease of non-current accounts receivable	10	-	10	(1)
Interest received	1	1	1	1
Net cash (used in) investing activities	(11,713)	(471)	(11,715)	(481)
Cash flows from (to) financing activities				
Proceeds from loans	17,609	10,955	17,609	10,955
(Repayment) of loans	(20,658)	(20,119)	(20,658)	(20,119)
Interest (paid)	(964)	(872)	(964)	(872)
Financial lease (payments)	(55)	(77)	(55)	(77)
Penalties and fines (paid)	(1)	(156)	(1)	(155)
Shareholder (contributions) to a subsidiary	-	-	-	(155)
Tantiemes (paid)	(59)	-	(59)	-
Received grants	2,472	110	2,472	110
Net cash flows from (used in) financing activities	(1,656)	(10,159)	(1,656)	(10,313)
Net (decrease) increase in cash and cash equivalents	362	(579)	378	(629)
Cash and cash equivalents at the beginning of the period	2,155	5,332	2,135	5,308
Cash and cash equivalents at the end of the period	2,517	4,753	2,513	4,679

(the end)

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

General Manager	Rimantas Bakas		23 July 2014
Chief Accountant	Violeta Staškūnienė		23 July 2014

Notes to the financial statements

1. General information

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

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

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

As of 30 June 2014 and of 31 December 2013 the shareholders of the Company were as follows:

	As of 30 June 2014		As of 31 December 2013	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
Kaunas city municipality	39,736,058	92.84	39,665,892	92.82
Kaunas district municipality	1,606,168	3.75	1,606,168	3.76
Jurbarkas district municipality	746,405	1.74	746,405	1.75
Other minor shareholders	713,512	1.67	713,512	1.67
	42,802,143	100.00	42,731,977	100.00

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

On 23 July 2009 in the Company's Shareholders Meeting it was decided to increase the share capital by issuing 22,700,000 ordinary shares with the par value LTL 6 each. Priority right to acquire issued shares was granted to Kaunas city municipality. The issue price of shares is equal to their nominal value. For this share the Company received a contribution in-kind comprising manifolds in Kaunas city with the value of LTL 136,200 thousand which was established by the independent property 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 LTL 682 thousand (from LTL 255,710 thousand to LTL 256,392 thousand) issuing 113,595 ordinary shares with the par value LTL 6 each. The issue price of shares is equal to their nominal value. A building of a boiler house located in Kaunas city, owned by Kaunas City Municipality, and engineering networks located in Jurbarkas city, owned by Jurbarkas Region Municipality, were received as a non-monetary contribution in kind for these shares. The value of this non-monetary contribution as of the transfer date was determined by independent 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 LTL 421 thousand from LTL 256,392 thousand to LTL 256,813 thousand by issuing 70,166 ordinary shares at a nominal value of LTL 6, whose emission price is equal to nominal value of the share, enabling Kaunas city municipality to purchase those shares, seeking that Kaunas city municipality would dispose its own heat supply pipeline – heat network, situated in Karaliaus Mindaugo av. 50, Kaunas. A newly issued Company's Statutes were registered on 20 March 2014 after increase of authorised capital.

All shares were fully paid as of 30 June 2014 and as of 31 December 2013.

On 30 April 2012 the Annual General Meeting of Shareholders has made a decision to pay LTL 10,683 thousand, i.e. at 25 cents a share in dividends from the profit of the year 2011.

On 29 April 2014 the Annual General Meeting of Shareholders has made a decision to pay LTL 428 thousand, i.e. at 1 cents a share in dividends and LTL 82 thousand tantiemes for Company's board members from the profit of the year 2013. As of 30 June 2014 dividends not yet paid due to the fact that not all permissions of credit institutions under the loan agreements were received. Two board members refused tantiemes for board members – LTL 23 thousand, amount is accounted for as profit (loss) not recognised in the Statement of comprehensive income.

The unpaid part of dividends amounting to LTL 437 thousand as of 30 June 2014 (31 December 2013 – LTL 9 thousand) is accounted for in other current liabilities.

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

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

Company	Principal place of business	Share held by the Group	Cost of investment	Writing-off cost of investment reducing the capital	Profit (loss) for the year	Total equity	Main activities
UAB Pastatų Priežiūros Paslaugos*	Savanorių Ave. 347, Kaunas	100 percent	6.518	(1.916)	107	4.709	Maintenance of heating and hot water systems
UAB Pastatų Priežiūros Paslaugos**	Savanorių Ave. 347, Kaunas	100 percent	10	-	(5)	3	Maintenance of heating and hot water systems
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	4.592	-	(60)	4.547	Rent

- *The data presented as of 31 March, 2013 – until company's separation;
- ** The data presented as of 30 June , 2014 – after company's separation.

As of 30 June 2014 accumulated impairment loss on investment in subsidiaries amounted to LTL 2,799 thousand (31 December 2013 – LTL 2,799 thousand) in the Company's profit or loss in article of financial activity expenses (Note 20).

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

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

Legal Regulations

Operations of the Company are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. Starting from 1 January 2008, the Law amending the Heating Law No. X-1329 of 20 November 2007 of the Republic of Lithuania came in to force. On 13 of October, 2011 the change in Heating Law has been announced. 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. This change in the Law on Heat Sector of the Republic of Lithuania No XI-1613 came into force starting November 1, 2011. Any expenses, related to maintenance of the heat points are not included in a heat price since that date.

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

Operational Activity

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

Total installed heat generation capacity is 515.444 MW (including 23.66 MW – condensing economizers) and electricity – 8.75 MW, respectively, out of which 264.8 MW (including 10 MW – condensing economizer) of heat generation and 8 MW of electric capacity are located at the power plant in Petrašiūnai. 29.8 MW of heat generation capacity (including 2.8 MW – condensing economizer) is located in Jurbarkas city. The total Company's power generation capacity is 524.194 MW (including 23.66 MW – condensing economizers).

In the year 2003 the Company sold a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) and committed to purchase at least 80 percent of the annual demand of Kaunas integrated heating network from this company. 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 13th of April, 2012 confirming the decision of Gazprom OAO to sell its shares to the smaller shareholder "Clement Power Venture Inc.", and the provision, that Gazprom OAO as the main shareholder of KTE must ensure that during the term of agreement, i. e. until 30th of March, 2018 it will own the main block of shares and adequate (not less than 51 percent) number of votes in General

meeting of shareholders, is confirmed in heat purchase agreement signed in 2003 between the Company and KTE, Company's Management Board decided on 10th of July, 2012 to approve the selling of all the shares of Kauno Termofikacijos Elektrinė UAB owned by Gazprom OAO to Clement Power Venture Inc., regularizing terms of change of contracts agreements signed with Kauno Termofikacijos Elektrinė UAB and seeking the best for the Company from this selling. On 13 March 2013 KTE adduced to Company an evidence, i.e. an extract from securities account, saying that ownership of the shares of KTE owned by Gazprom OAO is transferred to Clement Power Venture Inc. since 7 March 2013. The changes of Agreement on Investments and of Heat Sales 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 Sales Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of LTL 350 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of LTL 10 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 percent forfeit from the value of unfulfilled investments. Notwithstanding agreements reached, on 30 April, 2013 KTE placed a claim to Vilnius Court of Commercial Arbitration. KTE seeks to argue obligations, determined by chapters 2 and 3 of Investments Agreement of 13 August, 2013 by this claim regarding investments in Company heat economy in amount of LTL 10 million and the terms of implementation as well as forfeit (penalties) determined if those investments would not be implemented. According 19th February, 2014 arbitration decision Company and KTE began negotiations for a peaceful settlement of investment dispute, however on 26th May Company has informed Arbitration court that compromise has not been reached. The new deadline has been confirmed for KTE to clarify its claims in the case. The session in this case is not appointed.

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

Strategic Decisions

On 6 February, 2014 the Kaunas city council approved Company's investment plans for the years 2012 – 2015, according to which investments in amount of LTL 188,04 million are intended to invest into Company's assets during the period of the years 2012 – 2015. The Group and the Company invested LTL 13,020 thousand in the own property during I half of 2014 (during 2013 – LTL 44,701 thousand and 44,718 thousand).

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

In 2013 the projects "Reconstruction of Noreikiškės boiler-house equipping it with biofuel burned 4 MW capacity water heating boiler" (value of the project is LTL 6.6 million, planned amount of produced heat – 16,000 MWh per year) and "Reconstruction of Ežerėlis boiler-house equipping it with biofuel burned 3.5 MW capacity water heating boiler" (value of the project is LTL 4.6 million, planned amount of produced heat – 6710 MWh per year) were implemented. Both projects were implemented using financial support from Lithuanian Environmental Investment Fund (LEIF) in amount of LTL 4.09 million.

In 2013 the Company reconstructed old water heating boiler DKVR No 6 in Šilkas boiler-house, transforming it into a new 9 MW biofuel water heating boiler plant with 1 MW dry flow economizer. Total installed capacity of boiler-house is 10 MW capacity thermal heat production of biofuels. It is planning to produce approximately 89 GWh of heat energy with this new equipment.

In 2013 the Company by its own funds installed 18 MW of heat capacity gas fuel water heating boiler plant in Pergalė boiler house and 15 MW of heat capacity gas fuel water heating boiler plant with 1.5 MW condensing economizer in Šilkas boiler house.

In 2013, fuel consumption rate for heat production decreased by 0.8 kg_{oe}/MWh, from 90.5 to 89.7 kg_{oe}/MWh. With total heat production of 22,433 MWh, the Company saved 17,946 t_{oe} fuel or LTL 293 thousand in 2013.

Started in 2013 the Company reconstructed water heating boiler PTVM-100 No 2 in Petrašiūnai power plant by adding condensing economizer of 10 MW capacity of heat. Reconstruction was finished in 31 March of 2014. After that, relative fuel consumption for heat production decreased by 11.5 kg_{oe}/MWh in this equipment, from 92.4 to 80.9 kg_{oe}/MWh. The total value of the project was LTL 5.4 million.

In 2013 The Company started to reconstruct old water heating boiler DKVR No 5 of 9 MW in Šilkas boiler-house by transforming it into new 8 MW biofuel water heating boiler plant and adding 4 MW condensing economizer operating for both boilers No 5 and No 6. Estimated value of this project is LTL 8 million. This Project is partly funded by EU funds, operated by Lithuanian business support agency (LBSA).

Started in 2013, The Company is planning to install two biofuel water heating boilers (capacity of 2x8 MW) and condensing economizer (capacity of 4 MW) in Inkaras boiler-house in 2014. The total value of this project is LTL 14,994 million. This Project is partly funded (LTL 6 million) by LBSA.

In 2014, in order to change currently used gas fuel into a lower priced biofuel, the Company started to construct two biofuel water heat boilers (capacity of 2x12 MW) and one common condensing economiser (capacity of 6 MW) in Petrašiūnai power plant. Total installed capacity of boiler-house will reach 30 MW. With these new equipment are planning to produce up to 224 GWh of heat energy. It would consume 93 thousand tonnes wooden fuel per year. Approximate value of the project is LTL 25 million. This project is also partly funded (LTL 6 million) by LBSA.

After implementation of these projects in 2014-2015, it is expecting to decrease the price for the heat to district heat consumers.

The Company plans to reconstruct magisterial pipes named 5T, 6Ž, 1Ž, 3Ž and 4Ž of The Company's owned district heat supply network. Total estimated value of this project is LTL 13,889 million. This Project is partly funded (LTL 6,625 million) by LBSA.

The Company has applications from 21 potential independent heat producers at the moment (with total capacity 526 MW) to connect them to Company's integrated district heat supply network. At this moment the capacity of connected biofuel boilers of independent heat producers is 121.5 MW.

The Company's network is supplied with 73 MW biofuel produced heat from four independent heat producers (hereinafter – IHP) already. By taken actions, it is presumable, that one more IHP will start to supply the heat in district network in August 2014 i.e., the biofuel boiler house operating by "Oneks Invest" Ltd would supply up to 48 MW capacity of heat. Then the total maximal capacity of the heat produced by IHP biofuel boilers would reach up to 121 MW. However along with coming of IHP to district heating network the new issues are emerging: the management of network, in case of unexpected stopped heat equipment of IHP stable maintaining the heat parameters of the network, regulation of heat purchase prices and various changes.

2. Accounting principles

2.1. Adoption of new and/or amended IFRS

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

2.2. Statement of Compliance

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

Basis of the preparation of financial statements

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

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

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

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

Principles of consolidation

Principles of consolidation

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

2.3. 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.

2.4. 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.

2.5. 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.

2.6. Property, plant and equipment

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

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

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

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

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

	Years
Buildings	7 – 50
Structures and machinery	5 – 70
Vehicles	3 – 10
Equipment and tools	2 – 20
Freehold land is not depreciated.	

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

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

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

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item

can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

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

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

2.7. 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 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 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.

2.8. Financial assets

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

Effective interest rate method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest

method, less any impairment. Gains or losses are recognized in profit or loss when the asset value decreases or it is amortized.

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

Impairment of financial assets

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

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

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

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

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

Derecognition of financial assets

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

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

2.9. 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.

2.10. 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.

2.11. 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.

2.12. 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.

2.13. 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.

2.14. Borrowing costs

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

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

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

2.17. Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

2.18. Leasing

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

The Group and the Company as lessor

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

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

The Group and the Company as lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are

capitalised in accordance with the Group's and the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

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

2.20. Income tax

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

Current tax

Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2013 the income tax applied to the Group and the Company was 15 percent (2012 – 15 percent).

Deferred tax

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

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

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

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

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

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

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

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

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

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

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

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

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

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

The applicable rates used for principal currencies were as follows:

	As of 30 June 2014	As of 31 December 2013
1 EUR	= 3,4528 LTL	1 EUR = 3,4528 LTL
1 USD	= 2,5327 LTL	1 USD = 2,5098 LTL
1 GBP	= 4,3140 LTL	1 GBP = 4,1391 LTL

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

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

2.25. Use of estimates in the preparation of financial statements

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

Estimates and assumptions

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

Property, plant and equipment – useful life

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

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

Realisable value of inventory

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

Carrying value of non-current assets received as a contribution in kind

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

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

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

Following decision of 12 August 2012 of the Commission stated in 2012, the Company performed an additional valuations of contribution in-kind, i. e. manifolds in 2012. It's emphasized in the valuation report, that in this particular case a value of manifolds calculated in the method of income is not correct market value of the asset and the value of the manifolds, determined under the replacement cost method, is considered to be the market value of the assets.

As of 30 June 2014 carrying value of total contribution in-kind amounted to LTL 127,853 thousand, including the manifolds, which amounted to LTL 126,867 thousand (31 December 2013: LTL 128,423 thousand and LTL 127,840 thousand respectively).

Allowances for accounts receivable

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

Deferred Tax Asset

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

Litigations

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

2.26. Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

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

As of 30 June 2014 part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 4,927 thousand (LTL 4,816 thousand as of 31 December 2013) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment for the half ended as of 30 June 2014 amounts to LTL 9,498 thousand and LTL 9,468 thousand, respectively (as of 31 December 2013: LTL 17,220 thousand and LTL 17,151 thousand respectively). The amounts of LTL 9,432 thousand and LTL 9,432 thousand (as of 31 December 2013: LTL 17,119 thousand and LTL 17,050 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statement of comprehensive income. The remaining amounts were included into other activity expenses.

As of 30 June 2014 part of the property, plant and equipment of the Group with acquisition cost of LTL 133,426 thousand (LTL 114,753 thousand as of 31 December 2013) and the Company – LTL 133,426 thousand were fully depreciated (LTL 114,724 thousand as of 31 December 2013), but were still in active use.

As of 30 June 2014 and as of 31 December 2013 the major part of the Group's and Company's construction in progress consisted of heat supply networks, boiler-houses reconstruction and repair works.

As of 30 June 2014 the sum of the Group's and the Company's contractual commitments for the acquisition of property, plant and equipment amounted to LTL 53,691 thousand (as of 31 December 2013 – LTL 35,414 thousand).

As of 30 June 2014 property, plant and equipment of the Group and the Company with the net book value of LTL 189,558 thousand (LTL 207,522 thousand as of 31 December 2013) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal to LTL 62 thousand in 2014 (as of 31 December 2013: LTL 83 thousand). The capitalization rate varied from 1.31 percent to 2.33 percent in 2013 (in 2012 – from 1.40 percent to 2.96 percent).

As of 30 June 2014 the Group and the Company accounted for assets, not yet ready for use, amounting to LTL 5,985 thousand in the category Equipment and tools (LTL 3,604 thousand as of 31 December 2013).

5. Non-current accounts receivable

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Long-term loans granted to the Company's employees	30	40	30	40

Long-term loans granted to the employees of the Company for the period from 1997 to 2023 are non-interest bearing. These loans are accounted for at discounted value as of 30 June 2014 and as of 31 December 2013 using 3.47 percent interest rate. In 2013 effect of reversed discounting amounted to LTL 1 thousand. The reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statement of comprehensive income

As of 30 June 2014 and as of 31 December 2013 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

6. Other financial assets

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
<i>Available-for-sale financial assets</i>				
Fair value of shares	95	95	95	95

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

7. Inventories

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Technological fuel	3.468	3.502	3.468	3.502
Spare parts	1.110	1.140	1.110	1.140
Materials	1.072	1.175	1.072	1.122
	5.650	5.817	5.650	5.764
Less: write-down to net realisable value of inventory at the end of the period	(1.837)	(1.920)	(1.837)	(1.920)
Carrying amount of inventories	3.813	3.897	3.813	3.844

As of 30 June 2014 Group's and Company's amounted to LTL 1,837 thousand (as of 31 December 2013 – LTL 1,920 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2014 and for the year 2013 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statement of comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Trade receivables, gross	74.286	111.871	74.458	112.036
Less: impairment of doubtful receivables	(54.069)	(54.850)	(54.241)	(55.027)
	20.217	57.021	20.217	57.009

Of 30 June 2014 Group's and Company's receivables as include the factored receivables amounting to LTL 734 thousand under the agreement with AB DNB Bank (as of 31 December 2013 – LTL 2,453 thousand, the factored receivables under the agreement with UAB Swedbank Lizingas.

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

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

	Group	Company
Balance as of 31 December 2012	47.755	47.877
Additional allowance formed	10.336	10.391
Write-off	(3.241)	(3.241)
Balance as of 31 December 2013	54.850	55.027
Additional allowance formed	(781)	(786)
Write-off	-	-
Balance as of 30 June 2014	54.069	54.241

In 2013 the Group and the Company wrote off LTL 3,241 thousand of bad debts. In 2014 the Group and the Company also recovered LTL 11 thousand (2013 – LTL 15 thousand) of doubtful receivables, which were written off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 30 June 2014 and 31 December 2013 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	
2014	7.133	2.092	4.960	1.446	249	4.337	20.217
2013	44.691	3.295	995	973	1.231	5.836	57.021

The ageing analysis of the Company's net value of trade receivables as of 30 June 2014 and 31 December 2013 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	
2014	7.133	2.092	4.960	1.446	249	4.337	20.217
2013	44.679	3.295	995	973	1.231	5.836	57.009

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

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

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Taxes	8.613	4.130	8.613	4.130
Other receivables	3.995	5.526	4.254	5.828
Less: value impairment of doubtful receivables	(493)	(228)	(799)	(534)
	12.115	9.428	12.068	9.424

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

	Group	Company
Balance as of 31 December 2012	567	759
Additional allowance formed	(326)	(212)
Write-off	(13)	(13)
Balance as of 31 December 2013	228	534
Additional allowance formed	386	386
Write-off	(121)	(121)
Balance as of 30 June 2014	493	799

As of 30 June 2014 and 31 December 2013 the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold inventories (metals, heating equipment) and services supplied (maintenance of manifolds and similar services).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 30 June 2014 and 31 December 2013 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2014	356	17	20	13	10	3.086	3.502
2013	2.126	32	37	6	3.071	26	5.298

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 30 June 2014 and 31 December 2013 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2014	309	17	20	13	10	3.086	3.455
2013	2.122	32	37	6	3.071	26	5.294

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

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

9. Cash and cash equivalents

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Cash in transit	846	977	846	977
Cash at bank	1.659	1.160	1.655	1.140
Cash on hand	12	18	12	18
	<u>2.517</u>	<u>2.155</u>	<u>2.513</u>	<u>2.135</u>

The Group's and the Company's accounts in banks amounting to LTL 382 thousand as of 30 June 2014 (31 December 2013 – LTL 1,137 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

Legal and other reserves

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

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

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

11. Borrowings

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Non-current borrowings	56.321	38.994	56.321	38.994
Current portion of non-current borrowings (except leasing which is disclosed in Note 12)	10.924	20.291	10.924	20.291
Current borrowings (including credit line)	5.255	14.544	5.255	14.544
Factoring with recourse agreement	734	2.453	734	2.453
Current borrowings	16.913	37.288	16.913	37.288
	73.234	76.282	73.234	76.282

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

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
2014	10.924	20.291	10.924	20.291
2015	15.154	8.568	15.154	8.568
2016	8.589	7.121	8.589	7.121
2017	6.737	4.993	6.737	4.993
2018	6.340	3.780	6.340	3.780
2019	5.186	2.551	5.186	2.551
2020	3.704	1.432	3.704	1.432
2021	781	754	781	754
2022	757	753	757	753
2023	756	754	756	754
2024	756	753	756	753
2025	756	754	756	754
2026	756	753	756	753
2027	756	754	756	754
2028	756	753	756	753
2029	756	753	756	753
2030	757	754	757	754
2031	756	754	756	754
2032	756	753	756	753
2033	756	754	756	754
2034	756	753	756	753
	67.245	59.285	67.245	59.285

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

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Current borrowings	1,05	0,97	1,05	0,97
Non-current borrowings	2,58	2,59	2,58	2,59

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

Currency of the loan:	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
EUR	32.905	36.816	32.905	36.816
LTL	39.595	37.013	39.595	37.013
	<u>72.500</u>	<u>73.829</u>	<u>72.500</u>	<u>73.829</u>

Detailed information on loans as of 30 June 2014:

Credit institution	Date of contract	Currency	Currency sum, thousand	Sum LTL thousand	Term of maturity	Balance as of 30.06.2014 LTL thousand	A part of 2014, LTL thousand
1. AB SEB Bank	2005.08.23	EUR	8.776	30.300	2014.12.31	1.250	1.250
2. Nordea*	2006.12.01	LTL	6.090	6.090	2015.12.31	1.213	420
3. AB SEB Bank	2006.12.21	EUR	2.059	7.108	2016.11.30	694	197
4. AB DNB Bank	2007.11.14	EUR	576	1.989	2016.12.31	621	124
5. Danske**	2008.07.31	EUR	984	3.398	2018.12.31	1.561	175
6. Danske**	2008.07.31	EUR	1.158	4.000	2017.09.30	1.655	300
7. Swedbank, AB	2009.12.02	EUR	3.815	9.819	2016.12.02	2.635	601
8. MF Lithuania***	2010.04.09	EUR	2.410	8.323	2034.03.15	6.139	-
9. Swedbank, AB	2010.06.21	EUR	649	2.240	2017.06.21	397	202
10. Nordea*	2010.09.17	EUR	1.625	5.611	2016.05.31	1.895	494
11. MF Lithuania***	2010.10.26	EUR	807	2.788	2034.03.15	2.526	-
12. AB SEB Bank	2011.02.11	EUR	1.031	3.560	2019.02.10	2.556	274
13. Nordea*	2011.04.19	EUR	921	3.180	2019.04.30	2.635	273
14. MF Lithuania***	2011.09.02	EUR	1.672	5.773	2034.09.01	5.702	-
15. AB SEB Bank	2011.10.13	EUR	290	1.000	2019.11.30	378	71
16. AB SEB Bank	2013.05.23	LTL	10.567	10.567	2014.11.30	5.340	5.340
17. AB DNB Bank	2013.06.28	LTL	15.000	15.000	2014.06.27	-	-
18. AB SEB Bank	2013.08.22	LTL	10.000	10.000	2014.08.22	5.255	5.255
19. AB SEB Bank	2013.09.10	LTL	5.200	5.200	2020.09.30	5.200	217
20. Nordea*	2013.09.27	LTL	1.300	1.300	2020.09.30	415	-
21. Nordea*	2013.06.03	LTL	9.000	9.000	2020.06.03	3.087	258
22. AB SEB Bank	2013.06.03	LTL	2.760	2.760	2020.06.30	2.760	230
23. AB SEB Bank	2013.06.03	LTL	4.240	4.240	2020.06.30	4.223	353
24. Nordea*	2013.09.27	EUR	655	2.261	2020.09.30	2.261	124
25. Nordea*	2013.11.28	LTL	2.000	2.000	2020.11.27	1.525	21
26. AB DNB Bank	2014.02.28	LTL	5.227	5.227	2015.05.30	5.227	-
27. AB SEB Bank	2014.03.31	LTL	5.400	5.400	2021.01.15	5.350	-
						<u>72.500</u>	<u>16.179</u>

* Nordea Bank Finland Plc. Lithuanian branch;

** Danske Bank A/S Lithuania branch;

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

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

On 2 January 2014 the Group and the Company signed a factoring with recourse agreement with AB DNB Bank amounted to the limit LTL 8,500 thousand. Factoring advance is 90 percent. Liability of the factoring with recourse, amounting to LTL 734 thousand as of 30 June 2014 is accounted within the caption of current borrowings

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

12. Finance lease obligations

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

Future minimal lease payments were:

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Within one year	61	116	61	116
From one to five years	125	125	125	125
Total financial lease obligations	186	241	186	241
Interest	(8)	(8)	(8)	(8)
Present value of financial lease obligations	178	233	178	233
Financial lease obligations are accounted for as:	-	-	-	-
- current	55	110	55	110
- non-current	123	123	123	123

13. Grants (deferred income)

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Balance at the beginning of the reporting period	28.987	26.546	28.987	26.546
Received during the year	2.472	3.777	2.472	3.777
Amortisation	(793)	(1.336)	(793)	(1.336)
Balance at the end of the reporting period	30.666	28.987	30.666	28.987

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at V. Krėvės Ave. 82 A, 118 H, Kaunas)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 6,000 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 5,843 thousand by 30 June 2014. The project is completed.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Modernisation of Kaunas City Integrated Network Centre Main (4T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 5,990 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 4,414 thousand by 30 June 2014. The project is completed.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius-Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies", according to which the Company will be receiving financing from the European Regional Development Fund

in the amount of LTL 2,333 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of LTL 1,725 thousand by 30 June 2014. The project is completed.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,566 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2014 financing in amount of LTL 1,426 thousand has been received. The project is completed.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,788 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2014 financing in amount of LTL 2,526 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Dainava area main of Kaunas integrated network (1T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,560 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2014 financial support in amount of LTL 1,489 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Aukštieji Šančiai area main of Kaunas integrated network (2Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 1,618 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2014 financial support in amount of LTL 1,618 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Vilijampolė area heating network of Kaunas integrated network (9K)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 595 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2014 financial support in amount of LTL 595 thousand has been received. The project is completed.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Pramonė area main of Kaunas integrated network (1Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of LTL 2,000 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2014 financing in amount of LTL 2,000 thousand has been received. The project is completed.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water boiler", according to which the financing in amount of LTL 1,791 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 30 June 2014 financial support in amount of LTL 1,540 thousand has been received.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler", according to which the financing in amount of LTL 2,299 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 30 June 2014 financial support in amount of LTL 2,001 thousand has been received.

On 8 July 2013 the Group and the Company signed a financing agreement of the project "Reconstruction of Pergalė boiler-house equipping it with condensational economizer", under which financing in amount of LTL 638 thousand is provided for the Company from Lithuanian Environmental Investment Fund after the

terms of agreement are fulfilled. As of 30 June 2014 financial support in amount of LTL 383 thousand has been received. The project is completed.

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

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Petrašiūnai power plant, changing used fuel to biofuel (stage I)" under which a financing in amount of LTL 6,000 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 30 June 2014 financial support in amount of LTL 29 thousand has been received.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Inkaras boiler-house, changing used fuel to biofuel" under which a financing in amount of LTL 6,000 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement.

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" under which a financing in amount of LTL 2,000 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement.

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

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 5T" under which a financing in amount of LTL 1,706 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 30 June 2014 financial support in amount of LTL 75 thousand has been received.

14. Employee benefit liability

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

The Group's and the Company's total employee benefit liability is stated below:

	Group		Company	
	2014	2013	2014	2013
Employee benefit liability at the beginning of the year	3.016	3.297	2.958	2.999
Paid	(221)	(775)	(178)	(585)
Formed	(15)	494	-	544
Employee benefit liability at the end of the year	2.780	3.016	2.780	2.958
Non-current employee benefit liability	2.079	2.079	2.079	2.079
Current employee benefit liability	701	937	701	879

During the 2014 total amount of the benefit paid to the employees by the Group amounted to LTL 202 thousand (in 2013 – LTL 775 thousand), and by the Company – LTL 178 thousand (in 2013 – LTL 585 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statement of comprehensive income.

The principal assumptions used in determining pension benefit obligation for the Group's and the Company's

plan is shown below:

	As of 30 June 2014	As of 31 December 2013
Discount rate	4.0 percent	4.0 percent
Employee turnover rate	18.9 percent	18.9 percent
Expected average annual salary increases	3.0 percent	3.0 percent

15. Derivative financial instruments

On 9 April 2009, the Group and the Company concluded an interest rate swap agreement. For the period from 24 August 2009 to 22 August 2014 the Group and the Company set a fixed interest rate at 4.15 percent for a floating interest rate at 6-month EUR LIBOR. The nominal amount of the transaction was EUR 422 thousand (the equivalent of LTL 1,458 thousand) as at 30 June 2014 (EUR 784 thousand (the equivalent of LTL 2,708 thousands as of 31 December 2013) as at 31 December 2013). Market value of swap agreement as of 30 June 2014 amounted to LTL 9 thousand (LTL 51 thousands as of 31 December 2013). This transaction does not have material impact on the future cash flows of the Group and the Company.

16. Sales income

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

	Group		Company	
	2014	2013	2014	2013
Heat supplies	154.204	311.576	154.230	311.632
Hot water supplies	4.939	8.612	4.939	8.612
Maintenance of manifolds	392	779	392	779
Maintenance of heat and hot water systems	72	280	65	199
Electric energy	301	767	301	767
Maintenance of hot water meters	243	349	243	349
	160.151	322.363	160.170	322.338

17. Other expenses

	Group		Company	
	2014	2013	2014	2013
Cash collection expenses	854	1.838	854	1.838
Equipment verification and inspection	865	1.657	865	1.657
Maintenance of manifolds	694	1.863	694	1.863
Debts collection expenses	95	198	94	198
Sponsorship	1.106	157	1.106	157
Consulting expenses	288	485	288	485
Customer bills issue and delivery expenses	215	457	217	457
Communication expenses	90	188	90	188
Employees related expenses	200	261	200	261
Insurance	217	261	216	261
Long term assets maintenance and related services	128	212	127	212
Membership fee	103	292	103	292
Transport expenses	44	101	43	100
Advertising expenses	62	170	62	170
Audit expenses	42	36	42	36
Rent of equipment and machinery	18	32	18	32
Other expenses	507	1.448	499	1.483
	5.528	9.656	5.518	9.690

18. Other activities income and expenses

	Group		Company	
	2014	2013	2014	2013
Income from other operating activities				
Miscellaneous services	773	3.204	653	3.023
Materials sold	47	219	-	201
Gain from sale of non-current assets	268	13	267	13
Other	47	125	40	121
	1.135	3.561	960	3.358
Expenses from other operating activities				
Cost of miscellaneous services	(370)	(1.689)	(307)	(1.248)
Cost of materials sold	(74)	(1)	-	(1)
Write off of non-current assets	(49)	(8)	(49)	(14)
Loss from sale of non-current assets	(30)	(32)	(30)	(32)
Other	(9)	(23)	(9)	(23)
	(532)	(1.753)	(395)	(1.318)

19. Finance income

	Group		Company	
	2014	2013	2014	2013
Interest from late payment of accounts receivable	610	2.952	610	2.952
Fines	-	7.054	-	7.054
Impairment of non-current financial assets	-	-	-	-
Change in fair value of derivative financial instruments	42	153	42	153
Bank interest	1	1	1	1
Other	-	-	-	-
	653	10.160	653	10.160

20. Finance costs

	Group		Company	
	2014	2013	2014	2013
Interest on bank loans and overdrafts	(840)	(1.418)	(840)	(1.418)
Impairment of non-current financial assets	-	(338)	-	(1.372)
Penalties	-	(157)	-	(157)
Shareholder's contributions in subsidiary	-	-	-	(155)
Exchange rate change	(1)	-	(1)	-
	(841)	(1.913)	(841)	(3.102)

20. Income tax

As of 30 June 2014 and 31 December 2013 deferred income tax asset and liability were accounted for by applying 15 percent rate. All changes in deferred tax are reported in the statement of comprehensive income.

22. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2014	2013	2014	2013
Net profit	6.267	3.019	6.243	1.858
Number of shares (thousand), opening balance	42.732	42.732	42.732	42.732
Number of shares (thousand), closing balance	42.802	42.732	42.802	42.732
Average number of shares (thousand)	42.767	42.732	42.767	42.732
Basic and diluted earnings per share (LTL)	0,15	0,07	0,15	0,04

23. Financial assets and liabilities and risk management

Credit risk

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

Number of customers	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Individuals	114.125	114.240	114.125	114.240
Other legal entities	2.074	2.098	2.074	2.082
Legal entities financed from municipalities' and state budget	327	345	327	336
	116.526	116.683	116.526	116.658

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

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Individuals	14.890	39.320	14.890	39.319
Other legal entities	2.823	8.645	2.823	8.638
Legal entities financed from municipalities' and state budget	2.504	9.056	2.504	9.052
	20.217	57.021	20.217	57.009

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

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

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
A	236	322	232	302
A+	1.126	674	1.126	674
AA-	15	138	15	138
Bank with no rating attributed	282	26	282	26
	1.659	1.160	1.655	1.140

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

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

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

Interest rate risk

All of the borrowings of the Group and the Company, except those loans signed with Ministry of Finance of the Republic of Lithuania, are at variable interest rates, therefore the Group and the Company faces an interest rate risk. In 2014 and 2013 to manage variable rate risk the Company has entered into interest rate swap agreements, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts as described in Note 15, calculated by the reference to an agreed upon notional principal amount.

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

	<u>Increase/decrease in basis points</u>	<u>Effect on income tax</u>
2014		
LTL	200	(119)
LTL	(200)	119
EUR	50	(13)
EUR	(50)	13
2013		
LTL	200	(111)
LTL	(200)	111
EUR	50	(15)
EUR	(50)	15

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 30 June 2014 were 0.81 and 0.74, respectively (0.70 and 0.66 as of 31 December 2013). The Company's liquidity and quick ratios as of 30 June 2014 were 0.81 and 0.73, respectively (0.70 and 0.66 as of 31 December 2013).

To solve all liquidity issues the Group and the Company implement the following action plan:

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

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Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Amount used	5.255	14.544	5.255	14.544
Amount unused	19.745	10.456	19.745	10.456
	25.000	25.000	25.000	25.000

The table below summarises the maturity profile of the Group's financial liabilities as of 30 June 2014 and as of 31 December 2013 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 6 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	5.767	11.277	40.795	23.478	81.317
Trade payables	25.883	390	18	-	26.291
Balance as of 30 June 2014	31.650	11.667	40.813	23.478	107.608

	Less than 3 months	From 4 to 6 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	5.180	31.174	27.610	18.408	82.372
Trade payables	61.210	111	14	-	61.335
Balance as of 31 December 2013	66.390	31.285	27.624	18.408	143.707

The table below summarises the maturity profile of the Company's financial liabilities, as of 30 June 2014 and as of 31 December 2013 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 6 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	5.767	11.277	40.795	23.478	81.317
Trade payables	25.875	390	18	-	26.283
Balance as of 30 June 2014	31.642	11.667	40.813	23.478	107.600

	Less than 3 months	From 4 to 6 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	5.180	31.174	27.610	18.408	82.372
Trade payables	61.194	111	14	-	61.319
Balance as of 31 December 2013	66.374	31.285	27.624	18.408	143.691

Trade payables

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

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
For heat purchased	12.207	35.826	12.207	35.826
Contractors	7.860	14.904	7.860	14.904
Other suppliers	6.224	10.605	6.216	10.589
	26.291	61.335	26.283	61.319

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 30 June 2014 the Group and the Company had an LTL 6,712 thousand (31 December 2013 – LTL 2,667 thousand) of overdue trade creditors.

Foreign currency risk

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

Fair value of financial instruments

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

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

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

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

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

	Group			Company		
	As of 30 June 2014	As of 31 December 2013	As of 31 December 2012	As of 30 June 2014	As of 31 December 2013	As of 31 December 2012
Financial assets:						
Cash and bank balances	2.517	2.155	5.332	2.513	2.135	5.308
Loans and receivables	32.362	66.489	88.225	32.315	66.473	88.120
Financial assets	95	95	433	95	95	433
	34.974	68.739	93.990	34.923	68.703	93.861
Financial liabilities:						
Carried at fair value through profit or loss (level 2 in the fair value hierarchy)	9	51	204	9	51	204
Carried at amortised cost	85.370	123.522	142.842	85.362	123.506	142.874
	85.379	123.573	143.046	85.371	123.557	143.078

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

Capital management

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, reconsider the dividend payment to shareholders, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management as of 30 June 2014 and 31 December 2013.

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

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

	Group		Company	
	As of 30 June 2014	As of 31 December 2013	As of 30 June 2014	As of 31 December 2013
Non-current liabilities (including deferred tax and grants (deferred income))	97.649	78.539	98.313	79.203
Current liabilities	48.696	105.034	48.687	104.933
Liabilities	146.345	183.573	147.000	184.136
Equity	270.415	264.214	272.216	266.039
Debt* to equity ratio (percent)	54,12	69,48	54,00	69,21

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

Market risk

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

24. Commitments and contingencies

Litigations

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

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

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

Leasing and construction work purchase arrangements

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

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

Future liabilities of Group and the Company under valid purchase arrangements as of 30 June 2014 amounted to LTL 67,267 thousand.

25. Related parties transactions

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

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

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

2014	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1.463	20.080	9.084	562
Jurbarkas city municipality	-	1.201	21	-
2013	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	2.687	37.791	20.705	524
Jurbarkas city municipality	4	2.535	237	2

The Group's and the Company's as of 30 June 2014 allowance for overdue receivables from entities financed and controlled by municipalities amounted to LTL 7,885 thousand (as of 31 December 2013 – LTL 10,362 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

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

Pastatų Priežiūros Paslaugos UAB	Purchases	Sales	Receivables	Payables
2014	85	1	-	-
2013	544	69	-	7
Kauno Energija NT UAB	Purchases	Sales	Receivables	Payables
2014	-	18	480	-
2013	1	14	483	-

As of 31 December, 2013 the Company has formed an LTL 480 thousand (as of 31 December 2013 – LTL 483 thousand) of common postponements for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 30 June 2014 the Group's and the Company's management team comprised 6 and 4 persons respectively (as at 31 December 2013 – 7 and 4).

	Group		Company	
	2014	2013	2014	2013
Key management remuneration	172	455	160	400
Calculated post-employment benefits	104	104	104	104

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

26. Post balance sheet events

There was not been after balance events.
