



AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS
FOR THE FIRST HALF 2017,
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 provisions of article 22 of the Law on Securities Market of the Republic of Lithuania and the Regulations of Preparation and Presentation of Periodical and Additional Information, approved by the Board of the Bank of Lithuania, we – General Manager of AB Kauno Energija Rimantas Bakas, Head of Finance Department Gintautas Muznikas and Chief Accountant Violeta Staškūnienė hereby approve, that according to our knowledge the AB Kauno Energija interim financial report for the first half 2017, is prepared according to the international financial reporting standards, generally accredited for use in European Union, and satisfies actuality and correctly indicate assets, liabilities, financial state, profit (loss) and cash flows.

General Manager



Rimantas Bakas

Head of Finance Department



Gintautas Muznikas

Chief Accountant



Violeta Staškūnienė

Statements of Financial Position

		Group		Company	
	Notes	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
ASSETS					
Non-current assets					
Intangible assets	3	77	107	77	107
Property, plant and equipment	4				
Land and buildings		8,929	9,290	7,423	7,590
Structures		83,920	84,919	83,239	84,207
Machinery and equipment		25,593	27,420	21,980	23,507
Vehicles		521	497	487	448
Devices and tools		2,891	3,186	2,882	3,175
Construction in progress and prepayments		5,610	974	5,610	974
Investment property		404	299	-	-
Total property, plant and equipment		127,868	126,585	121,621	119,901
Non-current financial assets					
Investments into subsidiarys	1	-	-	2,968	2,968
Non-current accounts receivable		-	-	-	-
Other financial assets		1	1	1	1
Total non-current financial assets		1	1	2,969	2,969
Total non-current assets		127,946	126,693	124,667	122,977
Current assets					
Inventories and prepayments					
Inventories	5	429	486	413	416
Prepayments		443	491	400	384
Total inventories and prepayments		872	977	813	800
Current accounts receivable					
Trade receivables	21;23	3,231	10,117	3,231	10,117
Other receivables	23	1,389	1,001	1,368	984
Total accounts receivable		4,620	11,118	4,599	11,101
Cash and cash equivalents	7;21	10,980	6,285	10,933	6,193
Total current assets		16,472	18,380	16,345	18,094
Total assets		144,418	145,073	141,012	141,071


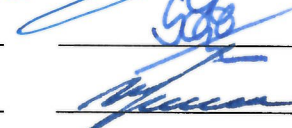

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Statements of Financial Position (cont'd)

		Group		Company	
	Notes	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
EQUITY AND LIABILITIES					
Equity					
Share capital	1	74,476	74,476	74,476	74,476
Legal reserve	8	3,267	2,922	3,267	2,922
Other reserve	8	100	2,977	100	2,977
Retained earnings (deficit)					
Profit for the current year	1	6,160	6,957	6,177	6,901
Profit (loss) for the prior year	1	4,639	(313)	5,135	239
Total retained earnings (deficit)		10,799	6,644	11,312	7,140
Total equity		88,642	87,019	89,155	87,515
Liabilities					
Non-current liabilities					
Non-current borrowings	9;21	20,765	19,559	20,765	19,559
Financial lease obligations	10;21	91	39	91	39
Deferred tax liability	19	4,269	4,269	4,461	4,461
Grants (deferred income)	11	18,048	17,469	16,836	16,176
Employee benefit liability	12;23	1,070	1,069	1,066	1,066
Non-current trade liabilities	21	19	18	19	18
Total non-current liabilities		44,262	42,423	43,238	41,319
Current liabilities					
Current portion of non-current borrowings and financial lease	9;10;21	4,607	6,252	1,771	2,849
Current borrowings	9;21	-	-	-	-
Trade payables	21	4,985	7,194	4,987	7,306
Payroll-related liabilities		858	668	829	657
Advances received		380	549	380	549
Taxes payable		53	391	48	343
Derivative financial instruments	13	19	34	-	-
Current portion of employee benefit liability	12	208	262	208	262
Other current liabilities		404	281	396	271
Total current liabilities		11,514	15,631	8,619	12,237
Total liabilities		55,776	58,054	51,857	53,556
Total equity and liabilities		144,418	145,073	141,012	141,071

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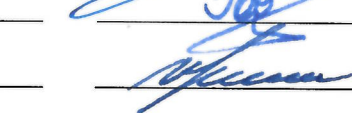

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		21 July 2017
Head of Finance Department	Gintautas Muznikas		21 July 2017
Chief Accountant	Violeta Staškūnienė		21 July 2017

Statements of Profit (loss) and other comprehensive income

Group	Notes	2017 II quarter	2017 I half	2016 II quarter	2016 I half
Operating revenue					
Sales income	16	8,078	35,313	5,794	36,184
Other operating income	18	146	895	107	2,070
Total income		8,224	36,208	5,901	38,254
Expenses					
Fuel and heat acquired		(4,223)	(18,523)	(3,561)	(20,709)
Salaries and social security		(2,426)	(4,111)	(1,963)	(3,595)
Depreciation and amortisation	3;4	(1,627)	(3,438)	(1,518)	(3,044)
Repairs and maintenance		(209)	(326)	(181)	(257)
Write-offs and change in allowance for accounts receivable	5;8	522	451	715	286
Taxes other than income tax		(368)	(747)	(347)	(722)
Electricity		(251)	(657)	(270)	(624)
Raw materials and consumables		(139)	(308)	(156)	(300)
Water		(233)	(468)	(202)	(415)
Change in write-down to net realisable value of inventories and non-current assets	7	(86)	(287)	26	33
Other expenses	17	(652)	(1,356)	(586)	(1,462)
Other activities expenses	18	(93)	(179)	(38)	(156)
Total expenses		(9,785)	(29,949)	(8,081)	(30,965)
Operating profit (losses)		(1,561)	6,259	(2,180)	7,289
Other interest and similar income	19	73	136	67	114
Financial assets and short-term investments impairment	20	-	-	-	-
Interest and other similar expenses	20	(141)	(288)	(136)	(276)
Finance cost, net		(68)	(152)	(69)	(162)
Profit before income tax		(1,629)	6,107	(2,249)	7,127
Income tax	21	-	-	-	-
Deferred tax income (losses)		-	-	-	-
Profit for the year		(1,629)	6,107	(2,249)	7,127
Employee benefit liability (accumulation)		31	53	39	58
Comprehensive income		(1,598)	6,160	(2,210)	7,185
Profit for the year attributable to owners of the Company		(1,629)	6,107	(2,249)	7,127
Total comprehensive income attributable to owners of the Company		(1,598)	6,160	(2,210)	7,185
Basic and diluted earnings per share (EUR)	22	(0.04)	0.14	(0.05)	0.17


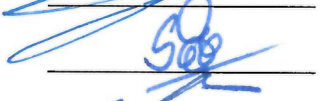
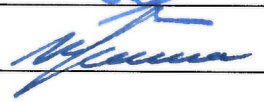
The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		21 July 2017
Head of Finance Department	Gintautas Muznikas		21 July 2017
Chief Accountant	Violeta Staškūnienė		21 July 2017

Statements of Profit (loss) and other comprehensive income

Company	Notes	2017 II quarter	2017 I half	2016 II quarter	2016 I half
Operating revenue					
Sales income	16	8,080	35,321	5,795	36,189
Other operating income	18	119	835	82	2,016
Total income		8,199	36,156	5,877	38,205
Expenses					
Fuel and heat acquired		(4,324)	(19,116)	(3,561)	(20,709)
Salaries and social security		(2,388)	(4,035)	(1,963)	(3,595)
Depreciation and amortisation	3;4	(1,478)	(3,093)	(1,524)	(3,050)
Repairs and maintenance		(196)	(306)	(181)	(257)
Write-offs and change in allowance for accounts receivable	5;8	528	464	725	298
Taxes other than income tax		(361)	(734)	(347)	(722)
Electricity		(208)	(564)	(270)	(624)
Raw materials and consumables		(138)	(303)	(156)	(300)
Water		(232)	(467)	(202)	(415)
Change in write-down to net realisable value of inventories and non-current assets	7	(86)	(287)	26	33
Other expenses	17	(634)	(1,323)	(586)	(1,462)
Other activities expenses	18	(70)	(129)	(43)	(130)
Total expenses		(9,587)	(29,893)	(8,082)	(30,933)
Operating profit (losses)		(1,388)	6,263	(2,205)	7,272
Other interest and similar income	19	68	121	67	114
Financial assets and short-term investments impairment	20	-	-	(151)	(151)
Interest and other similar expenses	20	(128)	(261)	(136)	(276)
Finance cost, net		(60)	(140)	(220)	(313)
Profit before income tax		(1,448)	6,123	(2,425)	6,959
Income tax	21	-	-	-	-
Deferred tax income (losses)		-	-	-	-
Profit for the year		(1,448)	6,123	(2,425)	6,959
Employee benefit liability (accumulation)		32	54	39	58
Comprehensive income		(1,416)	6,177	(2,386)	7,017
Profit for the year attributable to owners of the Company		(1,448)	6,123	(2,425)	6,959
Total comprehensive income attributable to owners of the Company		(1,416)	6,177	(2,386)	7,017
Basic and diluted earnings per share (EUR)	22	(0.03)	0.14	(0.06)	0.16

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



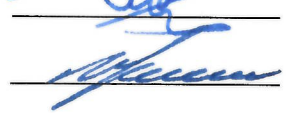
General Manager	Rimantas Bakas		21 July 2017
Head of Finance Department	Gintautas Muznikas		21 July 2017
Chief Accountant	Violeta Staškūnienė		21 July 2017

Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2015		74,476	2,695	713	3,976	81,860
Total comprehensive income		-	-	-	7,185	7,185
Transferred to reserves	10	-	227	2,977	(3,204)	-
Transferred from reserves	10	-	-	(713)	713	-
Dividends	1	-	-	-	(1,798)	(1,798)
Balance as of 30 June 2016		74,476	2,922	2,977	6,872	87,247
Total comprehensive income		-	-	-	(228)	(228)
Balance as of 31 December 2016		74,476	2,922	2,977	6,644	87,019
Transferred to reserves	10	-	345	100	(445)	-
Transferred from reserves	10	-	-	(2,977)	2,977	-
Dividends	1	-	-	-	(4,537)	(4,537)
Total comprehensive income		-	-	-	6,160	6,160
Balance as of 30 June 2017		74,476	3,267	100	10,799	88,642

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2015		74,476	2,695	713	4,528	82,412
Transferred to reserves	10	-	227	2,977	(3,204)	-
Transferred from reserves	10	-	-	(713)	713	-
Dividends	1	-	-	-	(1,798)	(1,798)
Total comprehensive income		-	-	-	7,017	7,017
Balance as of 30 June 2016		74,476	2,922	2,977	7,256	87,631
Total comprehensive income		-	-	-	(116)	(116)
Balance as of 31 December 2016		74,476	2,922	2,977	7,140	87,515
Transferred to reserves	10	-	345	100	(445)	-
Transferred from reserves	10	-	-	(2,977)	2,977	-
Dividends	1	-	-	-	(4,537)	(4,537)
Total comprehensive income		-	-	-	6,177	6,177
Balance as of 30 June 2017		74,476	3,267	100	11,312	89,155

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

General Manager	Rimantas Bakas		21 July 2017
Head of Finance Department	Gintautas Muznikas		21 July 2017
Chief Accountant	Violeta Staškūnienė		21 July 2017

Statements of Cash Flows




	Group		Company	
	2017 I half	2016 I half	2017 I half	2016 I half
Cash flows from (to) operating activities				
Comprehensive income	6,160	7,185	6,177	7,017
Adjustments for non-cash items:				
Depreciation and amortisation	4,249	3,728	3,812	3,749
Write-offs and change in allowance for accounts receivable	(448)	(282)	(461)	(295)
Interest expenses	288	276	261	276
Change in fair value of derivatives	(15)	-	-	-
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	(1)	-	(1)	-
(Amortisation) of grants (deferred income)	(610)	(522)	(529)	(522)
Change in write-down to net realisable value of inventories and non-current assets	287	(33)	287	(33)
Change employee benefit liability	1	-	-	-
Calculation of the value of shares	-	-	-	-
Income tax expenses	-	-	-	-
Change in accruals	33	27	25	27
Impairment of investment in subsidiary	-	-	-	151
Elimination of other financial and investing activity results	(121)	(114)	(121)	(114)
Total adjustments for non-cash items:	3,663	3,080	3,273	3,239
Changes in working capital:				
(Increase) decrease in inventories	(230)	(61)	(284)	(65)
(Increase) decrease in prepayments	48	113	(16)	113
(Increase) decrease in trade receivables	7,301	6,067	7,311	6,076
(Increase) decrease in other receivables	540	256	547	268
(Decrease) increase in other non-current liabilities	1	2	1	2
(Decrease) increase in current trade payables and advances received	(2,378)	(5,841)	(2,488)	(5,842)
(Decrease) increase in payroll-related liabilities	126	121	118	117
Increase (decrease) in other liabilities to budget	(338)	(223)	(295)	(221)
Increase (decrease) in other current liabilities	3	(47)	3	(46)
Total changes in working capital:	5,073	387	4,897	402
Net cash flows from operating activities	14,896	10,652	14,347	10,658

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	Group		Company	
	2017 I half	2016 I half	2017 I half	2016 I half
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(5,431)	(2,073)	(5,431)	(2,071)
Proceeds from sale of tangible assets	2	2	2	2
Interest received for overdue accounts receivable	121	114	121	114
Penalties received	-	-	-	-
Acquisition of subsidiaries	-	-	-	-
Decrease of non-current accounts receivable	-	-	-	-
Interest received	-	-	-	-
Net cash (used in) investing activities	(5,308)	(1,957)	(5,308)	(1,955)
Cash flows from (to) financing activities				
Proceeds from loans	1,362	42	1,362	42
(Repayment) of loans	(1,817)	(1,033)	(1,250)	(1,033)
Interest (paid)	(176)	(151)	(149)	(151)
Financial lease (payments)	(21)	(19)	(21)	(19)
Penalties and fines (paid)	-	-	-	-
Dividends (paid)	(4,535)	(1,797)	(4,535)	(1,797)
Received grants	294	-	294	-
Net cash flows from (used in) financing activities	(4,893)	(2,958)	(4,299)	(2,958)
Net (decrease) increase in cash and cash equivalents	4,695	5,737	4,740	5,745
Cash and cash equivalents at the beginning of the period	6,285	2,531	6,193	2,518
Cash and cash equivalents at the end of the period	10,980	8,268	10,933	8,263

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

General Manager	Rimantas Bakas		21 July 2017
Head of Finance Department	Gintautas Muznikas		21 July 2017
Chief Accountant	Violeta Staškūnienė		21 July 2017

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. Data on the Company are collected and stored in the Register of Legal Entities.

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 are also involved in maintenance of heating systems. The Company was registered on 1 July 1997 after the reorganisation of AB Lietuvos Energija. The Company's shares are traded on the Baltic Secondary List of the AB Nasdaq Vilnius.

As of 30 June 2017 and of 31 December 2016 the shareholders of the Company were as follows:

	As of 30 June 2017		As of 31 December 2016	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
Kaunas city municipality	39,736,058	92.84	39,736,058	92.84
Kaunas district municipality	1,606,168	3.75	1,606,168	3.75
Jurbarkas district municipality	746,405	1.74	746,405	1.74
Other minor shareholders	713,512	1.67	713,512	1.67
	42,802,143	100.00	42,802,143	100.00

All the shares are ordinary shares. The Company owns no shares as at the end of the reporting periods. All shares were fully paid As of 30 June 2017 and as of 31 December 2016.

On 28 April 2017 the Annual General Meeting of Shareholders has made a decision to pay EUR 4,537 thousand, i.e. at 10.6 cents a share in dividends from the profit of the year 2016.

On 28 April 2016 the Annual General Meeting of Shareholders has made a decision to pay EUR 1,798 thousand, i.e. at 4.2 cents a share in dividends and EUR 32 thousand tantiemes for the members of the Company's board from the profit of the year 2015. Annual payments are accounted in salaries and social security line of Statements of Profit (loss) and other comprehensive income.

Responding to changes in competition in Kaunas heat production sector, on 27 October 2016 the Company accomplished transaction of acquisition of UAB Petrašiūnų Katilinė, acquiring block of 100 % shares for EUR 1,894 thousand. This acquisition is a result of consistent planning of development of production capacities. Group's heat production capacity using biofuel increased at 19.2 MW after this acquisition, thus a reliability of heat supply to consumers increased additionally.

As of 30 June 2017 the Company and the subsidiarys UAB Kauno Energija NT and UAB Petrašiūnų Katilinė represent the Group (hereinafter – the Group):

Company	Principal place of business	Share held by the Group	Cost of investment	Profit (loss) for the year	Total equity	Main activities
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	1,330	(4)	1,222	Rent
UAB Petrašiūnų katilinė	R. Kalantos g. 49, Kaunas	100 percent	1,894	130	483	Heat production

Legal Regulations

Operations of the Company are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. 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).

In 2017 the average number of employees at the Group was 525 (536 employees in 2016). In 2017 the average number of employees at the Company was 512 (523 employees in 2016).

Operational Activity

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

Total installed heat generation capacities of the Group consist of approx 587 MW (including 39 MW of condensational economizers) and total power generation capacities of the whole Group consist of approx 596 MW (including 39 MW of condensational economizers). Total installed heat generation capacities of Company amount to 568 MW (including 39 MW of condensing economizers). Electricity generation capacities amount up to 8.75 MW. 294.8 MW of heat generation capacities (including 16 MW condensing economizer) and 8 MW of electricity generation capacities are located in Petrašiūnai power plant. 34.8 MW of heat generation capacities (including 2.8 MW condensing economizer) are located in Jurbarkas city. Total Company's power generation capacities consist of approx. 577 MW (including 39 MW of condensing economizers).

The Company accomplished the last (of three) investment litigation with UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE), after Vilnius Court of Commercial Arbitration approved on 29 January 2016 a peaceful agreement concluded on 28 December 2015. Following the terms of agreement the sides agreed to terminate Investment agreement of 31 March 2003, KTE taking obligations to pay compensation for the Company in amount of EUR 2.3 million. The Company has got EUR 0.24 million during the first quarter 2017 (EUR 1.8 million during 2016), which is disclosed in Note 16, the rest EUR 0.24 million is subject to pay by KTE until 28 February 2018. As an additional non-financial compensation according the terms of peaceful agreement KTE disposed to the Company a part of Kaunas centralized heat supplies infrastructure (manifolds building and coherent pipelines, as well as part of technological circuit equipment, necessary to the Company) and the rights of lease of land plot, coherent to the assets disposed. The Company leased out to KTE a technological circuit equipment taken from it for the 25 years period, manifolds building – for 15 years period and subleases land for the 15 year period holding the right for bargain regarding additional term. This juridical litigation with KTE continued from April 2013 and the litigations regarding a non-compliance of investments – from the year 2009. The Company is awarded and has got from KTE in total more than EUR 3.6 million of forfeit in 2011 and 2013 regarding a non-compliance of investment obligations.

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

The Company makes investments estimating economic situation, competition and financing possibilities. Investment plans are approved by shareholders, and regulated and controlled by Commission. The Company invested EUR 5,728 thousand in own assets in 2017, and EUR 6,761 thousand in 2016.

2. Accounting principles

2.1. Adoption of new and/or amended IFRS

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

2.2. Statement of Compliance

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

2.3. Basis of the preparation of financial statements

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

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

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

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

2.4. Principles of consolidation

Principles of consolidation

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any

difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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

2.5. Investments in subsidiaries

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

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

2.6. Intangible assets

Intangible assets acquired separately

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

Derecognition of intangible assets

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

Licenses

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

Software

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

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

2.7. Accounting for emission rights

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

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

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

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

2.8. Property, plant and equipment

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

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

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

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment.

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

	Years
Buildings	15 – 50
Structures	15 – 70
Machinery and equipment	5 – 20
Vehicles	4 – 10
Equipment and tools	3 – 16

Freehold land is not depreciated.

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

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

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

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

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

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

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be 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. The Group and the Company has one cash-generating unit for heating business.

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.

2.10. Financial assets

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

Effective interest rate method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

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

Loans and receivables

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

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

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

Impairment of financial assets

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

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

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

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

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

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group and the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group and the Company has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group and the Company has transferred its rights to receive cash flows from an asset and has not transferred substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.11. Derivative financial instruments

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

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the profit (loss) for the period.

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

2.12. Inventories

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

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

2.13. Provisions

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

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

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

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

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

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

2.16. Borrowing costs

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

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

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

2.17. Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

2.18. Leasing

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

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

The Group and the Company as lessee

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

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

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

2.20. Income tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2017 the income tax applied to the Group and the Company was 15 percent (2016 - 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, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to

the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Current and deferred tax for the period

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

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

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

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

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

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

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

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

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

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

The presentation currency is euro (EUR). All transactions made in foreign currency are converted into Euros at the official exchange rate determined daily by the European Central Bank. Financial assets and liabilities are converted into Euros at currency rate of creation day of statements of financial state. Gains and losses arising on exchange are included in profit or loss for the period at the moment of its appearance. Income or expenditures arising on exchange when converting financial assets or liabilities into euros are included in profit or loss.

The applicable rates used for principal currencies were as follows:

As of 30 June 2017				As of 31 December 2016			
1 EUR	=	1.1413	USD	1 EUR	=	1.04530	USD
1 EUR	=	0.8799	GBP	1 EUR	=	0.85300	GBP

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.

Property, plant and equipment - fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation, if necessary.

Realisable value of inventory

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

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 22.

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 Profit (loss) and other comprehensive income.

As of 30 June 2017 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,238 thousand (as of 31 December 2016 – EUR 1,258 thousand) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment in the first half 2017 amounts to EUR 3,611 thousand and EUR 3,255 thousand respectively (as of 31 December 2016 – EUR 6,451 thousand and EUR 6,370 thousand respectively). The amounts of EUR 3,565 thousand and EUR 3,220 thousand (as of 31 December 2016 – EUR 6,433 thousand and EUR 6,330 thousand respectively) the depreciation expenses were included into the expenses in statements of Profit (loss) and other comprehensive income, the remaining amounts EUR 46 thousand and EUR 35 thousand (as of 31 December 2016 – EUR 18 thousand and EUR 40 thousand) were included into other activity expenses in statements of Profit (loss) and other comprehensive income.

As of 30 June 2017 part of the property, plant and equipment of the Group with acquisition cost of EUR 51,358 thousand (EUR 51,372 thousand as of 31 December 2016) and the Company – EUR 51,323 thousand were fully depreciated (EUR 51,210 thousand as of 31 December 2016), but were still in active use.

As of 30 June 2017 and as of 31 December 2016 the major part of the Group's and Company's construction in progress consisted of reconstruction and overhaul works of boiler-houses equipment and heat supply networks.

As of 30 June 2017 the sum of the Group and the Company contractual commitments for the acquisition of property, plant and equipment amounted to EUR 11,301 thousand (as of 31 December 2016 – EUR 15,288 thousand).

As of 30 June 2017 property, plant and equipment of the Group with the net book value of EUR 58,034 thousand (EUR 55,788 thousand as of 31 December 2016) and the Company of EUR 53,557 thousand (EUR 51,021 thousand as of 31 December 2016) was pledged to banks as a collateral for loans (Note 9).

The sum of Group's and Company's capitalized interest was equal to EUR 11 thousand in 2017 (in 2016 – EUR 10 thousand). The capitalization rate varied from 0.93 percent to 1.09 percent in 2017 (in 2016 – from 0.95 percent to 1.29 percent).

As of 30 June 2017 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 79 thousand in the category Equipment and tools (EUR 416 thousand as of 31 December 2016).

The Group and The Company use assets in their operations, acquired by leasing. The acquisition cost of this asset was EUR 187 thousand at June 30, 2017 (EUR 136 thousand in 2016 respectively), and the net book value respectively EUR 151 thousand and EUR 112 thousand. Unpaid part of it is disclosed in Note 10.

5. Inventories

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Technological fuel	1,057	1,187	1,044	1,120
Spare parts	612	446	609	444
Materials	629	435	629	434
	<u>2,298</u>	<u>2,068</u>	<u>2,282</u>	<u>1,998</u>
Less: write-down to net realisable value of inventory at the end of the period	(1,869)	(1,582)	(1,869)	(1,582)
Carrying amount of inventories	<u>429</u>	<u>486</u>	<u>413</u>	<u>416</u>

As of 30 June 2017 Group's and Company's amounted to EUR 1,869 thousand (as of 31 December 2016 – EUR 1,582 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2017 and for the year 2016 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statements of Profit (loss) and other comprehensive income.

6. Current accounts receivable

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Trade receivables, gross	13,853	21,372	13,881	21,410
Less: impairment of doubtful receivables	(10,622)	(11,255)	(10,650)	(11,293)
	<u>3,231</u>	<u>10,117</u>	<u>3,231</u>	<u>10,117</u>

Change in impairment of doubtful receivables in 2017 and 2016 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of Profit (loss) and other comprehensive income.

Impairment of doubtful receivables assessed on the basis of historical experience, using the following percentages:

		Amounts past due					
	Amount not past due	Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	More than 720 days
2017	5%	20%	50%	60%	80%	90%	100%
2016	5%	20%	50%	60%	80%	90%	100%

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 2015	<u>12,410</u>	<u>12,458</u>
Additional allowance formed	(825)	(835)
Write-off	(330)	(330)
Balance as of 31 December 2016	<u>11,255</u>	<u>11,293</u>
Additional allowance formed	(415)	(425)
Write-off	(218)	(218)
Balance as of 30 June 2017	<u>10,622</u>	<u>10,650</u>

In 2017 the Group and the Company wrote off EUR 218 thousand and EUR 218 thousand of bad debts respectively (in 2016 – EUR 330 thousand and EUR 330 thousand). In 2017 the Group recovered EUR 3 thousand and the Company – EUR 3 thousand (in 2016 the Group and the Company – EUR 5 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 2017 and 31 December 2016 is as follows:

	Trade receivables not past due	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2017	1,502	569	626	289	62	183	3,231
2016	8,312	996	194	153	171	291	10,117

The ageing analysis of the Company's net value of trade receivables As of 30 June 2017 and 31 December 2016 is as follows:

	Trade receivables not past due	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2017	1,502	569	626	289	62	183	3,231
2016	8,312	996	194	153	171	291	10,117

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 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Taxes	337	228	337	221
Other receivables	1,319	1,073	1,361	1,129
Less: value impairment of doubtful receivables	(267)	(300)	(330)	(366)
	1,389	1,001	1,368	984

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 2015	267	336
Additional allowance formed	33	30
Write-off	-	-
Balance as of 31 December 2016	300	366
Additional allowance formed	(33)	(36)
Write-off	-	-
Balance as of 30 June 2017	267	330

As of 30 June 2017 and 31 December 2016 the Group's and the Company's other receivables amounted receivable from state taxes, 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 2017 and 31 December 2016 is as follows:

	Other receivables not past due	Other receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2017	75	937	15	12	6	7	1,052
2016	535	191	23	13	4	7	773

The ageing analysis of the Company's net value of other receivables (excluding taxes) As of 30 June 2017 and 31 December 2016 is as follows:

	Other receivables not past due	Other receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2017	54	937	15	12	6	7	1,031
2016	525	191	23	13	4	7	763

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.

7. Cash and cash equivalents

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Cash in transit	127	396	127	396
Cash at bank	10,849	5,875	10,802	5,783
Cash on hand	4	14	4	14
	10,980	6,285	10,933	6,193

The Group's accounts in banks amounting to EUR 9,305 thousand As of 30 June 2017 (31 December 2016 – EUR 4,977 thousand) and the Company's to EUR 9,263 thousand As of 30 June 2017 (31 December 2016 – EUR 4,890 thousand) are pledged as collateral for the loans (Note 9).

8. 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 28 April, 2017 the Company annulled other reserves (EUR 2,977 thousand) by the decision of shareholders, EUR 345 thousand transferred from retained earnings to legal reserve and EUR 100 thousand to other reserves. Reserve was formed for support – EUR 100 thousand.

On 28 April, 2016 the Company annulled other reserves (EUR 713 thousand) by the decision of shareholders, EUR 227 thousand transferred from retained earnings to legal reserve and EUR 2,977 thousand to other reserves. Reserve was formed for long-term loan repayment EUR 2,435 thousand for investments EUR 472 thousand, for support – EUR 50 thousand and for maintenance of heat units – EUR 20 thousand.

9. Borrowings

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

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Non-current borrowings:	20,739	19,559	20,739	19,559
Payable in 2 to 5 years	10,555	9,605	10,555	9,605
Payable in more than 5 years	10,184	9,954	10,184	9,954
Current portion of non-current borrowings (except leasing which) is disclosed in Note 10)	4,577	6,212	1,741	2,809
	25,316	25,771	22,480	22,368

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

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Current borrowings	0.00	0.00	0.00	0.00
Non-current borrowings	2.29	2.27	2.40	2.44

Group's detailed information on loans as of 30 June 2017:

	Credit institution	Date of contract	Currency	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 30.06.2017 EUR thousand	A part of 2017, EUR thousand
1	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,591	-
2	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	654	-
3	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,564	87
4	Nordea*	22/08/2012	EUR	3,403	3,403	29/04/2022	2,836	2,836
5	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	400	67
6	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	609	102
7	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	816	126
8	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	24	4
9	MF Lithuania***	15/01/2014	EUR	793	793	01/12/2034	749	41
10	AB SEB Bank	31/03/2014	LTL	5,400	1,564	15/01/2021	920	131
11	MF Lithuania***	31/03/2014	EUR	7,881	7,881	01/12/2034	7,444	413
12	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	180	48
13	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	173	48
14	OP Corporate**	02/12/2015	EUR	4,842	4,842	02/12/2022	3,804	346
15	AB SEB Bank	09/05/2016	EUR	579	579	30/04/2023	446	38
16	AB SEB Bank	09/05/2016	EUR	1,000	1,000	30/04/2021	767	100
17	AB SEB Bank	09/05/2016	EUR	579	579	30/04/2023	563	48
18	Nordea*	25/10/2016	EUR	1,894	1,894	29/09/2023	1,776	142
19	AB SEB Bank	22/12/2016	EUR	4,127	4,127	30/11/2024	-	-
							25,316	4,577

* Nordea Bank Finland Plc. Lithuanian branch; ** OP Corporate Bank Plc Lithuanian branch; *** Ministry of Finance of the Republic of Lithuania.

Company's detailed information on loans as of 30 June 2017:

	Credit institution	Date of contract	Currency	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 30.06.2017 EUR thousand	A part of 2017, EUR thousand
1	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,591	-
2	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	654	-
3	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,564	87
4	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	400	67
5	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	609	102
6	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	816	126
7	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	24	4
8	MF Lithuania***	15/01/2014	EUR	793	793	01/12/2034	749	41
9	AB SEB Bank	31/03/2014	LTL	5,400	1,564	15/01/2021	920	131
10	MF Lithuania***	31/03/2014	EUR	7,881	7,881	01/12/2034	7,444	413
11	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	180	48
12	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	173	48
13	OP Corporate**	02/12/2015	EUR	4,842	4,842	02/12/2022	3,804	346
14	AB SEB Bank	09/05/2016	EUR	579	579	30/04/2023	446	38
15	AB SEB Bank	09/05/2016	EUR	1,000	1,000	30/04/2021	767	100
16	AB SEB Bank	09/05/2016	EUR	579	579	30/04/2023	563	48
17	Nordea*	25/10/2016	EUR	1,894	1,894	29/09/2023	1,776	142
18	AB SEB Bank	22/12/2016	EUR	4,127	4,127	30/11/2024	-	-
							22,480	1,741

* Nordea Bank Finland Plc. Lithuanian branch; ** OP Corporate Bank Plc Lithuanian branch; *** Ministry of Finance of the Republic of Lithuania.

The immovable property (Note 4), bank accounts (Note 7) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

10. 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 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Within one year	31	41	31	41
From one to five years	91	39	91	39
Total financial lease obligations	122	80	122	80
Interest	(4)	(2)	(4)	(2)
Present value of financial lease obligations	118	78	118	78
Financial lease obligations are accounted for as:				
- current	30	40	30	40
- non-current	88	38	88	38

11. Grants (deferred income)

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Balance at the beginning of the reporting period	17,469	16,761	16,176	16,761
Received during the period	1,189	1,798	1,189	465
Amortisation	(610)	(1,090)	(529)	(1,050)
Balance at the end of the reporting period	18,048	17,469	16,836	16,176

On 22 October 2012 the Group signed the agreement on the financing and administration of the project "Construction of boiler-house in Kaunas, installing two biofuel burned boilers at capacity of 8 MW each together with condensational economizer", according to which the Group will be receiving financing from the European Regional Development Fund in the amount of EUR 1,738 thousand after terms and conditions of the agreement are fulfilled. As of 30 June 2017 financing in amount of EUR 1,333 thousand has been received. The project is accomplished.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 3Ž of Kaunas integrated network", according to which a financing in amount of EUR 450 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 450 thousand by 30 June 2017. The project is accomplished.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 6T of Kaunas integrated network", according to which a financing in amount of EUR 184 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 2 thousand by 30 June 2017.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in Eiguliai catchment" according to which a financing in amount of EUR 894 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 244 thousand by 30 June 2017, including EUR 230 thousand are accounted in Group's and Company's other receivables line.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 1T of Kaunas integrated network", according to which a financing in amount of EUR 967 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 48 thousand by 30 June 2017, including EUR 32 thousand are accounted in Group's and Company's other receivables line.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in Kalniečiai catchment" according to which a financing in amount of EUR 905 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 339 thousand by 30 June 2017, including EUR 321 thousand are accounted in Group's and Company's other receivables line.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 4T of Kaunas integrated network", according to which a financing in amount of EUR 447 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 293 thousand by 30 June 2017, including EUR 154 thousand are accounted in Group's and Company's other receivables line.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of heat supply network built from "Pergalė" boiler-house" according to which a financing in amount of EUR 449 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 146 thousand by 30 June 2017, including EUR 54 thousand are accounted in Group's and Company's other receivables line.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in P. Lukšio str.", according to which a financing in amount of EUR 983 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 15 thousand by 30 June 2017, including EUR 8 thousand are accounted in Group's and Company's other receivables line.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of main pipeline 2Ž of Kaunas integrated network", according to which a financing in amount of EUR 548 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 102 thousand by 30 June 2017, including EUR 96 thousand are accounted in Group's and Company's other receivables line.

12. 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 and at the age of 40, 50 or 60 years, and having not less than 15 years of work experience in the Company – jubilee gift of the value fixed in the collective employment agreement.

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

	Group		Company	
	2017	2016	2017	2016
Employee benefit liability at the beginning of the year	1,331	891	1,328	891
Paid	(54)	(111)	(54)	(111)
Formed	1	551	-	548
Employee benefit liability at the end of the year	1,278	1,331	1,274	1,328
Non-current employee benefit liability	1,070	1,069	1,066	1,066
Current employee benefit liability	208	262	208	262

During the 2017 total amount of the benefit paid to the employees by the Group amounted to EUR 54 thousand (in 2016 – EUR 111 thousand), and by the Company – EUR 54 thousand (in 2016 – EUR 111 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statements of Profit (loss) and other comprehensive income.

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

	As of 30 June 2017	As of 31 December 2016
Discount rate	0.31 percent	0.31 percent
Employee turnover rate	3.37 percent	3.37 percent
Expected average annual salary increases	3.0 percent	3.0 percent

13. Derivative financial instruments

On 16 December 2016, the Group concluded an interest rate swap agreement. For the period from 12 December 2016 to 29 April 2022 the Group set a fixed interest rate at 0.21 % for a floating interest rate at 6-month EURIBOR. The nominal amount of the transaction was EUR 2,836 thousand as at 30 June 2017.

Market value of swap agreement As of 30 June 2017 amounted to EUR 19 thousand (31 December 2016 – EUR 34 thousand).

14. 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	
	2017 I half	2016	2017 I half	2016
Heat supplies	33,594	58,004	33,600	58,013
Hot water supplies	1,430	2,611	1,430	2,611
Maintenance of manifolds	125	228	125	228
Maintenance of heat and hot water systems	3	9	5	10
Electric energy	-	38	-	38
Maintenance of hot water meters	161	288	161	288
Sale of an emission right	-	-	-	-
	35,313	61,178	35,321	61,188

15. Other expenses

	Group		Company	
	2017 I half	2016	2017 I half	2016
Cash collection expenses	85	171	85	171
Equipment verification and inspection	270	542	270	542
Maintenance of manifolds	197	394	197	394
Debts collection expenses	61	54	61	54
Sponsorship	7	94	7	94
Consulting expenses	23	109	23	109
Customer bills issue and delivery expenses	61	139	61	139
Communication expenses	26	48	26	48
Employees related expenses	54	89	54	89
Insurance	58	67	53	65
Long term assets maintenance and related services	33	77	33	77
Membership fee	20	78	20	78
Transport expenses	71	137	71	137
Advertising expenses	18	48	18	48
Audit expenses	6	14	2	14
Rent of equipment and machinery	9	14	9	14
Other expenses	357	845	333	834
	1,356	2,920	1,323	2,907

16. Other activities income and expenses

	Group		Company	
	2017 I half	2016	2017 I half	2016
Income from other operating activities				
Miscellaneous services	192	387	132	280
Materials sold	406	4	406	4
Gain from sale of non-current assets	2	1	2	1
Damage compensation	241	1,835	241	1,835
Other	54	61	54	61
	895	2,288	835	2,181

Expenses from other operating activities

Cost of miscellaneous services	(129)	(236)	(79)	(161)
Cost of materials sold	(1)	(1)	(1)	(1)
Write off of non-current assets	(1)	-	(1)	-
Other	(48)	(69)	(48)	(69)
	(179)	(306)	(129)	(231)

17. Other interest and similar income

	Group		Company	
	2017 I half	2016	2017 I half	2016
Interest from late payment of accounts receivable	121	210	121	210
Other	-	-	-	3
Change in fair value of derivative financial instruments	15	-	-	-
	136	210	121	213

18. Financial assets and short-term investments impairment, interest and other similar expenses

	Group		Company	
	2017 I half	2016	2017 I half	2016
Interest on bank loans and overdrafts	(288)	(557)	(261)	(541)
Calculation of the value of shares	-	-	-	-
Penalties	-	-	-	-
Long-term financial assets impairment	-	-	-	-
Change in fair value of derivative financial instruments	-	(17)	-	-
	(288)	(574)	(261)	(541)

19. Income tax

As of 30 June 2017 and 31 December 2016 deferred income tax asset and liability were accounted for by applying 15 percent rate. All changes in deferred tax are reported in the statement of Profit (loss) and other comprehensive income.

20. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2017 I half	2016	2017 I half	2016
Net profit	6,160	6,957	6,177	6,901
Number of shares (thousand), opening balance	42,802	42,802	42,802	42,802
Number of shares (thousand), closing balance	42,802	42,802	42,802	42,802
Average number of shares (thousand)	42,802	42,802	42,802	42,802
Basic and diluted earnings per share (EUR)	0.14	0.16	0.14	0.16

21. Financial assets and liabilities and risk managementCredit 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 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Individuals	114,608	114,455	114,608	114,455
Other legal entities	2,310	2,300	2,310	2,300
Legal entities financed from municipalities' and state budget	673	683	673	683
	117,591	117,438	117,591	117,438

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

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Individuals	2,866	8,123	2,866	8,123
Other legal entities	196	1,202	196	1,202
Legal entities financed from municipalities' and state budget	169	792	169	792
	3,231	10,117	3,231	10,117

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 6).

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

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
AA-	4,933	2,202	4,886	2,110
A+	5,861	3,510	5,861	3,510
A	8	98	8	98
Bank with no rating attributed	47	65	47	65
	10,849	5,875	10,802	5,783

*- external credit ratings set by Standart & Poor's agency.

On November 28, 2016 the Company provided guarantee in amount of EUR 3,913 thousand to Nordea Bank AB regarding liabilities of subsidiary UAB Petrašiūnų Katilinė to this bank according to credit agreement concluded on August 22, 2012 for the amount of EUR 3,403 thousand. On November 28, 2016 the Company provided guarantee in amount of EUR 95 thousand to Nordea Bank Finland Plc regarding liabilities of subsidiary UAB Petrašiūnų Katilinė to this bank according to transaction of derivative financial instruments, described in Note 13.

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. As of 30 June 2017 and 31 December 2016 the Group had valid interest rate swap agreement in order to manage variable rate risk, described in Note 13.

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>
2017		
EUR	50	(8)
EUR	(50)	8
2016		
EUR	50	(8)
EUR	(50)	8

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 2017 were 1.43 and 1.39 respectively (1.18 and 1.14 as of 31 December 2016). The Company's liquidity and quick ratios As of 30 June 2017 were 1.90 and 1.85 respectively (1.48 and 1.44 as of 31 December 2016). As of 30 June 2017 Groups' and Company's net working capital was plus respectively (EUR 4,958 thousand and EUR 7,726 thousand) (as at 31 December 2016 it was also plus – EUR 2,749 thousand and EUR 5,857 thousand).

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

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

Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Amount used	-	-	-	-
Amount unused	-	2,896	-	2,896
	-	2,896	-	2,896

The table below summarises the maturity profile of the Group's financial liabilities As of 30 June 2017 and as of 31 December 2016 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	835	4,076	12,317	12,298	29,526
Trade payables	4,980	5	19	-	5,004
Balance as of 30 June 2017	5,815	4,081	12,336	12,298	34,530

	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	431	5,718	11,274	12,069	29,492
Trade payables	7,136	58	18	-	7,212
Balance as of 31 December 2016	7,567	5,776	11,292	12,069	36,704

The table below summarises the maturity profile of the Company's financial liabilities As of 30 June 2017 and as of 31 December 2016 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	835	1,202	12,317	12,298	26,652
Trade payables	4,982	5	19	-	5,006
Balance as of 30 June 2017	5,817	1,207	12,336	12,298	31,658

	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	135	2,566	11,274	12,069	26,044
Trade payables	7,248	58	18	-	7,324
Balance as of 31 December 2016	7,383	2,624	11,292	12,069	33,368

Trade payables

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

	Group		Company	
	As of 30 June 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
For heat purchased	624	4,375	624	4,375
Contractors	2,550	649	2,550	649
Other suppliers	1,830	2,188	1,832	2,300
	5,004	7,212	5,006	7,324

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

As of 30 June 2017 the Group and the Company had an EUR 20 thousand (31 December 2016 – EUR 55 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 EUR, therefore, material foreign currency risk is not incurred.

Fair value of financial assets and liabilities

The Group and the Company's principal financial assets and liabilities 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 price at which the financial assets or liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction at the measurement date. 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 assets and liabilities:

- 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 non-current borrowings and trade accounts receivable 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 2017	As of 31 December 2016	As of 31 December 2015	As of 30 June 2017	As of 31 December 2016	As of 31 December 2015
Financial assets:						
Cash and bank balances	10,980	6,285	2,531	10,933	6,193	2,518
Loans and receivables	4,620	11,118	9,835	4,599	11,101	9,822
Financial assets, carried at fair value through profit or loss (level 3 in the fair value hierarchy)	1	1	1	1	1	1
	15,601	17,404	12,367	15,533	17,295	12,341
Financial liabilities:						
Carried at amortised cost	30,701	33,216	29,883	27,848	29,891	29,882
	30,701	33,216	29,883	27,848	29,891	29,882

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, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management As of 30 June 2017 and 31 December 2016.

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 2017	As of 31 December 2016	As of 30 June 2017	As of 31 December 2016
Non-current liabilities (including deferred tax and grants (deferred income))	44,262	42,423	43,238	41,319
Current liabilities	11,514	15,631	8,619	12,237
Liabilities	55,776	58,054	51,857	53,556
Equity	88,642	87,019	89,155	87,515
Debt* to equity ratio (percent)	62.92	66.71	58.16	61.20

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

Market risk

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

22. Commitments and contingencies

Leasing and construction work purchase arrangements

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.

On 29 January 2016 the Company let out a part of industrial assets to KTE as it is described in Note 1.

Future liabilities of Group and the Company under valid purchase arrangements As of 30 June 2017 amounted to EUR 16,320 thousand.

23. 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 2017 and 2016 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. The Kaunas City Municipality related party list can be found here: <http://senas.kaunas.lt/index.php?299473330>.

In 2017 and 2016 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:

2017 I half	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	518	2,893	1,344	186
Jurbarkas city municipality	-	235	79	-
2016	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	972	5,241	777	181
Jurbarkas city municipality	1	314	22	1

The Group's and the Company's As of 30 June 2017 allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 246 thousand (as of 31 December 2016 – EUR 241 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

As at 30 June 2017 and 31 December 2016 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

UAB Petrašiūnų Katilinė	Purchases	Sales	Receivables	Payables
2017 I half	1,263	1	-	44
2016	717	3	4	384
UAB Kauno Energija NT	Purchases	Sales	Receivables	Payables
2017 I half	2	6	98	-
2016	5	13	111	-

As at 31 December 2016 the Company has formed a value decrease in amount of EUR 98 thousand (as at 31 December 2016 in amount of EUR 111 thousand) for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 30 June 2017 the Group's and the Company's management team comprised 7 and 4 persons respectively (as at 31 December 2016 – 7 and 4).

	Group		Company	
	2017 I half	2016	2017 I half	2016
Key management remuneration	108	150	95	119
Calculated post-employment benefits	11	11	11	11

In the year 2017 and 2016 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.

24. Business Combinations

As described in Note 1, in October 2016 the Company has acquired 100 percent UAB Petrašiūnų Katilinė shares for EUR 1,894 thousand. The Company's management has assessed the fair value of acquired assets, liabilities and contingent liabilities and accounted for this acquisition, based on the purchase price allocation.

The Company's management performed internal valuation to determine the fair value of the long term assets acquired by comparing production costs of similar boilers. The Company's management identified bio fuel boilers with similar technical characteristics and evaluation of the model was based on recent market transactions data. The Company's management estimated that purchased the 1 MW boiler price equals the market with similar characteristics 1 MW boilers installation costs.

As UAB Petrašiūnų Katilinė was purchased in 27 October 2016, financial reporting purposes, the acquisition date is 30 September 2016.

The acquired assets and liabilities

Fair and carrying value of the acquired assets and liabilities at the acquisition date (the Group became the controlling unit) were as follows (100 percent):

	Fair value	Carrying value
Property, plant and equipment	6,494	4,909
Inventories and prepayments	19	19
Current accounts receivable	6	6
Cash	188	188
	6,707	5,122

Borrowings	3,419	3,419
Trade payables	19	19
Other non current liabilities	1,334	1,334
Other current liabilities	41	41
	<hr/>	<hr/>
	4,813	4,813
The fair value of the identifiable net assets	1,894	309
Attributable to shareholders of the Company	1,894	309

The difference between the price paid and the acquired assets, liabilities and contingent liabilities to fair value at the acquisition date were as follows:

The real assets acquired and liabilities and contingent liabilities is	<hr/>	<hr/>
		1,894
The purchase price		1,894
Cash		(188)
The purchase price, net of cash acquired		1,706

UAB Petrašiūnų Katilinė supplied all goods and services to the Company in 2017 and 2016. In 2017 Expenditures of UAB Petrašiūnų Katilinė decreased the expenditures of the Group by EUR 125 thousand (expenditures of fuel and energy purchased decreased by EUR 593 thousand, and expenditures of depreciation and all other expenditures increased by EUR 468 thousand), in 2016 – EUR 46 thousand (expenditures of fuel and energy purchased decreased by EUR 307 thousand, and expenditures of depreciation and all other expenditures increased by EUR 261 thousand) respectively.

25. Post balance sheet events

There was not been after balance events.



AB KAUNO ENERGIJA CONSOLIDATED INTERIM REPORT FOR THE 1 HALF OF THE YEAR 2017



Kaunas, 2017



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

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

Following Article 23 of the Law on Securities of the Republic of Lithuania and the Rules for presentation and delivery of periodic and additional formation, approved by the decision No O3-48 of 28 February 2013 of the Board of the Bank of Lithuania, we hereby confirm that, to our best knowledge, the consolidated interim report and consolidated and parent company financial statements of the 1 half of the year 2017 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union, represent a true and fair view of the total consolidated assets, liabilities, financial position and profit or loss and cash flows, and that the consolidated interim report of the 1 half of the year 2017 includes a fair business development and performance review of the Company and the situation of consolidated companies, together with the description of principal risks and uncertainties encountered.

General Manager of AB Kauno Energija



Rimantas Bakas

Head of Finance Department of AB Kauno energija



Gintautas Muznikas

Deputy Chief Accountant of AB Kauno Energija



Inga Šliačkuvienė

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1. Reporting period of the Consolidated Interim Report

Reporting period, for which the Consolidated Report of AB Kauno Energija was prepared, is the 1 half of the year 2017.

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

AB Kauno Energija (hereinafter referred to as the Company or the Issuer) prepares both the Company's and the consolidated financial statements. The Group (hereinafter referred to as the Group) consists of AB Kauno Energija and its subsidiary – UAB Kauno Energija NT, in which the Issuer directly controls 100 per cent of the shares. Starting from 27 October 2016 UAB Petrašiūnų Katilinė also became the part of the Group and the Issuer also directly controls 100 per cent of the shares of this company.

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	+370 37 305 650
Fax	+370 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 Petrašiūnų Katilinė
Legal-organizational form	Private Limited Liability Company
Headquarters address	R. Kalantos str. 49, 52303 Kaunas
Code of legal entity	304217723
Telephone	+370 687 48413
Registration date and place	1 April 2016, Kaunas
Register manager	Kaunas Branch of State Enterprise Centre of Registers

Company name	Private Limited Liability Company Kauno Energija NT
Legal-organizational form	Private Limited Liability Company
Headquarters address	Savanorių pr. 347, 49423 Kaunas
Code of legal entity	303042623
Telephone	+370 37 305 693
E-mail	kent@kaunoenergija.lt
Registration date and place	16 April 2013, Kaunas
Register manager	Kaunas Branch of State Enterprise Centre of Registers

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

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

Also, following provisions of the Law on Heat Sector, the Company supplies hot water (is engaged in hot domestic water supplier activities) from 1 May 2010 for consumers in the cities of Kaunas and Jurbarkas and Kaunas district (hereinafter the supplies of heat and hot domestic water without cold water are referred to as heat, with the exception of information provided in Tables 7 and 8), who chose the Company as a hot water supplier. As at 30 June 2017 the Company supplied hot water to 597 residential buildings in Kaunas and Kaunas district and 6 in



Jurbarkas. Income from hot water supplies amounts to approximately 4.0 per cent of all of Company's sales revenue.

In addition, the Company maintains engineering structures (collectors – manifolds) and operates heat and electricity production facilities. The Group and the Company carries out a supervision of indoor heat and hot water supply systems, maintenance of heat unit equipment, repairs of heat units and other heating equipment, provides rental services premises under particular agreements. The Group and the Company are engaged in licensed activity in accordance with the licenses held. On 26 February 2004 the National Commission for Energy Control and Prices (hereinafter – NCC) issued a heat supplier licence to the Company. The licence is valid indefinitely. Maintenance of indoor heat and hot water supply systems is pursued following the provisions of Article 20 of The Law on Heat Sector of the Republic of Lithuania.

The vision of the Group and the Company is to be a modern, effective, competitive, and added value for shareholders creating group of companies engaged in heat and electric energy generation, supply of heat and hot water, maintenance of indoor heating and hot water supply systems and property lease.

Values of the Group and the Company:

- professionalism;
- reliability;
- transparency;
- being proactive;
- responsibility;
- cooperation.

Strategic goals of the Group and the Company:

- To implement strategic development plans formed by shareholders;
- To properly contribute to the implementation of goals of National Energetics Strategy;
- To reduce dependence from imported fuel, i.e. natural gas;
- To increase competition in heat generation sector;
- To expand current position of the Group companies in the market;
- Development by offering new products and services;
- To ensure implementation of Energy Efficiency Directive 2012/27/EU.

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

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



4. Issuer's agreements with credit institutions

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

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

20,031,977 (twenty million thirty one thousand nine hundred seventy seven) of the Issuer's ordinary registered shares (VP ISIN code LT0000123010) with the total nominal value equal to EUR 34,855,639.98 (thirty four million eight hundred fifty five thousand six hundred thirty nine euro and 98 cents) as at 30 June 2017 were listed in the secondary trade list of Nasdaq Vilnius Baltic stock exchange. The beginning of listing of the Company's shares is 28 December 1998.

6. Overview of the condition, performance and development of the Group of companies

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

During the 1 half of the year 2017 the Company performed its activities with a main focus on development of capacities of production sources and increase of reliability of CHS network, considering Strategic guidelines of centralized heat supplies of Kaunas city.

When planning its activities the Company also takes into account the AB Kauno Energija Strategy for the Heating System Development for the years 2007–2020 developed in 2016 by the Lithuanian Energy Institute under initiative of the Company. The main provisions and guidelines for heat supply to the city until 2021, reaching to ensure technical, economical and management effectiveness of the system of centralized heat supply and reliability of heat supply, without prejudice environmental requirements and considering provisions of Lithuanian legislation and obligatory aspirations of European Union (hereinafter – EU) directives are determined in the strategy.

The Company covers a major part of heat production and supply market in the cities of Kaunas and Jurbarkas and Kaunas district. Group's generation capacities consist of Company's boiler-houses capacities and subsidiary's UAB Petrašiūnų Katilinė capacities in Kaunas city. Company's generation capacities consist of Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 boiler-house in Jurbarkas city, 13 boiler-houses of isolated networks and 28 local gas burning boiler-houses in Kaunas city, also 8 local water heating boiler-houses in Sargėnai catchment. Total installed heat generation capacities consist of approx. 596 MW, and total energy generation capacity of the whole Group is approx. 596 MW (including 39 MW capacities of condensational economizers). Total installed heat production capacity of the Company consists of approx. 568 MW (including 39 MW capacities of condensational economizers), electricity generation capacities – 8.75 MW. 294.8 MW of heat generation capacities (including 16 MW capacities of condensational economizers) and 8 MW of electricity production capacities of them are in Petrašiūnai power plant. 34.8 MW of heat generation capacities (including 2.8 MW capacities of condensational economizer) is in Jurbarkas city. Total Company's power generation capacity is 577 MW (including 39 MW of condensational economizers' capacities).

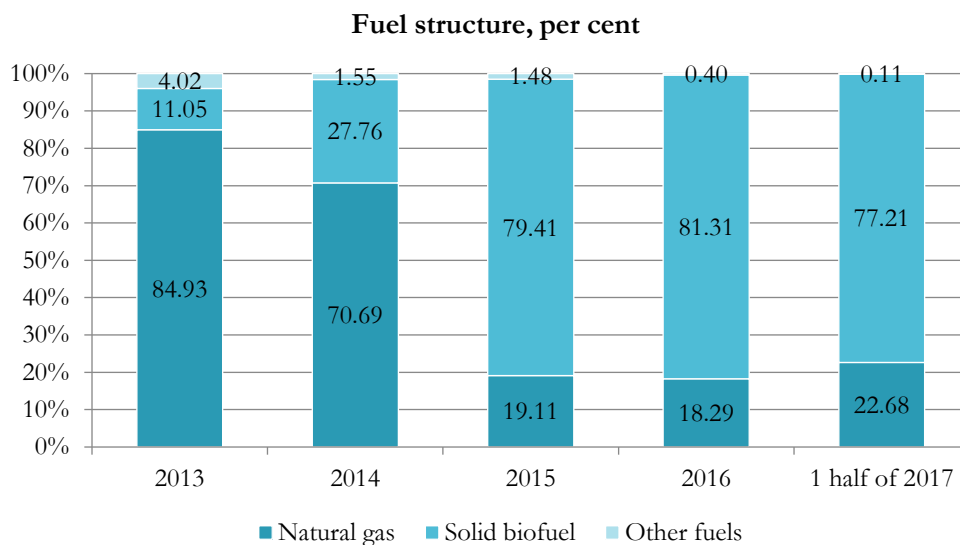
Almost 38 per cent of heat supplied to consumers in the 1 half of the year 2017 was produced in Company's heat production facilities. The rest of required quantity of heat was purchased from independent heat producers (hereinafter – IHP) in monthly auctions, according to legal acts.

Fuel, used by the Company for heat and electricity production in the 1 half of the year 2017 was as follows:

- Solid biofuel – 77.21 per cent;
- Natural gas – 22.68 per cent;
- Other fuels – 0.11 per cent.

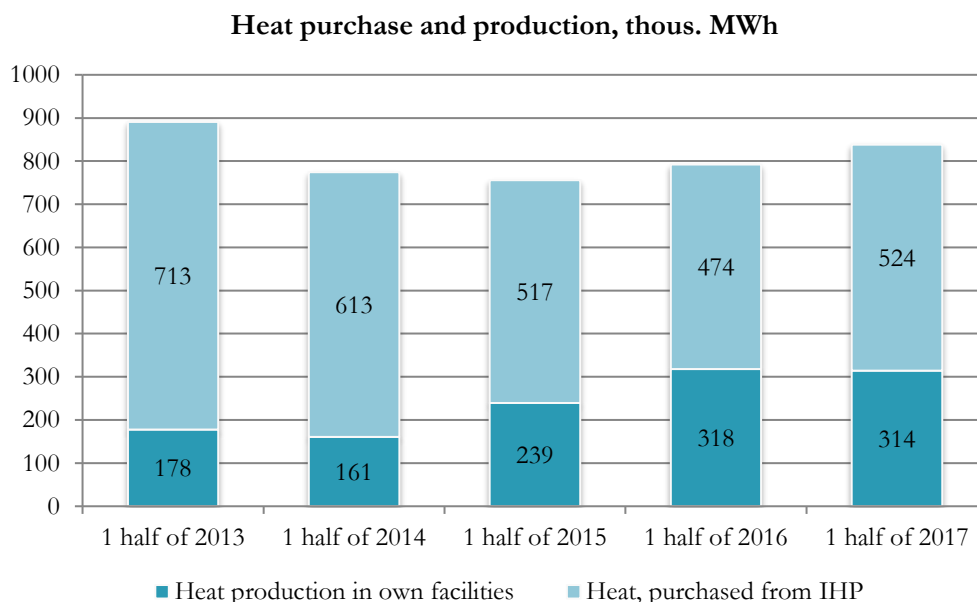


Chart 1



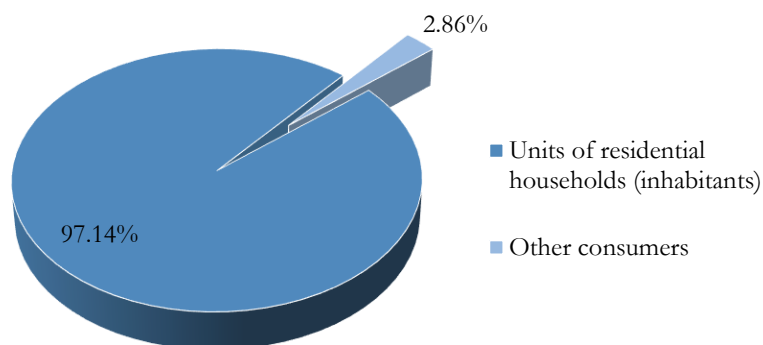
In the 1 half of the year 2017, the Company purchased heat from 11 IHP in Kaunas and Kaunas district: from UAB Kauno Termofikacijos Elektrinė, UAB Danpower Baltic Taika, UAB Lorizon Energy, UAB Ekoresursai, UAB Petrašiūnų Katilinė, UAB Aldec General, UAB ENG, UAB Danpower Baltic Biruliškių, UAB Ekopartneris, UAB SSPC Taika (The name has been changed into UAB Danpower Baltic Taika Elektrinė in July 2017) and UAB Foksita. Total purchases consisted of 523.5 thousand MWh of heat, i.e. 62 per cent of heat supplied to the network. Amounts of heat purchased from IHP and produced with Company's equipment during the period of 1 half of the years 2013–2017 are presented in chart 2, thousand MWh:

Chart 2



As at 30 June 2017 the Company supplied this produced and purchased heat with integrated heating and local networks to 3,399 businesses and organizations as well as to 115,469 households, in total – to 118,868 consumers (objects by addresses).

Repartition of Company's heat consumers by groups



Investments

Company's investments in the latest technologies (the reconstruction of heat generation facilities installing economizers, new biofuel burned boilers, automation of boiler-houses of integrated network, systems of electronic services, system of remote reading of heat meters and data transmission, customer service using "one stop" principle, etc.) help the Company to reduce the price of heat sold. Reconstruction of heat supply networks reduces Company's heat supply losses. All these investments help the Company to adapt to market changes and to be an advanced company of heat and hot water supply, also of maintenance of heat production facilities in Kaunas and Jurbarkas cities and Kaunas district.

Company's investments are being made following the Company's Investment Plan of the year 2017 which is approved by the decision No. T-26 of 7 February 2017 of Kaunas city municipality "Regarding Investment Plans of AB Kauno Energija of the year 2017 and of the years 2017–2020 and their financing" (hereinafter – Investment Plan).

The Company implements trunk pipeline replacement projects co-financed by the European Union structural funds, it also optimizes pipeline diameters, connects new objects to the DHN and modernises heat production facilities according to Investment plan.

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

In order to reach these goals, the Company continued modernization of its' own heat generation facilities, installing new heat generation equipment in them.

In November 2016 the Company signed an outsourcing contract with the winner of procurement on installation of four gas burned boilers at capacity 15 MW each together with 1.5 MW capacity condensational economizers in Pergalė boiler-house. The planned value of continued project is approx. EUR 2.3 million. Accomplishment of the project is expected in 2017–2018. Works of the project are divided in two stages. One boiler together with economizer was installed pursuing stage 1 of the project. Three other boilers are planned to install pursuing stage 2 of the project. The second stage can still be terminated due to the changes in Company's needs, financing or other circumstances.

The result of all of these already implemented investment projects is decreased price of heat for Company's heat consumers. An average price of the heat sold in the 1 half of the year 2017 was 4.91 ct/kWh, in the year 2016 it was 5.02 ct/kWh, and in the year 2015 it was 5.40 ct/kWh.

In December 2016 the Company signed 9 agreements with Lithuanian Business Support Agency regarding financial support. Total value of the projects is EUR 11.7 million. European Union Structural support in amount of EUR 5.8 million is assigned.

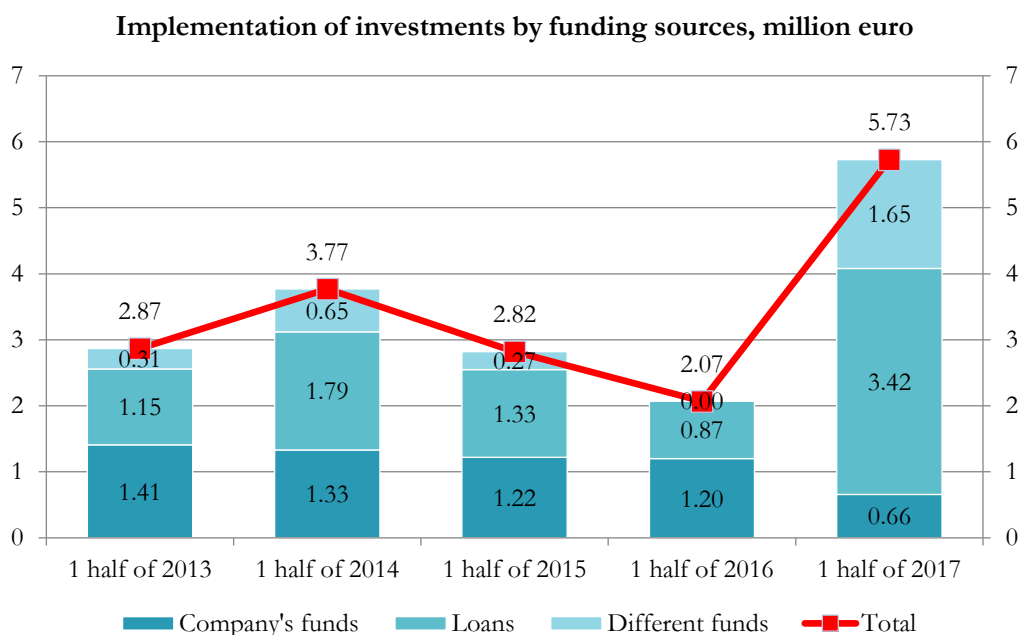
Projects are being pursued under the measure No. 04.3.2-LVPA-K-102 “Modernisation and development of heat supply networks” 1 invitation of the 4 priority “Promoting energy efficiency and production and use of renewable energy” of Operational Programme for the European Union Funds’ Investments in 2014–2020:

- “Modernisation of the main pipeline 3Ž of Kaunas city integrated network” (code 04.3.2-LVPA-K-102-01-0009),
- “Modernisation of the main pipeline 6T of Kaunas city integrated network” (code 04.3.2-LVPA-K-102-01-0010),
- “Reconstruction of Kaunas city integrated network in Eiguliai catchment” (code 04.3.2-LVPA-K-102-01-0011),
- “Modernisation of the main pipeline 1T of Kaunas city integrated network” (code 04.3.2-LVPA-K-102-01-0024),
- “Reconstruction of Kaunas city integrated network in Kalniečiai catchment” (kodas 04.3.2-LVPA-K-102-01-0025),
- “Modernisation of the main pipeline 4T of Kaunas city integrated network” (code 04.3.2-LVPA-K-102-01-0026),
- “Reconstruction of heat supply networks, built from Kaunas city Pergalė boiler-house” (code 04.3.2-LVPA-K-102-01-0036),
- “Reconstruction of Kaunas city integrated network in P. Lukšio street” (code 04.3.2-LVPA-K-102-01-0037),
- “Modernisation of the main pipeline 2Ž of Kaunas city integrated network” (code 04.3.2-LVPA-K-102-01-0038).

Implementation of these projects started in 2016 and the accomplishment of them is scheduled in 2018.

The Company invested EUR 5.73 million (non-Company’s funds, i.e. EUR 3.42 million were loans from commercial banks, EUR 1.65 million was a financial support from European Union Structural Funds and Lithuanian Environmental Investment Fund among them) in the 1 half of the year 2017. A major part of these investments were assigned for modernization of heat supply networks and renewal of heat production boilers. Company's investments by funding sources for the 1 half of the years 2013–2017 are shown in Chart 4.

Chart 4



6.2. Description of exposure to key risks and uncertainties the Company confront with and their impact on activity results

External risk factors affecting the Company's core business:

- Increase in competition between heat producers in Kaunas;
- Increase in final (i.e. including all expenditures) price of natural gas and biofuel;
- Ever-changing legal environment;
- Heat production pricing policies.

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

Together with coming of new IHP the Company faced additional technical, economical, legal and other issues that need to solve: management of heat supply network and balancing of power of these producers in case of emergency stop of them, retaining of optimum working parameters of the network, regulation, change and applying of heat purchase from IHP order.

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

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

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

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

The effects of other competing companies, propagating the only usage of natural gas, irrespective of approved special heating supplies plan, supplies reliability, affection to the only source of fuel, not yet regulated local pollution, in the heat supply sector with the Company are disconnections of consumers from DHN system. Heating equipment disconnection from the DHN and heating mode changes are carried out in accordance with the procedures specified in the "Rules on heat supply and consumption" approved by order No 1-297 of 25 October 2010 of the Minister of Energy of the Republic of Lithuania (and their further amendments) and the Description of procedure for disconnection of the building or heating facilities of premises from heat supply networks at the initiative of consumers approved by order No A 1830 of the director of administration of Kaunas City Municipality of 14 May 2012. Kaunas City Municipality has approved a special heat supply plan, which provides a way to separate the heat supply in different urban areas. Disconnection of buildings in the district heating area from the DH network is only possible with the appropriate permit of Kaunas City Municipality. A special heat supply plan of Kaunas District Municipality was approved by the decision of Kaunas District



Municipality No TS-43 of 26 January 2012. A special heat supply plan of Jurbarkas City and District was approved by the decision of Jurbarkas District Municipality No T2-67 of 10 March 2005.

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

Detailed information on risk management policy and of risks of credit, currency rates, interest rates and liquidity is provided in Note 23 of Company's explanatory notes to the financial statements of the 1 half of the year 2017.

During the 1 half of the year 2017 heat consumers' debts decreased by approximately 12 % in comparison with the 1 half of the year 2016, and consisted of EUR 12.300 million as at 30 June 2017. Decrease was affected by application of effective methods of debts administration and decrease in heat price.

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

In all cases, the consumer is informed regarding his indebtedness first. When debtors respond to warnings, the options of debt settlement are discussed and the documents ensuring repayment of debt are signed. If the debtor does not respond to warnings and if pre-trial measures are not effective, the judicial recovery begins. The Company then applies to the court and after a decision accompanied with receiving-order – to bailiff. In such case the debtor must pay not only the debt but also the court and execution expenditures.

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

Legal conformity risk: 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 NCC and other legislation. Their amendments affect the heating industry.

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

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

Legal conformity risk is a risk of increase in losses and (or) loss of prestige, an (or) decrease in confidence, which can be determined by the external environment factors (for example, violation of external legal acts, non-compliance of requirements of supervising institutions, etc.) or internal factors (for example, violation of internal legal acts and ethical standards, cases of employees abuse, etc.).

Social factors: consumers' disconnections from the system of centralized heat supply can have a negative impact on Company's operations, also a limited purchasing power of consumers and slow growth of it, unemployment and exceptionally negative opinion about district heating supplier in the public domain.



However, an increased number of consumers (from 118,504 in the year 2016 to 118,868 in the 1 half of the year 2017) had a positive impact.

Social risk: Company's activities are socially sensitive to many Kaunas region residents and businesses due to the conditionally high costs for heating and hot water. These costs constitute a significant part of expenses for households. But as the price of heat sold is decreasing, a number of complaints regarding big bills also decrease. This decrease was determined by the latest Company's investments in production facilities that allowed reducing the prices of heat and hot water significantly. As measured in terms of Lithuania, the Company's heat price in the 1 half of the year 2017 was lower than an average heat price of all heat supply companies.

This risk is mitigated by reasonably informing consumers on Company's activities. Articles on Company's activities are coherently published in Company's website and in national or local media. The Company analyses consumer's complaints, provides written responses, advises consumers verbally (in Company's premises), also by phone and e-mails. Heat consumers periodically, i.e. 2 – 4 times per year, are invited to meet Company's specialists, and discuss consumer issues related to the Company's activities. Thus an image of modern and socially responsible company is being created.

Technical and process factors: greatest process risks are so shaded with the condition of heating systems. Company's trunk pipelines are an average about 38 years old. Modernization rate of them is determined by lack of funds – it is necessary to reconstruct more than 13.5 km of pipelines per year in order to condition of age of heat supply system and the minimum investments should consist of approximately 6 million euros. Hydraulic testing identifies their weakest points. Every year, about 200 points where cracks occur are identified during the tests. Upon discovery of defects, pipes are exposed and promptly repaired.

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

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

The other risk factor is the lack of own heat generation capacities after selling the main heat generation facility – Kaunas Termofication power-plant in 2003. Existing Company's own capacities of approx. 420 MW cannot fully cover maximum instantaneous customers' demand (448 MW, according to the data of last three years) in Kaunas integrated network. In addition, heat supplies companies must have reserve capacities that must be a 30 per cent bigger, than the maximum instantaneous demand of heat according to Lithuanian legal acts. This is why the Company is obliged by NCC to buy a reserve capacity security service. In the 1 half of the year 2017 this service was bought from KTE. Considering that and estimating common trends in development of heat economies in Kaunas and Lithuania, one of the aims of the Company is to continually reasonably invest in own heat production facilities, i.e. to modernize existing and to build new additional heat production capacities. More detailed information on Company's investments and modernization of production facilities is provided in chapters 6.1 and 7.

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

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



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

The Company pays taxes for atmospheric and water pollution. If allowable emission rate limits or annual limits are exceeded, the Company must pay the fines under the applicable laws of the Republic of Lithuania. The Company was not imposed any penalties in the 1 half of the year 2017.

Main Company's emission reduction measures: modernization of heat generation sources, heat transfer loss reduction by replacing the existing pipes to the pipes with polyurethane foam insulation, installation of new technology and improvement of existing facilities, use of less polluting fuels, and continuous emission monitoring (in the 1 half of the year 2017, the fuel balance was dominated by solid biofuel – 77.21%, natural gas – 22.68%, other fuels – 0.11%).

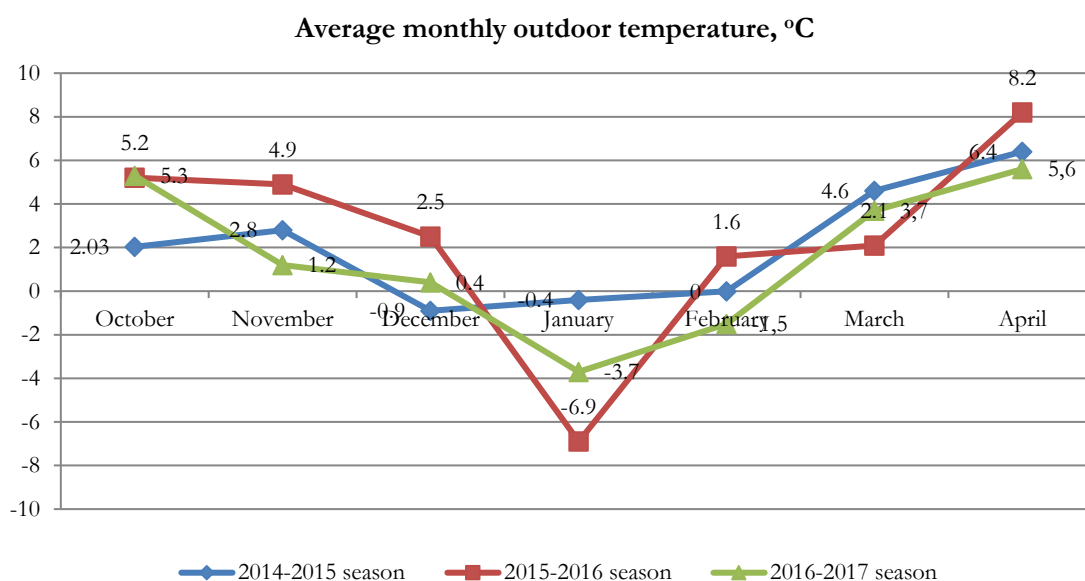
7. Analysis of financial and non-financial performance results, information related to environmental issues

The result of Company's activities of the 1 half of the year 2017 reflects an impact of investments that were implemented by the Company during the years 2014–2015. The Company implemented 3 big investment projects, focused to the development of production sector, reaching to reduce costs of heat production and purchase, ensure reliable heat supplies, reduce losses of heat transmission, and increase effectiveness of heat supply system.

Company's sales revenue of the 1 half of the year 2017 was EUR 35,321 thousand and in comparison with the 1 half of the year 2016 decreased by 2.4 per cent (in 1 half of the year 2016 it consisted of EUR 36,189 thousand). Sales revenue of the Group of the 1 half of the year 2017 was EUR 35,313 thousand (in the 1 half of the year 2016 it consisted of EUR 36,184 thousand).

This change was mainly affected by decrease in heat price, the main part of which consist of fuel and purchased heat constituent, notwithstanding amount of heat sold in the 1 half of the year 2017 in comparison with the 1 half of the year 2016 was bigger at 6.3 per cent. Average price of heat in the 1 half of the year 2017 decreased at 8.4 per cent (in the 1 half of the year 2017 it was 4.91 ct/kWh, and in the 1 half of the year 2016 it was 5.36 ct/kWh). Average outdoor air temperature during heating season of the 1 half of the year 2017 was 1.26 °C, and of the 1 half of the year 2016 – 0.60 °C.

Chart 5



The comprehensive income of the Group consisted of EUR 6,160 thousand in the 1 half of the year 2017, and the Company's – EUR 6,177 thousand.

Turnover from sales of the Group and the Company decreased by EUR 0.87 million, Company's comprehensive income of the 1 half of the year 2017 in comparison with the result of the 1 half of the year 2016 are less by EUR 0.84 million due to the compensation in amount of EUR 1.8 million, received from UAB Kauno Termofikacijos Elektrinė under the Peaceful Agreement, concluded on 28 December 2015, by which a litigation in Arbitration case regarding noncompliance of Investment Agreement of 31 March 2003 was terminated, and also due to the effective Company's activities that allowed significant decrease in heat price after start of usage of biofuel as a major part of fuel for heat production instead of natural gas. All of these measures allowed make heat cheaper both produced by the Company, and purchased from IHP.

Comparison of financial indicators of the Group of the 1 half of the year 2017 with the indicators of the 1 half of the years 2013–2016 is presented in Table 1.

Table 1

No	Indicator of the Group	1 half 2013	1 half 2014	1 half 2015	1 half 2016	1 half 2017
1.	Revenue from sales, thousand euros	60,246	46,383	37,468	36,184	35,313
1.1.	Including: Heat energy	58,727	44,661	35,739	34,514	33,594
1.2.	Electric energy	60	87	122	38	0
1.3.	Maintenance of indoor heating and hot water supply systems, heating substation facilities	125	21	16	5	3
1.4.	Income from the maintenance of collectors	112	114	113	113	125
1.5.	Hot water supply including cold water price	1,175	1,430	1,351	1,374	1,430
1.6.	Income from maintenance of hot water meters	47	70	127	140	161
2.	Profit, thousand euros	5,468	1,798	4,773	7,185	6,160
3.	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	8,175	4,805	8,060	10,667	10,089
4.	Profitability of core business, per cent (operating profit / sales and services)*100	4.5	3.7	13.3	15.0	15.8
5.	Net profitability, per cent (net profit / sales and services)*100	9.1	3.9	12.7	19.9	17.4
6.	Assets, thousand euros	116,518	120,702	129,542	132,473	144,418
7.	Equity, thousand euros	81,115	78,318	82,124	87,247	88,642
8.	Return on equity (ROE), per cent (net profit / average equity)*100	7.0	2.3	6.0	8.7	7.4
9.	Return on assets (ROA), per cent (net profit / average assets)*100	4.7	1.4	3.5	5.4	4.4
10.	Asset turnover ratio (sales and services / assets)	0.52	0.38	0.29	0.27	0.24
11.	Return on tangible assets, per cent (net profit / average value of tangible assets)*100	5.7	1.8	3.9	6.0	4.9
12.	Debt ratio (liabilities / assets)	0.30	0.35	0.37	0.34	0.39
13.	Debt-to-equity ratio (liabilities / equity)	0.4	0.5	0.6	0.5	0.6
14.	General liquidity ratio (short-term assets / short-term liabilities)	1.29	0.81	1.17	2.46	1.43



No	Indicator of the Group	1 half 2013	1 half 2014	1 half 2015	1 half 2016	1 half 2017
15.	Quick ratio ((short-term assets-inventory) / short-term liabilities)	1.19	0.74	1.13	2.39	1.39
16.	Cash ratio (cash in hand and at bank / short-term liabilities)	0.12	0.05	0.26	1.56	0.95
17.	Net earnings per share (net profit / average weighted number of shares in issue)	0.13	0.04	0.11	0.17	0.14
18.	Equity per share, euros	1.91	1.83	1.92	2.04	2.07
19.	P / E ratio (last share market price of the year / (net profit / number of shares at year-end))	4.56	11.79	4.25	2.98	6.39
20.	Share capital, thousand euros	74,256	74,378	74,476	74,476	74,476
21.	Share capital-to-assets ratio	0.64	0.62	0.57	0.56	0.52
22.	Return on equity (capital), per cent (net profit / capital and reserves)*100	7.2	2.3	6.1	8.9	7.9

Comparison of financial indicators of the Company of the 1 half of the year 2017 with the indicators of the 1 half of the years 2013–2016 is presented in Table 2.

Table 2

No	Indicator of the Company	1 half 2013	1 half 2014	1 half 2015	1 half 2016	1 half 2017
1.	Revenue from sales, thousand euros	60,165	46,388	37,473	36,189	35,321
1.1.	Including: Heat energy	58,739	44,668	35,744	34,519	33,600
1.2.	Electric energy	60	87	122	38	0
1.3.	Maintenance of indoor heating and hot water supply systems, heating substation facilities	32	19	16	5	5
1.4.	Income from the maintenance of collectors	112	114	113	113	125
1.5.	Hot water supply including cold water price	1,175	1,430	1,351	1,374	1,430
1.6.	Income from maintenance of hot water meters	47	70	127	140	161
2.	Profit, thousand euros	5,379	1,791	4,781	7,017	6,177
3.	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	8,070	4,802	8,059	10,520	9,723
4.	Profitability of core business, per cent (operating profit / sales and services)*100	4.5	3.7	13.3	15.0	15.89
5.	Net profitability, per cent (net profit / sales and services)*100	8.9	3.9	12.8	19.4	17.5
6.	Assets, thousand euros	117,445	121,413	130,270	133,034	141,012
7.	Equity, thousand euros	81,892	78,839	82,665	87,631	89,155
8.	Return on equity (ROE), per cent (net profit / average equity)*100	6.7	2.3	2.7	4.0	7.2
9.	Return on assets (ROA), per cent (net profit / average assets)*100	4.5	1.4	1.6	5.2	4.5
10.	Asset turnover ratio (sales and services / assets)	0.51	0.38	0.29	0.27	0.25
11.	Return on tangible assets, per cent	5.4	1.7	1.9	2.8	5.1



No	Indicator of the Company	1 half 2013	1 half 2014	1 half 2015	1 half 2016	1 half 2017
	(net profit / average value of tangible assets)*100					
12.	Debt ratio (liabilities / assets)	0.30	0.35	0.37	0.34	0.37
13.	Debt-to-equity ratio (liabilities / equity)	0.4	0.5	0.6	0.5	0.6
14.	General liquidity ratio (short-term assets / short-term liabilities)	1.29	0.81	1.16	2.46	1.90
15.	Quick ratio ((short-term assets-inventory) / short-term liabilities)	1.19	0.73	1.13	2.39	1.85
16.	Cash ratio (cash in hand and at bank / short-term liabilities)	0.11	0.05	0.26	1.56	1.27
17.	Net earnings per share (net profit / average weighted number of shares in issue)	0.12	0.04	0.11	0.16	0.14
18.	Equity per share, euros	1.91	1.85	1.90	2.05	2.08
19.	P / E ratio (last share market price of the year / (net profit / number of shares at year-end))	4.63	11.83	4.24	3.05	6.37
20.	Share capital, thousand euros	74,256	74,378	74,476	74,476	74,476
21.	Share capital-to-assets ratio	0.63	0.61	0.57	0.56	0.53
22.	Return on equity (capital), per cent (net profit / capital and reserves)*100	7.0	2.3	6.1	8.7	7.9

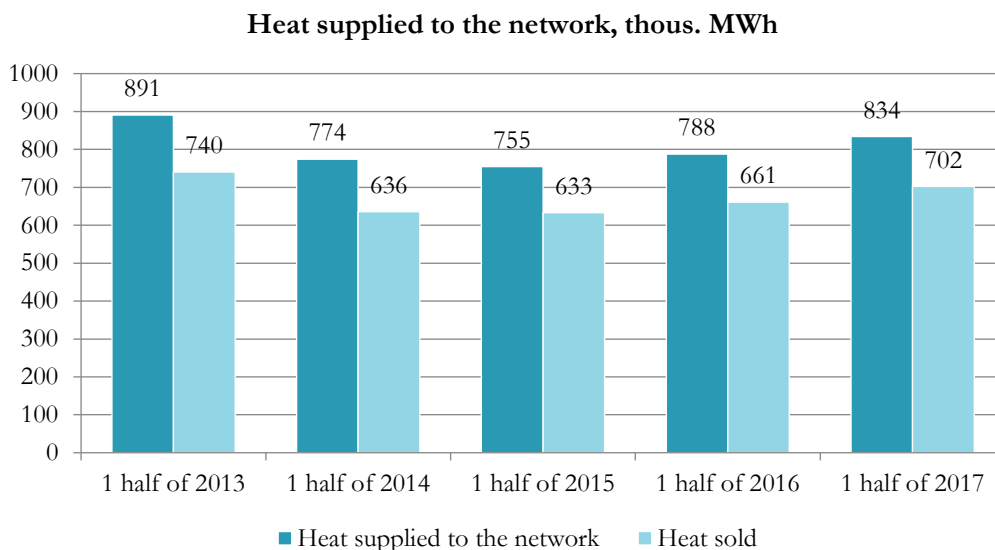
A more detailed analysis of financial indicators of the Group and the Company is provided in notes to Consolidated and Company's financial statements for the 1 half of the year 2017.

Comparison of non-financial indicators of the Company of the 1 half of the year 2017 with the indicators of the 1 half of the years 2013–2016 is provided in Table 3.

Table 3

No	Denomination of Indicator	1 half 2013	1 half 2014	1 half 2015	1 half 2016	1 half 2017
1.	Energy produced, purchased and supplied to the network, thous. MWh	891.3	775.2	756.4	788.8	833.9
1.1.	thermal energy	890.5	774.1	754.8	788.3	833.9
1.2.	electric energy	0.8	1.1	1.6	0.5	0
2.	Energy sold thous. MWh	740.9	637.0	634.6	661.1	702.0
2.1.	thermal energy	740.1	635.9	633.0	660.6	702.0
2.2.	electric energy	0.8	1.1	1.6	0.5	0

Chart 6

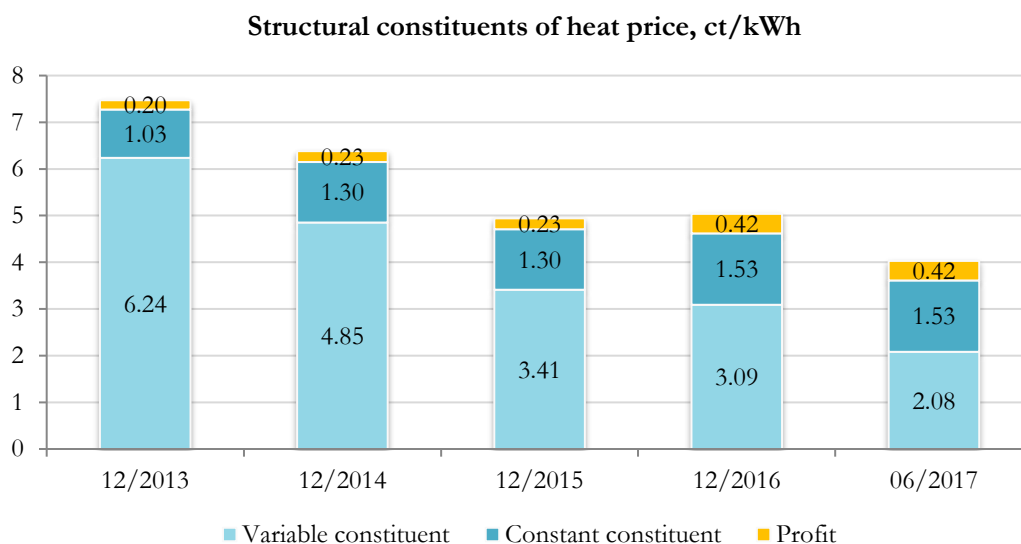


Environmental impact on operations: The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher or lower outdoor temperature during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

Company's reconstructed heat production facilities changing fossil fuel to biofuel will make a serious competition with their costs of production to IHP, operating in Kaunas. With modernization of its own production facilities the Company reduced heat price for its consumers by 46 per cent during the last 5 years.

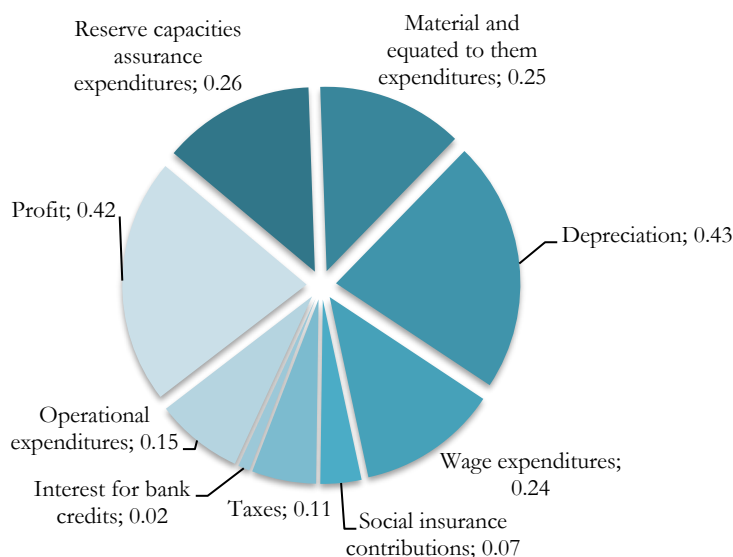
Components of Company's heat price structure in 2013–2017 are provided in Chart 7.

Chart 7



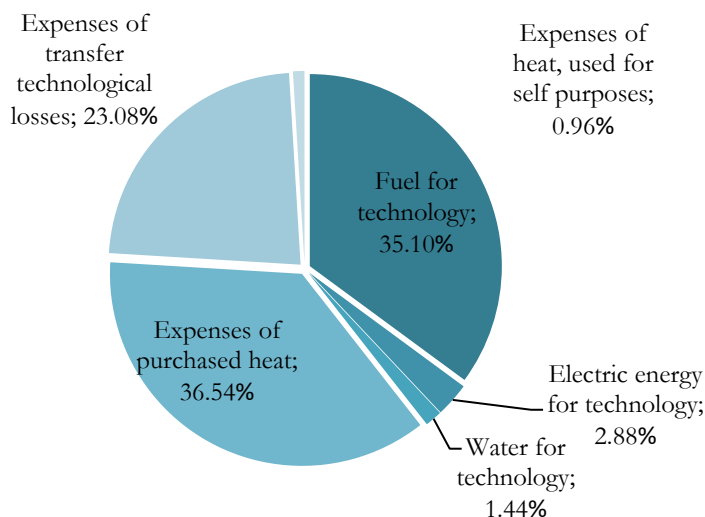
Management Board of AB Kauno Energija determined by its decision of 28 January 2016 No. 2016-2-2 (changed by the decision of AB Kauno Energija Management Board No. 2016-8-3 of 28 April 2016) a heat price constituents for the third year of validity of basic heat price, which were agreed by NCC's decision of 25 May 2016 No. O3-129. Constant constituent of heat price, valid until 31 May 2016 was 1.53 ct/kWh, and a new constant constituent, valid from 1 June 2016 is 1.95 ct/kWh (increase of constant constituent was determined by change in realized heat quantity, inflation, change in investment depreciation and new "expenditures of assurance of reserve capacities" – 0.26 ct/kWh). Details of constant heat price constituent are provided in Chart 8.

Chart 8

Heat price constant constituent, euro ct/kWh

The Company recalculates values of variable constituents of heat price and final heat prices every month, considering changes in prices of fuel and purchased heat. Details of variable heat price constituent of June 2017 are provided in Chart 9.

Chart 9

Heat price variable constituent in June 2017, per cent

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

Waste management. The Group and the Company have organized the waste collection, sorting and disposal of them to waste managers, i.e. to licensed waste management businesses. In the 1 half of the year 2017, the Group and the Company disposed for recycling 0.500 tons of waste of electric and electronic equipment, 797.98 tons of ash, 0,820 tons of used tires, 515 units of fluorescent lamps, 40 tons of boiler oil water, 29.510 tons of boiler oil waste.

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

Air pollution. The measurement laboratory of stationary air pollution sources of the Group and the Company, having the permit issued by the Environmental Protection Agency, continuously monitors that the emissions to the atmosphere from stationary sources would not exceed the permissible limits established in integrated pollution prevention and control permits. Company's Šilkas, Ežerėlis, Girionys and Noreikiškės boiler-houses, and starting from 2015 – Inkaras boiler-house and Petrašiūnai power, and starting from 2016 Jurbarkas boiler-house – plant use biofuel, thus reducing atmospheric pollution.

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

8. References and additional explanations

Main financial data of the Group and the Company are provided in the explanatory notes to the consolidated and Company's financial statements for the 1 half of the year 2017.

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 Company's share of equity in the subsidiary; amounts on balance sheets, transactions, income and expenses inside the Group (for this purpose, it prepares a reconciled report of all transactions, income and expenses for the period); difference in depreciation of contribution in kind measured at market value as compared to its book value.

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

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

9. Significant events after the end of the 1 half of the year 2017

On 21 July 2017 the Extraordinary General Meeting of Shareholders has been held and the decision regarding approval of change in Company's Statutes regarding order of appointment and recall of General Manager of the Company has been taken. Also the election of audit company KPMG Baltics, UAB for accomplishment of audit of the years 2017 and 2018 has been approved.

On 28 July 2017 the Management Board of the Company approved unaudited business activity results, provided in consolidated and Company's financial statements for the 1 half of the year 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Inasmuch investments allow continual business development and profitability, the aims of the Group's and the Company's investment program for the year 2017 is further increase in volumes of heat production and effectiveness, expansion of heat selling market, through increase of use of biofuel for heat production, development of heat transmission and distribution increasing safety and reliability, developing services of maintenance of engineering systems and further improvement of consumers services quality.

In compliance with the provisions of the plan for the facilities on the implementation of the National Renewable Energy Development Strategy, in order to implement the Company's key business objectives and the provisions



of the National Energy Independence Strategy related to the assurance of technical requirements for reliability of heat facilities and heat supply networks, to guarantee the quality keeps apply to consumers, Kaunas city municipality decided to approve Company's investment plans for the new regulation period with the decision No. T-26 "Regarding Investment Plans of AB Kauno Energija for the Year 2017 and for the Years 2017–2020 and Its Financing" on 7 February 2017.

The main investment goals of the Company for the regulation period of the years 2017–2020 are as follows: use of renewable energy sources, increase in reliability of heat supply to consumers in Kaunas and Jurbarkas cities and Kaunas district, and anticipated reception of EU Structural support under the 4 priority "Promoting energy efficiency and production and use of renewable energy" of Operational Programme for the European Union Funds' Investments in 2014–2020.

In 2017 the implementation of Company's investment program will involve further modernization of boiler-houses owned by the Company automating the production process and installing condensational economizers; reconstruction of heat networks; replacement of heat meters. Implementation of these measures will allow to reduce losses of heat transmission and to perform optimization of heat supply to the consumers and to ensure heat supplies reliability.

It is planned that in 2017 in comparison with 2016, the Group's sales turnover will be less than in 2016 due to the decrease in heat price; the amount of heat sold to consumers will remain at the comparable level as in 2016. 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's profit in comparison with 2016 is planned to be less due to the less heat prices. The submitted data may be adjusted by change in heat demand, 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

It's indicated in EU Directive of renewable sources and in Lithuanian national legal acts, that a part of renewable sources in total end energy consumption must consist not less, than 23 per cent until the year 2020, and the part falling on heating – up to 40 per cent. Meanwhile in Kaunas this indicator exceeds 80 per cent already.

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

Company's representatives took part as every year in national conference "Heat energetics and technologies" organized by Kaunas University of Technology at the end of January. This year the Company presented steps, which were made for further modernisation of Kaunas heat economy in order to reduce heat price for consumers. The Company additionally improved indicators of effectiveness during the year 2016, which made possible to reach heat prices even 4 – 5 per cent less, than in the past heat season of the years 2015–2016, emphasized in report.

In April 2017 Company's representatives took part in the conference "Competition in heat production sector – results and perspectives", arranged by the Seimas of the Republic of Lithuania, where the report on Kaunas city experience rearranging heat economy has been presented.

On 20 April 2017 Company's General Manager Dr Rimantas Bakas took part in the international gas energy conference BALTIC GAS CONFERENCE 2017 in Vilnius, where he spoke about changes in use of gas and other fuels in heat production process in Kaunas. Use of gas is increasingly changed with use of biofuel in energy production process in Kaunas as well as in most of Lithuanian heat production and supply companies. The use of biofuel makes possible to reduce the end heat price for consumers. This conference was one of three energy



conferences organized by Germany – Baltic States Chamber of Commerce, taking place in Tallinn, Riga and Vilnius, and dedicated to economic analysis and modelling of market trends considering infrastructure projects pursued in Baltic region until 2020. All of these conferences were different in their topics. The conference which took place in Vilnius was dedicated for research of gas supply safety and diversification of sources. The most of discussions involved liquid gas terminal in Klaipėda.

In May 2017 the 14th International Conference of Young Scientists CYSENI 2017 took place at the Lithuanian Energy Institute. Young scientists from Lithuania and foreign countries shared their knowledge and experience in this conference, which they achieved researching various energy fields. General Manager of AB Kauno Energija Dr Rimantas Bakas welcomed young scientists and wished a productive work in conference. Inter discipline and inter institutional cooperation is encouraged in conference. Each participant widens his scope and circle of scientific contacts, which is exceedingly important for increase in scientific potential of the country. Furthermore, the topics of the conference – renewable energy sources and their usage, energy consumption efficiency and saving, modern smart electricity grid, knowledge for formation of energy policy, hydrogen and fuel elements, research in thermonuclear fusion, nuclear energetics and radiation safety, research in burning and processes of plasma, thermophysics, research in liquid and gas mechanics, also in metrology, research in multifunctional materials, global changes and ecosystems, nanoscience and nanotechnology – are unquestionably relevant and important reaching to develop energy sector.

The colleagues from another heat supply company – AB Klaipėdos Energija visited the Company in May 2017. Colleagues were interested in Kaunas colleagues experience in hydraulic testing of heat supply pipelines. Experience of Company's specialists dividing city pipelines into 42 zones and testing them separately seemed interesting to colleagues from Klaipėda. These tests are pursued just in two separate city zones in seaport town and the supply of hot water is being stopped for quite big parts of the city and for quite a long period. Meanwhile in Kaunas, reaching to shorten a time of non-supplying of hot water as much as possible, a new order of hydraulic tests and planned maintenance was implemented. This order makes possible to pursue hydraulic tests in 42 small zones not stopping hot water supply for big city parts at the same time and shortening time of hydraulic tests and planned maintenance up to two – four days instead of earlier two weeks. Accordingly, the time when a hot water is not supplied to the consumers became shorter. The majority of Kaunas inhabitants have already perceived this.

On 4 July 2017 Kaunas society has been officially informed on start of Mano Kaunas – the project of united customer service centre. The Company also takes part in it (the fourth sides cooperation agreement under which AB Kauno Energija, UAB Kauno Vandenys, UAB Kauno Švara and Kaunas city municipality will provide summarises information (will consult) for customers in their own customer service centres has been signed, also a Facebook profile Mano Kaunas has been created).

Company's Board took a decision on 20 July 2017 obliging Company's administration to pursue actions in accordance with legal acts regarding acquisition of Palemonas township heat economy, situated in Kaunas city municipality territory, for the price, negotiated with UAB Fortum Heat Lietuva and other acquisition terms and to accomplish other procedures of acquisition of Palemonas heat economy, submitting negotiations results to Company's Board for approval. Also Company's administration was obliged to additionally receive approval of AB Kauno Energija main shareholder – Director of administration of Kaunas city municipality for completion of this transaction.

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

On 22 August 2017 the Company together with partners submitted an application for financing under the biggest EU scientific research an innovations programme Horizon 2020. The code name of the project is FLEXCHX (Flexible combined production of power, heat and transport fuels from renewable energy sources). The essence of the project is to ensure biomass power-plants to work in a full load the whole year. The goal of the project is to create a flexible energy production process, which could be used in various Europe's energy production facilities in the future, using high effectiveness at the minimal expenditures. European Commission is asked for support in amount of EUR 4.5 million. Coordinator of the project is Finnish institute of applied scientific research VTT, partners – UAB Enerstena, Lithuanian Energy Institute, German Aerospace Center, Neste and technology companies from Germany, Finland and United Kingdom.



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

The project of implementation of quality management system (ISO 9001), standards of employees safety and health (OHSAS 18001) and environment protection management system (ISO 14001) was started in the Company in 2016 and its’ accomplishment is anticipated in 2017.

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

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

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

All relevant information on this issue is provided in Notes 2.11, 15, 23 to the consolidated financial statements for the 1 half of the year 2017 of AB Kauno Energija.

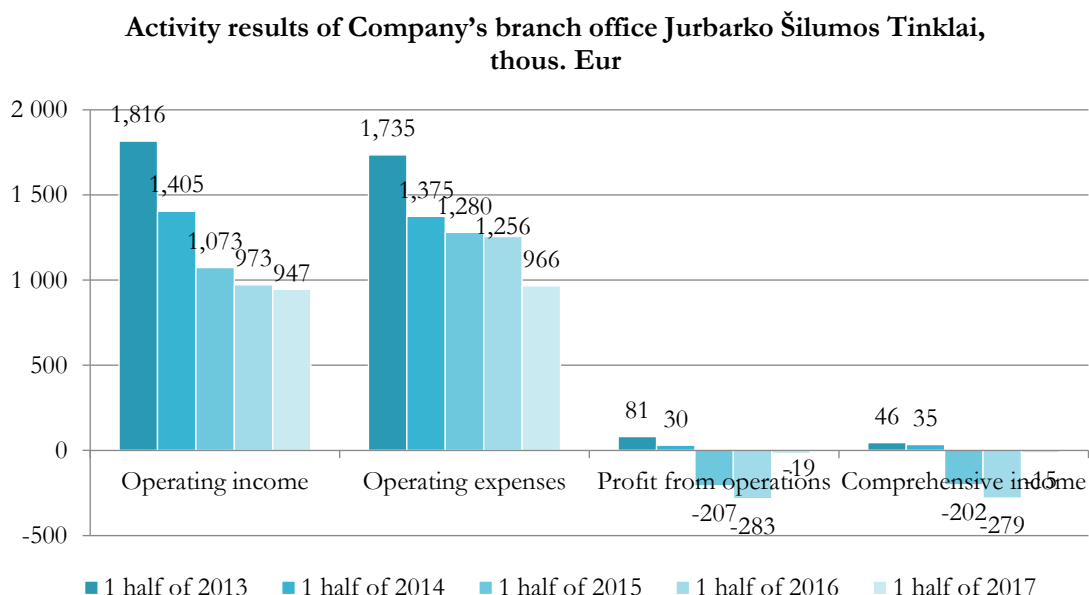
14. Information on the Issuer’s branch office and subsidiary undertakings

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

The Company’s affiliate Jurbarko Šilumos Tinklai had 31 employees as at 30 June 2017.

Comparison of financial indicators of Company’s affiliate Jurbarko Šilumos Tinklai of the 1 half of the year 2017 with the indicators of the 1 half of the years 2013–2016 is provided in Chart 10.

Chart 10



Company’s Board approved by its decision of 6 April 2012 a reorganization of subsidiary UAB Pastatų Priežiūros Paslaugos by separating assets from activities and by creating on the base of separated assets a new company with the same legal form, named UAB Kauno Energija NT.

After completion of the procedures of reorganisation in the way of separation of AB Kauno Energija subsidiary UAB Pastatų Priežiūros Paslaugos, a statutes of the newly established entity UAB Kauno Energija NT were

registered in the Register of Legal Entities on 16 April 2013. Company's headquarter address is Savanorių pr. 347, 49423 Kaunas, company number 303042623.

The authorised capital of UAB Kauno Energija NT registered in the Register of Legal Entities on 30 June 2017 in total of 1,329,872 euros is divided into 45,921 ordinary registered shares with par value of 28.96 euros each.

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

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

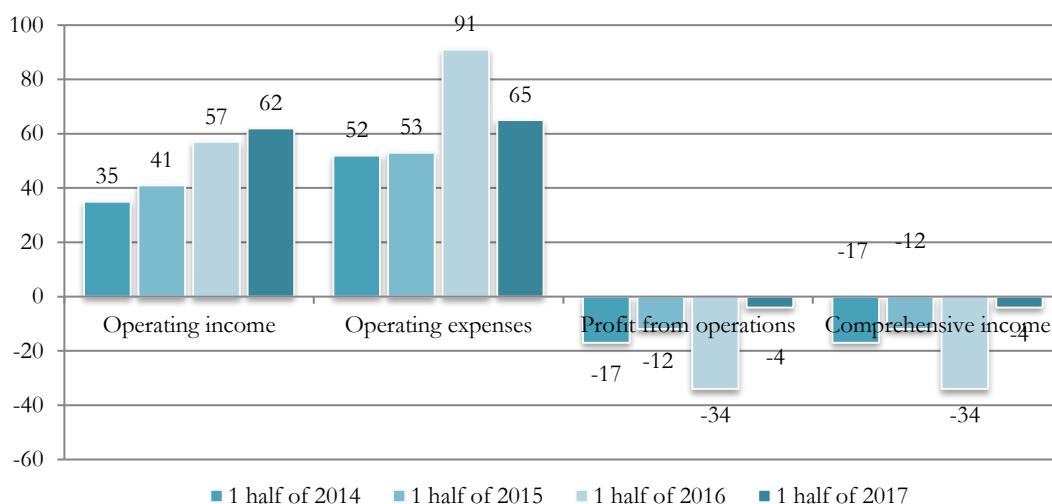
Turnover of UAB Kauno Energija NT of the 1 half of the year 2017 was EUR 62 thousand, Comprehensive income was amounted to EUR (4) thousand.

As at 30 June 2017 UAB Kauno Energija NT had 4 employees.

Comparison of financial indicators of UAB Kauno Energija NT of the 1 half of the year 2017 with the indicators of the 1 half of the years 2013–2016 is provided in Chart 11.

Chart 11

Activity results of UAB Kauno Energija NT, thous. euros



Statutes of newly established legal entity with the residence address R. Kalantos str. 49, 52303 Kaunas, code 304217723 were registered at the Register of Legal Entities on 27 October 2016 after accomplishment of procedures of acquisition of 100 per cent of the shares of UAB Petrašiūnų Katilinė.

Authorized capital of UAB Petrašiūnų Katilinė registered at the Register of Legal Entities on 30 June 2017 amounts to EUR 231,696 and is divided to 800 ordinary registered shares at par value of EUR 289.62 each.

UAB Petrašiūnų katilinė has no holdings directly or indirectly managed in other companies.

Activities of UAB Petrašiūnų Katilinė include production of heat.

UAB Petrašiūnų Katilinė had 9 employees as at 30 June 2017.

UAB Petrašiūnų Katilinė financial indicators of the 1 half of the year 2017 are as follows: operating revenue amounts to EUR 1,263 thousand, operating expenditures amount to EUR 1 121 thousand, and Comprehensive income amounts to EUR 130 thousand.

15. Structure of authorized capital

The authorised capital of the Company registered in the Register of Legal Entities of the Republic of Lithuania as at 30 June 2017 is EUR 74,475,728.82.

Structure of authorized share capital by types of shares is specified in Table 4.

Table 4

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

16. Data on shares issued by the Issuer

The authorised capital of AB Kauno Energija was registered on 18 May 2015 by the decision of General Meeting of Shareholders held on 28 April 2015 and amounts to EUR 74,475,728.82 and it is divided to 42,802,143 ordinary shares of par value of 1.74 euros each.

There are no limitations on the transfer of securities.

16.1. Main characteristics of shares released into free circulation of securities (as at 30 June 2017).

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

16.2. Main characteristics of shares issued and registered for non-public trading (as at 30 June 2017).

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

History of trade in Company's securities in the 1 half of the years 2013–2017 is provided in Table 5.

Table 5

Indicator	2013	2014	2015	2016	30/06/2017
Opening price, euro	0.578	0.589	0.486	0.459	0.592
Highest price, euro	0.589	0.600	0.479	0.600	1.000
Lowest price, euro	0.458	0.430	0.400	0.401	0.571
Last price, euro	0.589	0.486	0.459	0.560	0.920
Circulation, units	36,355	70,160	41,193	190,801	149,268
Circulation, million euro	0.02	0.04	0.02	0.10	0.11
Capitalisation, million euro	11.80	9.74	9.19	11.22	18.43

Historical data on share prices (in euro) and turnovers in 01/07/2013–30/06/2017 is provided in Chart 12

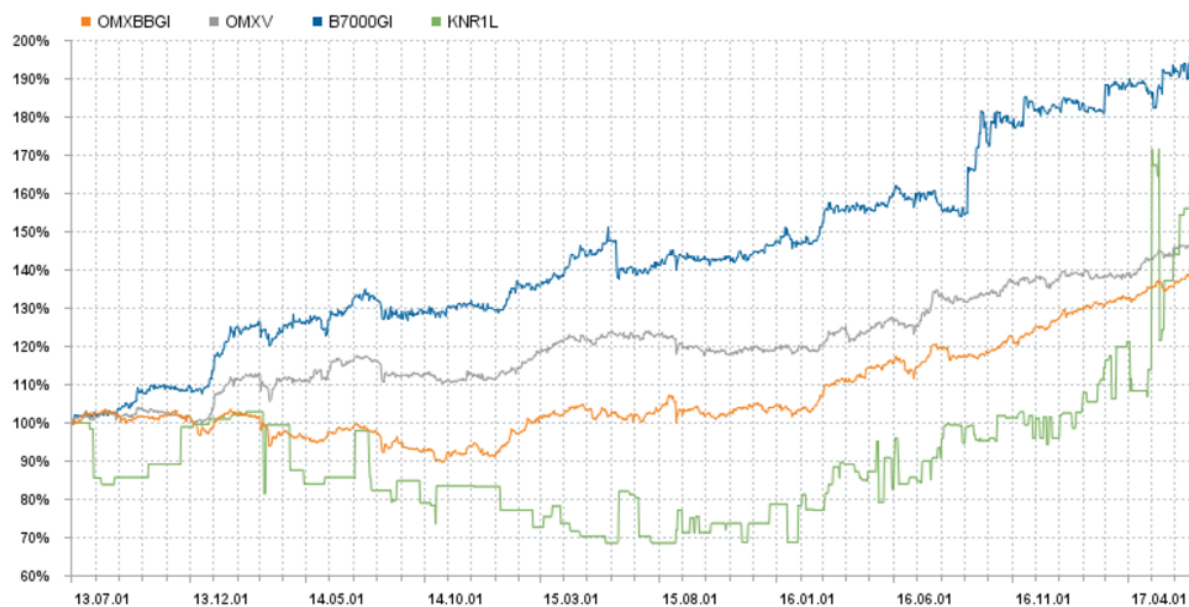


Chart 12



Comparison of Company's share price with the index of own sector (utility services) and OMX Vilnius index is given in Chart 13.

Chart 13



Data of Chart 13:

Index/Shares	01/07/2013	30/06/2017	+/-%
—OMX Baltic Benchmark GI	616.09	868.84	41.02
—OMX Vilnius	403.99	597.07	47.79
—B7000GI Utilities	1,177.94	2,347.26	99.29
—KNR1L	0.583 EUR	0.920 EUR	57.80



17. Information on the Issuer's shareholders

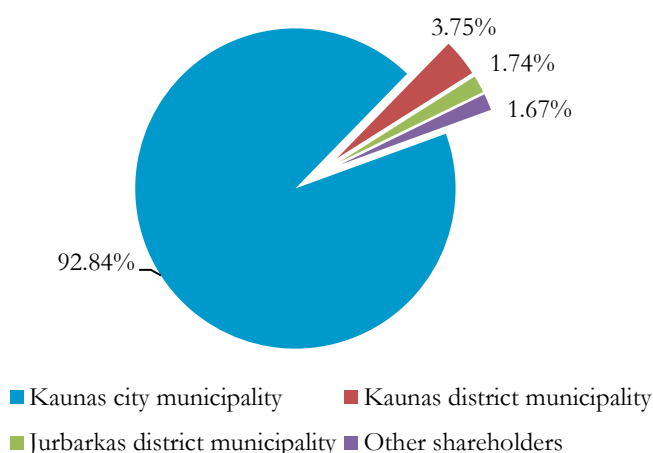
The total number of Company's shareholders as at 30 June 2017 was 287. Information on Shareholders of the Issuer who owned as at 30 June 2017 more than 5 per cent of the authorised capital of the Company registered on 18 May 2015 (42,802,143 ordinary nominal shares), is provided in Table 6 and Chart 14.

Table 6

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

Chart 14

Structure of shareholders as at 30 June 2017



Repartition of shareholders in accordance with groups at the end of the reporting period is provided in table 7.

Table 7

The name of the Group	Number of shares owned by the Group, pcs.	Own part of share capital, per cent from all the shares
Local authorities	42,088,631	98.33
Households	354,596	0.83
Securities of other accounts keepers clients	249,383	0.58
Private non-financial enterprises	83,508	0.20
Other financial brokers, except insurance companies and pension funds and other auxiliary enterprises	26,025	0.06
Other shareholders (non-financial enterprises controlled from abroad, financial auxiliary enterprises, companies holding deposits, except central bank	0	0.00
Total	42,802,143	100



17.1. The shareholders, who owned more than 5 per cent of the shares (20,031,977 ORS) issued for public trading (reg. No. A01031430, VP ISIN code – LT0000123010) as at 30 June 2017 are listed in Table 8.

Table 8

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

17.2. The shareholders, who owned more than 5 per cent of the shares (22,770,166 ORS) issued for non-public trading (VP ISIN code – LT0000128407) as at 30 June 2017 are listed in Table 9.

Table 9

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

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

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

In 2013, no dividends from the profit of the year 2012 were allocated and paid to the shareholders of the Issuer. Following the decision of the General Meeting of Shareholders held on 30 April 2013, the profit was allocated to the statutory reserve, other reserves (repair of heating units), support, and part of the profit was transferred to the next financial year. A total of 0.043 million euros was allocated for sponsorship and charity.

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

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

In 2016, the dividends from the profit of the year 2015 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.042 euro, in total – 1.798 million euro. The profit was allocated to the statutory reserve, other reserves, bonuses for the members of the Management Board and bonuses for employees. A total of 0.05 million euros was allocated for sponsorship.



In 2017, the dividends from the profit of the year 2016 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.106 euro, in total – 4.537 million euro. The profit was allocated to the statutory reserve, other reserves and bonuses for employees. A total of 0.1 million euros was allocated for sponsorship.

18. Employees

A total of 511 employees were employed in the Group as at 30 June 2017. Changes in the number of employees of the Group in the years 2013–2016 and in the 1 half of the year 2017 are provided in Table 10.

Table 10

Actual number of employees	Group 31/12/2013	Group 31/12/2014	Group 31/12/2015	Group 31/12/2016	Group 30/06/2017
Total:	561	545	526	521	511
including: management	7	6	4	6	6
specialists	292	290	279	284	278
workers	262	249	243	231	227

Changes in the number of employees of the Company in the years 2013–2016 and in the 1 half of the year 2017 are provided in Table 11.

Table 11

Actual number of employees	Company 31/12/2013	Company 31/12/2014	Company 31/12/2015	Company 31/12/2016	Company 30/06/2017
Total:	548	542	523	508	498
including: management	5	4	3	4	4
specialists	288	290	278	280	274
workers	255	248	242	224	220

Education of employees of the Group at the end of the reporting period is provided in Table 12.

Table 12

No	Education	Group 31/12/2013	Group 31/12/2014	Group 31/12/2015	Group 31/12/2016	Group 30/06/2017
1	Secondary incomplete	6	6	7	5	5
2	Secondary	217	206	195	187	182
3	College	80	77	72	73	73
4	Higher	258	256	252	256	251
	Total:	561	545	526	521	511

Education of employees of the Group at the end of the reporting period is provided in Table 13.

Table 13

No	Education	Company 31/12/2013	Company 31/12/2014	Company 31/12/2015	Company 31/12/2016	Company 30/06/2017
1	Secondary incomplete	5	6	7	5	5
2	Secondary	211	205	194	183	178
3	College	78	77	72	71	71
4	Higher	254	254	250	249	244
	Total:	548	542	523	508	498

Average conditional number of employees and average monthly salary Eur (at the end of the 1 half of the year 2017 before taxes)

Table 14

No	Employees	Company	Group
1.1.	Average conditional number of managers	4.0	5.9
1.2.	Average monthly salary of managers	2,797.2	2,097.5
2.1.	Average conditional number of specialists	259.1	261.1
2.2.	Average monthly salary of specialists	993.4	991.2
3.1.	Average conditional number of workers	213.6	222.6
3.2.	Average monthly salary of workers	731.6	743.2

Company's management pays a lot of attention on increase in work efficiency, working conditions improvement, supply with latest working tools, professional development, planning of internal activities and control implementation, also for improvement of consumer service quality. Executive and professional qualification levels suits their positions, and work experience and practical knowledge of subject of other employees makes them possible to work in their positions. Staff turnover in the Group and the Company is inconsiderable.

In order to increase work efficiency, the Company conducts an annual work performance evaluation of structural units managers, the main goal of which is to evaluate the employee's qualifications and abilities of functions performance assigned in job regulations, to properly evaluate employees' activities, provide feedback on the goals execution in order to increase employee loyalty, satisfaction with conducted work, encouraging them to improve. The result of this process is information allowing better coordination of the Company's activities and for encouraging employees to improve their working activities.

The salary of employees of the Issuer consists of the constant part of salary, variable part of salary, benefits and allocations paid according to the Labour Code of the Republic of Lithuania and other laws, Collective agreement of the Company, and bonuses. Bonuses are paid from net profit, if the General Meeting of Shareholders allocates part of the profit for the bonuses of the Company employees. From 1998 till 2015, the General Meeting of Shareholders has never allocated any part of the profit for the bonuses of the Issuer's employees. In the year 2017 the General Meeting of shareholders allocated EUR 500 thousand from the profit of the year 2016 as bonuses to employees.

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

1. For continuous employment within the Company employees are granted additional paid leave.
 2. The record of service of employees who worked in Lithuanian energy system companies and who were redeployed 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 uninterrupted and those employees are granted an additional paid leave for an uninterrupted record of service within the Company.
 3. At the agreement of the employer and employee, the employee may be granted unpaid leave for family related issues and other important reasons.
 4. Company's employees are entitled to additional paid leave.
- The employer obligates:
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 growing up three or more children under the age of 16, widows (widowers) and unmarried persons who grow up 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 580 euros,

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 145 euros.

19. Procedure for amending the Issuer's Statutes

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

The Statutes of the Company were amended on 21 July 2017 by the decision of the General Meeting of Shareholders. The new version of the Statutes was registered in the Register of Legal Entities of the Republic of Lithuania on 21 August 2017. It can be found on Company's website at www.kaunoenergija.lt.

20. Issuer's management bodies

According to the Statutes of the Company, the management bodies of the Company include the General Meeting of Shareholders, a collegial management body – the Supervisory Board, a collegial management body – the Management Board, and a sole management body – General Manager.



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

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



2 (two) General Meetings of Shareholders were convoked in January – July 2017. Company's General Manager and the Chief Finance Officer took part in them. Issuers' shareholders are allowed to ask questions and to get answers or explanations from Company's managers and speakers.

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

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

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

The Management Board is a collegial management body of the Company. The Management Board is comprised of 5 (five) members. The Management Board is elected for the period of 4 (four) years by the Supervisory Board. The Supervisory Board can remove from office the entire Management Board *incorpore* or its individual members before the expiry of their term. If individual members of the Management Board are elected, they shall serve only until the expiry of the term of office of the current Management Board. The Management Board elects the chairman of the management Board from among its members.

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

20.1. Data on the committees in the Company

On 26 October 2015 the Supervisory Board appointed by the decision No. 2015-4 the members of Audit Committee:

Full name	Position	Beginning of term	End of term*
Mrs Edita Plūkiene	Independent member of Audit Committee	27 October 2015	29 May 2019
Mr Židrūnas Garšva	Independent member of Audit Committee	27 October 2015	29 May 2019
Mr Audrius Lukoševičius	Independent member of Audit Committee	27 October 2015	29 May 2019



Full name	Position	Beginning of term	End of term*
Mrs Inga Šliačkuvienė	Member of Audit Committee	27 October 2015	29 May 2019
Mrs Aušra Smolskienė	Member of Audit Committee	27 October 2015	29 May 2019
Mr Juozas Gontis	Member of Audit Committee	27 October 2015	29 May 2019

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

In carrying out its activities, the Audit Committee follows the internal rules of procedure of the Company's Audit Committee approved by decision No 2015-4 of 26 October 2015 of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. The Audit Committee had 1 session in the 1 half of the year 2017.

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

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

Mr Audrius Lukoševičius is Director of budgetary institution “Kauno biudžetinių įstaigų buhalterinė apskaita” Specialist of supervision of credit unions of Lithuanian Central Credit Union, voluntary assistant of member of Kaunas city municipality Rimantas Mikaitis, member of the board of Public institution “Automobilių stovėjimo aikštelės”, member of the board of association “Kauno mažoji beisbolo lyga”. He was elected as a member of Company's independent Audit Committee on 26 October 2015. Education – University degree, bachelor in business administration and management from Vilnius University (1996), master in business administration and management (1998). Workplaces and positions held over the last 10 years: 08.2004–12.2013 – Manager of customer service centre at Swedbank, AB, 04.2015–12.2015 – Specialist of supervision of credit unions of Lithuanian Central Credit Union. Mr Audrius Lukoševičius holds no shares of the Company. No interest in the capital of other Lithuanian companies.

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

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

Mr Juozas Gontis is a senior lawyer of the Law Division of the Department of Law and Purchases of the Company. He was elected as a member of Company's Audit Committee on 26 October 2015. Education – University degree,

bachelor in English philology from Vilnius University (1998), master in international law from Vytautas Magnus University (2002). Workplaces and positions held over the last 10 years: 08.2002–06.2010 – senior solicitor of Kaunas branch of Bank of Lithuania, 08.2010–03.2012 – lawyer of UAB Vilniaus Valda, 04.2014–11.2014 – lawyer of AB Kauno Dujotiekio Statyba, 09.2010–12.2014 – lawyer of UAB Rotada, 08.2010–12.2014 – lawyer of UAB KDS Group. Mr Juozas Gontis holds no shares of the Company. No interest in the capital of other Lithuanian companies.

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

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

Members of the Supervisory Board of the Company as at 30 June 2017:

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

Company's Supervisory Board consists of seven dependant members, who are also the members of the Kaunas City Municipality Council, as they partially represent the controlling shareholder, i.e. Kaunas City Municipality, holding 92.84 per cent of the Company's voting shares.

3 sessions of the Supervisory Board were held during the 1 half of the year 2017. More than ½ of members of the Supervisory Board attended all the sessions.



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



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



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



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



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



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



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

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

Members of Company's Management Board as at 30 June 2017:

Full name	Position	Beginning of term	End of term
Mr Ramūnas Paškevičius	Chairman of the Management Board	1 June 2015	6 March 2017
Algimantas Stasys Anužis	Deputy chairman of the Management Board	1 June 2015	1 June 2019
Eugenijus Ušpuras	Member of the Management Board	1 June 2015	1 June 2019
Nerijus Mordas	Member of the Management Board	1 June 2015	1 June 2019
Giedrius Bielskus	Member of the Management Board	1 June 2015	1 June 2019

16 sessions of Company's Management Board were held in the I half of the year 2017. More than 2/3 members of the Management Board attended all the sessions.



Mr Ramūnas Paškevičius is a director of UAB Frostera, member of the Supervisory Board of AB Panevėžio Stiklas. He is a member of Company's Management Board from 10 April 2017. Mr Ramūnas Paškevičius holds no shares of the Company. Mr R. Paškevičius holds 12.5 percent of the shares of UAB Frostera, 12.5 percent of the shares of UAB CARGO WAGONS, 25 percent of the shares of UAB Stiklo Investicija, 25 percent of the shares of UAB Keturtaktis and 33 percent of the shares of UAB Balduva. Mr Ramūnas Paškevičius charged EUR 3.27 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.



Mr Algimantas Stasys Anužis is a member of the Management Board of UAB Kauno Švara, member of the Council of Kaunas Chamber of Commerce, Industry and Crafts, president of Lithuanian Veterans Basketball League. He is a member of Company's Management Board from 1 June 2015. Mr Algimantas Stasys Anužis holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr Algimantas Stasys Anužis charged EUR 4.31 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.



Mr Eugenijus Ušpuras is a habilitated doctor, chief of Laboratory of Nuclear Installation Safety, Lithuanian Energetic, full member of the Lithuanian Academy of Sciences, professor, and member of Company's Management Board from 1 June 2015. Mr Eugenijus Ušpuras holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr Eugenijus Ušpuras charged EUR 4.31 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.



Mr Giedrius Bielskus is a director of public institution S. Darius ir S. Girėno Sporto Centras (S. Darius and S. Girėnas Sports Centre), member of Company's Management Board from 1 June 2015. Mr Giedrius Bielskus holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr Giedrius Bielskus charged EUR 4.31 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.



Mr Nerijus Mordas is a chief finance officer for Eastern European and Asian markets of UAB Vičiūnų Grupė (UAB Vičiūnai Group), member of Company's Management Board from 1 June 2015. Mr Nerijus Mordas holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr Nerijus Mordas charged EUR 4.31 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

Members of Company's Management Board until 6 March 2017:

Mr Vytautas Mikaila is a doctor in engineering, Director of UAB MVE Group, member of Association of Heating Technicians Engineers, member of Rotary Club Kauno Tauras, honorary consul of Slovak Republic in Lithuania. He was a member of the Company's Management Board from 1 June 2015 to 6 March 2017. Mr Vytautas Mikaila holds no shares of the Company. He holds 55% of shares of UAB MVE Group. Mr Vytautas Mikaila charged EUR 2.60 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

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

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

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

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

Mrs Violeta Staškūnienė is a Company's Chief Accountant since 16 January 2003. She has a University education from Vilnius University, graduated in 1984, labour economics, profession – economist. Mrs Violeta Staškūnienė holds 2,641 of the Company's shares, which represent less than 5 per cent of the authorised capital. No interest in the capital of other Lithuanian companies.

Company's General Manager and the Chief Accountant charged 65.4 euros of remuneration, and the average amount per member is 32.7 thousand euros during the 1 half of the year 2017. No other assets had been transferred, no guarantees granted.

22. Information on significant agreements

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



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

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

24. Information on major transactions with related parties

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

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

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

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

Information on compliance with the corporate governance code is provided in Annex 1 to the Annual report of the year 2016. Annual reports on the Company's corporate social initiatives and policies are provided in Annex 2 to the Annual report of the year 2016 named AB Kauno Energija Report on Social Responsibility and on the Company's website.

27. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information starting from 1 January 2017 over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. This information was also posted on the website of the Issuer. All the information is available on website of Nasdaq Vilnius (<http://www.nasdaqbaltic.com/market/?lang=lt>) and Issuer's website (<http://www.kaunoenergija.lt>).

Title	Announcement category	Language	Time
Business activity results of the 1 half of the year 2017	Half-Yearly information	EN, LT	27/07/2017 17:22
Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	General meeting of shareholders	EN, LT	21/07/2017 16:00
CORRECTION: Convocation of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	26/06/2017 15:14
Convocation of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	23/06/2017 16:00
Audited annual information of AB Kauno energija for 2016	Annual information	EN, LT	28/04/2017 16:00
Resolutions of the General Meeting of Shareholders of AB Kauno Energija	General meeting of shareholders	EN, LT	28/04/2017 16:00
Activity results of the 1 quarter of the year 2017	Interim information	EN, LT	27/04/2017 16:14
Information on election of the member of Management Board of AB Kauno Energija	Notification on material event	EN, LT	10/04/2017 13:00
Convocation of General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	03/04/2017 19:12



Title	Announcement category	Language	Time
The audited activity results of AB Kauno Energija of the year 2016	Notification on material event	EN, LT	07/03/2017 16:30
Information on recall of the member of Management Board of AB Kauno Energija	Notification on material event	EN, LT	07/03/2017 16:30
Interim information on 12 months of the year 2016 of AB Kauno Energija	Interim information	EN, LT	31/01/2017 16:00
Activity results of 12 months of the year 2016	Notification on material event	EN, LT	30/01/2017 16:08

General Manager of AB Kauno Energija



Rimantas Bakas

