



AB KAUNO ENERGIJA CONSOLIDATED INTERIM REPORT FOR THE 1 HALF OF THE YEAR 2016



Kaunas, 2016



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

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

Following Article 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 of the 1 half of the year 2016 and Consolidated and Parent Company Financial Statements of the 1 half of the year 2016 of private limited liability company Kauno Energija (hereinafter the Company or the Issuer), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, represent a true and fair view of the total consolidated assets, liabilities, financial position and profit or loss and cash flows, that the Consolidated Interim Report of the 1 half of the year 2016 includes a fair business development and performance review of the Company and the situation of consolidated, together with the description of principal risks and uncertainties encountered.

General Manager of AB Kauno Energija

Rimantas Bakas

Chief Accountant of AB Kauno Energija

Violeta Staškūnienė



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1. Reporting period of the Consolidated Interim Report

Reporting period for which AB Kauno Energija Consolidated Interim Report was prepared is the 1 half of the year 2016.

2. Companies consisting the group 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.

Main details of the Company:

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

Main information about the subsidiaries:

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

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

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

Also, following provisions of the Law on Heat Sector, the Company supplies hot water (is engaged in hot domestic water supplier activities) from 1 May 2010 for consumers in the cities of Kaunas and Jurbarkas and Kaunas district (hereinafter the supplies of heat and hot domestic water without cold water are referred to as heat, with the exception of information provided in Tables 7 and 8 “Comparison of financial indicators of the Group and the Company of the 1 half of the year 2016 with the indicators of the 1 half of the years 2012–2015”), who chose the Company as a hot water supplier. As at 30 June 2016, the Company was a hot water supplier for 464 residential buildings in Kaunas and Kaunas district and 5 in Jurbarkas. Income from hot water supplies amounts to approximately 3.8 per cent of all of Company's sales revenue.

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



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

Values of the Group and the Company:

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

Strategic goals of the Group and the Company:

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

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

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



- formation of good practice and its publicizing;

4. Issuer's agreements with credit institutions

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

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

20,031,977 (twenty million thirty one thousand nine hundred seventy seven) of the Issuer's ordinary registered shares (VP ISIN code LT0000123010) with the total nominal value equal to EUR 34,855,639.98 (thirty four million eight hundred fifty five thousand six hundred thirty nine euro and 98 cents) as at 30 June 2016 were listed in the secondary trade list of Nasdaq Vilnius Baltic stock exchange. The beginning of listing of the Company's shares is 28 December 1998.

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

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

In the 1 half of the year 2016 the Company performed its activities with a main focus on development of capacities of production sources and increase of reliability of CHS network, considering Strategic guidelines of centralized heat supplies of Kaunas city.

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

The Company covers a major part of heat production and supply market in the cities of Kaunas and Jurbarkas and Kaunas district. Company's generation capacities consist of Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 boiler-house in Jurbarkas city, 13 boiler-houses of isolated networks and 28 local gas burning boiler-houses in Kaunas city, also 8 local water heating boiler-houses in Sargėnai catchment. Total installed heat generation capacity in the 1 half of the year 2016 was 551.379 MW (including 37.5 MW capacities of condensational economizers) and also 8.75 MW of electricity generation capacities. 294.8 MW of heat generation capacities (including 16 MW capacities of condensational economizers) and 8 MW of electricity production capacities of Petrašiūnai power plant are among them. 29.8 MW of heat generation capacities (including 2.8 MW capacities of condensational economizer) is situated in Jurbarkas city. Total Company's power generation capacity is 560.129 MW (including 37.5 MW of condensational economizers' capacities).

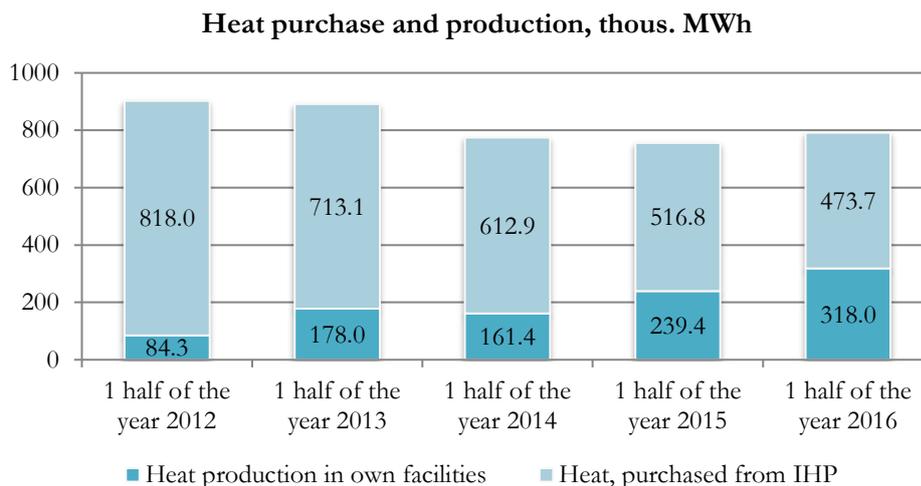
Almost 40 per cent of heat supplied to consumers in the 1 half of the year 2016 was produced in Company's heat production facilities. The rest of required quantity of heat was purchased from independent heat producers (hereinafter – IHP) in monthly auctions, according to legal acts.

Fuel, used by the Company for heat and electricity production in the 1 half of the year 2016 was as follows:

- Solid biofuel – 82.58 per cent,
- Natural gas – 16.85 per cent,
- Biogas and other fuels – 0.57 per cent.

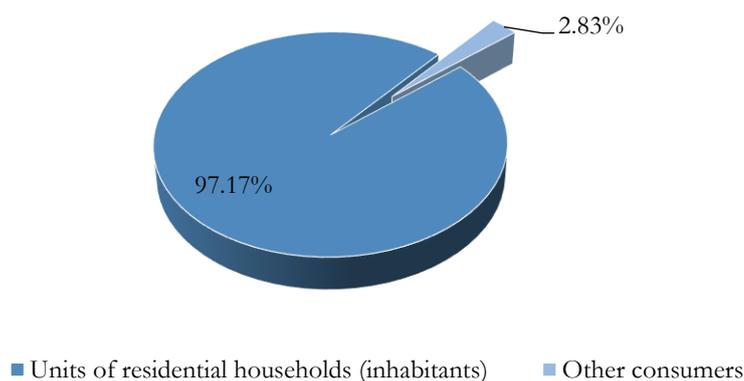
In the 1 half of the year 2016, the Company purchased heat from 10 independent heat producers in Kaunas and Kaunas district: from UAB Kauno Termofikacijos Elektrinė, UAB GECO Kaunas, UAB Lorizon Energy, UAB Ekoresursai, UAB Pramonės Energija, UAB Aldec General, UAB ENG, UAB Oneks Invest, UAB Ekopartneris and UAB "SSPC-Taika". Total purchases consisted of 473.7 thousand MWh of heat, i.e. 60.1 per cent of heat supplied to the network (in the 1 half of the year 2015 – 68.5 per cent). Amounts of heat purchased from IHP and produced with Company's equipment during the 1 half of the years 2012 – 2016 are presented in chart 1, thousand MWh:





As at 30 June 2016 the Company supplied this heat with integrated heating and local area networks to 3,347 business organizations as well as to 115,119 households, in total – to 118,466 consumers (objects by addresses).

Repartition of Company's heat consumers by groups



Company's turnover from sales of the 1 half of the year 2016 was amounted to EUR 36,189 thousand and decreased by 3.43 per cent in comparison with the 1 half of the year 2015 (in the 1 half of the year 2015 it consisted of EUR 37,473 thousand). Turnover from sales of the Group of the 1 half of the year 2016 was amounted to EUR 36,184 thousand (in the 1 half of the year 2015 it consisted of EUR 37,468 thousand).

Company's income for the heat sold comprised the majority of income both Company's and the Group's: Group's – 97.92 per cent, Company's 97.90 per cent (supply of heat and hot water, excluding income from sales of cold water).

Net profit of the Group of the 1 half of the year 2016 was amounted to EUR 7,185 thousand and of the Company – EUR 7,017 thousand.

Investments

On 24 May 2016 Kaunas city municipality council approved revised Company's Investment Plan for the year 2016, under which EUR 44.54 million were planned to invest in Company's assets. The Company invested EUR 2.07 million in own assets during the 1 half of the year 2016.

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



facilities according to Investment plan. With the start of a new period (for the years 2013–2016) of the basic heat price approved by the National Commission for Energy Control and Prices (hereinafter – NCC), and with changes in the regulating environment, in order to reduce the heat production costs and heat price to consumers, the Company refocused guidelines of development of its activities and the major part of investments of the years 2013–2016 is being allocated to the development and modernisation of heat generating facilities from renewable energy sources.

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

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

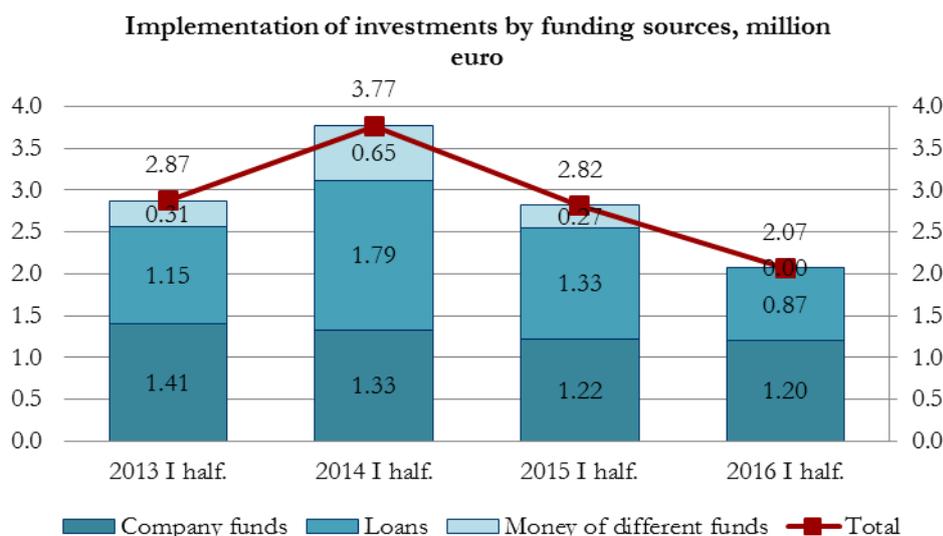
In order to reach those goals, the Company continues modernization of its' own heat generation facilities by installing a new heat generation equipment in them. The following projects of heat generation facilities modernization are being implemented at the moment:

1. On March 2016 the Company started a project of installation of 15 MW capacity gas burned boiler No. 2 together with 1.5 MW capacities condensational economizer in "Šilkas" boiler-house. Value of the project is EUR 659 thousand. This new equipment will increase reliability of heat production and supply, and will reduce Company's comparable expenditures of heat production and the final heat price for consumers;
2. The Company plans to install 5 MW and 3 MW capacities biofuel burned boilers together with condensational economizer in Jurbarkas boiler-house for more than EUR 2.1 million. This project is being planned to accomplish in the years 2017 – 2018. First stage of the project is being planned to accomplish in 4 quarter of the year 2016, i.e. 5 MW heat capacity biofuel burned boiler together with pertinent is being planned to install. The amount of heat produced using biofuel will amount up to 60 per cent of all heat supplied in Jurbarkas city after the reconstruction.

In June 2016 the Company submitted 9 applications to the Lithuanian Business Support Agency 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). These projects are being planned to implement in the years 2016 – 2018. Total value of the projects is EUR 16 million. European Union Structural support in amount of EUR 8 million is requested.

In the 1 half of the year 2016 the Company has invested EUR 2.07 million (not Company's funds, i.e. EUR 0.87 million were loans from commercial banks; there were no investments using financial support from European Union Structural Funds). Company's investments by funding sources for the 1 half of the years 2013–2016 are shown in Chart 3.





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

On 1 October 2015 National Commission for Energy Control and Prices (hereinafter – Commission) approved Company’s investments – reconstructions of heat supplies networks and building of biofuel boiler-house in the city of Jurbarkas. Commission approved for the Company planned installation of biofuel boiler in 2016 for more than EUR 2.1 million in Jurbarkas boiler-house and EUR 16 million worth reconstruction of heat supply pipelines in the city of Kaunas, for implementation of which a co-financing is requested from European Union Structural funds.

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

In order to expand its’ consumer market, the Company started to build a new heat supply pipeline in 2015 to Brasta residential quarter in Kaunas, which is in process of construction. Following the project “Heat supply networks to residential quarter from HC 8K-14-5 near the building at Jurbarko str. 81 to the point “A” at the address Brastos str. 24, Kaunas” a 487 meters length, 200 mm diameter pipeline will be built. The heat will be supplied to this residential quarter using this pipeline. According to publicly announced information 10 residential buildings with approximately 500 flats will be built in this residential quarter. Approximately of 4.4 MW capacities consumption equipment are being planned to install in them. A new pipeline will allow supplies of an up to 10 MW flow of heat at the coldest period of the year, so it will be possible to connect even more new consumers if it will be necessary. Total value of the project is EUR 244 thousand. Project is being implemented using efforts and funds of AB Kauno Energija. Construction works of the project were started in December 2015. Project completion is planned in the year 2016.

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



On 4 December 2014 NCC issued for the Company Licence of Energy operation No. L2-38(GDT), which allows the Company to be engaged in natural gas supplies business. The term of licence validity has been terminated by the decision of NCC of 25 May 2016 No. O3-140.

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

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

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

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

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

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

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

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

The effects of other competing companies, propagating the only usage of natural gas, irrespective of approved special heating supplies plan, supplies reliability, affection to the only source of fuel, not yet regulated local pollution, in the heat supply sector with the Company are disconnections of consumers from DHN system. Heating equipment disconnection from the DHN and heating mode changes are carried out in accordance with the procedures specified in the Civil Code of the Republic of Lithuania, the Law on Heat Sector and the Law on Construction, and secondary legislation implementing the aforementioned legal acts. Heat disconnection is governed by the "Rules on heat supply and consumption" approved by order No 1-297 of 25 October 2010 of the Minister of Energy of the Republic of Lithuania (and their further amendments) and the Description of procedure for disconnection of the building or heating facilities of premises from heat supply networks at the initiative of consumers approved by order No A 1830 of the director of administration of Kaunas City Municipality of 14 May



2012. Kaunas City Municipality has approved a special heat supply plan, which provides a way to separate the heat supply in different urban areas. Disconnection of buildings in the district heating area from the DH network is only possible with the appropriate permit of Kaunas City Municipality. A special heat supply plan of Kaunas District Municipality was approved by the decision of Kaunas District Municipality No TS-43 of 26 January 2012. A special heat supply plan of Jurbarkas City and District was approved by the decision of Jurbarkas District Municipality No T2-67 of 10 March 2005.

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

Detailed information on risk management policy and of risks of credit, currency rates, interest rates and liquidity is provided in Note 23 of Company's explanatory notes to the financial statements of the 1 half of the year 2016.

Heat consumer debts as at 30 June 2016 in comparison with 31 December 2015 increased approximately by 1.5 per cent and consisted of EUR 14.0 million (the major part of debts is covered after the end of heating season). Consumer debts in the year 2015 in comparison with the year 2014 decreased by approximately 10 per cent and consisted of EUR 13.8 million, and in the year 2014 – EUR 15.4 million. Decrease was affected by application of effective methods of debts administration, decrease in heat price, and more high average air temperature during heating seasons and conditionally lower heat consumption.

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

In all cases, the Company first notifies the user of his indebtedness. When debtors respond to warnings and contact the Company, the Company discusses the options of debt settlement with them, signs documents guaranteeing the repayment of the debt. If the debtor does not respond to warnings and if pre-trial measures are not effective, the judicial recovery begins. The Company then applies to the court and after a decision accompanied with receiving-order – to bailiff. In such case the debtor must pay not only the debt but also the court and execution expenditures. A number of debt prevention and pre-trial actions were made in the 1 half of the year 2016. A referral of information on debtors to Collection Company is among them. The Company submitted 0.7 million bills to consumers during the 1 half of the year 2016, more than 25.9 thousand telephone calls from consumers attained, and more than 5.5 thousand of them were advised verbally.

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

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

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

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



the main shareholder of the Company's operations, performance, future plans and non-politicized notification of the board.

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

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

The essential terms of peaceful agreement: Investment agreement between both sides is terminated and KTE obliges to pay compensation for the Company in amount of EUR 2,317 thousand As an additional non-financial compensation KTE disposes a part of Kaunas critical centralized heat supplies infrastructure to the Company for proprietorship, i.e. immovable property (manifolds building and coherent pipelines) as well as part of technological circuit equipment, necessary to the Company.

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

Social factors: social factors that have had an impact on the Company's operations in recent years include consumers' disconnections from the system of centralized heat supply, 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 118,404 in the year 2015 up to 118,466 in the 1 half of the year 2016) 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 2016 was one of the lowest among all heat supply companies.

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

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

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

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

The other risk factor is the lack of own heat generation capacities after selling the main heat generation facility – Kaunas Termofication power-plant in 2003. Existing Company's own capacities of approx. 409 MW cannot secure customers demand (maximum instantaneous demand according to data of three last years is 448 MW) in Kaunas integrated network. In addition, heat supply 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 2016 this service was bought from KTE. Considering that and estimating common trends in development of heat economies in Kaunas and Lithuania, one of the aims of the Company is to continually reasonably invest in own heat production facilities, i.e. to modernize existing and to build new additional heat production capacities. More detailed information on Company's investments and modernization of production facilities is provided in chapters 6.1 and 7.

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

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

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



Main sources of pollution of the Company: burning fossil fuel in the Company's heat sources, production of heat and waste water, are used in the industrial processes.

The Company pays taxes for atmospheric and water pollution. If allowable emission rate limits or annual limits are exceeded, the Company must pay the fines under the applicable laws of the Republic of Lithuania. There have been no pollution-related incidents and the Company was not imposed any penalties in the 1 half of the year 2016.

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 2016 the fuel balance was dominated by solid biofuel – 82.58%, natural gas – 16.85%, biogas and other fuels – 0.57 %).

Bank loan repayment: more on this issue is presented in Note 11 to the explanatory notes of financial statements of AB Kauno Energija of the 1 half of the year 2015. The Group and the Company repay the loans on time.

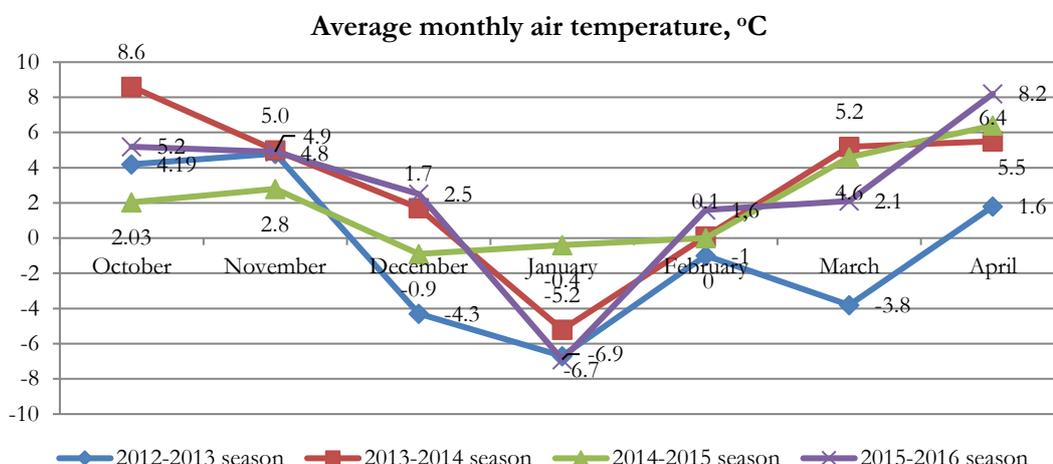
The main aims of the Company are to renew heat supply networks, because they are operated approx. 30 years and are obsolete, and to modernize heat production facilities. Every year, significant part of funds for facility upgrade are borrowed, as own resources, i.e. accumulated depreciation and amortization,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

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

The result of Company's activities of the 1 half of the year 2016 reflects an impact of investments that are implemented by the Company during the years 2014 – 2015. The Company implemented 3 big investment projects, focused to the development of production sector, reaching to reduce costs of heat production and purchase, ensure reliable heat supplies, reduce losses of heat transmission, and increase effectiveness of heat supply system.

Sales revenue from the main activities, in comparison with the 1 half of the year 2015 was at 3.43 per cent lower. This change was mainly affected by the reducing price of heat, the main part of which contains of purchased heat and fuel constituent. In the 1 half of the year 2016 the average price of heat decreased at 7.43 per cent (in the 1 half of the year 2016 it was 5.36 ct/kWh, and in the 1 half of the year 2015 it was 5.79 ct/kWh). The amount of heat sold in the 1 half of the year 2016 in comparison with the 1 half of the year 2015 was at 4.34 per cent bigger. Average air temperature of heating season of the 1 half of the year 2016 was -0.39 °C, and of the 1 half of the year 2015 – 2.56 °C.

Chart 4



Comparison of financial indicators of the Group of the 1 half of the year 2016 with the indicators of the 1 half of the years 2012–2015 is presented in Table 1.

Table 1

No	Indicator of the Group	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2015
1	Net profitability,% (net profit / sales and services)*100	4.6	9.1	3.9	12.7	19.9
2	Return on tangible assets,% (net profit / average value of tangible assets)*100	3.0	5.7	1.8	3.9	6.0
3	Debt ratio (liabilities /assets)	0.33	0.30	0.35	0.37	0.34
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.4	0.5	0.6	0.5
5	General liquidity ratio (short-term assets / short-term liabilities)	0.87	1.29	0.81	1.17	2.46
6	Asset turnover ratio (sales and services / assets)	0.54	0.52	0.38	0.29	0.27
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	5,631	8,175	4,805	8,060	10,667
8	Profitability of core business, per cent (operating profit / sales and services)* 100	4.5	4.5	3.7	13.3	15.0
9	Return on equity (ROE)% (net profit / average equity)*100	3.8	7.0	2.3	6.0	8.7
10	Return on assets (ROA)% (net profit / average assets)*100	2.5	4.7	1.4	3.5	5.4
11	Quick ratio ((short-term assets-inventory) / short-term liabilities)	0.80	1.19	0.74	1.13	2.39
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.06	0.12	0.05	0.26	1.56
13	Net earnings per share (net profit / average weighted number of shares in issue)	0.07	0.13	0.04	0.11	0.17
14	Net profit, thousand euros	2,884	5,468	1,798	4,773	7,185
15	Assets, thousand euros	116,597	116,518	120,702	129,542	132,473
16	Equity, thousand euros	78,185	81,115	78,318	82,124	87,247
17	Equity per share, euros	1.82	1.91	1.83	1.92	2.04
18	Revenue from sales, thousand euros	62,847	60,246	46,383	37,468	36,184
18.1	Including: Heat energy	61,888	58,727	44,661	35,739	34,514
18.2	Electric energy	54	60	87	122	38
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	101	125	21	16	5
18.4	Income from the maintenance of collectors	112	112	114	113	113
18.5	Hot water supply including cold water price	656	1,175	1,430	1,351	1,374
18.6	Income from maintenance of hot water meters	36	47	70	127	140
19	P / E ratio (last share market price of the year / (net profit / number of shares at year-end)	6.67	4.56	11.79	4.25	2.98
20	Share capital, thousand euros	74,256	74,256	74,378	74,476	74,476



No	Indicator of the Group	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2015
21	Share capital-to-assets ratio	0.64	0.64	0.62	0.57	0.56
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	3.8	7.2	2.3	6.1	8.9

Comparison of financial indicators of the Company of the 1 half of the year 2016 with the indicators of the 1 half of the years 2012–2015 is presented in Table 2.

Table 2

No	Indicator of the Company	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2015
1	Net profitability,% (net profit /sales and services)*100	4.6	8.9	3.9	12.8	19.4
2	Return on tangible assets,% (net profit / average value of tangible assets)*100	2.9	5.4	1.7	1.9	2.8
3	Debt ratio (liabilities /assets)	0.33	0.30	0.35	0.37	0.34
4	Debt-to-equity ratio (liabilities / equity)	0.5	0.4	0.5	0.6	0.5
5	General liquidity ratio (short-term assets / short-term liabilities)	0.87	1.29	0.81	1.16	2.46
6	Asset turnover ratio (sales and services / assets)	0.53	0.51	0.38	0.29	0.27
7	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	5,624	8,070	4,802	8,059	10,520
8	Profitability of core business, per cent (operating profit/ sales and services)*100	4.5	4.5	3.7	13.3	15.0
9	Return on equity (ROE)% (net profit / average equity)*100	3.6	6.7	2.3	2.7	4.0
10	Return on assets (ROA)% (net profit / average assets)*100	2.4	4.5	1.4	1.6	5.2
11	Quick ratio ((short-term assets-inventory) / short-term liabilities)	0.80	1.19	0.73	1.13	2.39
12	Cash ratio (cash in hand and at bank / short-term liabilities)	0.06	0.11	0.05	0.26	1.56
13	Net earnings per share (net profit / average weighted number of shares in issue)	0.07	0.12	0.04	0.11	0.16
14	Net profit, thousand euros	2,888	5,379	1,791	4,781	7,017
15	Assets, thousand euros	117,606	117,445	121,413	130,270	133,034
16	Equity, thousand euros	79,157	81,892	78,839	82,665	87,631
17	Equity per share, euros	1.85	1.91	1.85	1.90	2.05
18	Revenue from sales, thousand euros	62,830	60,165	46,388	37,473	36,189
18.1	Including: Heat energy	61,899	58,739	44,668	35,744	34,519



No	Indicator of the Company	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2015
18.2	Electric energy	54	60	87	122	38
18.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	73	32	19	16	5
18.4	Income from the maintenance of collectors	112	112	114	113	113
18.5	Hot water supply including cold water price	656	1,175	1,430	1,351	1,374
18.6	Income from maintenance of hot water meters	36	47	70	127	140
19	P / E ratio (last share market price of the year / (net profit / number of shares at year-end)	6.66	4.63	11.83	4.24	3.05
20	Share capital, thousand euros	74,256	74,256	74,378	74,476	74,476
21	Share capital-to-assets ratio	0.63	0.63	0.61	0.57	0.56
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	3.8	7.0	2.3	6.1	8.7

Comparison of financial results of the Group and the Company for the 1 half of the years 2012–2016 (operating profit, net profit and operating revenue) is given in Charts 5, 6 and 7.

Chart 5

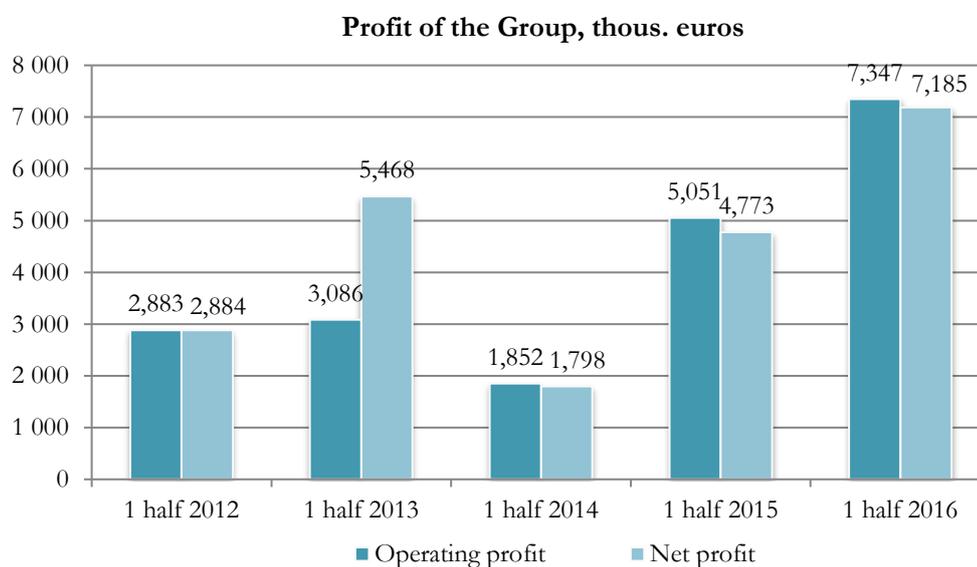


Chart 6

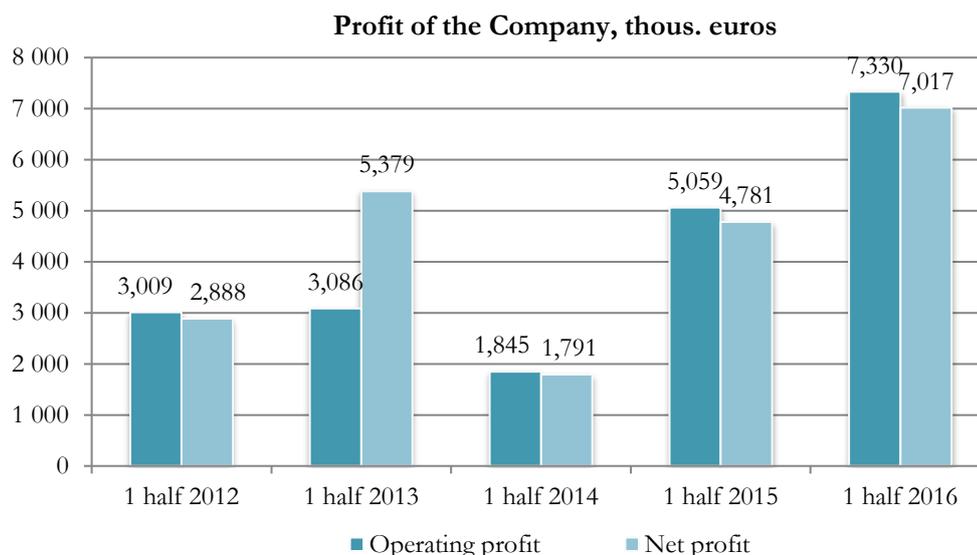
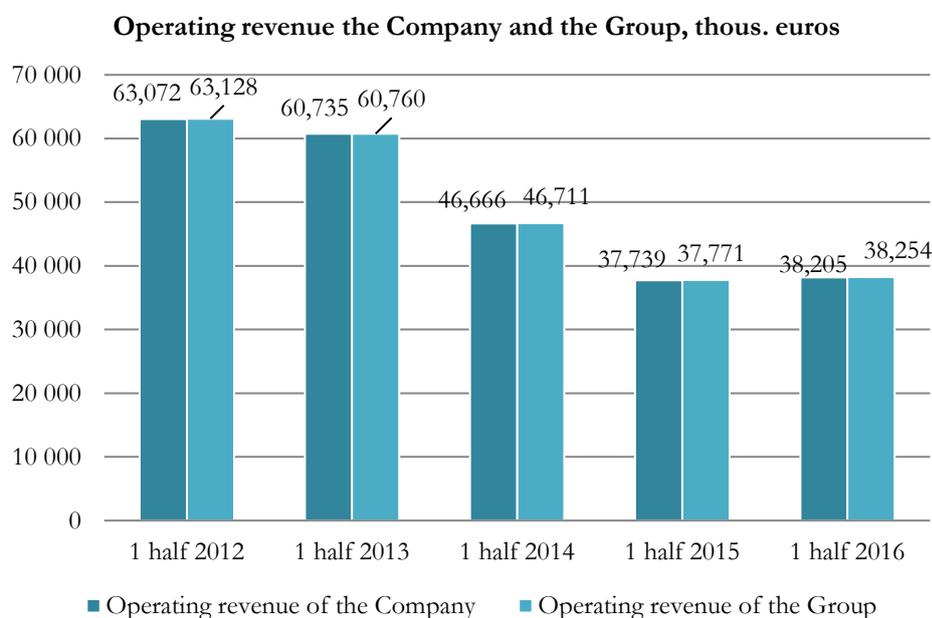


Chart 7



Notwithstanding that Group's and the Company's turnover decreased in EUR 0.5 million, Company's net profit of the 1 half of the year 2016 in comparison with the 1 half of the year 2015 became at 46.8 per cent higher. This increase was determined by effective Company's activities that allowed to significantly reduce expenses of fuel and purchased heat with starting of usage of biofuel in heat production instead of the natural gas. All of these allowed making heat cheaper, both produced by the Company and purchased from IHP. Profit of the 1 half of the year 2016 is also increased by the compensation in amount of EUR 1.8 million collected from UAB Kauno Termofikacijos Elektrinė in accordance with Peaceful agreement signed on 28 December 2015 by which litigation in Arbitration case regarding noncompliance of Investment Agreement of 31 March 2003 was terminated.

The Company's profit decreases also because of the maintenance costs of individual heating units owned by the Company. Those costs may not be included in heat and hot water prices as in accordance with amendments of articles 2, 3, 20, 22, 28, 31, and 32 of the Law on Heat Sector No XI-1608 of the Republic of Lithuania that came in affect from 1 November 2011, "any costs related with the indoor building heating (including heating units), and hot water systems may not be included in heat and hot water prices". Starting from 1 November 2011 in accordance with the law the costs of maintenance and repair of heating units equipment are not included in the heat price. The Company suffers approx. EUR 0.6 million of losses every year uncovered by income due to this maintenance.



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

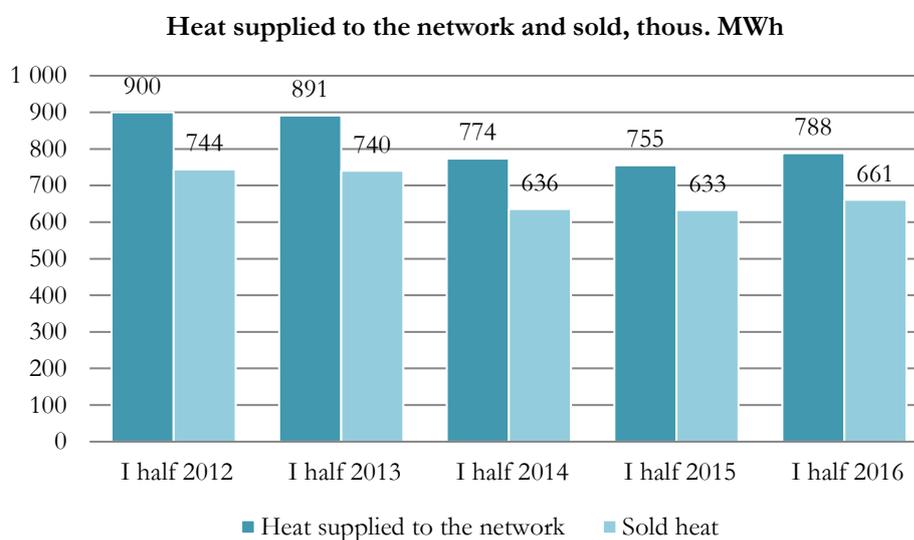
A more detailed analysis of the Group’s and the Company’s financial results is presented in the Notes to Financial Statements for the 1 half of the year 2016.

Comparison of non-financial indicators of the 1 half of the year 2016 with the indicators of the 1 half of the years 2012-2015 is presented in Table 3.

Table 3

No	Denomination of Indicator	1 half 2012	1 half 2013	1 half 2014	1 half 2015	1 half 2016
1.	Energy produced, purchased and supplied to the network, thous. MWh	900.4	891.3	775.2	756.4	788.8
1.1.	thermal energy	899.8	890.5	774.1	754.8	788.3
1.2.	electric energy	0.6	0.8	1.1	1.6	0.5
2.	Energy sold thous. MWh	744.5	740.9	637.0	634.6	661.1
2.1.	thermal energy	743.9	740.1	635.9	633.0	660.6
2.2.	electric energy	0.6	0.8	1.1	1.6	0.5

Chart 8



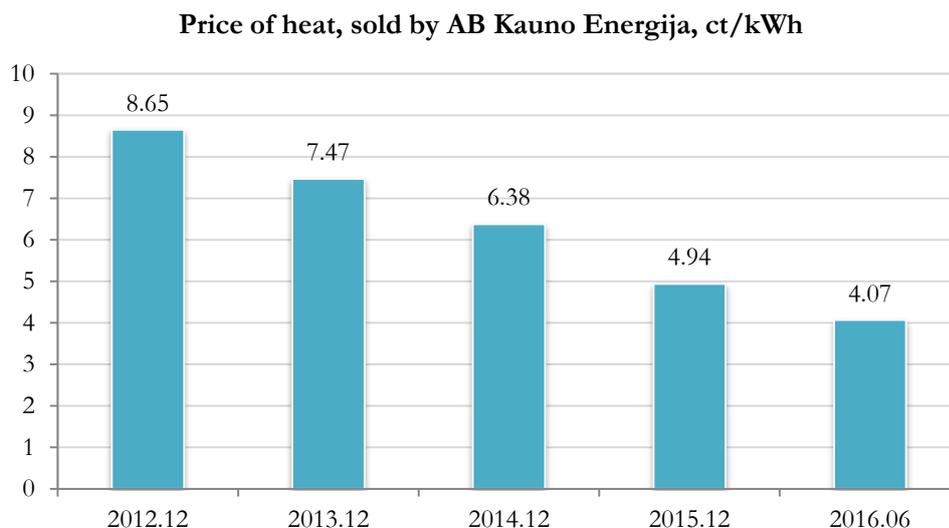
Environmental impact on operations: The Company’s performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher of lower outdoor temperature during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

Company’s reconstructed heat production facilities changing fossil fuel to biofuel 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 45 per cent during the last 3 years.



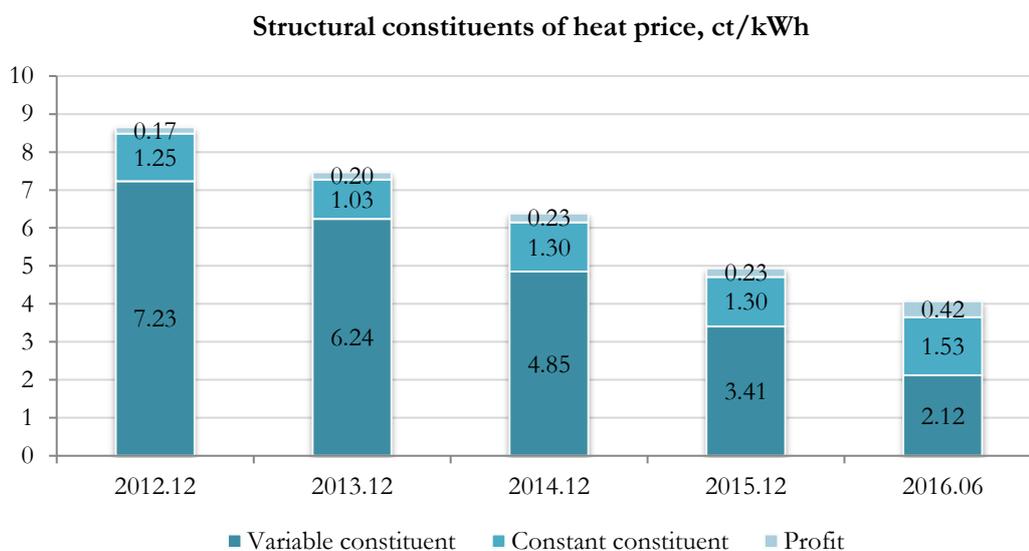
The dynamics of heat price sold by the Company in 2012–2016 is presented in Chart 9.

Chart 9



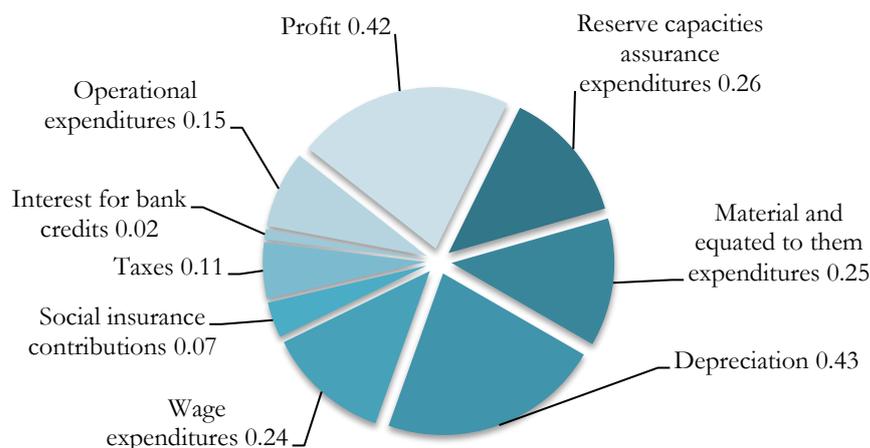
Components of Company’s heat price structure in 2012–2016 are presented in Chart 10.

Chart 10



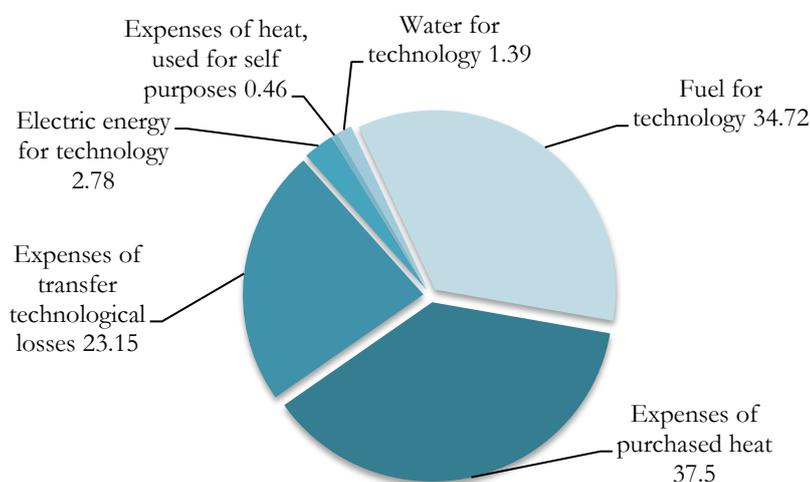
Management Board of AB Kauno Energija determined by its decision of 28 January 2016 No. 2016-2-2 (amended by the decision No. 2016-8-3 of AB Kauno Energija Management Board of 28 April 2016) a heat price constituents for the third year of validity of basic heat price, which were agreed by NCC’s decision of 25 May 2016 No. O3-129. Heat price constant constituent, 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 presented in Chart 11.

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 valid in June 2016 are presented in Chart 12.

Heat price variable constituent in June 2016, per cent



Other information related to environmental issues, waste and wastewater management, air pollution and human resources has no difference from the information provided in AB Kauno Energija Consolidated Annual Report of the year 2015.

8. References and additional explanations

All main financial data of the Group and the Company are provided in the explanatory notes to the Consolidated Financial Statements and Financial Statements of AB Kauno Energija for the 1 half of the year 2016.



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

For the purpose of the Consolidated Financial Statements of the Group, the Financial Statements of the Company and subsidiaries are prepared for the same date.

It's being controlled if the accounting policy of the Company and its subsidiaries for accounting of similar transactions is the same. The subsidiaries' income and expenses are included into the Consolidated Financial Statements as of the date of acquisition.

9. Significant events after the end of the 1 half of the year 2016

On 23 June 2016 AB Kauno Energija and UAB E energija signed an agreement on shares acquisition, under which the Company intends to acquire 100 per cent of the shares of UAB Petrašiūnų Katilinė. The agreement became valid on 30 June 2016. The transaction will be accomplished if the Competition Council of the Republic of Lithuania will take a decision for transaction permission.

The approval of the agreement on acquisition of the shares of UAB Petrašiūnų Katilinė signed between AB Kauno Energija and UAB E energija on 23 June 2016 was made at the Extraordinary General Meeting of shareholders that has been held on 29 July 2016.

On 28 July 2016, Company's Management Board approved unaudited Consolidated and Company's Financial Statements of the 1 half of the year 2016, prepared under international financial reporting standards, approved for use in European Union.

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

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

In compliance with the provisions of the plan for the facilities on the implementation of the National Renewable Energy Development Strategy, in order to implement the Company's key business objectives and the provisions of the National Energy Independence Strategy related to the assurance of technical requirements for reliability of heat facilities and heat supply networks, to guarantee the quality keeps apply to consumers, the Company specified its "Investment plan for the year 2012–2015 and its financing sources" according to which it plans to invest EUR 92.08 million and also specified its investment plan for the year 2016 according to which it plans to invest EUR 44.54 million in Company's assets.

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

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

It is planned that in 2016 in comparison with 2015, the Group's sales turnover will be similar as in 2015 or a little bit lower due to the decreased price of heating; the amount of heat sold to consumers will remain at the comparable



level as in 2015. The greatest impact on the Group's and the Company's income and expenses will be made by fuel and purchased heat price changes, as the price of heat under the requirements of the law is recalculated every month. The Group profit in comparison with 2015 is planned to be lower due to the recalculated constituents of heat price. The submitted data may be adjusted by the heat demand change, i.e. consumption, which is mainly affected by the average outdoor air temperature, the size of user investment in housing renovation, energy-saving and its rational use, as well as changes in the economic situation in Lithuania.

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

On 27 January 2016 the Company signed an agreement with Lithuanian Energy Institute regarding accomplishment of research study and Company's development strategy, implementing guidelines of energy sector development. Development strategy is prepared for implementation of guidelines of energy sector, in order to perform an effective policy of Kaunas heat economy development for the period until the year 2021.

On 2 March 2016 the cooperation agreement between the Company and Vytautas Magnus University has been signed in Kaunas city municipality, under which both sides obliged to make conditions to each other to use own infrastructure, creative and organization resources for implementation of common projects and events organization.

On 23 June 2016 AB Kauno Energija and UAB E energija signed an agreement on shares acquisition, under which the Company plan to acquire 100 per cent of the shares of UAB Petrašiūnų Katilinė. This heat generation facility using biofuel is acquired reaching to reduce heat production expenditures and to make cheaper heat energy to consumers. Produced heat energy will be supplied in Kaunas city integrated DHN system, ensuring necessary quality of thermofunctional water parameters (pressure, temperature).

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

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

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

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

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

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

All relevant information on this issue is presented in Notes 2.11, 15, 23 to the consolidated financial statements for the 1 half of the year 2016 of AB Kauno Energija.

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

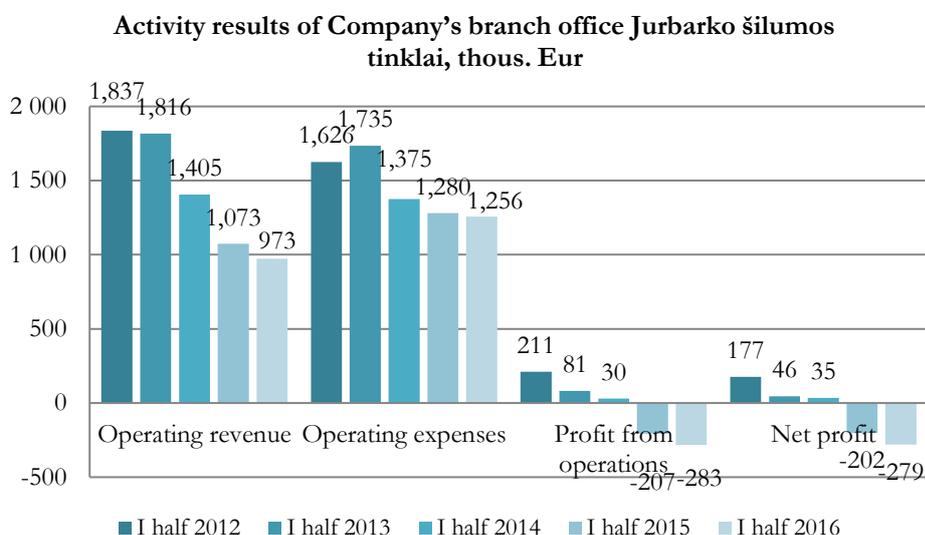
The Company's branch office Jurbarko Šilumos Tinklai was established by the decision of the Company's Management Board, and registered on 9 September 1997 at the address V. Kudirkos g. 33, 4430 Jurbarkas. The Company's branch produces and sells heat to consumers in the city of Jurbarkas.



The Company's branch Jurbarko Šilumos Tinklai had 30 employees as at 30 June 2016.

Comparison of financial indicators of Company's branch office Jurbarko Šilumos Tinklai of the 1 half of the year 2016 (operating revenue, operating expenses, profit) with the indicators of the 1 half of the years 2012-2015 are given in Chart 13.

Chart 13



On 16 April 2013 the statutes of AB Kauno Energija subsidiary UAB Kauno Energija NT, headquarter address is Savanorių pr. 347, 49423 Kaunas, company code 303042623, were registered in the Register of Legal Entities.

The authorised capital of UAB Kauno Energija NT in total of EUR 1,329,872, registered in the Register of Legal Entities, is divided into 45,921 ordinary nominal shares with the par value of 28.96 euros each as at 30 June 2016.

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

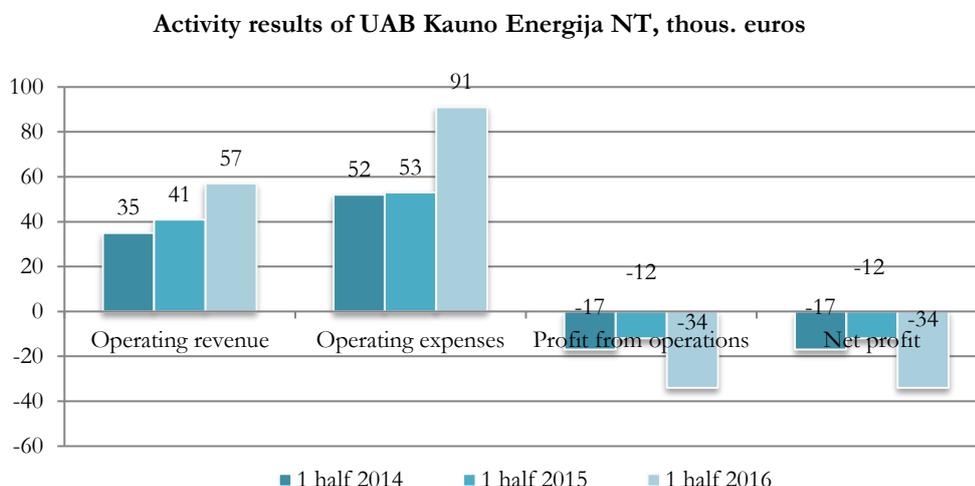
Activities of UAB Kauno Energija NT include the real estate development, management, leases, purchase and sale.

Turnover of UAB Kauno Energija NT of the 1 half of the year 2016 was EUR 57 thousand, profit (loss) was amounted to EUR (34) thousand.

As at 30 June 2016 UAB Kauno Energija NT had 3 employees.

Comparison of financial indicators of UAB Kauno Energija NT of the 1 half of the year 2016 (operating revenue, operating expenses, profit) with the indicators of 1 half of the year 2014-2015 are provided in Chart 14.

Chart 14



15. Structure of authorized capital

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

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

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

The authorised capital of the Company registered in the Register of Legal Entities of the Republic of Lithuania as at 30 June 2016 is EUR 74,475,728.82 (seventy four million four hundred seventy five thousand seven hundred twenty eight euros and 82 cents).

Structure of authorized share capital by types of shares is specified in Table 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 (seventy four million four hundred seventy five thousand seven hundred twenty eight euros and 82 cents) and it is divided to 42,802,143 (forty two million eight hundred and two thousand one hundred forty three) ordinary shares of par value of 1.74 euros.

Value of the share of the Company was recalculated into 1.74 euro (as at 31 December 2014 – 1.73772 euro) following the order of euro adoption from 1 January 2015, determined by the Law on the Euro Adoption in the Republic of Lithuania No XII-828 of 17 April 2014.

There are no limitations on the transfer of securities.

16.1. Main characteristics of shares released into free circulation of securities (as at 30 June 2016).

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 2016).

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 years 2012–2015 and in the 1 half of the year 2016 is provided in Table 5.

Table 5

Indicator	2012	2013	2014	2015	1 half 2016
Opening price, euro	0.565	0.578	0.589	0.486	0.459
Highest price, euro	0.590	0.589	0.600	0.479	0.560
Lowest price, euro	0.415	0.458	0.430	0.400	0.401
Last price, euro	0.578	0.589	0.486	0.459	0.500
Circulation, units	80,421	36,355	70,160	41,193	106,104
Circulation, million euro	0.04	0.02	0.04	0.02	0.05
Capitalisation, million euro	11.58	11.80	9.74	9.19	10.02

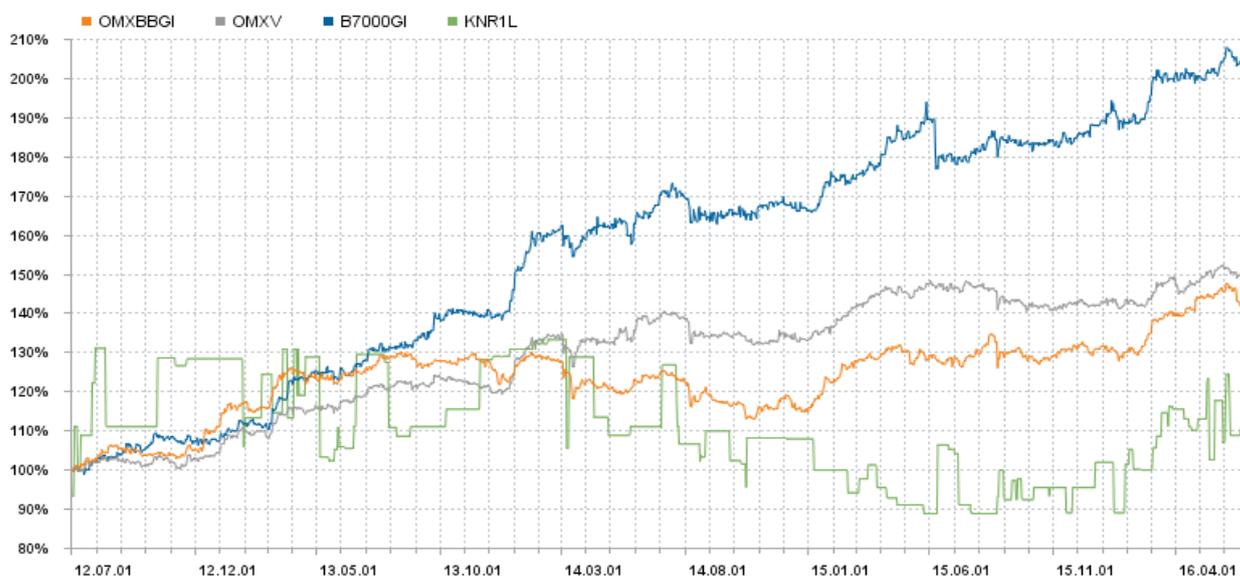
Historical data on share prices (in euro) and turnovers in 01-07-2012 – 30-06-2016 are provided in Chart 15.

Chart 15



Comparison of Company’s share price with the index of own sector (utility services) and OMX Vilnius index is provided in Chart 16.

Chart 16



Data of Chart 16:

Index/Shares	01.07.2012	30.06.2016	+/-%
—OMX Baltic Benchmark GI	492.43	711.29	44.44
—OMX Vilnius	339.89	510.69	50.25
—B7000GI Utilities	920.71	1,875.02	103.65
—KNR1L	0.450 EUR	0.500 EUR	11.11%

17. Information on the Issuer’s shareholders

The total number of Company’s shareholders as at 30 June 2016 was 293.

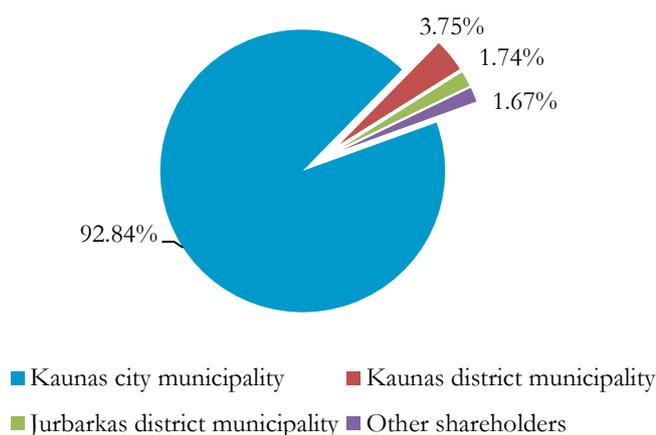
Information on Shareholders of the Issuer who owned as at 30 June 2016 more than 5 per cent of the authorised capital of the Company registered on 18 May 2015 (42,802,143 ordinary nominal shares), is provided in Table 6 and Chart 17.

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 17

Structure of shareholders as at 30 June 2016



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	375,436	0.88
Securities of other accounts keepers clients	229,368	0.53
Private non-financial enterprises	83,508	0.20
Other financial brokers, except insurance companies and pension funds and other auxiliary enterprises	25,000	0.06
Other shareholders (non-financial enterprises controlled from abroad, financial auxiliary enterprises, companies holding deposits, except central bank	200	0.00
Total	42,802,143	100

17.1. The shareholders, who owned as at 30 June 2016 more than 5 per cent of the Company's shares (20,031,977 ORS) issued for public trading (reg. No. A01031430, VP ISIN code – LT0000123010) 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 as at 30 June 2016 more than 5 per cent of the Company's shares (22,770,166 ORS) issued for non-public trading (VP ISIN code – LT0000128407) 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 2010, the dividends from the profit of 2009 were allocated and paid to the shareholders of the Issuer. Dividend per share was EUR 0.024, in total – EUR 1.039 million.

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

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

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

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

In 2015, the dividends from the profit of the year 2014 were allocated and paid to the shareholders of the Issuer. Dividend per share was EUR 0.003, in total – EUR 0.129 million. The profit was allocated to the statutory reserve, other reserves. A total of EUR 0.2 million was allocated for support 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 EUR 0.042, in total – EUR 1.798 million. The profit was allocated to the statutory reserve, other reserves, annual payments for Management Board members, bonuses for employees. A total of EUR 0.05 million was allocated for support and charity.

18. Employees

A total of 517 employees were employed in the Group as at 30 June 2016. Changes in the number of employees of the Group in 2012 – 1 half of the year 2016 are specified in Table 10.

Table 10

Actual number of employees	Group 31-12-2012	Group 31-12-2013	Group 31-12-2014	Group 31-12-2015	Group 30-06-2016
Total:	617	561	545	526	517
including: management	6	7	6	4	3
specialists	327	292	290	279	278
workers	284	262	249	243	236

Changes in the number of employees of the Company in 2012 – 1 half of the year 2016 are specified in Table 11.

Table 11

Actual number of employees	Company 31-12-2012	Company 31-12-2013	Company 31-12-2014	Company 31-12-2015	Company 30-06-2016
Total:	583	548	542	523	514
including: management	4	5	4	3	2
specialists	314	288	290	278	277
workers	265	255	248	242	235

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

Table 12

No	Education	Group 31-12-2012	Group 31-12-2013	Group 31-12-2014	Group 31-12-2015	Group 30-06-2016
1	Secondary incomplete	9	6	6	7	5
2	Secondary	231	217	206	195	191



No	Education	Group 31-12-2012	Group 31-12-2013	Group 31-12-2014	Group 31-12-2015	Group 30-06-2016
3	College	89	80	77	72	72
4	Higher	288	258	256	252	249
	Total:	617	561	545	526	517

Education of employees of the Company as at the end of the period is provided in Table 13.

Table 13

No	Education	Group 31-12-2012	Group 31-12-2013	Group 31-12-2014	Group 31-12-2015	Group 30-06-2016
1	Secondary incomplete	8	5	6	7	5
2	Secondary	217	211	205	194	190
3	College	83	78	77	72	72
4	Higher	275	254	254	250	247
	Total:	583	548	542	523	514

Average conditional number of employees and average monthly salary in euros (as at the end of the 1 half of the year 2016 before taxes) is provided in Table 14.

Table 14

No	Employees	Company	Group
1.1.	Average conditional number of managers	3	5.2
1.2.	Average monthly salary of managers	4,317.6	2,944.9
2.1.	Average conditional number of specialists	255.5	256.5
2.2.	Average monthly salary of specialists	958.64	956.7
3.1.	Average conditional number of workers	227.6	228.5
3.2.	Average monthly salary of workers	689.9	688.1

The salary of employees of the Issuer consists of the constant some part of salary, variable part of salary, benefits and allocations paid according to the Labour Code of the Republic of Lithuania and other laws, Collective agreement of the Company, and bonuses. Bonuses are paid from net profit, if the General Meeting of Shareholders allocates part of the profit for the bonuses of the Company employees. From 1998 till 2015, the General Meeting of Shareholders has never allocated any part of the profit for the bonuses of the Issuer's employees. The General Meeting of Shareholders that has been held on 28 April 2016 allocated EUR 207 thousand from the profit of the year 2015 for bonuses for employees.

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

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



14. Employees who take entrance exams to universities, higher schools and colleges and successfully study in them, if their chosen specialty is within the interests of the Company and the job carried out, are granted the statutory paid educational leave, by paying 50 per cent of the employee's average salary.

The employer undertakes:

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

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

The statutes of the Company were amended on 28 April 2016 by the decision of the General Meeting of Shareholders. A number of members of Company's Management Board reduced from 7 (seven) to 5 (five) and the remuneration for the activity of the member of the Management Board provided. The new version of the statutes was registered on 13 May 2016 in the Register of Legal Entities of the Republic of Lithuania. It can be found in the Internet website of the Company at www.kaunoenergija.lt.

20. Issuer's management bodies

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

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



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

1 (one) General Meeting of Shareholders was convoked in the 1 half of the year 2016. Company's General Manager and Head of Department of Finances took part in it. Issuers' shareholders are allowed to ask questions and to get answers or explanations from Company's managers and speakers.

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

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

The Management Board elects and removes from office the Company's General manager, determines his salary and sets other terms of the employment contract, approves his job description, provides incentives for him and



impose penalties; makes other decisions assigned to the competence of the Management Board by the Law on Companies of the Republic of Lithuania, statutes or the Company or resolutions of the General Meeting of Shareholders.

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

20.1. Data on the committees in the Company

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

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

On 26 October 2015 the Supervisory Board appointed by the decision No. 2015-4 Mrs. Edita Plūkienė, Member of Kaunas City Municipality Council, Mr. Židrūnas Garšva, Member of Supervisory Board and Mr. Audrius Lukoševičius, Director of budgetary institution “Kauno biudžetinių įstaigų buhalterinė apskaita” (Accounting of budgetary institutions of Kaunas city) as an independent members of the Company's Audit Committee and determined, that members of Audit Committee carry out their activities starting from 27 October 2015.

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

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

In carrying out its activities, the Audit Committee follows the internal rules of procedure of the Company's Audit Committee approved by decision No 2015-4 of 26 October 2015 of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. The Audit Committee had no sessions during the 1 half of the year 2016.

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

Mr. Židrūnas Garšva is a member of the Kaunas City Municipality Council, member of Committee of City Economy and Services, member of the 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 – CEO of UAB Dextera. Mr. Židrūnas Garšva holds no shares of the Company. Mr. Ž. Garšva holds the shares of UAB Dextera Holding.

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

Mrs. Inga Šliačkovienė is a Deputy Chief Accountant of the Company. She was elected as a member of Company’s Audit Committee on 26 October 2015. Education – University degree, bachelor in economy from Faculty of Economy and Management of Kaunas University of Technology (2007). Workplaces and positions held over the last 10 years: 09.2004–08.2009 – accountant of Company’s accounting department, 08.2009–05.2014 – senior accountant of the Company. Mrs. Inga Šliačkovienė holds no shares of the Company. No interest in the capital of other Lithuanian companies.

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

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

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

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

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

Members of the Supervisory Board of the Company as at 30 June 2016:

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



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

2 sessions of the Supervisory Board were held during the 1 half of the year 2016. 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 Board

As at 30 June 2016 the members of the Company's Management Board were as follows:

Full name	Position	Beginning of term	End of term
Vytautas Mikaila	Chairman of the Board	1 June 2015	1 June 2019
Algimantas Stasys Anužis	Deputy chairman of the Board	1 June 2015	1 June 2019
Eugenijus Ušpuras	Member of the Board	1 June 2015	1 June 2019
Nerijus Mordas	Member of the Board	1 June 2015	1 June 2019
Giedrius Bielskus	Member of the Board	1 June 2015	1 June 2019

The Company's Management Board held 14 sessions in the 1 half of the year 2016. More than 2/3 members of the Management Board attended all the sessions.



Mr. Vytautas Mikaila is a doctor in engineering, Director of UAB MVE Group, member of Association of Heating Technicians Engineers, member of Rotary Club Kauno Taurus, honorary consul of Slovak Republic in Lithuania. Starting from 1 July 2015 – head of Company's Strategy and Investment Projects department. He is a chairman of Company's Management Board from 1 June 2015. Mr. Vytautas Mikaila holds no shares of the Company. He holds 55% of shares in UAB MVE Group. Mr. Vytautas Mikaila charged EUR 5.26 thousand of salary, EUR 1.49 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No assets were transferred or guarantees issued during the reporting period.



Mr. Algimantas Stasys Anužis is a member of the Board of UAB Kauno Švara, member of board of Kaunas Chamber of Commerce, Industry and Crafts, president of Lithuanian Veterans Basketball League, member of Company's 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 0.90 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No 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 0.90 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No 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 0.90 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No assets were transferred or guarantees issued during the reporting period.



Mr. Nerijus Mordas is a chief finance officer for Eastern European and Asian markets of UAB Vičiūnų Grupė (UAB Vičiūnai Group), auditor of UAB E. Mordas ir Partneriai (UAB E. Mordas and Partners), deputy director (for finances) of OOO Vičiūnai-Rus, member of Company's 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 0.90 thousand of remuneration according to agreement of the member of Management Board and EUR 6.48 thousand of annual payments from the profit of the year 2015. No assets were transferred or guarantees issued during the reporting period.

Members of Company's Management Board until 23 March 2016:

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

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

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

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



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

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

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

The total amount of money incurred to the General Manager and the Chief Accountant of the Company during the 1 half of the year 2016 is EUR 56.94 thousand, and the average amount per member is EUR 28.47 thousand. No other assets have been transferred, no guarantees granted.

22. Information on significant agreements

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

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

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

24. Information on major transactions with related parties

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

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

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

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

Information on compliance with the corporate governance code is provided in Annex 1 to the Annual Report of the year 2015. Annual reports on the Company's corporate social initiatives and policies are provided in Annex 2 to the Annual Report of the year 2015 named AB Kauno Energija Report on Social Responsibility and on the Company's website.

27. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information starting from 1 January 2015 over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. This information was also posted on the



website of the Issuer. All information is available on Nasdaq Vilnius websites (<http://www.nasdaqbaltic.com/market/?lang=lt>) and the issuer's website (<http://www.kaunoenergija.lt>).

Title	Announcement category	Language	Time
Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-07-29 16:00
Activity results of the 1 half of the year 2016	Notification on material event	EN, LT	2016-07-28 16:00
Convocation of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-06-30 16:44
AB Kauno Energija and UAB E energija signed an agreement on acquisition of the shares of UAB Petrašiūnų Katilinė	Notification on material event	EN, LT	2016-06-23 16:00
Regarding decision on acquisition of the shares of UAB Petrašiūnų Katilinė	Notification on material event	EN, LT	2016-06-16 17:33
CORRECTION: Resolutions of the General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-04-29 11:28
Activity results of the 1 quarter of the year 2016	Interim information	EN, LT	2016-04-28 17:06
Resolutions of the General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-04-28 16:27
Financial statements with the annual report and Social Responsibility Report	Annual information	EN, LT	2016-04-28 16:44
Convocation of General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-04-11 16:04
Convocation of General Meeting of Shareholders of AB Kauno Energija	Notification on material event	EN, LT	2016-03-30 18:17
Audited activity results of AB Kauno Energija of the year 2015	Notification on material event	EN, LT	2016-03-30 18:16
Information on recall of the members of Management Board of AB Kauno Energija	Notification on material event	EN, LT	2016-03-24 13:50
Vilnius Commercial Arbitration Court approved a peaceful agreement between AB Kauno Energija and UAB Kauno Termofikacijos Elektrinė by which a litigation in case No. 268 was terminated	Notification on material event	EN, LT	2016-02-02 16:26
Activity results of 12 months of the year 2015	Interim information	EN, LT	2016-01-28 16:00

General Manager of AB Kauno Energija

Rimantas Bakas

