



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



Kaunas, 2017



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

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

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

General Manager of AB Kauno Energija



Rimantas Bakas

Head of Finance Department of AB Kauno energija



Gintautas Muznikas

Deputy Chief Accountant of AB Kauno Energija



Inga Šliačkuvienė

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1. Reporting period of the Consolidated Interim Report

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

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

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

Main details of the Company:

Name of the Company:	Open Limited Liability Company Kauno Energija
Legal-organizational form:	Open Limited Liability Company
Headquarters address	Raudondvario pl. 84, 47179 Kaunas
Code of legal entity:	235014830
Telephone	+370 37 305 650
Fax	+370 37 305 622
E-mail:	info@kaunoenergija.lt
Webpage	www.kaunoenergija.lt
Registration date and place	22 August 1997, Kaunas, Order No 513
Register manager	Kaunas Branch of State Enterprise Centre of Registers
VAT payer code	LT350148314

Main information about the subsidiaries:

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

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

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

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

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



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

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

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

Values of the Group and the Company:

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

Strategic goals of the Group and the Company:

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

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

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



4. Issuer's agreements with credit institutions

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

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

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

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

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

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

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

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

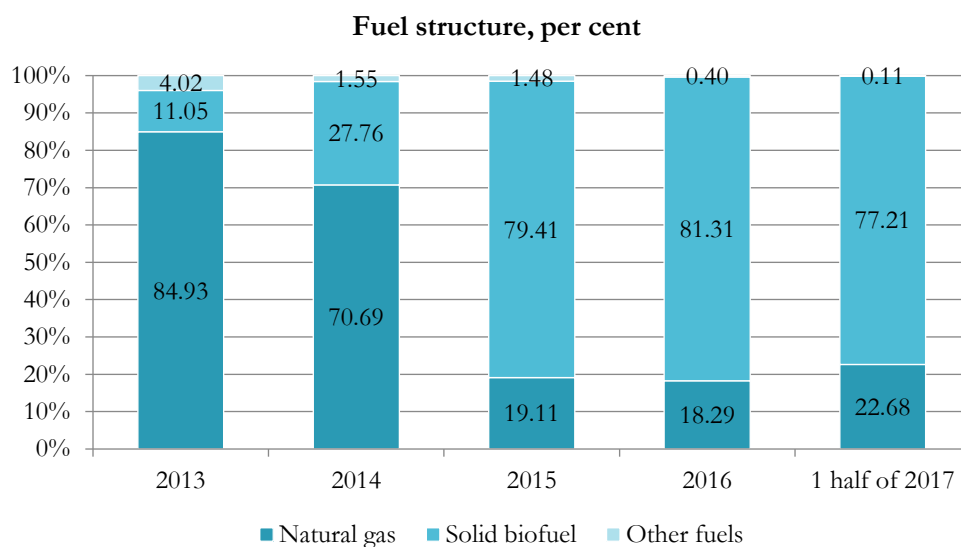
Almost 38 per cent of heat supplied to consumers in the 1 half of the year 2017 was produced in Company's heat production facilities. The rest of required quantity of heat was purchased from independent heat producers (hereinafter – IHP) in monthly auctions, according to legal acts.

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

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

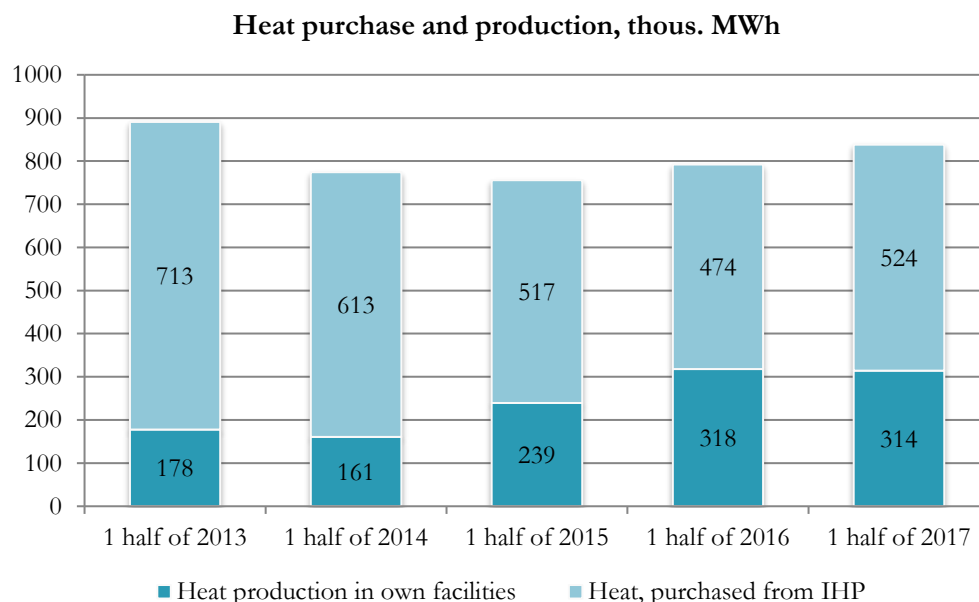


Chart 1



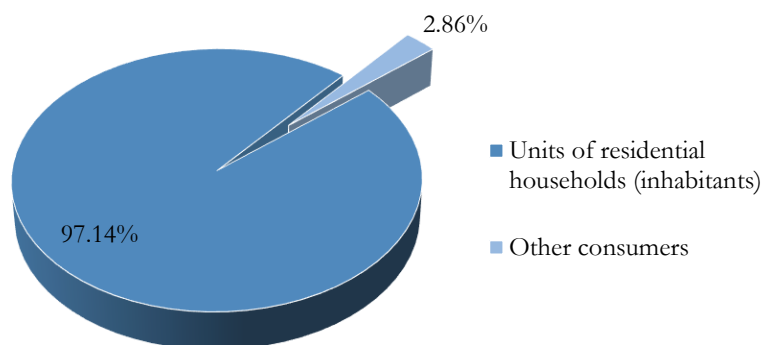
In the 1 half of the year 2017, the Company purchased heat from 11 IHP in Kaunas and Kaunas district: from UAB Kauno Termofikacijos Elektrinė, UAB Danpower Baltic Taika, UAB Lorizon Energy, UAB Ekoresursai, UAB Petrašiūnų Katilinė, UAB Aldec General, UAB ENG, UAB Danpower Baltic Biruliškių, UAB Ekopartneris,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

Chart 2



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

Repartition of Company's heat consumers by groups



Investments

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

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

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

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

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

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

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

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

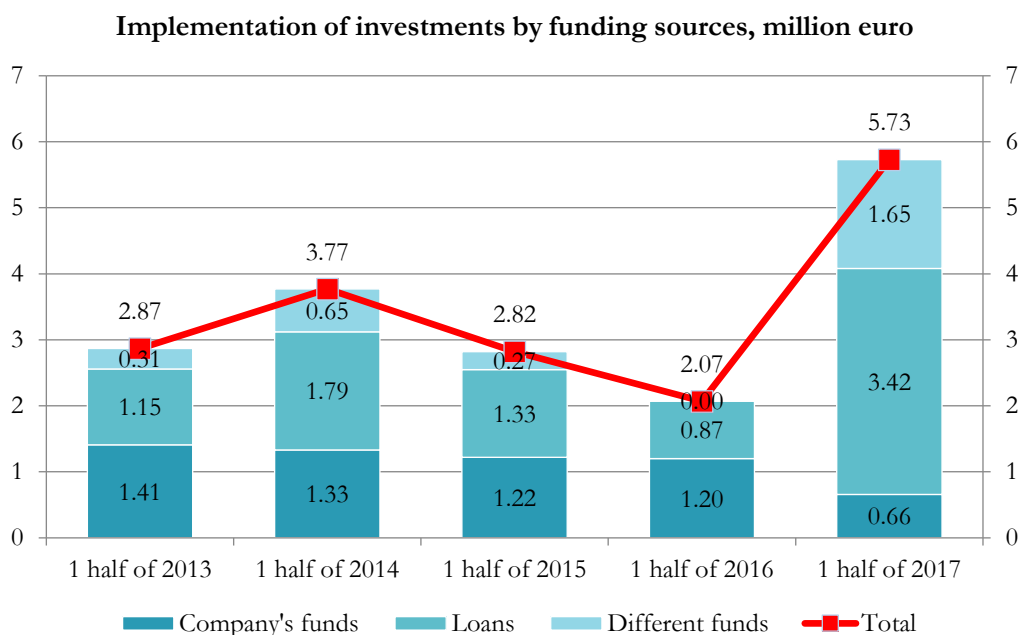
Projects are being pursued under the measure No. 04.3.2-LVPA-K-102 “Modernisation and development of heat supply networks” 1 invitation of the 4 priority “Promoting energy efficiency and production and use of renewable energy” of Operational Programme for the European Union Funds’ Investments in 2014–2020:

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

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

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

Chart 4



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

External risk factors affecting the Company's core business:

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

Legal conformity risk: Energy activities are governed by the Law on Heat Sector, the Law on Energy, the Law on Electricity, the Law on Natural Gas, the Law on Drinking Water Supply and Wastewater Management, Government resolutions, Heat supply and consumption rules, Methodology of heat prices and payments for heat of NCC and other legislation. Their amendments affect the heating industry.

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

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

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

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



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

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

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

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

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

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

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

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

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



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

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

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

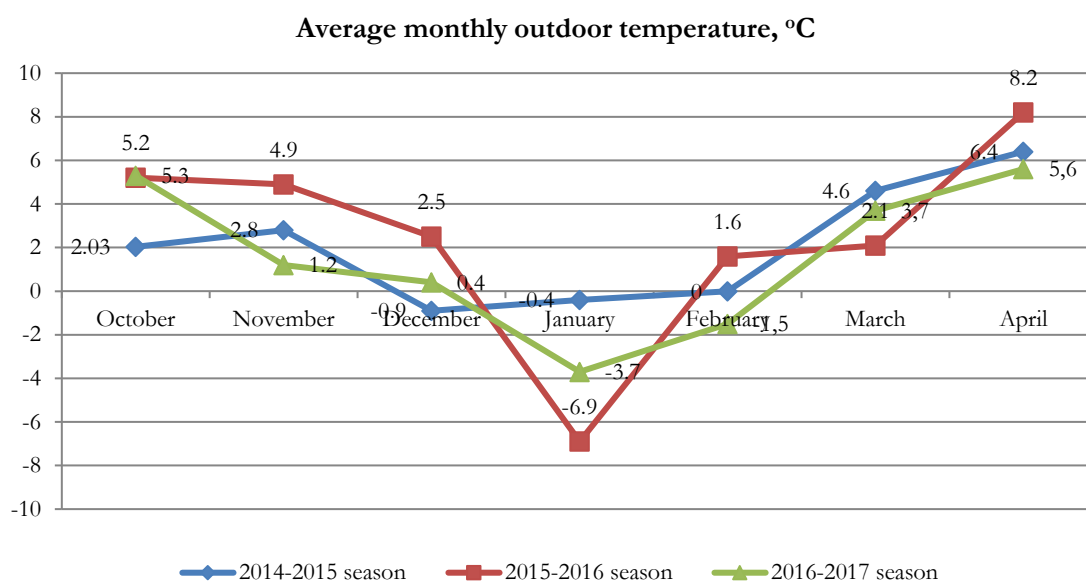
7. Analysis of financial and non-financial performance results, information related to environmental issues

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

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

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

Chart 5



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

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

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

Table 1

No	Indicator of the Group	1 half 2013	1 half 2014	1 half 2015	1 half 2016	1 half 2017
1.	Revenue from sales, thousand euros	60,246	46,383	37,468	36,184	35,313
1.1.	Including: Heat energy	58,727	44,661	35,739	34,514	33,594
1.2.	Electric energy	60	87	122	38	0
1.3.	Maintenance of indoor heating and hot water supply systems, heating substation facilities	125	21	16	5	3
1.4.	Income from the maintenance of collectors	112	114	113	113	125
1.5.	Hot water supply including cold water price	1,175	1,430	1,351	1,374	1,430
1.6.	Income from maintenance of hot water meters	47	70	127	140	161
2.	Profit, thousand euros	5,468	1,798	4,773	7,185	6,160
3.	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	8,175	4,805	8,060	10,667	10,089
4.	Profitability of core business, per cent (operating profit / sales and services)*100	4.5	3.7	13.3	15.0	15.8
5.	Net profitability, per cent (net profit / sales and services)*100	9.1	3.9	12.7	19.9	17.4
6.	Assets, thousand euros	116,518	120,702	129,542	132,473	144,418
7.	Equity, thousand euros	81,115	78,318	82,124	87,247	88,642
8.	Return on equity (ROE), per cent (net profit / average equity)*100	7.0	2.3	6.0	8.7	7.4
9.	Return on assets (ROA), per cent (net profit / average assets)*100	4.7	1.4	3.5	5.4	4.4
10.	Asset turnover ratio (sales and services / assets)	0.52	0.38	0.29	0.27	0.24
11.	Return on tangible assets, per cent (net profit / average value of tangible assets)*100	5.7	1.8	39	6.0	4.9
12.	Debt ratio (liabilities / assets)	0.30	0.35	0.37	0.34	0.39
13.	Debt-to-equity ratio (liabilities / equity)	0.4	0.5	0.6	0.5	0.6
14.	General liquidity ratio (short-term assets / short-term liabilities)	1.29	0.81	1.17	2.46	1.43



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

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

Table 2

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



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

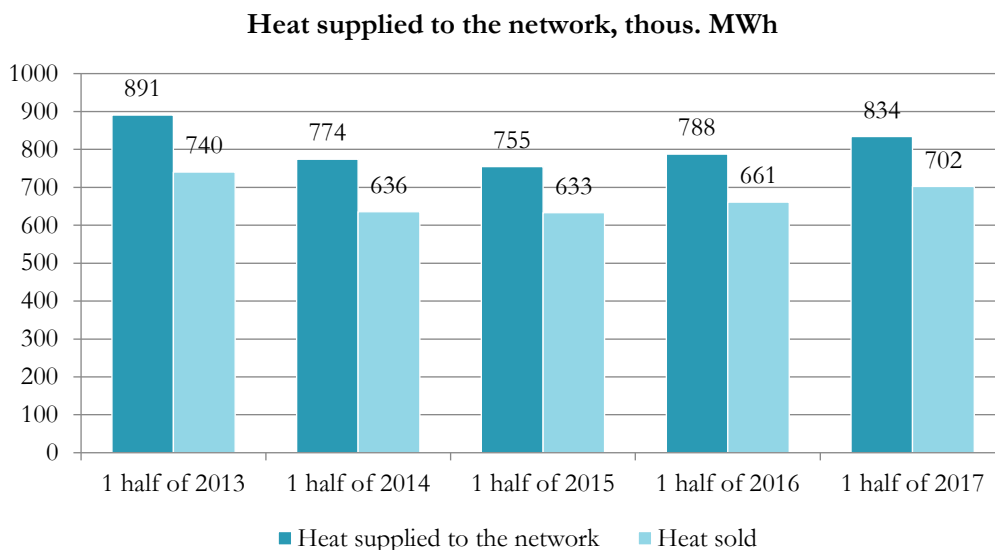
A more detailed analysis of financial indicators of the Group and the Company is provided in notes to Consolidated and Company's financial statements for the 1 half of the year 2017.

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

Table 3

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

Chart 6

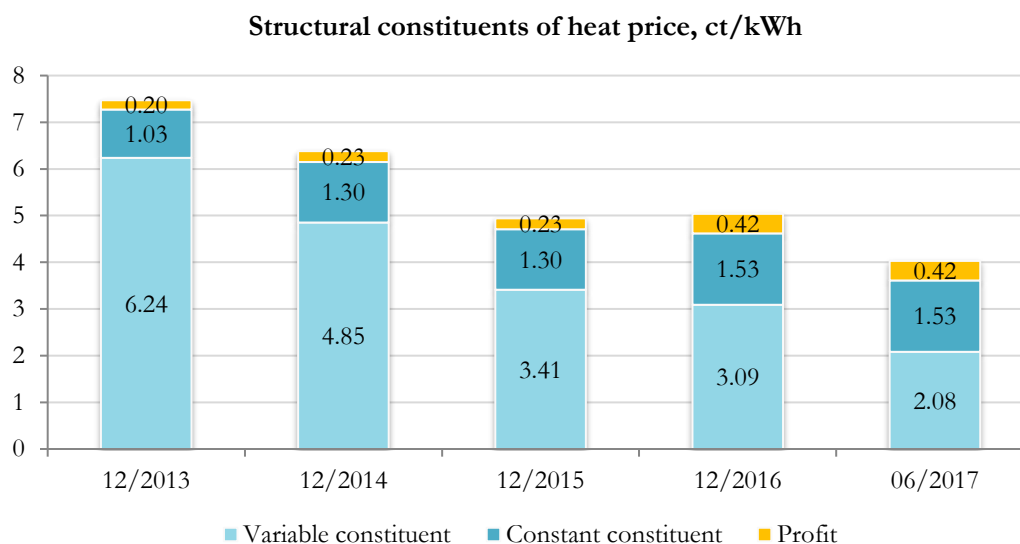


Environmental impact on operations: The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher or lower outdoor temperature during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

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

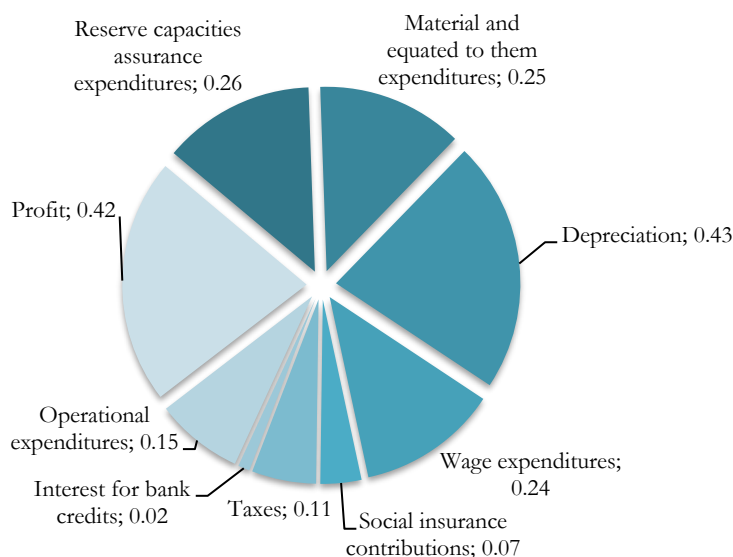
Components of Company's heat price structure in 2013–2017 are provided in Chart 7.

Chart 7



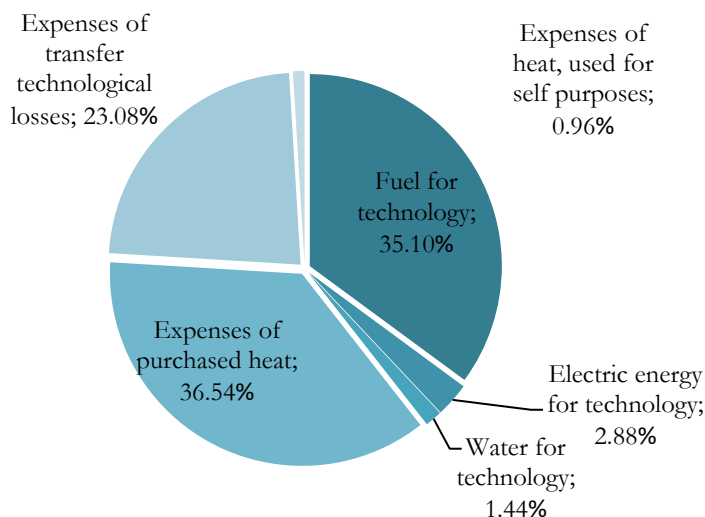
Management Board of AB Kauno Energija determined by its decision of 28 January 2016 No. 2016-2-2 (changed by the decision of AB Kauno Energija Management Board No. 2016-8-3 of 28 April 2016) a heat price constituents for the third year of validity of basic heat price, which were agreed by NCC's decision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

Chart 8

Heat price constant constituent, euro ct/kWh

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

Chart 9

Heat price variable constituent in June 2017, per cent

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

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

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

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

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

8. References and additional explanations

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

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

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

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

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

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

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

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

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

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



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

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

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

It is planned that in 2017 in comparison with 2016, the Group's sales turnover will be less than in 2016 due to the decrease in heat price; the amount of heat sold to consumers will remain at the comparable level as in 2016. The greatest impact on the Group's and the Company's income and expenses will be made by fuel and purchased heat price changes, as the price of heat under the requirements of the law is recalculated every month. The Group's profit in comparison with 2016 is planned to be less due to the less heat prices. The submitted data may be adjusted by change in heat demand, i.e. consumption, which is mainly affected by the average outdoor air temperature, the size of user investment in housing renovation, energy-saving and its rational use, as well as changes in the economic situation in Lithuania.

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

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

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

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

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

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



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

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

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

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

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

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

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



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

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

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

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

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

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

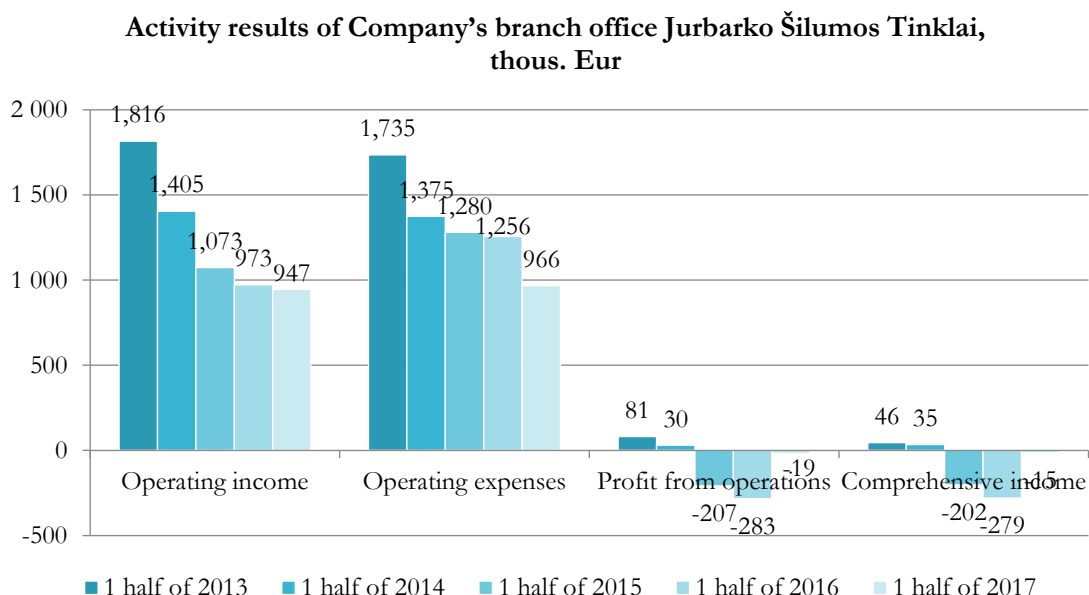
14. Information on the Issuer's branch office and subsidiary undertakings

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

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

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

Chart 10



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

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

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

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

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

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

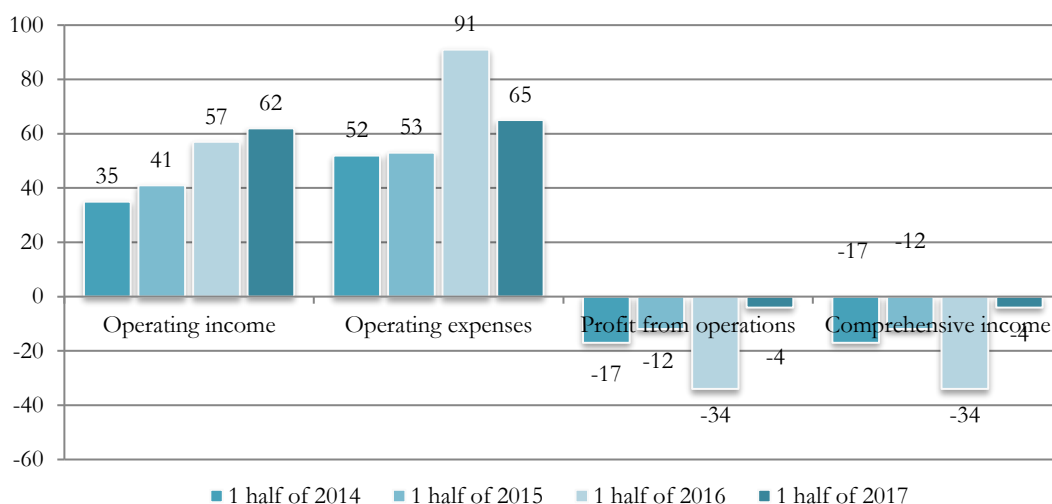
Turnover of UAB Kauno Energija NT of the 1 half of the year 2017 was EUR 62 thousand, Comprehensive income was amounted to EUR (4) thousand.

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

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

Chart 11

Activity results of UAB Kauno Energija NT, thous. euros



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

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

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

Activities of UAB Petrašiūnų Katilinė include production of heat.

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

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

15. Structure of authorized capital

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

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

Table 4

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

16. Data on shares issued by the Issuer

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

There are no limitations on the transfer of securities.

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

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

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

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

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

Table 5

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

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

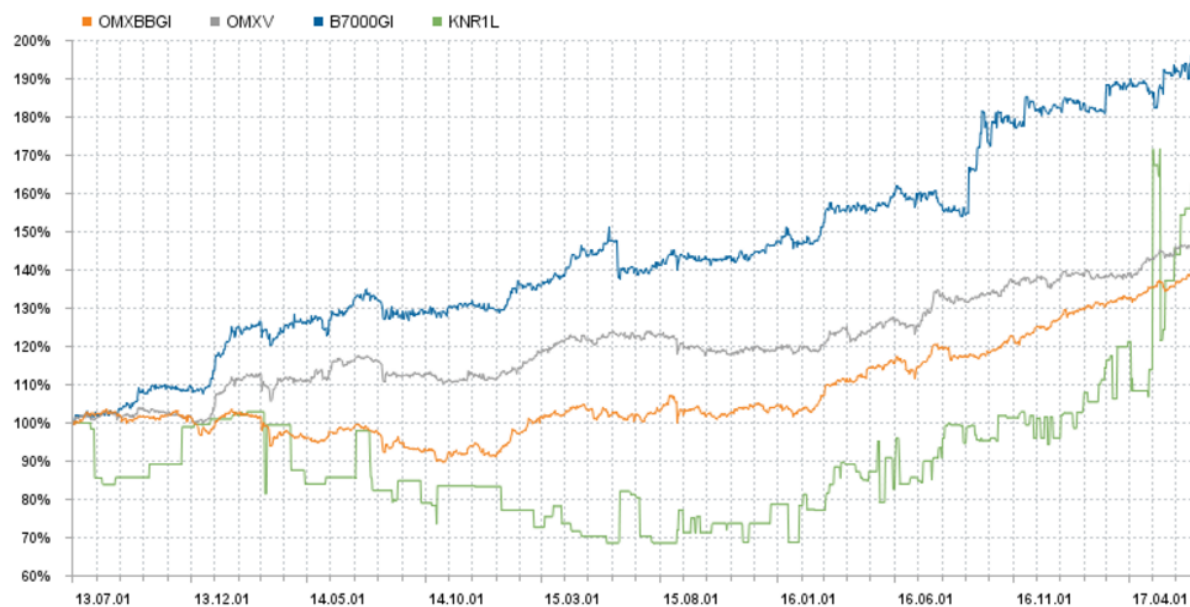


Chart 12



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

Chart 13



Data of Chart 13:

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



17. Information on the Issuer's shareholders

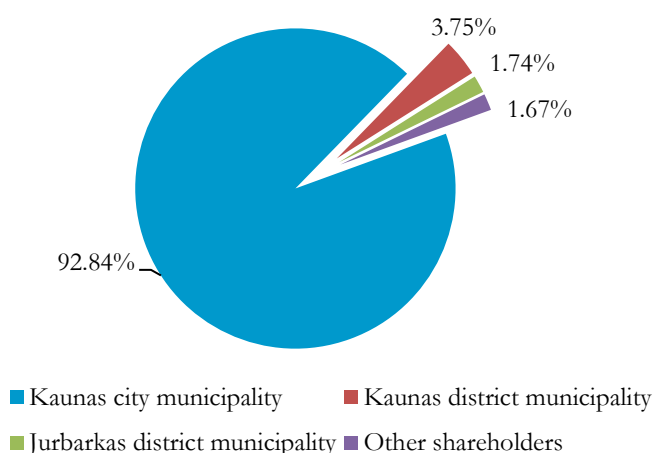
The total number of Company's shareholders as at 30 June 2017 was 287. Information on Shareholders of the Issuer who owned as at 30 June 2017 more than 5 per cent of the authorised capital of the Company registered on 18 May 2015 (42,802,143 ordinary nominal shares), is provided in Table 6 and Chart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

Table 6

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

Chart 14

Structure of shareholders as at 30 June 2017



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

Table 7

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



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

Table 8

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

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

Table 9

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

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

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

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

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

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

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

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

18. Employees

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

Table 10

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

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

Table 11

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

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

Table 12

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

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

Table 13

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

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

Table 14

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

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

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

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

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

1. For continuous employment within the Company employees are granted additional paid leave.
 2. The record of service of employees who worked in Lithuanian energy system companies and who were redeployed to the Company according to the corporate employer agreement, i.e. when the transfer was carried out according to the Labour Code or the Law on Employment Contract, is considered uninterrupted and those employees are granted an additional paid leave for an uninterrupted record of service within the Company.
 3. At the agreement of the employer and employee, the employee may be granted unpaid leave for family related issues and other important reasons.
 4. Company's employees are entitled to additional paid leave.
- The employer obligates:
1. To ensure the conditions of preventive health check and, if necessary, rehabilitation treatment of employees, to provide free health services at the Company's occupational health unit;
 2. In case of death of an employee, the Company pays an allowance in the amount of two monthly average salaries of the last year of the Company or a branch (depending on where the employee has worked), gives free transport or covers transport costs. The allowance is granted to the burying person;
 3. In case of death of a close relative of the employee (father, mother, child, or spouse), the employee is granted the allowance of the average salary of the previous year of the Company or an affiliate (depending on where the employee works), given free transport or transport costs are covered;
 4. In case of birth of one or more children, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) for each child;



5. In case of wedding, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works);

6. Employees who are growing up three or more children under the age of 16, widows (widowers) and unmarried persons who grow up one child or children alone, if they are studying at secondary schools until the age of 19, and while studying at higher schools or colleges full-time till the age of 21, or if they are caring for other family members with heavy or moderate disability level or lower than 55 per cent working ability level, or family members who have reached the retirement age, which according to the laws are established a major or moderate level of special needs, once a year are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) according to the date of request;

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

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

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

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

19. Procedure for amending the Issuer's Statutes

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

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

20. Issuer's management bodies

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



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

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

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

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

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

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

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

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

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

20.1. Data on the committees in the Company

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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



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



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



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



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



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



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

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

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

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

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



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



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



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



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



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

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

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

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

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

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

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

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

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

22. Information on significant agreements

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



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

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

24. Information on major transactions with related parties

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

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

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

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

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

27. Data on publicised information

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

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



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

General Manager of AB Kauno Energija



Rimantas Bakas

