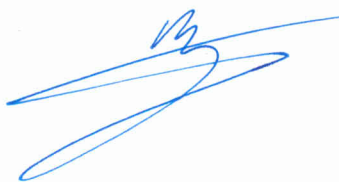


AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT
COMPANY'S FINANCIAL STATEMENTS FOR
THE FIRST HALF OF THE YEAR 2014,
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING
STANDARDS, AS ADOPTED BY THE
EUROPEAN UNION

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

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

General Manager



Rimantas Bakas

Chief Accountant



Violeta Staškūnienė

Statements of Financial Position

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



(cont'd on the next page)

Statements of Financial Position (cont'd)

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

(the end)

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

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

Statements of Comprehensive Income

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

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

| | | | |
|------------------|---------------------|--|--------------|
| General Manager | Rimantas Bakas |  | 23 July 2014 |
| Chief Accountant | Violeta Staškūniene |  | 23 July 2014 |

Statements of Comprehensive Income

Company

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



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

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

Statement of Changes in Equity

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



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

| | | | |
|------------------|----------------------------|--|--------------|
| General Manager | <u>Rimantas Bakas</u> |  | 23 July 2014 |
| Chief Accountant | <u>Violeta Staškūnienė</u> |  | 23 July 2014 |

Statement of Changes in Equity

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

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

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

Statements of Cash Flows

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



(cont'd on the next page)

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

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

(the end)

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

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

Notes to the financial statements

1. General information

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

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

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

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

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

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

On 23 July 2009 in the Company's Shareholders Meeting it was decided to increase the share capital by issuing 22,700,000 ordinary shares with the par value LTL 6 each. Priority right to acquire issued shares was granted to Kaunas city municipality. The issue price of shares is equal to their nominal value. For this share the Company received a contribution in-kind comprising manifolds in Kaunas city with the value of LTL 136,200 thousand which was established by the independent property valuers under the replacement cost method.

On 17 February 2010 in the Company's Extraordinary Shareholders Meeting it was decided to increase the share capital by LTL 682 thousand (from LTL 255,710 thousand to LTL 256,392 thousand) issuing 113,595 ordinary shares with the par value LTL 6 each. The issue price of shares is equal to their nominal value. A building of a boiler house located in Kaunas city, owned by Kaunas City Municipality, and engineering networks located in Jurbarkas city, owned by Jurbarkas Region Municipality, were received as a non-monetary contribution in kind for these shares. The value of this non-monetary contribution as of the transfer date was determined by independent valuers under the replacement cost method.

It was decided at the Company's Extraordinary meeting of shareholders held on 6 January 2014 to increase Company's authorised capital with LTL 421 thousand from LTL 256,392 thousand to LTL 256,813 thousand by issuing 70,166 ordinary shares at a nominal value of LTL 6, whose emission price is equal to nominal value of the share, enabling Kaunas city municipality to purchase those shares, seeking that Kaunas city municipality would dispose its own heat supply pipeline – heat network, situated in Karaliaus Mindaugo av. 50, Kaunas. A newly issued Company's Statutes were registered on 20 March 2014 after increase of authorised capital.

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

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

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

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

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

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

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

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

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

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

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

Legal Regulations

Operations of the Company are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. Starting from 1 January 2008, the Law amending the Heating Law No. X-1329 of 20 November 2007 of the Republic of Lithuania came in to force. On 13 of October, 2011 the change in Heating Law has been announced. It determines that heating and hot water systems as well as heat points of blocks of flats must be supervised by the supervisor unrelated to the supplier of heat and hot water, who must be chosen by inhabitants of this block of flats, without reference to ownership of these heat points. This prohibition, provided by the law, is not applied to the maintenance of heating and hot water systems of buildings which appear in populated localities with less than 50 000 inhabitants according to the data of the Lithuanian Department of Statistics, if the municipal council doesn't make a different decision. This change in the Law on Heat Sector of the Republic of Lithuania No XI-1613 came into force starting November 1, 2011. Any expenses, related to maintenance of the heat points are not included in a heat price since that date.

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

Operational Activity

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

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

In the year 2003 the Company sold a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) and committed to purchase at least 80 percent of the annual demand of Kaunas integrated heating network from this company. The contract is valid for 15 years from the signing day. It was determined in this contract that heat purchase price from KTE will not increase in 5 years from the day of contract signing. Starting from 1 December 2008 a new basic heat prices for each 4 years period are being approved by the Commission for KTE and for the Company according to valid legal acts.

The Company received an official note on 13th of April, 2012 confirming the decision of Gazprom OAO to sell its shares to the smaller shareholder "Clement Power Venture Inc.", and the provision, that Gazprom OAO as the main shareholder of KTE must ensure that during the term of agreement, i. e. until 30th of March, 2018 it will own the main block of shares and adequate (not less than 51 percent) number of votes in General

meeting of shareholders, is confirmed in heat purchase agreement signed in 2003 between the Company and KTE, Company's Management Board decided on 10th of July, 2012 to approve the selling of all the shares of Kauno Termofikacijos Elektrinė UAB owned by Gazprom OAO to Clement Power Venture Inc., regularizing terms of change of contracts agreements signed with Kauno Termofikacijos Elektrinė UAB and seeking the best for the Company from this selling. On 13 March 2013 KTE adduced to Company an evidence, i.e. an extract from securities account, saying that ownership of the shares of KTE owned by Gazprom OAO is transferred to Clement Power Venture Inc. since 7 March 2013. The changes of Agreement on Investments and of Heat Sales Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and Gazprom OAO on 13 August 2013 came into force since that date. Following changes of Heat Sales Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of LTL 350 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of LTL 10 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 percent forfeit from the value of unfulfilled investments. Notwithstanding agreements reached, on 30 April, 2013 KTE placed a claim to Vilnius Court of Commercial Arbitration. KTE seeks to argue obligations, determined by chapters 2 and 3 of Investments Agreement of 13 August, 2013 by this claim regarding investments in Company heat economy in amount of LTL 10 million and the terms of implementation as well as forfeit (penalties) determined if those investments would not be implemented. According 19th February, 2014 arbitration decision Company and KTE began negotiations for a peaceful settlement of investment dispute, however on 26th May Company has informed Arbitration court that compromise has not been reached. The new deadline has been confirmed for KTE to clarify its claims in the case. The session in this case is not appointed.

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

Strategic Decisions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Accounting principles

2.1. Adoption of new and/or amended IFRS

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

2.2. Statement of Compliance

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

Basis of the preparation of financial statements

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

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

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

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

Principles of consolidation

Principles of consolidation

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

2.3. Investments in subsidiaries

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

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

2.4. Intangible assets

Intangible assets acquired separately

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

Derecognition of intangible assets

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

Licenses

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

Software

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

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

2.5. Accounting for emission rights

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

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

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

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

2.6. Property, plant and equipment

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

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

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

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

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

| | Years |
|--------------------------|--------------|
| Buildings | 7 – 50 |
| Structures and machinery | 5 – 70 |
| Vehicles | 3 – 10 |
| Equipment and tools | 2 – 20 |

Freehold land is not depreciated.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.8. Financial assets

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

Effective interest rate method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

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

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

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

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

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

Loans and receivables

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

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

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

Impairment of financial assets

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

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

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

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

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

Derecognition of financial assets

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

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

2.9. Derivative financial instruments

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

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

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

2.10. Inventories

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

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

2.11. Provisions

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

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

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

2.12. Cash and cash equivalents

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

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

2.13. Employee benefits

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

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

2.14. Borrowing costs

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

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

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

2.17. Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

2.18. Leasing

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

The Group and the Company as lessor

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

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

The Group and the Company as lessee

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

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

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

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

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

2.19. Grants (deferred income)

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

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

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

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

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

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

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

2.20. Income tax

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

Current tax

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

Deferred tax

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

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

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

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

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

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

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

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

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

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

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

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

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

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

The applicable rates used for principal currencies were as follows:

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

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

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

2.25. Use of estimates in the preparation of financial statements

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

Estimates and assumptions

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

Property, plant and equipment – useful life

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

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

Realisable value of inventory

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

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

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

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

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

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

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

Allowances for accounts receivable

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

Deferred Tax Asset

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

Litigations

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

2.26. Contingencies

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

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

2.27. Subsequent events

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

2.28. Offsetting and comparative figures

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

2.29. Segments

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

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

3. Intangible assets

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

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

4. Property, plant and equipment

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

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

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

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

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

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

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

5. Non-current accounts receivable

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

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

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

6. Other financial assets

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

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

7. Inventories

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

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

8. Current accounts receivable

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

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

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

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

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

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

The ageing analysis of the Group's net value of trade receivables as of 30 June 2014 and 31 December 2013 is as follows:

| | Trade receivables neither past due nor impaired | Trade receivables past due | | | | | Total |
|-------------|--|-----------------------------------|----------------------|-----------------------|-----------------------|---------------------------|--------------|
| | | Less than 60 days | 60 - 150 days | 151 - 240 days | 241 - 360 days | More than 360 days | |
| 2014 | 7.133 | 2.092 | 4.960 | 1.446 | 249 | 4.337 | 20.217 |
| 2013 | 44.691 | 3.295 | 995 | 973 | 1.231 | 5.836 | 57.021 |

The ageing analysis of the Company's net value of trade receivables as of 30 June 2014 and 31 December 2013 is as follows:

| | Trade receivables neither past due nor impaired | Trade receivables past due | | | | | Total |
|-------------|--|-----------------------------------|----------------------|-----------------------|-----------------------|---------------------------|--------------|
| | | Less than 60 days | 60 - 150 days | 151 - 240 days | 241 - 360 days | More than 360 days | |
| 2014 | 7.133 | 2.092 | 4.960 | 1.446 | 249 | 4.337 | 20.217 |
| 2013 | 44.679 | 3.295 | 995 | 973 | 1.231 | 5.836 | 57.009 |

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

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

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

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

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

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

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

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

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

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

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

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

9. Cash and cash equivalents

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

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

10. Reserves

Legal and other reserves

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

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

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

11. Borrowings

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

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

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

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

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

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(all amounts are in LTL thousand unless otherwise stated)

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

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

Detailed information on loans as of 30 June 2014:

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

* Nordea Bank Finland Plc. Lithuanian branch;

** Danske Bank A/S Lithuania branch;

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

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

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

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

12. Finance lease obligations

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

Future minimal lease payments were:

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

13. Grants (deferred income)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 1Ž between heat cameras 1Ž-7 and 1Ž-8 and between heat cameras 1Ž-10 and 1Ž-12" under which a financing in amount of LTL 2,000 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement.

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

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

14. Employee benefit liability

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

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

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

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

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

plan is shown below:

| | <u>As of 30 June 2014</u> | <u>As of 31 December 2013</u> |
|--|---------------------------|-------------------------------|
| Discount rate | 4.0 percent | 4.0 percent |
| Employee turnover rate | 18.9 percent | 18.9 percent |
| Expected average annual salary increases | 3.0 percent | 3.0 percent |

15. Derivative financial instruments

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

16. Sales income

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

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

17. Other expenses

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

18. Other activities income and expenses

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

19. Finance income

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

20. Finance costs

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

20. Income tax

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

22. Basic and diluted earnings (loss) per share

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

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

23. Financial assets and liabilities and risk management

Credit risk

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

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

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

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

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

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

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

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

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

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

Interest rate risk

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

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

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

Liquidity risk

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

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

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

•

Unsecured bank overdraft and bank loan facilities:

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

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

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

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

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

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

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

Trade payables

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

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

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

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

Foreign currency risk

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

Fair value of financial instruments

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

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

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

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

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

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

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

Capital management

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

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

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

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

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

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

Market risk

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

24. Commitments and contingencies

Litigations

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

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

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

Leasing and construction work purchase arrangements

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

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

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

25. Related parties transactions

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

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

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

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

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

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

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

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

Remuneration of the management and other payments

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

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

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

26. Post balance sheet events

There was not been after balance events.
