AB KAUNO ENERGIJA

SET OF CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR, ENDED 31 DECEMBER 2019, PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT

Translation note

This set of Consolidated and Parent Company's Financial Statements presented together with Consolidated Annual Report and Independent Auditor's Report has been prepared in Lithuanian language and in English language. In all matters of interpretations of information, views or opinions, the Lithuanian language version of these documents takes precedence over the English version.

Page

APSKAITOS IR KONTROLĖS
UAB „AUDITAS“

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AB Kauno energija

<u>Report on the Audit of the Separate and Consolidated Financial Statements</u>

Opinion

We have audited the separate financial statements of AB Kauno energija („the Company“) and the consolidated financial statements AB Kauno energija and its subsidiaries („the Group“). The separate financial statements of the Company and the consolidated financial statements of the Group comprise:

- the separate statement of financial position of the Company and the consolidated statement of financial position of the Group as at 31 December 2019,
- the separate statements of profit (loss) and other comprehensive income of the Company and the consolidated statements of profit (loss) and other comprehensive income the Group for the year then ended,
- the separate statement of changes in equity of the Company and the consolidated statement of changes in equity of the Group for the year then ended,
- the separate statement of cash flows of the Company and the consolidated statement of cash flows of the Group for the year then ended, and
- the notes to the separate and consolidated financial statements of the Company and the Group, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2019, respectively, and of their respective unconsolidated and consolidated financial performance and their non-consolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the Auditor‘s Responsibilities for the Audit of the Separate and Consolidated Financial Statements section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

We have fulfilled the responsibilities described in the Auditor`s Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Key audit matters	How the matter was addressed during the audit
Valuation of changes in value of property, plant and equipment (Note 4)	
The residual value of fixed assets (property, plant and equipment) at 31 December 2019 in the separate statement of financial position of the Company is EUR 134.061 thousand (88,4 per cent of the total assets of the Company), depreciation and amortization expense during 2019 – EUR 6.552 thousand and in the consolidated statement of financial position of the Group – EUR 138.433 thousand (89,8 per cent of the total assets of the Group), depreciation and amortization expense during 2019 – EUR 7.117 thousand. Evaluating accounting of fixed assets the focus was on management's judgment of useful lives for individual assets, improving such assets and restoring their useful properties and other issues affecting depreciation expense during the year when subjective management judgments and attributions can have a material effect on performance result. As disclosed in Note 4 in the separate and consolidated financial statements, The Company and the Group carried out an annual assessment of the value of these assets at 31 December 2019, based on estimates of the value in use of the assets and accounted for EUR 26 thousand appreciation, any impairments registered.	We have reviewed the appropriateness of the accounting policies adopted by the Company and the Group according to the attributes of the assets attributable to non-current assets (ownership, useful life, minimum value of such assets). We have assessed the appropriateness of the Company's control methods by performing a useful life review, making sure that the useful lives of fixed assets are periodically reviewed and, if the forecasts are significantly different from the last calculation, whether the amount of depreciation for the current and future periods is adjusted. Such estimates included reviewing the depreciation method, as well as making sure there were no changes in the accounting estimate. The audit procedures included an analysis of the sensitivity to impairment in order to judge what factors could create the preconditions for the situation when the carrying amount of the fixed assets could exceed its recoverable amount. We have evaluated all available information regarding the non-current assets held by the Company itself and the source of which is

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The following assessments were relevant to our audit as it involves making assumptions for cash flow forecasts.

accounting data and records of ownership (recoverable amount, average market value, etc.)

We have seen that the valuation practices, developed in previous years have, been used and the continuity of valuation methods has been maintained. We sought to ascertain that no additional information was available regarding the impairment assessment, additions/revisions to the impairment calculation methodology, would also use the reasonableness of the valuation assumptions for the valuation results. In our analysis of impairment sensitivity, we sought to determine whether there is a potential assumption that the carrying amount of fixed assets may exceed its recoverable amount.

After reviewing the carrying amount of non-current assets, determining the replacement value of such assets and reversing any impairment loss, we evaluated management's assumptions about the impact of positive cash flow forecasting income and expense, influence on the level of capital investments, based on historical performance information.

Valuation of changes investments in subsidiaries (Note 1 and 5)

The investments in subsidiaries are carried at cost in separate financial statements of the Company in accordance with the applicable accounting principles.

The criteria of IAS 36 Impairment of assets were applied, The Company carried out an impairment assessment of both subsidiaries and accounted for investments into UAB Petrašiūnų katilinė EUR 902 thousand impairment and into UAB „Kauno energija NT“ EUR 258 thousand impairment at 31 December 2019.

Both subsidiaries were profitable in 2019 and there were no changes due to investments in subsidiaries.

Among others, we have conducted audit procedures which enable us to satisfy ourselves that the valuation methods used by the Company are appropriate, whether impairment is performed in accordance with IAS 36.

Given that stock value was calculated at 31 December 2018 and based on cash flows for five years in perpetual (continuous) value, we evaluated the performance of the subsidiaries issues in Note 5, changes in the legal base, changes in the prices of fuel purchased, changes in the business environment and their impact on the results of operations and positive cash flows of subsidiaries to the extent that they relate to financial liabilities.

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However, we have identified this area as a key audit matter, in identifying whether the management has properly judgement the recoverable amount of the investment, whether they have applied appropriate impairment tests to judge current year results.	We have considered management's expectations and the appropriateness of the assumptions used in assessing the recoverable amount of investments in subsidiaries and compliance with applicable financial reporting standards (IFRSs).
Valuation of changes in carrying amount of trade receivables (Note 7, 22, 24)	
Such kind of impairment allowances represent best estimate of the expected credit losses at the reporting date. The value of trade receivables in the separate and consolidated reports at 31 December 2019 was EUR 15.403 thousand and EUR 15.402 thousand, respectively, impairment of receivables EUR 6.887 thousand and EUR 6.886 thousand, the amount receivable from customers, decreased ECLs, is EUR 8.516 thousand for both – the Company and the Group. In accordance with the applicable IFRS 9, the Company and the Group shall measure impairment losses on trade receivables using the expected credit loss (ECLs) model. ECLs determined by modelling techniques and estimated mainly based on historical pattern of losses and changes in credit risk characteristics based on qualitative and quantitative indicators such as probability of default and loss given default. The key to making a decision on the recognition of trade receivables impairment is assumptions which used to measure the associated credit risk and expected future cash flows of customers under the applicable ECLs model, and the identification of significant increases in individual credit risk or impairment risk over time and the application of risk response. Considering this area to be subject to management judgment and possible subjective judgments to recognize impairment of trade receivables, we have selected this area as a key audit matter.	Among other audit procedures, we have performed procedures related to obtaining forward-looking information and industry-specific trends. We have evaluated publicly available information, prioritizing statistical and analytical information provided by professional associations. The subject of our review was the reasonableness of the impairment calculation under IFRS 9, therefore we tested key impairment models to obtain appropriate and reliable validations and compared the information obtained with publicly available information and received detailed explanations and management approvals, particularly on issues related to professional competence in a particular industry. We have also checked that the selected impairment rates used for the calculation are consistent with the impairment rates set by management. We have made a critical appraisal of the reasonableness of ECLs impairment by assessing the provision for the overall impairment.

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Contingent liabilities and provisions, other post-balance sheet-events (Note 23,25)

The Company has claimed EUR 5.121 thousand compensation for guaranteed heat reserve capacity in 2010-2019. The client disagreed with the claim, so the case will be tried in court.

The new circumstances and their impact on the financial position and performance of the Company and the Group in the future are an important consideration for our audit. Adverse circumstances and uncertainties regarding the impact of COVID 19 for our audit according ISAs, creates conditions for changes in the financial position, results of operations and cash flows of the Company and the Group due to the duration of the pandemic and its impact on macroeconomic indicators, also includes significant estimates by management of the measurement of expected contingencies and the recognition of related provisions and disclosure of contingent liabilities in the financial statements.

For our audit are important issues in obtaining sufficient and appropriate audit evidence where access, travel restrictions are encountered during the audit and audit methods must be adapted to the circumstances. Completing a high-quality audit requires changes to default procedures over time, adjust the nature of these procedures, use e-technologies. All of these things require extra time, affect reporting deadlines.

Among other things, our procedures included evaluations of the potential outcome of lawsuits and cases, and reviews of statements by management and lawyers.

We found that the claim for EUR 5.121 thousand is pending at first instance court and the preliminary opinion of the legal authorities is not yet known.

We have assessed the current situation regarding the COVID 19 pandemic with regard to the calculation ECLs under IFRS 9, its impact on accounting and financial reporting.

We have endeavored to obtain appropriate and sufficient audit evidence in this situation for disclosure in the financial statements, when it is materially necessary to postpone the date of issue of the audit report or to modify the auditor's opinion because the required audit evidence cannot be obtained/ it is impossible to do so or the problem becomes unresolvable.

The impact of post-balance sheet events due to the COVID 19 pandemic occurred at the end of the financial year, and therefore the valuation procedures for uncertainties and expected future development of Company and Group were conducted in the light of our understanding of the industry.

We have assessed management's response to after-events that are related to properly disclosed information.

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Other information

The other information comprises the information included in the consolidated annual report, including the Report on the Compliance with the Governance Code for the Companies and including Corporate Social Responsibility Report, but does not include the separate and the consolidated financial statements and our auditor‘s report thereon. Management is responsible for the other information.

Our opinion on the separate and the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the consolidated annual report, including the Report on the Compliance with the Governance Code for the Companies, for the year for which the separate and consolidated financial statements are prepared is consistent with the separate and the consolidated financial statements and whether the consolidated annual report, including the Report on the Compliance with the Governance Code for the Companies, has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the separate and consolidated financial statements, in our opinion, in all material respects:

- the information given in the consolidated annual report, including the Report on the Compliance with the Governance Code for the Companies, for the financial year for which the separate and consolidated financial statements are prepared, is consistent with the separate and the consolidated financial statements; and
- the consolidated annual report, including the Report on the Compliance with the Governance Code for the Companies, has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for Financial Statements

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and the Group ability to continue as a going concern, disclosing, as

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applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group`s or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group`s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group`s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group`s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We shall communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have compliance with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor`s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholder`s meeting we were appointed on 26 of April 2019 to audit the Company`s and the Group`s separate and consolidated financial statements. The total uninterrupted period of service provision, including reassignments, will be two years.

We confirm that our audit opinion expressed in the Basis for Opinion section of our report is consistent with the additional report presented to the Company and the Group and the Audit Committee.

We confirm that to the best of our knowledge and belief, we have not provided any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council. Throughout our current audit engagement period, we have not provided any other services except for the audit of the financial statements and the audit of the regulated activity report as required by the legislation.

The partner in charge of the audit resulting in this independent auditor`s report is Laima Adamonienė.

Apskaitos ir kontrolės uždaroji akcinė bendrovė „AUDITAS“
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Auditor Laima Adamonienė
Auditor`s licence No. 000002

27 March 2020, Vilnius

Management's approval of the financial statements

Pursuant to Article 23 of the Law on Securities of the Republic of Lithuania and to Information Disclosure Rules approved by the decision of the Board of the Bank of Lithuania No. O3-223 of December 13, 2019 we confirm that the Separate and Consolidated Annual Financial Statements have been prepared in accordance with International Finncial Reporting Standards as adopted by the European Union. In our opinion, the accounting policies applied are appropriate and the financial statements present, in all material respects, a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union. The 2019 Consolidated Annual Report contains a fair presentation of the business development and performance review, the Company's and the consolidated state of the Group, together with a description of the major risks and uncertainities encountered.

We recommend the Annual Financial Statements to be approved by the General Meeting of Shareholders.

Kaunas, March 27, 2020

Director of Production, and Interim Director General Vaidas Šleivys

Chief Finance Officer of AB Kauno Energija Edmundas Damanskis

Chief Accountant of AB Kauno Energija Inga Šliačkuvienė

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

Statements of Financial Position

	Notes	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
ASSETS					
Non-current assets					
Intangible assets	**3**	**72**	**22**	**71**	**22**
Property, plant and equipment	**4**				
Land and buildings		7,569	8,087	6,300	6,677
Structures		100,344	88,762	99,826	88,181
Machinery and equipment		19,992	21,053	17,675	18,214
Vehicles		399	460	387	448
Devices and tools		2,350	2,888	2,347	2,885
Construction in progress and prepayments		7,360	3,588	7,360	3,588
Investment property		419	439	166	172
Total property, plant and equipment		**138,433**	**125,277**	**134,061**	**120,165**
Right-of-use assets		**1,283**	**-**	**1,073**	**-**
Non-current financial assets					
Investments into subsidiaries	**1;5**	-	-	2,064	2,064
Loans to the group companies	**5**	-	-	-	-
Other financial assets		1	1	1	1
Total non-current financial assets		**1**	**1**	**2,065**	**2,065**
Total non-current assets		**139,789**	**125,300**	**137,270**	**122,252**
Current assets					
Inventories and prepayments					
Inventories	**6**	1,582	1,584	1,523	1,516
Prepayments		1,155	1,259	1,097	1,187
Total inventories and prepayments		**2,737**	**2,843**	**2,620**	**2,703**
Amounts receivable within one year	**7**				
Trade receivables	**7**	8,516	10,188	8,516	10,188
Loans to the group companies	**5**	-	-	443	443
Other receivables	**7**	778	969	749	938
Total accounts receivable		**9,294**	**11,157**	**9,708**	**11,569**
Cash and cash equivalents	**8;22**	2,219	8,761	1,940	8,673
Assets held for sale	**4**	57	205	57	205
Total current assets		**14,307**	**22,966**	**14,325**	**23,150**
Total assets		**154,096**	**148,266**	**151,595**	**145,402**

(cont'd on the next page)

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

Statements of Financial Position (cont'd)

		Group		Company	
	Notes	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
EQUITY AND LIABILITIES					
Equity					
Share capital	**1**	74,476	74,476	74,476	74,476
Legal reserve	**9**	7,447	6,435	7,447	6,435
Other reserve	**9**	2,900	100	2,900	100
Retained earnings (deficit)					
Profit for the current year	**1**	933	3,963	747	4,414
Profit (loss) for the prior year	**1**	4,069	4,993	4,206	4,674
Total retained earnings (deficit)		**5,002**	**8,956**	**4,953**	**9,088**
Total equity		**89,825**	**89,967**	**89,776**	**90,099**
Payable amounts and liabilities					
Amounts payable after one year and oter long-term liabilities					
Non-current financial liabilities	**10;22**	17,651	19,257	16,517	17,556
Financial lease obligations	**11;22**	1,262	81	1,049	81
Deferred tax liability	**20**	5,368	5,458	5,561	5,693
Grants and subsidies	**12**	25,519	18,235	24,710	17,265
Employee benefit liability	**13;24**	570	704	562	698
Non-current trade liabilities	**22**	4	2	4	2
Total non-current liabilities		**50,374**	**43,737**	**48,403**	**41,295**
Current liabilities					
Current portion of non-current borrowings and financial lease	**10;11**	4,777	4,483	4,208	3,916
Current borrowings	**10;22**	-	-	-	-
Trade payables	**22**	6,989	7,650	7,198	7,751
Employment-related liabilities		694	790	672	771
Advances received		551	877	551	877
Taxes payable		467	392	402	357
Derivative financial instruments	**14.22**	12	16	-	-
Current portion of employee benefit liability	**13**	149	155	148	154
Interest liabilities		-	-	-	-
Accruals and deferred income		152	137	131	120
Other current liabilities		106	62	106	62
Total current liabilities		**13,897**	**14,562**	**13,416**	**14,008**
Total liabilities		**64,271**	**58,299**	**61,819**	**55,303**
Total equity and liabilities		**154,096**	**148,266**	**151,595**	**145,402**

(the end)

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

Statements of Profit (loss) and Other Comprehensive Income

Group

	Notes	2019	2018
Revenue			
Sales income	**15**	54,649	61,316
Other operating income	**17**	819	1,299
Total operating income		**55,468**	**62,615**
Expenses			
Fuel and heat acquired		(32,906)	(36,267)
Salaries and social security		(6,958)	(7,281)
Depreciation and amortization	**3;4**	(7,117)	(6,972)
Repairs and maintenance		(1,007)	(1,084)
Change in impairment of accounts receivable	**7**	1,017	785
Taxes other than income tax		(1,687)	(1,563)
Electricity		(1,274)	(1,145)
Raw materials and consumables		(545)	(568)
Water		(1,080)	(1,081)
Change in net realisable value and impairment of non-current assets	**6**	42	113
Other operating expenses	**16**	(2,288)	(2,289)
Other activities expenses	**17**	(351)	(380)
Total expenses		**(54,154)**	**(57,732)**
Operating profit (losses)		**1,314**	**4,883**
Other interest and similar income	**18**	213	237
Impairment financial assets and short-term investments	**19**	-	-
Interest and other similar expenses	**19**	(484)	(553)
Finance cost, net		**(271)**	**(316)**
Profit before income tax		**1,043**	**4,567**
Corporate income tax	**20**	(19)	19
Deferred tax income (losses)	**20**	117	(584)
Net profit (loss) of the reporting period		**1,141**	**4,002**
Employee benefit liability (accumulation), which will be reclassified subsequently to profit or loss when specific conditions are met	**13;20**	(208)	(39)
Comprehensive income		**933**	**3,963**
Net profit (loss) of the reporting period attributable to net owners of the Company		**1,141**	**4,002**
Total comprehensive income attributable to owners of the Company		**933**	**3,963**
Basic and diluted earnings per share (EUR)	**21**	**0.03**	**0.09**

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

Statements of Profit (loss) and Other Comprehensive Income (cont'd)

Company

	Notes	2019	2018
Revenue			
Sales income	**15**	54,659	61,328
Other operating income	**17**	709	1,181
Total operating income		**55,368**	**62,509**
Expenses			
Fuel and heat acquired		(34,189)	(36,999)
Salaries and social security		(6,799)	(7,141)
Depreciation and amortization	**3;4**	(6,552)	(6,390)
Repairs and maintenance		(974)	(1,067)
Change in impairment of accounts receivable	**7**	1,021	807
Taxes other than income tax		(1,661)	(1,536)
Electricity		(1,115)	(1,017)
Raw materials and consumables		(533)	(559)
Water		(1,078)	(1,080)
Change in net realisable value and impairment of non-current assets	**6**	42	113
Other operating expenses	**16**	(2,235)	(2,243)
Other activities expenses	**17**	(270)	(265)
Total expenses		**(54,343)**	**(57,377)**
Operating profit (losses)		**1,025**	**5,132**
Other interest and similar income	**18**	214	239
Impairment financial assets and short-term investments	**19**	-	156
Interest and other similar expenses	**19**	(445)	(511)
Finance cost, net		**(231)**	**(116)**
Profit before income tax		**794**	**5,016**
Corporate income tax	**20**	-	19
Deferred tax income (losses)	**20**	159	(584)
Net profit (loss) of the reporting period		**953**	**4,451**
Employee benefit liability (accumulation), which will be reclassified subsequently to profit or loss when specific conditions are met	**13;20**	(206)	(37)
Comprehensive income		**747**	**4,414**
Basic and diluted earnings per share (EUR)	**21**	**0.02**	**0.10**

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

Statements of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2017		**74,476**	**3,267**	**100**	**11,500**	**89,343**
Allocated to reserves	**9**	-	3,168	100	(3,268)	-
Transferred from reserves	**9**	-	-	(100)	100	-
Dividends	**1**	-	-	-	(3,339)	(3,339)
Profit for the reporting period		-	-	-	4,002	4,002
Other comprehensive income		-	-	-	(39)	(39)
Balance as of 31 December 2018		**74,476**	**6,435**	**100**	**8,956**	**89,967**
Profit/loss not recognised in the income statement		-	-	-	(5)	(5)
Allocated to reserves	**9**	-	1,012	2,900	(3,912)	-
Transferred from reserves	**9**	-	-	(100)	100	-
Dividends	**1**	-	-	-	(1,070)	(1,070)
Profit for the reporting period		-	-	-	1,141	1,141
Other comprehensive income		-	-	-	(208)	(208)
Balance as of 31 December 2019		**74,476**	**7,447**	**2,900**	**5,002**	**89,825**

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2017		**74,476**	**3,267**	**100**	**11,181**	**89,024**
Allocated to reserves	**9**	-	3,168	100	(3,268)	-
Transferred from reserves	**9**	-	-	(100)	100	-
Dividends	**1**	-	-	-	(3,339)	(3,339)
Profit for the reporting period		-	-	-	4,451	4,451
Other comprehensive income		-	-	-	(37)	(37)
Balance as of 31 December 2018		**74,476**	**6,435**	**100**	**9,088**	**90,099**
Allocated to reserves	**9**	-	1,012	2,900	(3,912)	-
Transferred from reserves	**9**	-	-	(100)	100	-
Dividends	**1**	-	-	-	(1,070)	(1,070)
Profit for the reporting period		-	-	-	953	953
Other comprehensive income		-	-	-	(206)	(206)
Balance as of 31 December 2019		**74,476**	**7,447**	**2,900**	**4,953**	**89,776**

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

Statements of Cash Flows

		Group		Company	
	Notes	**2019**	**2018**	**2019**	**2018**
Cash flows from (to) operating activities					
Comprehensive income		**933**	**3,963**	**747**	**4,414**
Adjustments for non-cash items:					
Depreciation and amortization	**3.4**	8,821	8,665	8,076	7,905
Change in impairment of accounts receivable		(1,017)	(780)	(1,021)	(807)
Interest expenses	**19**	484	541	446	499
Change in fair value of derivatives	**19**	(4)	-	-	-
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares		(266)	2	(266)	2
(Amortization) of grants	**12**	(1,340)	(1,327)	(1,179)	(1,165)
Change in net realisable value and impairment of non-current assets	**3,4,6**	(42)	(113)	(42)	(113)
Change employee benefit liability	**13**	181	34	179	32
Corporate income tax expense	**20**	(90)	589	(132)	589
Change in accruals		(56)	(8)	(49)	(16)
Impairment of investment in subsidiary		-	-	-	(156)
Elimination of other financial and investing activity results		(210)	(225)	(214)	(227)
Total adjustments for non-cash items:		**6,461**	**7,378**	**5,798**	**6,543**
Changes in working capital:					
(Increase) decrease in inventories	**6**	18	(129)	9	(148)
(Increase) decrease in prepayments		104	(809)	90	(781)
(Increase) decrease in trade receivables	**7**	2,696	575	2,696	597
(Increase) decrease in other receivables	**7**	188	(530)	190	(516)
(Decrease) increase in non-current trade payables		2	(8)	2	(8)
(Decrease) increase in trade payables and advances received	**22**	(591)	467	(483)	597
(Decrease) increase in employment-related liabilities		(389)	(428)	(392)	(432)
Increase (decrease) in tax payable		75	17	45	4
Increase (decrease) in received prepayments		(396)	402	(396)	402
Increase (decrease) in other current liabilities		44	(5)	44	3
Total changes in working capital:		**1,751**	**(448)**	**1,805**	**(282)**
Net cash flows from operating activities		**9,145**	**10,893**	**8,350**	**10,675**

(cont'd on the next page)

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

Statements of Cash Flows (cont'd)

	Notes	Group 2019	Group 2018	Company 2019	Company 2018
Cash flows from (to) the investing activities					
Acquisition of property, plant, equipment and intangible assets	**4**	(22,031)	(4,052)	(22,029)	(4,052)
Proceeds from sale of property, plant and equipment		508	3	508	3
Interest received for overdue accounts receivable	**18**	210	237	214	239
Loans granted		-	-	-	(383)
Net cash flows from investing activities		**(21,313)**	**(3,812)**	**(21,307)**	**(4,193)**
Cash flows from (to) financing activities					
Proceeds from loans		3,306	2,943	3,306	2,943
(Repayment) of loans		(4,567)	(4,116)	(4,000)	(3,549)
Interest (paid)		(551)	(586)	(520)	(543)
Lease payments		(112)	(116)	(112)	(116)
Penalties and fines (paid)		-	(12)	-	(12)
Dividends paid	**1**	(1,070)	(3,338)	(1,070)	(3,338)
Received grants		8,620	295	8,620	295
Net cash flows from (used in) financing activities		**5,626**	**(4,930)**	**6,224**	**(4,320)**
Net (decrease) increase in cash and cash equivalents		**(6,542)**	**2,151**	**(6,733)**	**2,162**
		-	**-**	**-**	**-**
Cash and cash equivalents at the beginning of the period	**8**	**8,761**	**6,610**	**8,673**	**6,511**
Cash and cash equivalents at the end of the period	**8**	**2,219**	**8,761**	**1,940**	**8,673**

(the end)

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

Notes to the Financial Statements

1. General information

AB Kauno Energija (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Raudondvario Rd. 84, Kaunas, Lithuania. Data on the Company are collected and stored in the Register of Legal Entities.

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

As of 31 December 2019 and as of 31 December 2018 the shareholders of the Company were as follows:

	As of 31 December 2019		As of 31 December 2018	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
Kaunas city municipality	39,736,058	92.84	39,736,058	92.84
Kaunas district municipality	1,606,168	3.75	1,606,168	3.75
Jurbarkas district municipality	746,405	1.74	746,405	1.74
Other minor shareholders	713,512	1.67	713,512	1.67
	42,802,143	100.00	42,802,143	100.00

The authorised share capital of AB Kauno Energija is in the amount of EUR 74.475.728,82 and it is divided into 42,802,143 ordinary nominal shares with the par value of 1.74 euros. As of 31 December 2019 and 31 December 2018, the Company did not hold any own shares. The Company owns no shares as at the end of the reporting periods. All shares were fully paid as of 31 December 2019 and as of 31 December 2018.

As of 31 December 2019 the Company and the subsidiarys UAB Kauno Energija NT and UAB Petrašiūnų Katilinė represent the Group (hereinafter – the Group):

Company	Principal place of business	Share held by the Group	Cost of investment	Profit (loss) for the year	Total equity	Main activities
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	1,330	3	1,063	Rent
UAB Petrašiūnų Katilinė	R. Kalantos st. 49, Kaunas	100 percent	1,894	346	588	Heat production

As of 31 December 2019, the average number of employees in the Group was 418 (468 employees as of 31 December 2018). As of 31 December 2019, the average number of employees at the Company was 403 (456 employees as of 31 December 2018).

1. General information (cont'd)

Legal Regulations

According to the Law on Heat Industry of the Republic of Lithuania, the Company's activities are licensed and regulated by the National Energy Regulatory Council (hereinafter the Council). On 26 February 2004 the Council 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 Council. The Council also sets price cap for the heat supply. On the 13 September 2018 the Council determined by its decision No. 03E-283 a new basic heat rates force components for the period till 30 September 2021. According to the heat pricing methodology, base heat costs and prices (price constituents) are applied during the second and subsequent years by recalculating and adjusting the heat price constituents.
On the 2 September 2019 the Council determined by its decision No. 03E-351 a new basic heat rates force components to UAB „Petrašiūnų katilinė" for the period till 30 September 2024.

Operational Activity

Group's generation capacities consist of Company's generation capacities and 1 subsidiary boiler-house in Kaunas. Company's generation capacities include Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 regional boiler-house in Jurbarkas city, 13 boiler-houses in isolated networks and 26 local boiler-house in Kaunas city and 8 water heating boiler-houses in Sargėnai catchment.
Total installed heat generation capacities of the Group consist of approx 672 MW (including 47 MW of condensational economizers) and total power generation capacities of the whole Group consist of approx 681 MW (including 47 MW of condensational economizers). Total installed heat generation capacities of Company amount to 653 MW (including 47 MW of condensing economizers). Electricity generation capacities amount up to 8.75 MW, 314.6 MW of heat generation capacities (including 17.8 MW condensing economizer) and 8 MW of electricity generation capacities are located in Petrašiūnai power plant. 34.8 MW of heat generation capacities (including 2.8 MW condensing economizer) are located in Jurbarkas city. Total Company's power generation capacities consist of approx 662 MW (including 47 MW of condensing economizers).

The Company makes investments estimating economic situation, competition and financing possibilities. Investment plans are approved by shareholders, and regulated and controlled by Council.

The Company's management has signed these financial statements on March 27 2020. The Company's shareholders have a statutory right to approve these financial statements or not to approve them and to requir management to prepare new financial statements.

2. Accounting principles (cont'd)

2.1. Statement of Compliance

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

2.2. 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.

The amounts shown in these financial statements are measured and presented in euro (EUR) (rounded to the nearest thousands, except when otherwise indicated), which is a functional and presentation currency of the Group.

2.3. Adoption of new and/or amended IFRS

Except as set out below, the accounting policies used to prepare these interim condensed financial statements are the same as those described in the last separate and consolidated financial statements.
The Group and the Company has adopted IFRS 16 Leases as of 1 January 2019. Other new standards that came into force as of 1 January 2019 do not have material effect of the financial statements of the Group and the Company.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019).
The comparative information for 2018 were not adjusted.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

On initial recognition of IFRS 16, the Group elected to use a modified retrospective approach. Accordingly, the comparative information has not been recalculated and in these financial statements is presented in accordance with IAS 17 and related interpretations of standards.
There are no other new or amended standards and interpretations that are not yet effective and that may have a material impact for the Group/Company.

2. Accounting principles (cont'd)
2.4. Principles of consolidation

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

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

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

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.5. Investments in subsidiaries

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

The indicators of impairment in IAS 36 Impairment of Assets are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company'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 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 recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

2. Accounting principles (cont'd)

2.6. Intangible assets

Intangible assets acquired separately
Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight 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. Calculation of amortization is discontinued as of the first day of the next month after the disposal of asset or when the whole acquisition cost is expensed or reclassified as a part of other asset. 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 capitalized and then amortized over useful life (3 – 4 years).

Software
The costs of acquisition of new software are capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortized 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 recognized as an expense for the period when the restoration or maintenance work is carried out.

2.7. Accounting for emission rights

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

Liabilities for emissions are recognized 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 recognized with a charge to the profit or loss.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

2. Accounting principles (cont'd)

2.8. Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.
Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's and the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.
Depreciation is recognized so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment.
Depreciation is computed on a straight basis over the following estimated useful lives:

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

Freehold land is not depreciated.

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

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

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

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

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

2. **Accounting principles (cont'd)**

2.8. Property, plant and equipment (cont'd)

Assets held for sale
Property, plant and equipment, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured in accordance with applicable IFRSs. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.
Once classified as held-for-sale, items of property, plant and equipment are no longer depreciated.

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

At each Statements 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.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. The Group and the Company has one cash-generating unit for heating business.

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

2. Accounting principles (cont'd)

2.10. Financial assets

From 1 January 2018, the Group and the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group and the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- FVOCI – debt investment;
- FVOCI – equity investment; or
- FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group and the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group and the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery of amounts due.

Measurement of significant increase in credit risk

The Group and the Company measures the probability of default upon initial recognition of a financial asset and at each balance sheet date considers whether there has been a significant increase in credit risk since the initial recognition. To assess whether there is a significant increase in credit risk the Group and the Company compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The following indicators are assessed when analysing whether significant increase in credit risk has occurred:

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

- significant changes in internal credit rating (described below in paragraph "Other financial assets measured at amortised cost");
- significant change in external credit rating (if available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the client's ability to meet its obligations;
- actual or expected significant changes in the operating results of a client.

According to the overdue debt recovery statistical data of the Group and the Company the Management believes that the credit risk has not increased significantly since initial recognition even if the contractual payments are more than 30 days past due.

<u>Write-off policy</u>
Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan and the Group does not possess any collateral or other means of recovery. After write-off the Group continues to engage in enforcement activity with attempt to recover the receivable due. Any recoveries are recognised as a gain in profit/loss.

<u>Measurement of ECL- trade receivables and other receivables</u>
The Group and the Company apply the simplified approach for calculation of lifetime expected credit losses using the provision matrix for all trade receivables and other receivables. To measure the expected credit losses using provision matrix, trade receivables are split into separate pools, based on shared credit risk characteristics.
Receivables in each pool are grouped according to payment delay days and loss rates are applied to each delay group. The loss rates are calculated using statistical recovery information from the last 2 years (when available) and adjusted if considered necessary taking into account forward looking information. The table below shows expected credit loss information calculated for the Group and the Company according to each delay group.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

2. Accounting principles (cont'd)
2.10. Financial assets (cont'd)

As trade receivables usually do not include any collateral or other credit enhancements, expected loss rate equals probability of default.

Trade receivables: Group	Not past due	Past due 1-60 days	61-150 days	151-240 days	241-330 days	331-690 days	More than 691 days	Total
Expected credit loss rate %	0	20	50	60	80	90	100	
Gross carrying amount	7,316	578	93	116	365	5,726	1,208	**15,402**
Expected credit loss provision for losses	0	117	46	70	292	5,153	1,208	**6,886**
Total 31/12/2019:								**8,516**

Trade receivables: Company	Not past due	Past due 1-60 days	61-150 days	151-240 days	241-330 days	331-690 days	More than 691 days	Total
Expected credit loss rate %	0	20	50	60	80	90	100	
Gross carrying amount	7,316	578	93	116	365	5,726	1,209	**15,403**
Expected credit loss provision for losses	0	117	46	70	292	5,153	1,209	**6,887**
Total 31/12/2019:								**8,516**

Lifetime expected credit loss is calculated for trade receivables applying the simplified approach and they are classified in Stage 2 in line with requirements of IFRS9.

Measurement of ECL - other financial assets measured at amortised cost

Other financial assets at amortised cost include loans to related.

2.11. Derivative financial instruments

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

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

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

2. Accounting principles (cont'd)

2.12. Inventories

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

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

2.13. Provisions

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

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

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

2.14. Cash and cash equivalents

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

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

2.15. Employee benefits

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

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

2.16. Borrowing costs

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

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

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

2. Accounting principles (cont'd)

2.17. Financial liabilities and equity instruments

The Group and the Company classify financial liabilities into one of the following categories:

- valued at amortized cost;
- measured at fair value through profit or loss;
- hedging financial instruments.

Derecognition of financial liabilities
The Group and the Company derecognizes financial liabilities when, and only when, the Group's and the Company's obligations are discharged, cancelled or they expire.
The Group and the Company assigns trade payables, financial liabilities, finance lease liabilities, interest liabilities and other payables at amortized cost.

2.18. Lease

The Group and the Company is a lessee
Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Interest rate implicit in the lease is the rate of interest that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The carrying amount of the lease liability is measured on an amortised cost basis using effective interest rate method being the discount rate used to discount the lease payments. Interest expense related to lease liability is allocated over the lease term and recognised in profit or loss.

At initial recognition right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- and restoration costs estimate.

Subsequently a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise tools and small items of office furniture.

2. Accounting principles (cont'd

2.19. Grants and subsidies

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group and the Company recognizes 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 recognized as deferred revenue in the Statements of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Assets received free of charge are initially recognized 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 recognized as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant.
The balance of unutilized grants is shown in the caption Grants (subsidies) in the balance sheet.

2.20. Corporate income tax

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

<u>Current tax</u>
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2019 the income tax applied to the Group and the Company was 15 percent (2018 - 15 percent).

<u>Deferred tax</u>
Deferred tax is recognized 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.

2. Accounting principles (cont'd)

2.20. Corporate income tax (cont'd)

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

The carrying amount of deferred income tax assets is reviewed at each Statements of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected for Group and Company to apply in the period in which the liability is settled or the asset realized, 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.

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

2.21. Basic and diluted earnings per share

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

2.22. Revenue recognition

The Group and the Company recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, excluding value added tax, discounts and rebates. The Group and the Company recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer—a contract is an agreement between two or more parties that creates enforceable rights and obligations.

Step 2: Identify the performance obligations in the contract—a contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately.

2. Accounting principles (cont'd)

2.22. Revenue recognition (cont'd)

Step 3: Determine the transaction price—the transaction price is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount of customer consideration, but it may sometimes include variable consideration or consideration in a form other than cash. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component and for any consideration payable to the customer.

Step 4: Allocate the transaction price to the performance obligations in the contract—an entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation—an entity recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time or over time.

The Group and the Company recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The Group and the Company base their estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised using the methods outlined below:

Revenue from sales of heat energy

Revenue from sales of heat energy is recognized 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 recognized net of VAT and discounts.Revenue is recognized 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

Revenue from the sale of goods is recognized 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.

Financing component

The Group and the Company do not have and do not expect to have contracts in which the period between the provision of goods or services and the payment of the customer would exceed one year. For this reason, the Group and the Company do not separately account the financing component.

2. Accounting principles (cont'd)

2.22. Revenue recognition (cont'd)

Other revenue
Late payment interest income from overdue receivables is recognized upon receipt.

Dividend revenue from investments is recognized 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 recognized 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 leases is described in Note 2.18. above.

2.23. Expense recognition

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

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

2.24. Foreign currencies

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

The presentation currency is euro (EUR). All transactions made in foreign currency are converted into Euros at the official exchange rate determined daily by the European Central Bank. Financial assets and liabilities are converted into Euros at currency rate of creation day of statements of financial state.

Gains and losses arising on exchange are included in profit or loss for the period at the moment of its appearance. Income or expenditures arising on exchange when converting financial assets or liabilities into euros are included in profit or loss.

Exchange differences are recognized in profit or loss in the period in which they arise.

2. Accounting principles (cont'd)

2.25. Use of estimates in the preparation of financial statements

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

Estimates and assumptions

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

Property, plant and equipment – useful life

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

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

Some of the Group's assets are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation, if necessary (Notes 3, 4).

Investments to subsidiaries – impairment losses

For assessment of recoverability of investment into subsidiaries the Company management estimates the recoverable amount of the investment by discounting the future cash flows of the subsidiaries to their present value using weighted average capital cost rate (WACC) that reflects current market assessment of the time value of money (Note 5).

Realizable value of inventory

Starting from 2011, the management of the Company forms a 100 percent adjustment to the net realizable value for inventory, (from 2017 except for technological fuels) bought more than one year ago (Note 6).

Allowances for accounts receivable

The Group and the Company recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost: trade receivable, loans, other receivable and accrued revenue.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group and the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and Company's historical experience and informed credit assessment and including forward-looking information.

2. Accounting principles (cont'd)

2.25. Use of estimates in the preparation of financial statements (cont'd)

Deferred Tax Asset

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies (Note 20).

Fair value of financial instruments

Fair value is defined as the price at which the financial assets or liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

Fair value hierarchy

The base for determination of fair values of financial assets and liabilities, traded in the active markets, are the market prices and prices determined by brokers. Fair value of all other financial instruments is determined using other valuation methods.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognized transfers between the fair value hierarchy from the end of the reporting period in which the change occurred.

2.26. Contingencies

Contingent liabilities are not recognized 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 recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2. Accounting principles (cont'd)

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 organized in one operating segment in Kaunas city, Kaunas district and Jurbarkas city, therefore further information on segments has not been disclosed in these financial statements.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

3. Intangible and right-of-use assets

Movements of intangible assets for the current and prior reporting periods are as follows:

	Group		Company	
	Right of use asset	**Acquired rights and software**	**Right of use asset**	**Acquired rights and software**
Acquisition cost:				
Balance as of 31 December 2017	**-**	**1,423**	**-**	**1,423**
Additions	**-**	**5**	**-**	**5**
Disposals and write-offs	**-**	**(23)**	**-**	**(23)**
Transfers from property, plant and equipment	-	2	-	2
Balance as of 31 December 2018	**-**	**1,407**	**-**	**1,407**
Additions	**-**	**78**	**-**	**77**
Recognition of the right of use asset	1,070	-	856	-
Disposals and write-offs	249	(34)	249	(34)
Transfers from property, plant and equipment	-	-	-	-
Balance as of 31 December 2019	**1,319**	**1,451**	**1,105**	**1,450**
Amortization:				
Balance as of 31 December 2017	**-**	**1,367**	**-**	**1,367**
Charge for the year	-	41	-	41
Disposals and write-offs	-	(23)	-	(23)
Balance as of 31 December 2018	**-**	**1,385**	**-**	**1,385**
Charge for the year	36	29	32	29
Disposals and write-offs	-	(35)	-	(35)
Balance as of 31 December 2019	**36**	**1,379**	**32**	**1,379**
Net book value as of 31 December 2017	**-**	**56**	**-**	**56**
Net book value as of 31 December 2018	**-**	**22**	**-**	**22**
Net book value as of 31 December 2019	**1,283**	**72**	**1,073**	**71**

Amortisation expenses of intangible assets are included in the operating expenses in the statement of Profit (loss) and other comprehensive income.

As of 31 December 2019 the book value of the intangible assets of the Group increased by EUR 1,283 thousand, the Company – respectively EUR 1,073 thousand.

As of 31 December 2019 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,359 thousand (as of 31 December 2018 – EUR 1,340 thousand) were fully amortised but were still in active use.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

4. Property, plant and equipment

Detailed information on the Group's and the Company's property, plant and equipment:

Group	Land and buildings	Structures	Machinery and equipment	Vehicles	Devices and tools	Construction in progress and prepayments	Investment property	Total
Acquisition cost:								
Balance as of 31 December 2017	**18,873**	**162,616**	**57,785**	**2,165**	**12,488**	**2,487**	**382**	**256,796**
Additions	-	-	36	1	393	3,648	-	4,078
Disposals and write-offs	-	(10)	(49)	(15)	(86)	-	-	(160)
Reclassifications	(297)	2,213	189	-	143	(2,545)	297	-
Transfers to intangible assets	-	-	-	-	-	(2)	-	(2)
Transfers to current assets	(338)	-	-	-	-	-	-	(338)
Impairment loss(-)	87	1	(1)	-	-	-	-	87
Balance as of 31 December 2018	**18,325**	**164,820**	**57,960**	**2,151**	**12,938**	**3,588**	**679**	**260,461**
Additions	26	-	131	94	18	21,655	-	21,924
Disposals and write-offs	(118)	(332)	(247)	(283)	(191)	-	-	(1,171)
Reclassifications	2	15,218	2,431	-	232	(17,883)	-	-
Transfers to intangible assets	-	-	-	-	-	-	-	-
Transfers to current assets	(103)	-	-	-	-	-	-	(103)
Impairment loss(-)	-	4	-	-	-	-	-	4
Balance as of 31 December 2019	**18,132**	**179,710**	**60,275**	**1,962**	**12,997**	**7,360**	**679**	**281,115**
Accumulated depreciation:								
Balance as of 31 December 2017	**10,016**	**72,759**	**33,191**	**1,517**	**9,265**	**-**	**100**	**126,848**
Charge for the year	480	3,308	3,761	189	871	-	15	8,624
Transfers to current assets	(133)	-	-	-	-	-	-	-
Disposals and write-offs	-	(9)	(45)	(15)	(86)	-	-	(155)
Reclassifications	(125)	-	-	-	-	-	125	-
Balance as of 31 December 2018	**10,238**	**76,058**	**36,907**	**1,691**	**10,050**	**-**	**240**	**135,184**
Charge for the year	481	3,640	3,617	155	788	-	20	8,701
Transfers to current assets	(45)	-	-	-	-	-	-	(45)
Disposals and write-offs	(111)	(332)	(241)	(283)	(191)	-	-	(1,158)
Reclassifications	-	-	-	-	-	-	-	-
Balance as of 31 December 2019	**10,563**	**79,366**	**40,283**	**1,563**	**10,647**	**-**	**260**	**142,682**
Net book value as of 31 December 2017	**8,857**	**89,857**	**24,594**	**648**	**3,223**	**2,487**	**282**	**129,948**
Net book value as of 31 December 2018	**8,087**	**88,762**	**21,053**	**460**	**2,888**	**3,588**	**439**	**125,277**
Net book value as of 31 December 2019	**7,569**	**100,344**	**19,992**	**399**	**2,350**	**7,360**	**419**	**138,433**

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

4. Property, plant and equipment (cont'd)

Company	Land and buildings	Structures	Machinery and equipment	Vehicles	Devices and tools	Construction in progress and prepayments	Invest-ment property	Total
Acquisition cost:								
Balance as of 31 December 2017	**16,580**	**161,784**	**52,602**	**1,827**	**12,423**	**2,487**	**-**	**247,703**
Additions	-	-	36	1	393	3,648	-	4,078
Transfers to current assets	(338)	-	-	-	-	-	-	(338)
Disposals and write-offs	-	(10)	(49)	(15)	(86)	-	-	(160)
Transfers to intangible assets	(297)	2,213	189	-	143	(2,545)	297	-
Transfers to intangible assets	-	-	-	-	-	(2)	-	(2)
Impairment loss(-)	87	1	(1)	-	-	-	-	87
Balance as of 31 December 2018	**16,032**	**163,988**	**52,777**	**1,813**	**12,873**	**3,588**	**297**	**251,368**
Additions	26	-	131	94	16	21,655	-	21,922
Transfers to current assets	(103)	-	-	-	-	-	-	(103)
Disposals and write-offs	(118)	(332)	(247)	(283)	(191)	-	-	(1,171)
Reclassifications	2	15,218	2,431	-	232	(17,883)	-	-
Transfers to intangible assets	-	-	-	-	-	-	-	-
Impairment loss(-)	-	4	-	-	-	-	-	4
Balance as of 31 December 2019	**15,839**	**178,878**	**55,092**	**1,624**	**12,930**	**7,360**	**297**	**272,020**
Accumulated depreciation:								
Balance as of 31 December 2017	**9,273**	**72,571**	**31,369**	**1,207**	**9,207**	**-**	**-**	**123,627**
Charge for the year	340	3,245	3,239	173	867	-	-	7,864
Transfers to intangible assets	(133)	-	-	-	-	-	-	(133)
Disposals and write-offs	-	(9)	(45)	(15)	(86)	-	-	(155)
Reclassifications	(125)	-	-	-	-	-	125	-
Balance as of 31 December 2018	**9,355**	**75,807**	**34,563**	**1,365**	**9,988**	**-**	**125**	**131,203**
Charge for the year	340	3,577	3,095	155	787	-	6	7,960
Transfers to current assets	(45)	-	-	-	-	-	-	(45)
Disposals and write-offs	(111)	(332)	(241)	(283)	(192)	-	-	(1,159)
Reclassifications	-	-	-	-	-	-	-	-
Balance as of 31 December 2019	**9,539**	**79,052**	**37,417**	**1,237**	**10,583**	**-**	**131**	**137,959**
Net book value as of 31 December 2017	**7,307**	**89,213**	**21,233**	**620**	**3,216**	**2,487**	**-**	**124,076**
Net book value as of 31 December 2018	**6,677**	**88,181**	**18,214**	**448**	**2,885**	**3,588**	**172**	**120,165**
Net book value as of 31 December 2019	**6,300**	**99,826**	**17,675**	**387**	**2,347**	**7,360**	**166**	**134,061**

4. Property, plant and equipment (cont'd)

The depreciation charge of the Group's and Company's property, plant and equipment in the 2019 amounts to EUR 7,430 thousand and EUR 6,847 thousand respectively (as of 31 December 2018 – EUR 7,302 thousand and EUR 6,704 thousand respectively). The amounts of EUR 7,367 thousand and EUR 6,803 thousand (as of 31 December 2018 – EUR 7,244 thousand and EUR 6,662 thousand respectively) the depreciation expenses were included into the expenses in statements of Profit (loss) and other comprehensive income, the remaining amounts EUR 63 thousand and EUR 44 thousand (as of 31 December 2018 – EUR 58 thousand and EUR 42 thousand) were included into other activity expenses in statements of Profit (loss) and other comprehensive income.

The management of the Group and the Company, having assessed the internal and external features, has'nt estimated impairment decrease for the property, plant and equipment and restored EUR 26 thousand durig 2019 year (EUR 129 thousand – during 2018 year).

As of 31 December 2019 part of the property, plant and equipment of the Group with acquisition cost of EUR 56,556 thousand (EUR 55,102 thousand as of 31 December 2018) and the Company – EUR 56,443 thousand were fully depreciated (EUR 54,945 thousand as of 31 December 2018), but were still in active use.

As of 31 December 2019 and as of 31 December 2018 the major part of the Group's and Company's construction in progress consisted of reconstruction and overhaul works of boiler-houses equipment and heat supply networks.

As of 31 December 2019 property, plant and equipment of the Group with the net book value of EUR 54,723 thousand (EUR 49,624 thousand as of 31 December 2018) and the Company of EUR 51,655 thousand (EUR 46,005 thousand as of 31 December 2018) was pledged to banks as a collateral for loans (Note 10).

As of 31 December 2019 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 115 thousand in the category Equipment and tools (EUR 182 thousand as of 31 December 2018).

The Group and The Company use assets in their operations, acquired by leasing. The acquisition cost of this asset was EUR 222 thousand as of 31 December 2019 (EUR 280 thousand in 2018 respectively), and the net book value respectively EUR 143 thousand and EUR 216 thousand. Unpaid part of it is disclosed in Note 11. The management of the Group and the Company did not determine impairment decrease after evaluating the internal and external features.

5. Investments in subsidiaries and loans to the subsidiaries

- The management of the Company used valuation reports prepared by an independent appraiser UAB korporacija „Matininkai“ to determine recoverable amount of the investmets in UAB Kauno Energija NT. Valuation date was 31 August 2017. The independent appraiser used asset-based approach (adjusted balance sheet method) to determined recouvarable amount of investments.

Impairment test for investments in UAB Petrašiūnų Katilinė was performed according IAS 36. The value of shares is determined on a basis of the cash flows generated according to projections made for 5 years with terminal value component.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

5. Investments in subsidiaries and loans to the subsidiaries (cont'd)

	31.12.2019			31.12.2018		
Investment to subsidiaries	**Acquisition costs**	**Impairment**	**Net book value**	**Acquisition costs**	**Impairment**	**Net book value**
UAB Kauno Energija NT	1,330	(258)	1,072	1,330	(258)	1,072
UAB Petrašiūnų Katilinė	1,894	(902)	992	1,894	(902)	992
Total	**3,224**	**(1,160)**	**2,064**	**3,224**	**(1,160)**	**2,064**

As a result of impairment tests performed as at 31 December 2018, the impairment allowance EUR 902 thousand was recognized to UAB Petrašiūnų Katilinė, EUR 258 thousand was recognized to UAB Kauno Energija NT .

The cash flow projections used in the calculations were based on the results of UAB Petrašiūnų Katilinė of the year 2018, long-term business plans, signed contracts and management's expectations regarding changes in the regulatory environment in the short and medium term. Continuous value (cash flows for a period of more than five years) was calculated by applying 1.50 percent constant growth factor.
In forecasting cash flows, the Company also used the following key assumptions:

- upon enforcement of changes in the legal base and the new Schedule of the Procedure and Conditions of Heat Purchase from Independent Heat Producers become valid, UAB Petrašiūnų Katilinė got an opportunity to plan more efficiently the fuel purchases at best prices and to increase the revenue. Heat sales auctions held during the 1 st quarter of 2019 showed that the sales price was by 15-20 percent higher than last year;
- after the start of operation of Kaunas Cogeneration Power Plant in 2020, the competition between heat producers increases during the warm period, so the Company's heat sales are planned to reduce by approximately 10 %;
- the projected increase in biofuel prices by 2020 is 5 percent for each year;
- predicted costs are projected to increase annually by the planned annual inflation rate (2 percent);
- it is forecasted that UAB Petrašiūnų Katilinė will operate 7 months in 2020 .

In this context, the assets will not be fully depreciated over the specified 15-year period, so investments in the tangible fixed asset will only take place in 2023 by performing yearly maintenance.

Loans to the subsidiaries
As of 31 December 2019, the Company granted a loan for working capital needs in an amount of EUR 443 thousand (as of 31 December 2018 – EUR 443 thousand) to the subsidiary UAB Petrašiūnų Katilinė. The loan bears 6-month EURIBOR plus 1.2 % margin. The maturity date of the loan is 31 December 2020. The outstanding balance of the loan was accounted for as the loans to entities of the entities group in the Company's Statements of Financial Position.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

6. Inventories

	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Technological fuel	1,156	1,358	1,097	1,291
Spare parts	623	415	623	415
Materials	413	437	413	436
	2,192	**2,210**	**2,133**	**2,142**
Less: write-down to the net realisable value of inventory at the end of the period	(610)	(626)	(610)	(626)
Carrying amount of inventories	**1,582**	**1,584**	**1,523**	**1,516**

As of 31 December 2019 Group's and Company's amounted to EUR 610 thousand (as of 31 December 2018 – EUR 626 thousand) write-down to net realizable value of inventories. Changes in the Write-down to net realizable value of inventories for the 2019 and for the year 2018 were included into change in write-down to net realizable value of inventories caption in the Group's and the Company's statements of Profit (loss) and Other Comprehensive Income.

7. Current accounts receivable

Change in impairment of doubtful receivables in 2019 and 2018 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of Profit (loss) and Other Comprehensive Income.

	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Trade receivables, gross	15,402	18,734	15,403	18,736
Less: expected credit losses	(6,886)	(8,546)	(6,887)	(8,548)
	8,516	**10,188**	**8,516**	**10,188**

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 2017	**10,012**	**10,031**
Expected credit losses recognised	(770)	(787)
Write-off	(696)	(696)
Balance as of 31 December 2018	**8,546**	**8,548**
Expected credit losses recognised	(1,024)	(1,025)
Write-off	(636)	(636)
Balance as of 31 December 2019	**6,886**	**6,887**

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

7. Current accounts receivable (cont'd)

In 2019 the Group and the Company wrote off EUR 636 thousand and EUR 636 thousand of bad debts respectively (in 2018 – EUR 696 thousand and EUR 696 thousand).

The ageing analysis of the Group's net value of trade receivables As of 31 December 2019 and 31 December 2018 is as follows:

	Trade receivables not past due	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2019	7,316	461	47	46	73	573	8,516
2018	8,670	611	74	65	115	653	10,188

The ageing analysis of the Company's net value of trade receivables as of 31 December 2019 and as of 31 December 2018 is as follows:

	Trade receivables not past due	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2019	7,316	461	47	46	73	573	8,516
2018	8,670	611	74	65	115	653	10,188

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

As of 31 December 2019 and 31 December 2018 the Group's and the Company's other receivables amounted receivable from state taxes, compensations from municipalities for low income families, receivables from sold inventories (metals, heating equipment) and services supplied (maintenance of manifolds and similar services).

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

	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Taxes	439	490	439	490
Other receivables	639	772	660	795
Less: expected credit losses	(300)	(293)	(350)	(347)
	778	**969**	**749**	**938**

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

7. Current accounts receivable (cont'd)

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 2017	**303**	**362**
Expected credit losses recognised	(10)	(15)
Write-off	-	-
Balance as of 31 December 2018	**293**	**347**
Expected credit losses recognised	7	3
Write-off	-	-
Balance as of 31 December 2019	**300**	**350**

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 31 December 2019 and as of 31 December 2018 is as follows:

	Other receivables not past due	Other receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2019	240	54	19	10	8	8	339
2018	380	65	15	8	5	6	479

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 31 December 2019 and 31 December 2018 is as follows:

	Other receivables not past due	Other receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2019	211	54	19	10	8	8	310
2018	349	65	15	8	5	6	448

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.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

8. Cash and cash equivalents

	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Cash in transit	148	154	148	154
Cash at bank	2,071	8,607	1,792	8,519
Cash on hand	-	-	-	-
	2,219	**8,761**	**1,940**	**8,673**

The Group's accounts in banks amounting to EUR 1,039 thousand as of 31 December 2019 (as of 31 December 2018 – EUR 2,332 thousand) and the Company's to EUR 804 thousand as of 31 December 2019 (as of 31 December 2018 – EUR 2,255 thousand) are pledged as collateral for the loans (Note 10).

9. Changes in equity

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 26 April, 2019 the Company annulled other reserves (EUR 100 thousand) by the decision of shareholders, EUR 1,012 thousand transferred from retained earnings to legal reserve and EUR 2,900 thousand to other reserves. Other reserves was formed: for support – EUR 50 thousand, for implementation of investments – EUR 2,850 thousand.

On 26 April, 2018 the Company annulled other reserves (EUR 100 thousand) by the decision of shareholders, EUR 3,168 thousand transferred from retained earnings to legal reserve and EUR 100 thousand to other reserves. Reserve was formed for support – EUR 100 thousand.

Annual payments

The Company allocated EUR 470 thousand on April 26, 2019 from the distributable profit of the year 2018 to the members of the Board and the Supervisory Council, employee bonuses and other purposes in accordance with the decision of the shareholders, and EUR 500 thousand on April 26, 2018 from the profit of the year 2017 respectively.

Dividends

On 26 April 2019 the Annual General Meeting of Shareholders has made a decision to pay EUR 1,070 thousand, i.e. at 2,5 cents a share in dividends from the profit of the year 2018.

On 26 April 2018 the Annual General Meeting of Shareholders has made a decision to pay EUR 3,339 thousand, i.e. at 7,8 cents a share in dividends from the profit of the year 2017.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

10. Borrowings

All loans of the Group and the Company are accounted for and repaid in euros. The weighted average of the interest rate (%) on the outstanding loans as at the year-end was as follows:

	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Current borrowings	-	-	-	-
Non-current borrowings	1.71	2.22	1.76	2.32

Management of the Company has negotiated interest rate cuts with the Ministry of Finance for the financial loan borrowed on March 31, 2014 and maturing on December 1, 2034. The interest rate will be revised on December 31, 2020 at the moment of partial repayment of the loan. Earlier interest rate revisions or loan refinancing are economically unhelpful as the penalties under the loan agreement would be significantly greater than the economic benefits that could be gained.
Terms of repayment of non-current borrowings are as follows:

	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Non-current borrowings:	**17,651**	**19,257**	**16,517**	**17,556**
Payable in 2 to 5 years	10,910	11,780	9,776	10,079
Payable in more than 5 years	6,741	7,477	6,741	7,477
Current portion of non-current borrowings	4,618	4,272	4,051	3,705
	22,269	**23,529**	**20,568**	**21,261**

10. Borrowings (cont'd)

The Group detailed information on loans as of 31 December 2019 :

	Credit institution	Date of contract	Sum EUR thousand	Term of maturity	Balance as of 31/12/2019 EUR thousand	A Qart of 2020, EUR thousand
1	MF Lithuania*	09/04/2010	2,410	15/03/2034	1,404	93
2	MF Lithuania*	26/10/2010	807	15/03/2034	577	38
3	MF Lithuania*	02/09/2011	1,672	01/09/2034	1,304	87
4	Luminor**	22/08/2012	3,403	29/04/2022	1,701	567
5	AB SEB Bank	03/06/2013	799	30/06/2020	67	67
6	AB SEB Bank	03/06/2013	1,228	30/06/2020	98	98
7	AB SEB Bank	10/09/2013	1,506	30/09/2020	188	188
8	Luminor**	27/09/2013	377	30/09/2020	5	5
9	MF Lithuania*	15/01/2014	793	01/12/2034	624	41
10	AB SEB Bank	31/03/2014	1,564	15/01/2021	268	261
11	MF Lithuania*	31/03/2014	7,881	01/12/2034	6,203	414
12	AB SEB Bank	09/03/2015	579	28/02/2022	222	97
13	AB SEB Bank	09/03/2015	579	28/02/2022	74	74
14	OP Corporate***	02/12/2015	4,842	02/12/2022	2,075	692
15	AB SEB Bank	09/05/2016	459	30/04/2023	255	77
16	AB SEB Bank	09/05/2016	1,000	30/04/2021	267	200
17	AB SEB Bank	09/05/2016	579	30/04/2023	322	97
18	Luminor**	25/10/2016	1,894	29/09/2023	1,066	284
19	AB SEB Bank	22/12/2016	4,127	30/11/2024	3,026	720
20	AB SEB Bank	26/07/2017	697	30/07/2024	546	122
21	Danske Bank A/S	18/12/2017	2,340	18/12/2024	1,977	396
					22,269	**4,618**

* Ministry of Finance of the Republic of Lithuania, **Luminor bank AB, *** OP Corporate Bank Plc Lithuanian branch.

According to loan agreement signed between Luminor Bank AB and the Group's subsidiary UAB Petrašiūnų Katilinė on 22 August 2012 m., the subsidiary has to comply with following covenants: equity capital ratio (including support granted by the Lithuanian Business Support Agency) at least 40 %, DSCR not less than 1.3, and total financial debt to EBITDA ratio should be not more than 3.0.

UAB Petrašiūnų Katilinė does not comply with financial rations determined by the Luminor Bank AB. As a result, the carrying amount of loan as at 31 December 2019 (EUR 1,701 thousand) is accounted under the current portion of non-current borrowings and financial lease caption of the Group's Statements of Financial Position. The Company has provided a guarantee to the bank for this loan, as it is described in Note 23.

10. Borrowings (cont'd)

The Company detailed information on loans as of 31 December 2019 :

	Credit institution	Date of contract	Sum EUR thousand	Term of maturity	Balance as of 31/12/2019 EUR thousand	A Qart of 2020, EUR thousand
1	MF Lithuania*	09/04/2010	2,410	15/03/2034	1,404	93
2	MF Lithuania*	26/10/2010	807	15/03/2034	577	38
3	MF Lithuania*	02/09/2011	1,672	01/09/2034	1,304	87
4	AB SEB Bank	03/06/2013	799	30/06/2020	67	67
5	AB SEB Bank	03/06/2013	1,228	30/06/2020	98	98
6	AB SEB Bank	10/09/2013	1,506	30/09/2020	188	188
7	Luminor**	27/09/2013	377	30/09/2020	5	5
8	MF Lithuania*	15/01/2014	793	01/12/2034	624	41
9	AB SEB Bank	31/03/2014	1,564	15/01/2021	268	261
10	MF Lithuania*	31/03/2014	7,881	01/12/2034	6,203	414
11	AB SEB Bank	09/03/2015	579	28/02/2022	222	97
12	AB SEB Bank	09/03/2015	579	28/02/2022	74	74
13	OP Corporate***	02/12/2015	4,842	02/12/2022	2,075	692
14	AB SEB Bank	09/05/2016	459	30/04/2023	255	77
15	AB SEB Bank	09/05/2016	1,000	30/04/2021	267	200
16	AB SEB Bank	09/05/2016	579	30/04/2023	322	97
17	Luminor**	25/10/2016	1,894	29/09/2023	1,066	284
18	AB SEB Bank	22/12/2016	4,127	30/11/2024	3,026	720
19	AB SEB Bank	26/07/2017	697	30/07/2024	546	122
20	Danske Bank A/S	18/12/2017	2,340	18/12/2024	1,977	396
					20,568	**4,051**

* Ministry of Finance of the Republic of Lithuania, **Luminor bank AB, *** OP Corporate Bank Plc Lithuanian branch.

AB SEB Bankas has determined to the Company to be in compliance with the quarterly net financial debt / EBITDA ratio, which must not exceed 4.5. According to loan agreement between the Company and OP Corporate Bank Plc Lithuanian branch, the Company's own capital ratio (equity/total assets), shall not be lower than 35 %. The Company complied with financial covenants as at 31 December 2019 and 31 December 2018.

There are certain restrictions prescribed in the loan agreements. The Company cannot distribute dividends, issue or/and obtain new loans, provide charity, sell or rent pledged assets without banks written consent. The written consents were received from banks.

The immovable property (Note 4), bank accounts (Note 8) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

11. Lease obligations

<u>Change in accounting policies</u>
The Company and the Group has adopted IFRS 16 Leases prospectively from 1 January 2019, as permitted under the specific transition provisions in the standard. The comparative information for 2018 were not adjusted.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

11. Lease obligations (cont'd)

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January was 3.58 %.
As a result of initially applying IFRS 16 in relation to the leases that were previously classified as operating leases, the Group and the Company recognised 1,070 thousand EUR and 856 thousand EUR of right-of-use assets (including investment property), 1,070 thousand EUR and 856 thousand EUR of lease liabilities, respectively.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the 12 months ended 31 December 2019, the Group recognised 36 thousand EUR of depreciation charges and 33 thousand EUR of interest costs from these leases. The Company recognised 32 thousand EUR of depreciation charges and 26 thousand EUR of interest costs from these leases.

On 31 December 2019 the Group intangible assets increased by EUR 1,283 thousand, the Company – respectively EUR 1,073 thousand.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Company and the Group financial and lease obligations:

	Group		**Company**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Within one year	83	105	83	105
After one year	-	81	-	81
Total financial lease obligations:	**83**	**186**	**83**	**186**
Lease obligations:				
- current	35	-	33	-
- non-current	1,262	-	1,049	-
Present value of lease obligations:	**1,297**	**-**	**1,082**	**-**

The assets leased by the Group and the Company under lease contracts mainly consist of vehicles and land. The terms of vehicles lease are 3 – 4 years, land – 26 – 84 years. The finance lease agreement is in EUR.

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12. Grants and subsidies

	Group		Company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Balance at the beginning of the reporting period	**18,235**	**19,509**	**17,265**	**18,377**
Received during the period	8,624	53	8,624	53
Amortization	(1,340)	(1,327)	(1,179)	(1,165)
Balance at the end of the reporting period	**25,519**	**18,235**	**24,710**	**17,265**

The Group accounted EUR 1,329 thousand grants amortization related to property, plant and equipment, EUR 11 thousand – related to costs in 2019 (EUR 1,322 thousand and EUR 5 thousand – in 2018), and the Company – EUR 1,168 thousand and EUR 11 thousand (EUR 1,322 thousand and EUR 5 thousand – in 2018, respectively).

The balance of the Group's grants as at December 31, 2019 consist of funds received from the European Union Structural Funds for the modernization of heat supply networks - 25,399 thousand and EUR 120 thousand for the research and innovation programs. Company's grants consist of EUR 24,590 thousand and EUR 120 thousand euros respectively.

13. 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 0.5-4 months' salary payment when leaving the job at or after the start of the pension period and at the age of 40, 50 or 60 years, and having not less than 15 years of work experience in the Company – jubilee gift of the value fixed in the collective employment agreement.

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

	Group		Company	
	2019	2018	2019	2018
Employee benefit liability at the beginning of the year	**859**	**1,270**	**852**	**1,265**
Paid	(321)	(445)	(321)	(445)
Formed	181	34	179	32
Employee benefit liability at the end of the year	**719**	**859**	**710**	**852**
Non-current employee benefit liability	570	704	562	698
Current employee benefit liability	149	155	148	154

For calculation of the non-current employee benefits, the Group and the Company evaluated an impact of the mortality level in Lithuania, the discount rate, the retirement age, age and turnover of employees, growth of remuneration and inflation and other factors. Actuarial gain or loss related to the mentioned liabilities are presented under Employee benefit liability (accumulation) line in Statements of other comprehensive income as well as under Non-current employee benefit liability and current portion of employee benefit liability in the Statements of Financial Position.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

14. Derivative financial instruments

On 16 December 2016, the Group has entered into interest rate SWAP agreement. According to the agreement, the Group pays to the bank a fixed interest rate (0.21 %), while the bank pays to the Group a variable interest rate of 6 months EURIBOR. The nominal amount of the transaction was EUR 1,701 thousand as at 31 December 2019. This derivative instrument is recognized at fair value calculated by the bank as at 31 December 2019 – EUR 12 thousand (31 December 2018 – EUR 15 thousand). The accrued interest and change in the fair value at 2019 and 2018 are recognized in the Statement of Profit (loss) and Other Comprehensive Income under the financial activity account, as according to management's decision, financial instrument is not held for hedging.

15. Sales income

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

The Group's and the Company's sales income according to the activities are stated below.

	Group		**Company**	
	2019	**2018**	**2019**	**2018**
Heat supplies	49,711	57,387	49,721	57,399
Hot water supplies	3,228	3,260	3,228	3,260
Maintenance of hot water meters	422	408	422	408
Maintenance of manifolds	251	250	251	250
Maintenance of heat and hot water systems	12	11	12	11
Sale of emission allowances	1,025	-	1,025	-
	54,649	**61,316**	**54,659**	**61,328**

The Group's and the Company's sales income by user group:

	Group		**Company**	
	2019	**2018**	**2019**	**2018**
Residents	41,195	46,511	41,195	46,511
Other users	6,207	5,949	6,217	5,961
Budgetary organizations financed from the state budget	3,963	4,774	3,963	4,774
Budgetary organizations financed from municipal budgets	2,734	3,343	2,734	3,343
Institutions funded by Territorial Health Insurance funds	286	371	286	371
Industrial users	264	368	264	368
	54,649	**61,316**	**54,659**	**61,328**

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

16. Other expenses

	Group		Company	
	2019	**2018**	**2019**	**2018**
Equipment verification and inspection	212	406	211	404
Maintenance of manifolds	383	381	383	381
Cash collection expenses	176	195	176	195
Expenses of ash utilization	160	145	144	127
Information technology expenses	114	132	114	132
Consulting expenses	88	124	87	124
Employees related expenses	136	102	136	102
Customer bills issue and delivery expenses	93	98	93	98
Membership fee	89	84	89	84
Maintenance of long term assets and related services	65	76	64	76
Transport expenses	64	70	64	69
Debts collection expenses	96	60	96	60
Insurance	64	56	56	48
Communication expenses	40	51	40	50
Advertising expenses	57	44	57	44
Audit expenses	38	44	34	44
Rent of equipment and machinery	14	16	14	16
Sponsorship	1	5	1	5
Other expenses	398	200	376	184
	2,288	**2,289**	**2,235**	**2,243**

17. Other activities income and expenses

	Group		Company	
	2019	**2018**	**2019**	**2018**
Income from other operating activities				
Sold inventories	42	394	42	394
Various services rendered	386	382	276	264
Damage compensation received	-	241	-	241
Income from previous periods	-	180	-	180
Gain from sale of non-current assets	286	1	286	1
Other	105	101	105	101
	819	**1,299**	**709**	**1,181**

	Group		Company	
Expenses from other operating activities	**2019**	**2018**	**2019**	**2018**
Cost of rendered services	(269)	(273)	(188)	(158)
Cost of inventories sold	(42)	(65)	(42)	(65)
Expenses from previous periods	(10)	(7)	(10)	(7)
Write off of non-current assets	(3)	(3)	(3)	(3)
Other	(27)	(32)	(27)	(32)
	(351)	**(380)**	**(270)**	**(265)**

The Group and the Company rents real estate, supplies, technical water, provide services of maintenance of heating equipment, transportation services.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

18. Other interest and similar income

	Group		Company	
	2019	**2018**	**2019**	**2018**
Interest from late payment of accounts receivable	210	237	210	237
Change in market value of derivative financial instruments	3	-	-	-
Interest	-	-	4	2
	213	**237**	**214**	**239**

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
Interest	(484)	(541)	(445)	(499)
Impairment of non-current financial assets	-	-	-	156
Penalties and fines	-	(12)	-	(12)
	(484)	**(553)**	**(445)**	**(355)**

20. Corporate income tax

In 2019 and 2018 deferred income tax asset and liability were accounted for by applying 15 percent rate. All changes in deferred tax are reported in the Group's and the Company's the statement of Profit (loss) and other comprehensive income.

The recorded income tax for the year can be reconciled with the theoretical calculated income tax, which is computed by applying the standard income tax rate to profit before taxes as follows:

	Group		Company	
	2019	**2018**	**2019**	**2018**
Profit before tax, before the accumulation of employee benefit liability	1,043	4,567	794	5,016
Profit (loss) from the accumulation of employee benefit liability	(181)	(34)	(179)	(32)
Corporate income tax (expenses) calculated at statutory rate from profit (loss) before the accumulation of employee benefit liability	(156)	(685)	(119)	(752)
Corporate icome tax (expenses) calculated at statutory rate from profit (loss) of the accumulation of employee benefit liability	(27)	(5)	(27)	(5)
Influence of permanent and temporary differences	523	322	528	396
Change of unrecognized deferred tax asset	(250)	(221)	(250)	(228)
Adjustments to income tax of prior periods	(19)	19	-	19
Corporate income tax (expenses) reported in the statement of comprehensive income	**71**	**(570)**	**132**	**(570)**
Effective rate of income tax (percent)	**-6.81**	**12.48**	**-16.62**	**11.36**

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

20. Corporate income tax (cont'd)

As of 31 December deferred income tax consists of:

	Group		Company	
	2019	**2018**	**2019**	**2018**
Components of the corporate income tax expense				
Current income tax for the reporting year	(19)	19	-	19
Deferred tax income (expenses)	90	(589)	132	(589)
Corporate income tax (expenses) recorded in the statement of comprehensive income	**71**	**(570)**	**132**	**(570)**

All changes in deferred tax are reported in the Group's and the Company's the statement of Profit (loss) and Other Comprehensive Income. As of 31 December, the deferred income tax consists of:

	Group		Company	
	2019	**2018**	**2019**	**2018**
Deferred tax asset				
Tax losses	2,883	2,567	2,868	2,510
Accruals	119	140	115	136
The change in value of financial assets	19	19	19	19
Deferred tax asset	**3,021**	**2,726**	**3,002**	**2,665**
Deferred tax liability				
Differences of depreciation	(8,368)	(8,162)	(8,368)	(8,162)
Investment relief	(21)	(22)	(21)	(22)
Revaluation of the assets transferred to subsidiary	-	-	(174)	(174)
Deferred tax liabilities	**(8,389)**	**(8,184)**	**(8,563)**	**(8,358)**
Deferred tax, net	**(5,368)**	**(5,458)**	**(5,561)**	**(5,693)**

Deferred income tax assets on tax losses carried forward have been recognized in full amount as the Group's and the Company's management believes it will be realized in the foreseeable future, based on taxable profit forecasts.

At 31 December unrecognized deferred tax assets of the Group and the Company consisted of:

	Group		Company	
	2019	**2018**	**2019**	**2018**
Credit losses expected from trade receivables	1,033	1,282	1,033	1,282
Property, plant and equipment depreciation	44	44	44	44
ECL allowance for other accounts receivable	44	43	50	49
Impairment for the investment into subsidiary	-	-	122	122
Accruals	92	94	92	94
Unrecognized deferred tax asset, net	**1,213**	**1,463**	**1,341**	**1,591**

21. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
Net profit (loss) of the reporting period	1,141	4,002	953	4,451
Number of shares (thousand), opening balance	42,802	42,802	42,802	42,802
Number of shares (thousand), closing balance	42,802	42,802	42,802	42,802
Average number of shares (thousand)	42,802	42,802	42,802	42,802
Basic and diluted earnings per share (EUR)	**0.03**	**0.09**	**0.02**	**0.10**

22. Financial assets and liabilities and risk management

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

Customers	**Group**		**Company**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Private persons	115,434	114,965	115,434	114,965
Other legal entities	2,037	2,438	2,038	2,439
Legal entities financed from municipalities' and state budget	617	658	617	658
	118,088	**118,061**	**118,089**	**118,062**

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

	Group		**Company**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Private persons	6,723	8,025	6,723	8,025
Other legal entities	1,042	1,288	1,042	1,288
Legal entities financed from municipalities' and state budget	751	875	751	875
	8,516	**10,188**	**8,516**	**10,188**

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 7).

22. Financial assets and liabilities and risk management (cont'd)

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

	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
AA-	1,822	7,161	1,543	7,073
A+	194	1,174	194	1,174
A	1	249	1	249
Bank with no rating attributed	54	23	54	23
	2,071	**8,607**	**1,792**	**8,519**

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

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(1, 3, 6 and 12 month EURIBOR). Therefore the Group and the Company faces an interest rate risk. As of 31 December 2019 and as of 31 December 2018 the Group had valid interest rate swap agreement to Luminor Bank AB credit EUR thousand 3,403 of 22 August 2012 in order to manage variable rate risk, described in Note 14.

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

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

	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
For heat purchased	3,689	4,072	4,121	4,528
To contractors	1,311	201	1,311	201
To other suppliers	1,993	3,379	1,770	3,024
	6,993	**7,652**	**7,202**	**7,753**

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

22. Financial assets and liabilities and risk management (cont'd)

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

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management as of 31 December 2019 and as of 31 December 2018.

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**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Non-current liabilities (including deferred tax and grants and subsidies)	50,374	43,737	48,403	41,295
Current liabilities	13,897	14,562	13,416	14,008
Liabilities	**64,271**	**58,299**	**61,819**	**55,303**
Equity	**89,825**	**89,967**	**89,776**	**90,099**
Debt* to equity ratio (percent)	**71.55**	**64.80**	**68.86**	**61.38**

* 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.

23. Commitments and contingencies

On June 22, 2019, the Company placed a claim for the Kaunas Clinics (Kauno Klinikos) of the Lithuanian University of Health Sciences (hereinafter referred to as Kaunas Clinics) to pay compensation in amount of EUR 5,120,680 for heat reserve capacity ensured by the Company to Kaunas clinics starting from the year 2010 until May 2019. Kaunas Clinics did not agree with the claim. The company has placed a lawsuit against Kaunas Clinics regarding judgement of unpaid compensation for heat reserve power. The case is pending at first instance.

The Company has placed a claim to the Lithuanian branch of AAS BTA Baltic Insurance Company seeking payment of the insurance surety amount. The amount of the claim was EUR 30,000. The case involved a settlement approved by the court whereby the defendant agreed to pay EUR 27,000 compensation. The Company has already received this amount.

Leasing and construction work purchase arrangements
Future liabilities of the Group and the Company under valid purchase arrangements as of 31 December 2019 amounted to EUR 34,692 thousand.

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.

Guarantees
On November 28, 2016 the Company provided guarantee in amount of EUR 3,913 thousand to Luminor bank AB regarding liabilities of subsidiary UAB Petrašiūnų Katilinė to this bank according to credit agreement concluded on August 22, 2012 for the amount of EUR 3,403 thousand. On November 28, 2016 the Company provided guarantee in amount of EUR 95 thousand to Nordea Bank AB (publ) regarding liabilities of subsidiary UAB Petrašiūnų Katilinė to this bank according to transaction of derivative financial instruments, described in Note 14. Carrying amount of the loan mount to EUR 1,701 thousand.

24. 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.

As of 31 December 2019, the Group's and the Company's allowance for overdue receivables from entities financed and controlled by municipalities amounted to 257 thousand EUR (as of 31 December 2018 – EUR 265 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

In 2019 and 2018 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices. The Kaunas City Municipality related party list can be found here: http://www.kaunas.lt/administracija/struktura-ir-kontaktai/pavaldzios-imones-ir-istaigos/.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 (all amounts are in EUR thousand unless otherwise stated)

24. Related parties transactions (cont'd)

In 2019 and 2018 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:

31 December 2019	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,225	4,111	695	225
Jurbarkas city municipality	14	266	6	1

31 December 2018	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,228	5,520	951	237
Jurbarkas city municipality	-	465	40	2

Sales include amounts of compensations for deprived people for housing heating costs, cold and hot water and also wastewater costs.

As at 31 December 2019 and as at 31 December 2018 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

UAB Petrašiūnų Katilinė	**Purchases**	**Sales**	**Receivables**	**Payables**
31 December 2019	2,398	5	443	432
31 December 2018	1,957	5	443	456

UAB Kauno Energija NT	**Purchases**	**Sales**	**Receivables**	**Payables**
31 December 2019	6	9	58	-
31 December 2018	5	11	64	-

Receivables from UAB Petrašiūnų Katilinė comprise a loan granted. There was no provision established for expected credit losses on the loan granted.

As at 31 December 2019 the Company has formed a value decrease in amount of EUR 58 thousand (as at 31 December 2018 in amount of EUR 64 thousand) for the receivables from subsidiaries.

<u>Remuneration of the management and other payments</u>

As at 31 December 2019 the Group's and the Company's management team comprised 3 and 1 persons respectively (as at 31 December 2018 – 3 and 1).

	Group		**Company**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Key to management remuneration	66	169	40	128
Calculated post-employment benefits to management	1	3	-	1

In the year 2019 and 2018 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.

25. Post balance sheet events

On January 8, 2020 AB Kauno Energija and UAB Fortum Heat Lietuva concluded an agreement regarding purchase of Palemonas district heating economy in Kaunas, according to which AB Kauno Energija purchases a boiler-house and heat supply network along with related equipment from UAB Fortum Heat Lietuva and starts heat supply activities in this neighbourhood from February 1, 2020.

The Company is currently assessing the potential negative consequences of the COVID-19 crisis, envisaging provisioning, reviewing the investment program and preparing a cost reduction plan for Q2 and Q3.

There were no other events after the reporting date that could materially impact or be disclosed in the financial statements.

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AB KAUNO ENERGIJA CONSOLIDATED ANNUAL REPORT OF THE YEAR 2019

Kaunas, 2020

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1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Report of the Issuer was prepared, is the year 2019.

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

The Issuer prepares both the Company's and the consolidated financial statements. The group of companies (hereinafter referred to as the Group) consists of PLLC Kauno Energija and its subsidiaries – LLC Kauno Energija NT and LLC Petrašiūnų Katilinė, in which the Issuer directly controls 100 per cent of the shares.

Main details of the Company:

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

Main information about the subsidiaries:

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

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

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

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

Also, following provisions of the Law on Heat Sector, the Company supplies hot water (is engaged in hot domestic water supplier activities) from 1 May 2010 for consumers in the cities of Kaunas and Jurbarkas and Kaunas district (hereinafter the supplies of heat and hot domestic water without cold water are referred to as heat, with the exception of information provided in Tables 7 and 8), who chose the Company as a hot water supplier. As at December 31, 2019 the Company supplied hot water to 702 residential buildings in Kaunas city, Kaunas district and in Jurbarkas. Income from hot water supplies amounts to approximately 6 per cent of all of Company’s sales revenue.

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

The vision of the Group and the Company is to be an innovative, competitive, and added value for shareholders creating Company engaged in heat and cooling generation and their centralized supply, maintenance of indoor heating and hot water systems.

Values of the Group and the Company:

- More than 50 years of experience in heat production and supply;
- Responsibility towards consumers for reliable heat and hot water supply;
- High qualifications of employees allowing to reach the highest efficiency indicators;
- Ability to apply innovative solutions in everyday activities.

Strategic goals of the Group and the Company are as follows: PLLC Kauno Energija is the most advanced and innovative DH company in Lithuania.

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

Increase in effectiveness and development of heat economy – Kaunas city needs at least one more than 100 MW capacity modern, up-to-date production facility – cogeneration power-plant, using renewable energy sources (hereinafter – RES) and / or waste, and / or natural gas. New power-plant should ensure tankage / use of reserved fuel, reservation of heat production facilities, stable hydraulic mode of centralized heat supply, flexible reaction to network peak demand changes, should have an emergency replenishment system and should be economically “balanced”;

Increase of safety and reliability of heat supply – the Company intends to formulate an expert assessment of safety / vulnerability of heat supply system, to implement update and modernization of system of parameters data transfer, collection and evaluation, to implement optimization of the network hydraulic mode and increase of speed of parameters reaction / change, to reconstruct and optimize sections of thermofication pipelines and elements (average age of pipelines of district heating network (hereinafter – DHN) reaches approximately 38 years), to implement update and development of the system of DHN water reserve – emergency replenishment, to implement technical solutions and / or use a good practice increasing reliability and safety, ensuring stability of thermofication mode;

to actively participate in formation of policy of Kaunas city supply with heat and in increase of Company’s desirability and in expansion of district heating market;

formation of good practice and its publicizing;

4. Issuer’s agreements with credit institutions

On September 13, 2018 the Issuer Service Agreement with AB SEB Bankas (company code 112021238, Gedimino pr. 12, Vilnius), represented by the Finance Markets Department was concluded.

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

20,031,977 (twenty million thirty one thousand nine hundred seventy seven) of the Issuer's ordinary registered shares (VP ISIN code LT0000123010) with the total nominal value equal to EUR 34,855,639.98 (thirty four million eight hundred fifty five thousand six hundred thirty nine euro and 98 cents) as at December 31, 2019 were listed in the secondary trade list of Nasdaq Vilnius Baltic stock exchange. The beginning of listing of the Company's shares is December 28, 1998.

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

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

During the year 2019 the Company performed its activities with a focus on development of capacities of production facilities and increase of reliability of DH network, considering Strategic guidelines of centralized heat supplies of Kaunas city.

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

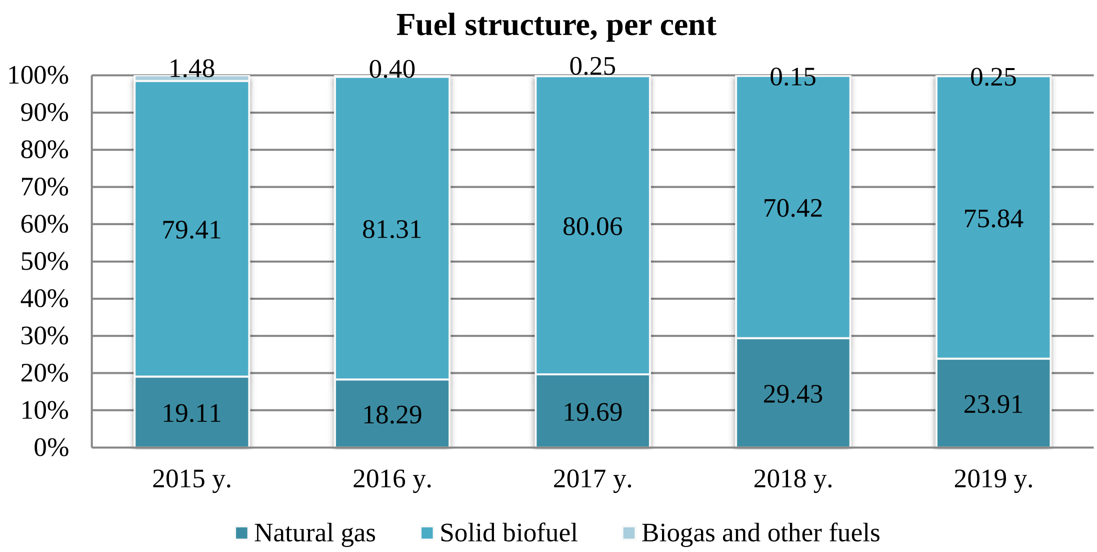
On February 7, 2019, The Supervisory Board of the Company approved the "Adjustment report of AB Kauno Energija Strategy, implementing the directions of the development of the energy sector until 2021".

The Company covers a major part of heat production and supply market in the cities of Kaunas and Jurbarkas and Kaunas district. Group's generation capacities consist of Company's boiler-houses capacities and subsidiary's UAB Petrašiūnų Katilinė capacities in Kaunas city. Company's generation capacities consist of Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 boiler-house in Jurbarkas city, 13 boiler-houses of isolated networks and 26 local gas burning boiler-houses in Kaunas city (25 of them are gas burned and 1 of them – burned with pellets), also 8 local water heating boiler-houses in Sargėnai neighbourhood. Total installed heat generation capacities of the Group consist of approx. 672 MW, and total energy generation capacity of the whole Group is approx. 681 MW (including 47 MW capacities of condensational economizers). Total installed heat production capacity of the Company consists of approx. 653 MW (including 47 MW capacities of condensational economizers), electricity generation capacities – 8.75 MW. 314.6 MW of heat generation capacities (including 17.8 MW capacities of condensational economizers) and 8 MW of electricity production capacities of them are in Petrašiūnai power plant. 34.8 MW of heat generation capacities (including 2.8 MW capacities of condensational economizer) are installed in Jurbarkas city. Total Company's power generation capacity consists of 662 MW (including 47 MW of condensational economizers' capacities).

Almost 38 per cent of heat supplied to consumers in the year 2019 was produced in Company's heat production facilities. The rest of required quantity of heat was purchased from independent heat producers (hereinafter – IHP) in monthly auctions, according to legal acts. Starting from May 2018 an electronic heat purchasing auctions are arranged by the Energy Stock Exchange operator UAB Baltpool. Electronic auctions are carried out in accordance with the Regulations of the Heat Auctions approved by the National Energy Regulatory Council. The Schedule of the Procedure and Conditions for the Purchase of Heat from Independent Heat Producers, the Methodology for Determining Heat Prices, the Rules for the Provision of Information on Energy, Drinking Water Supply and Wastewater Treatment, Sewage and Surface Water Treatment Companies, a Summary of Conditions of Usage of Heat Transfer Networks, and a schedule of the Procedure for Publicly Disclosed Information were changed respectively.

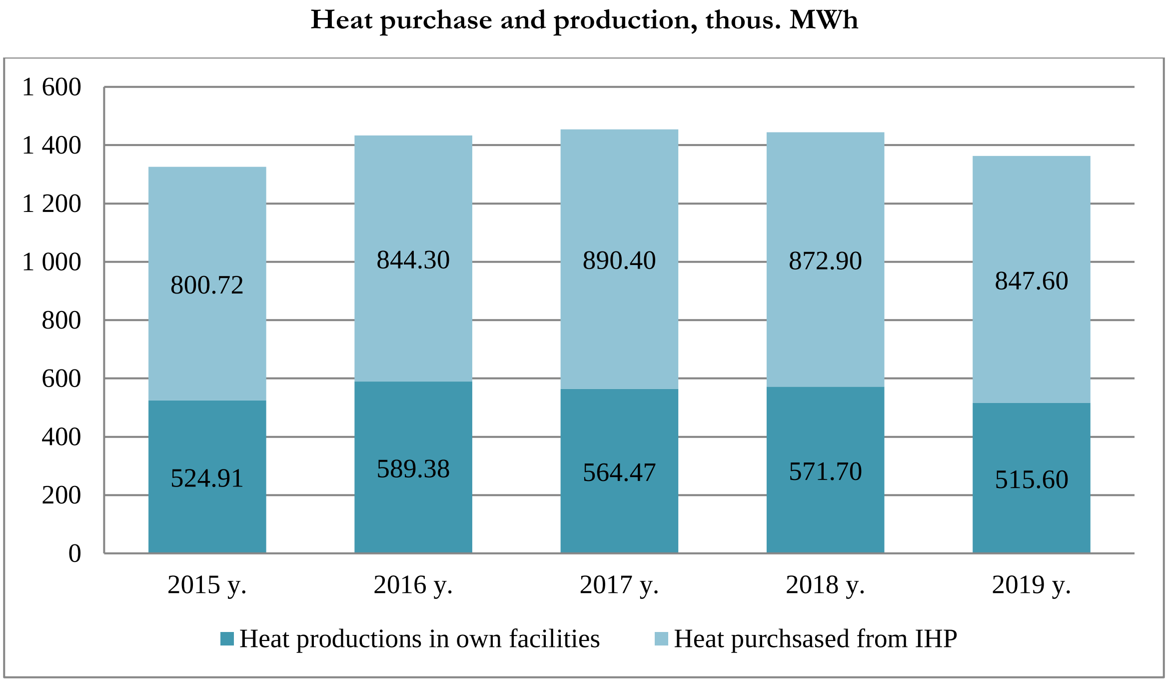
Fuel used by the Company for heat production in the year 2019 is presented in Chart 1.

Chart 1



In the year 2019, the Company purchased heat from 11 IHP in Kaunas and Kaunas district: from LLC Kauno Termofikacijos Elektrinė, LLC Idex Taika, LLC Idex Taika Elektrinė, LLC Lorizon Energy, LLC Ekoresursai, LLC Petrašiūnų Katilinė, LLC Aldec General, LLC ENG, LLC Idex Biruliškių, LLC Ekopartneris and LLC Foksita. Total purchases consisted of 847.6 thousand MWh of heat, i.e. 62.4 per cent of heat supplied to the network (in the year 2018 – 60,8 per cent). Amounts of heat purchased from IHP and produced with Company's equipment during the period of the years 2015–2019 are presented in chart 2, thousand MWh:

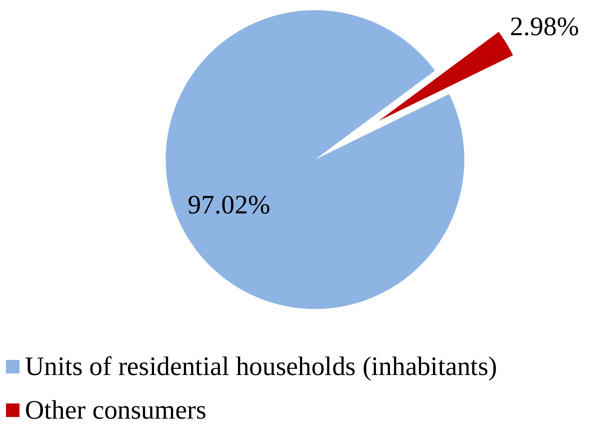
Chart 2



As at December 31, 2019 the Company supplied this produced and purchased heat with integrated and local heat supply networks to 3,571 businesses and organizations as well as to 116,444 households, in total – to 120,015 consumers (objects by addresses).

Chart 3

Repartition of Company's heat consumers by groups



Investments

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

Investments are made in accordance with Company's revised investment plan for the year 2019, which was approved by decision No T-63 of Kaunas City Municipality Council of February 26, 2019 "Regarding investment plans of PLLC Kauno Energija for the year 2019 and 2017–2020 and their financing" (hereinafter – Investment plan).

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

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

In 2020 the Company will accomplish two projects, i.e. "Modernization of the main pipeline 6T of integrated network of Kaunas City" (code 04.3.2-LVPA-K-102-01-0010) and "Modernization of the main pipeline 1T of integrated network of Kaunas City" (code 04.3.2-LVPA-K-102-01-0024) according to the financial support agreements signed with the Lithuanian Business Support Agency (hereinafter – LBSA) in December 2016. The value of the projects amounts to EUR 2.3 million, i. e. EUR 1.15 million is financial support from European Union.

On March 9, 2018 the Company signed a support agreement with LBSA for the financing of the project "Installation of up to 1 MW capacity biofuel boiler in Noreikiškės boiler-house" (code 04.1.1-LVPA-K-109-01-0006). The value of the project is EUR 0.25 million, i. e. EUR 0.15 million is European Union structural support.

The project is focused to the increase of efficiency of heat generation facilities and the reduction of greenhouse gas emissions. The new boiler will replace the natural gas used for heat production to biofuel.

On May 23, 2018 the Company signed 7 agreements with LBSA under the Measure No. 4 of the Priority 4 “Promotion of Energy Efficiency and Renewable Energy Production” of the EU Funds Investment Action Program for 2014–2020 No. 04.3.2-LVPA-K-102 “Modernization and development of heat supply networks”:

- “Reconstruction of the main pipeline 1T of Kaunas city” (code 04.3.2-LVPA-K-102-02-0028);
- “Reconstruction of the main pipelines 1Ž and 7Ž of Kaunas city” (code 04.3.2-LVPA-K-102-02-0029);
- “Reconstruction of the main pipeline 4T of Kaunas city” (code 04.3.2-LVPA-K-102-02-0030);
- “Reconstruction of the main pipeline 5T of Kaunas city” (code 04.3.2-LVPA-K-102-02-0031);
- “Reconstruction of the main pipeline 8K of Kaunas city” (code 04.3.2-LVPA-K-102-02-0032);
- “Reconstruction of the main pipelines 8H and 9Ž of Kaunas city” (04.3.2-LVPA-K-102-02-0034);
- “Reconstruction of district heating networks in Chemijos and Medvėgalio streets of Kaunas city” (code 04.3.2-LVPA-K-102-02-0035).

These projects are anticipated to be accomplished in 2019–2020. The value of the projects is EUR 19.7 million, i.e. EUR 9.86 million of EU Structural support.

On November 16, 2018 the Company signed a contract with the LBSA for the financing of the project “Development of Kaunas city district heating network in the Aleksotas neighbourhood” (code 04.3.2-LVPA-K-102-04-0001) under the Measure No. 04.3.2-LVPA-K-102 “Modernization and development of heat supply networks” of Priority 4 “Promotion of Energy Efficiency and Renewable Energy Production” of the EU Funds Investment Action Program for 2014–2020. The value of the project amounts to EUR 3.8 million, incl. EUR 1.9 million of EU Structural support.

On November 16, 2018 the Company signed two contracts with the LBSA regarding partial financing of the projects “Biofuel Boiler Installation in Raudondvaris Boiler House” and “Biofuel Boiler Installation in Jurbarkas Boiler House”. A 1.5 MW capacity biofuel-burned boiler will be installed in Raudondvaris. The value of the project amounts to EUR 0.5 million, incl. EUR 0.3 million of European Union Structural support. A 4.6 MW capacity biofuel-burned boiler will be installed in Jurbarkas. The value of the project amounts to EUR 0.8 million, incl. EUR 0.5 million of European Union Structural support.

All these projects are being implemented in 2019 and will be accomplished in 2020.

On March 2019 the Company submitted 10 applications under the 6th call of the measure 04.3.2-LVPA-K-102 “Modernization and Development of Heat Supply Networks” of 2014-2020 European Union Funds Investment Operational Program. 10 agreements under all these applications were concluded with LBSA in August and December 2019:

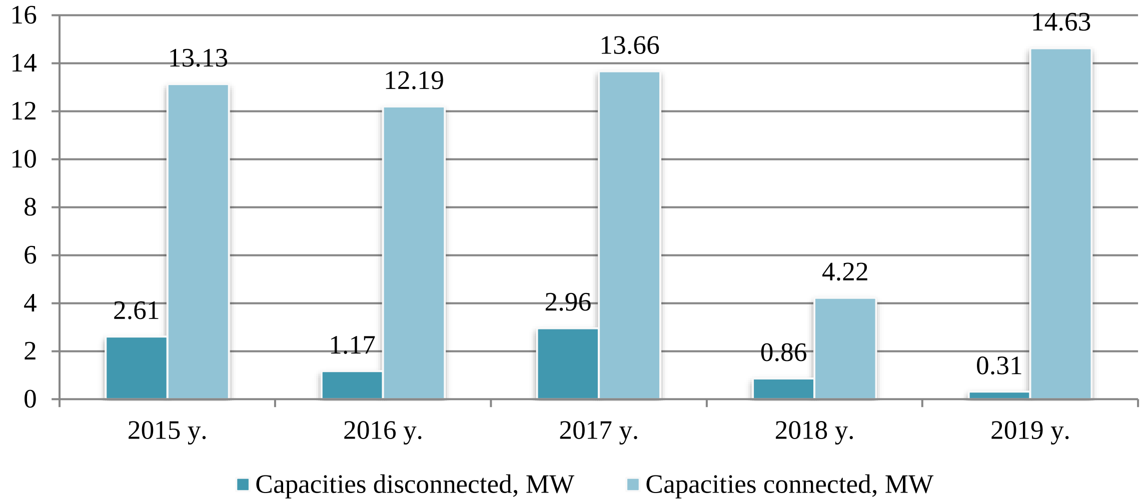
- “Reconstruction of the main pipeline 1Ž of Kaunas city” (code 04.3.2-LVPA-K-102-06-0012);
- “Reconstruction of the main pipeline 2T of Kaunas city” (code 04.3.2-LVPA-K-102-06-0014);
- “Reconstruction of the main pipeline 4K of Kaunas city” (code 04.3.2-LVPA-K-102-06-0015);
- “Reconstruction of junction of the main pipelines 4Ž and 1T of Kaunas city” (code 04.3.2-LVPA-K-102-06-0016);
- “Reconstruction of the main pipeline 4Ž of Kaunas city” (code 04.3.2-LVPA-K-102-06-0017);
- “Reconstruction of junction of the main pipelines 5T and 6T of Kaunas city” (code 04.3.2-LVPA-K-102-06-0018);
- “Reconstruction of the main pipeline 7Ž of Kaunas city” (code 04.3.2-LVPA-K-102-06-0019);
- “Reconstruction of the main pipeline 2P of Kaunas city” (code 04.3.2-LVPA-K-102-06-0013);
- “Reconstruction of the main pipeline 9K of Kaunas city” (code 04.3.2-LVPA-K-102-06-0020);
- “Construction of heat supply network to Kaunas FEZ” (code 04.3.2-LVPA-K-102-05-0007).

Al these projects are anticipated to be implemented in 2020 – 2021. The value of the projects amounts to EUR 18.7 million, incl. EUR 9.4 million of European Union Structural support.

The dynamics of consumer's connections to Company's DHN and disconnections in 2015–2019 is shown in Chart 4.

Chart 4

Dynamics of consumer's connections and disconnections

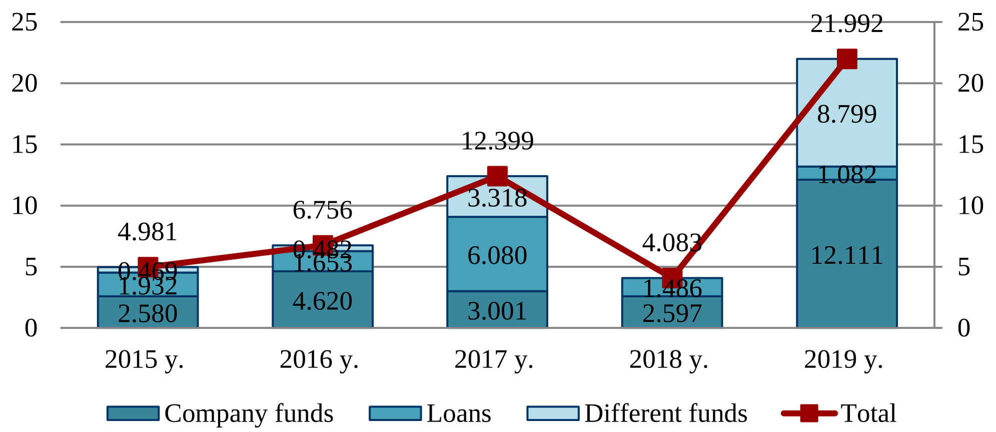


A total installed capacity of objects disconnected from DHN in 2019, was approx. 0.31 MW. Disconnection of heat equipment from centralized heat supply networks and the change of heating method is pursued following the order determined by the Civil Code of the Republic of Lithuania, the Law on Heat Sector of the Republic of Lithuania, the Law on Construction of the Republic of Lithuania and sub statutory legal acts implementing these Laws.

A major part of Company's investments in 2019 was assigned for modernization of heat supply networks and renewal of heat production boilers. A part of funds was allocated to the connection of new objects with total consumption capacity of 14,63 MW to the DHN. Company's investments by funding sources of the years 2015–2019 are presented in Chart 5.

Chart 5

Implementation of investments by funding sources, million euro



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

External risk factors affecting the Company's core business:

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

Competition environment risk factors

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

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

Commercial risk factors

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

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

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

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

The effects of other competing companies, propagating the only usage of natural gas, irrespective of approved special heating supplies plan, supplies reliability, affection to the only source of fuel, not yet regulated local pollution, in the heat supply sector with the Company are disconnections of consumers from DHN system. Heating equipment disconnection from the DHN and heating mode changes are carried out in accordance with the procedures specified in the “Rules on heat supply and consumption” approved by order No 1-297 of October 25, 2010 of the Minister of Energy of the Republic of Lithuania (and their further amendments) and the Description of procedure for disconnection of the building or heating facilities of premises from heat supply networks at the initiative of consumers approved by order No A 1830 of the director of administration of Kaunas City Municipality of 14 May 2012. Kaunas City Municipality has approved a special heat supply plan, which provides a way to separate the heat supply in different urban areas. Disconnection of buildings in the district heating area from the DH network is only possible with the appropriate permit of Kaunas City Municipality. A special heat supply plan of Kaunas District Municipality was approved by the decision of Kaunas District Municipality No TS-43 of January 26, 2012. A special heat supply plan of Jurbarkas City and District was approved by the decision of Jurbarkas District Municipality No T2-67 of March 10, 2005.

Operational risk

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

Detailed information on risk management policy and credit, exchange rate, interest rate, liquidity risk is provided in Note 22 of explanatory notes to the Financial Statements of PLLC Kauno Energija Consolidated and Company's Report of the year 2019.

During the year 2019 heat consumers' debts decreased by approx. 16 % in comparison with the year 2018 and consisted of EUR 8.087 million in 2019. During the year 2018 heat consumers' debts decreased by approx. 14 % in comparison with the year 2017 and consisted of EUR 9.609 million. Decrease was affected by application of effective methods of debts administration.

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

In all cases, the consumer is informed regarding his indebtedness first. When debtors respond to warnings, the options of debt settlement are discussed and the documents ensuring repayment of debt are signed. If the debtor does not respond to warnings and if pre-trial measures are not effective, the judicial recovery begins. The Company then applies to the court and after a decision accompanied with receiving-order – to bailiff. In such case the debtor must pay not only the debt but also the court and execution expenditures. In the year 2019 a lot of debt prevention actions and pre-trial recovery measures were carried out. Number of debt management actions performed: 22,069 written warnings, 2,881 telephone warnings, 207 accepted bills, 54 written settlements, 164,172 warnings in monthly bills.

On January 2, 2018 the Kaunas Unified Service Center "Mano Kaunas" started its operations in Statybininkų str. 3, Kaunas, at the premises of LLC Kauno Švara. Here residents can get immediate information / consultation about Kaunas city services provided by municipality owned companies – PLLC Kauno Energija, LLC Kauno Švara, LLC Kauno Autobusai, LLC Kauno Butų ūkis, LLC Kauno Gatvių Apšvietimas and LLC Kauno Vandenys, as well as conclude contracts, pay invoices, requests, certificates, etc.

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

Legal conformity risk

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

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

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

Social factors

consumers' disconnections from the system of centralized heat supply can have a negative impact on Company's operations. Consumers with total consumption capacity of 0.31 MW were disconnected in 2019; also limited purchasing power of consumers and slow growth of it, unemployment and exceptionally negative opinion about district heating supplier in the public domain have also a negative impact on Company's activities.

However, an increased number of consumers from 119,490 in the year 2018 to 120,015 in the year 2019 had a positive impact on Company's activities. Total installed heat consumption capacities of new consumer's amount to 14.63 MW (mostly business organizations owning big, i.e. heated areas).

Social risk

Company's activities are socially sensitive to many Kaunas region residents and businesses due to the conditionally high costs for heating and hot water. These costs constitute a significant part of expenses for households. But as the price of heat sold is decreasing, number of complaints regarding big bills also decrease. This decrease was determined by the latest Company's investments in production facilities that allowed reducing the prices of heat and hot water significantly. As measured in terms of Lithuania, the Company's heat price in the year 2019 was near an average heat price of all heat supply companies.

This risk is mitigated by reasonably informing consumers on Company's activities. Articles on Company's activities are coherently published in Company's website and in national or local media. The Company analyses consumer's complaints, provides written responses, consumers are advised verbally (in Company's premises as well as in "Mano Kaunas" consumers centre), by the telephone or e-mail. Heat consumers are periodically invited to meet Company's specialists and discuss consumer issues related to the Company's activities. Thus, an image of modern and socially responsible company is being created.

Technical and process factors

Greatest process risks are so shaded with the condition of heating systems. Company's trunk pipelines are an average about 40 years old. Modernization rate of them is determined by lack of funds – it is necessary to reconstruct more than 13.5 km of pipelines per year to condition of age of heat supply system and the minimum investments should consist of approximately 6 million euros. Hydraulic testing identifies their weakest points. Every year, about 200 points where cracks occur are identified during the tests. Upon discovery of defects, pipes are exposed and promptly repaired.

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

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

More detailed information on Company's investments and modernization of production facilities is provided in chapters 6.1 and 7.

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

Ecological factors

In terms of the Company they may be divided into those affecting the Company and influenced by the Company's operations.

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

The Company pays taxes for atmospheric and water pollution. If allowable emission rate limits or annual limits are exceeded, the Company must pay the fines under the applicable laws of the Republic of Lithuania. The Company was not imposed any penalties in the year 2019.

Main Company's emission reduction measures: modernization of heat generation sources, heat transfer loss reduction by replacing the existing pipes to the pipes with polyurethane foam insulation, installation of new technology and improvement of existing facilities, use of less polluting fuels, and continuous emission monitoring (in the year 2019, the fuel balance was dominated by solid biofuel – 75,84.0%, natural gas – 23.91%, other fuels – 0.25 %).

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

Company’s sales revenue of the year 2019 was EUR 54,659 thousand and in comparison, with the year 2018 decreased by 10.87 per cent (in the year 2018 it consisted of EUR 61,328 thousand). Sales revenue of the Group of the year 2019 was EUR 54,649 thousand (in the year 2018 it consisted of EUR 61,316 thousand).

This alteration was mainly affected by a decrease in heat price, the main part of which consist of fuel and purchased heat constituents, as well as decreased amount of heat sold. The amount of heat sold in the year 2019 was at 5.32 per cent less in comparison with the year 2018. The average price of heat sold decreased by 8.42 percent in the year 2019 (in 2019 the heat price was 4.57 ct/kWh, and in 2018 - 4.99 ct/kWh).

The comprehensive income of the Group amounted to EUR 933 thousand in the year 2019, and the Company’s – to EUR 747 thousand. Comprehensive income of the year 2019 decreased by EUR 3,031 and 3,667 respectively in comparison with the year 2018.

Starting from December 2018 to December 2019 heat price has been reduced by the additional contribution in amount of 0.29 ct/kWh (0.32 ct/kWh from December 2019) by the decision of the Board of the Company in order to reimburse to consumers an additional income earned in 2015–2016. EUR 3.32 million were reimbursed to consumers during the year 2019.

The Group and the Company accounts impairment loss in doubtful receivables. Change in impairment loss in doubtful receivables in 2019 is included in the article of expenses of the change in the carrying amount of receivables of the Group's and the Company's Statement of Profit (Loss) and Other Comprehensive Income and was amounted to EUR -1,017 thousand and EUR -1,021 thousand respectively in 2019, i.e. expenses decreased and profit increased because of that (in 2018 – EUR -770 thousand and EUR -787 thousand). In 2019, the Group and the Company wrote of an amount of EUR 636 thousand and EUR 636 thousand of bad debts respectively (in 2018 these sums amounted to EUR 696 thousand and EUR 696 thousand respectively).

Comparison of financial indicators of the Group of the year 2019 with the indicators of the years 2015–2018 is presented in Table 1.

Table 1

No	Indicator of the Group	2015	2016	2017	2018	2019
1	Revenue from sales, thousand euros	60,725	61,178	59,680	61,316	54,649
1.1	Including: Heat energy	57,396	58,004	56,084	57,387	49,711
1.2	Electric energy	253	38	0	0	0
1.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	21	10	10	11	12
1.4	Income from the maintenance of collectors	226	227	250	250	251
1.5	Hot water supply including cold water price	2,569	2,611	2,981	3,260	3,228
1.6	Income from maintenance of hot water meters	260	288	355	408	422
1.7	Income from the trading of emission allowances	-	-	-	-	1,025
2	Profit, thousand euros	4,509	6,957	6,861	3,963	933
3	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	12,083	14,787	15,861	12,417	8,816
4	Profitability of core business, per cent (operating profit / sales and services)* 100	9.1	10.0	11.7	6.4	1.2
5	Net profitability, per cent (net profit / sales and services)*100	7.4	11.4	11.5	6.5	1.7
6	Assets, thousand euros	134,442	145,073	149,158	148,266	154,096
7	Equity, thousand euros	81,860	87,019	89,343	89,967	89,829
8	Return on equity (ROE), per cent (net profit / average equity)*100	5.7	8.5	8.2	4.7	1.1
9	Return on assets (ROA), per cent (net profit / average assets)*100	3.2	5.0	4.8	2.8	0.6
10	Asset turnover ratio (sales and services / assets)	0.45	0.42	0.40	0.41	0.36
11	Return on tangible assets, per cent (net profit / average value of tangible assets)*100	3.7	5.6	5.4	3.2	0.7
12	Debt ratio (liabilities /assets)	0.39	0.40	0.40	0.39	0.42
13	Debt-to-equity ratio (liabilities / equity)	0.6	0.7	0.7	0.6	0.7
14	General liquidity ratio (short-term assets / short-term liabilities)	1.10	1.18	1.22	1.58	1.03
15	Quick ratio ((short-term assets- inventory) / short-term liabilities)	1.07	1.14	1.13	1.47	0.92
16	Cash ratio (cash in hand and at bank / short-term liabilities)	0.21	0.49	0.42	0.60	0.16
17	Net earnings per share (net profit / average weighted number of shares in issue)	0.11	0.18	0.16	0.09	0.02
18	Equity per share, euros	1.9	2.0	2.09	2.1	2.1

No	Indicator of the Group	2015	2016	2017	2018	2019
19	Last share market price of the year /net profit /number of shares at year-end (P / E ratio)	4.36	3.45	7.36	10.80	45.97
20	Share capital, thousand euros	74,476	74,476	74,476	74,476	74,476
21	Share capital-to-assets ratio	0.55	0.51	0.5	0.5	0.49
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	5.8	8.7	8.8	4.9	1.1
23	Dividend payment ratio	0.38	0.66	0.49	0.28	

Comparison of financial indicators of the Company of the year 2019 with the indicators of the years 2015–2018 is presented in Table 2.

Table 2

No	Indicator of the Company	2015	2016	2017	2018	2019
1	Revenue from sales, thousand euros	60,733	61,188	59,692	61,328	54,659
1.1	Including: Heat energy	57,404	58,013	56,096	57,399	49,721
1.2	Electric energy	253	38	0	0	0
1.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	21	10	10	11	12
1.4	Income from the maintenance of collectors	226	227	250	250	251
1.5	Hot water supply including cold water price	2,569	2,611	2,981	3,260	3,228
1.6	Income from maintenance of hot water meters	260	288	355	408	422
1.7	Income from the trading of emission allowances	-	-	-	-	1,025
2	Profit, thousand euros	4,528	6,901	6,046	4,414	747
3	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	12,085	14,631	14,391	12,227	7,946
4	Profitability of core business, per cent (operating profit / sales and services)* 100	9.2	9.9	12.2	6.8	0.7
5	Net profitability, per cent (net profit / sales and services)*100	7.5	11.3	10.13	7.2	1.4
6	Assets, thousand euros	135,173	141,071	145,002	145,402	151,595
7	Equity, thousand euros	82,412	87,515	89,024	90,099	89,776
8	Return on equity (ROE), per cent (net profit / average equity)*100	5.6	8.1	7.05	5.12	0.87
9	Return on assets (ROA), per cent (net profit / average assets)*100	3.2	5.0	4.32	3.1	0.5
10	Asset turnover ratio (sales and services / assets)	0.45	0.43	0.41	0.42	0.36
11	Return on tangible assets, per cent (net profit / average value of tangible assets)*100	3.7	5.7	4.9	3.7	0.6
12	Debt ratio (liabilities /assets)	0.39	0.38	0.39	0.38	0.41

No	Indicator of the Company	2015	2016	2017	2018	2019
13	Debt-to-equity ratio (liabilities / equity)	0.6	0.6	0.6	0.6	0.7
14	General liquidity ratio (short-term assets / short-term liabilities)	1.10	1.48	1.48	1.65	1.07
15	Quick ratio ((short-term assets- inventory) / short-term liabilities)	1.07	1.44	1.38	1.54	0.95
16	Cash ratio (cash in hand and at bank / short-term liabilities)	0.21	0.51	0.51	0.62	0.14
17	Net earnings per share (net profit / average weighted number of shares in issue)	0.11	0.17	0.14	0.10	0.02
18	Equity per share, euros	1.9	2.0	2.08	2.11	2.1
19	Last share market price of the year /net profit /number of shares at year-end (P / E ratio)	4.34	3.47	8.35	9.70	57.3
20	Share capital, thousand euros	74,476	74,476	74,476	74,476	74,476
21	Share capital-to-assets ratio	0.55	0.53	0.51	0.51	0.49
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	5.8	8.6	7.8	5.4	0.9
23	Dividend payment ratio	0.38	0.66	0.56	0.25	

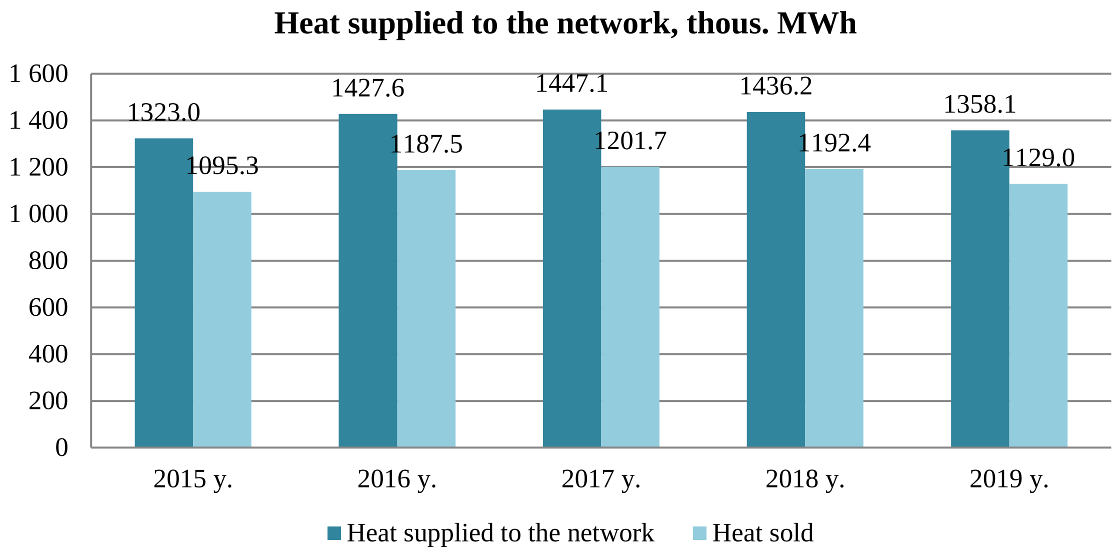
The more detailed analysis of financial indicators of the Group and the Company is provided in notes to Consolidated and Company's financial statements for the year 2019.

Comparison of non-financial indicators of the Company of the year 2019 with the indicators of the years 2015–2018 is provided in Table 3.

Table 3

No	Denomination of Indicator	2015	2016	2017	2018	2019
1.	Energy produced, purchased and supplied to the network, thous. MWh	1,326.3	1,428.1	1,447.1	1,436.2	1,358.1
1.1.	thermal energy	1,323.0	1,427.6	1,447.1	1,436.2	1,358.1
1.2.	electric energy	3.3	0.5	0	0	0
2.	Energy sold thous. MWh	1,098.6	1,188.0	1,201.7	1,192.4	1,129.0
2.1.	thermal energy	1,095.3	1,187.5	1,201.7	1,192.4	1,129.0
2.2.	electric energy	3.3	0.5	0	0	0

Chart 6



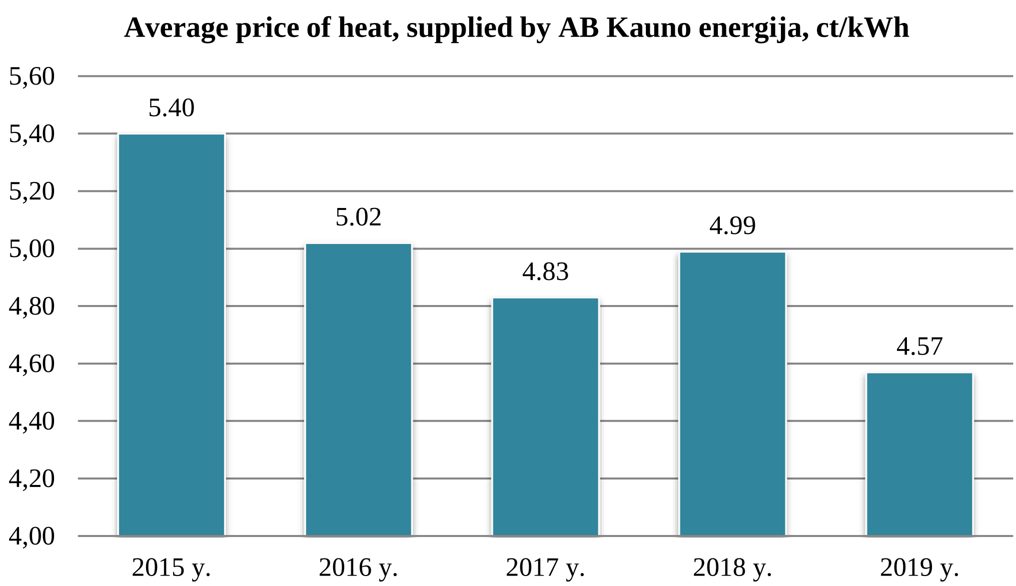
Environmental impact on operations

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

Company's reconstructed heat production facilities changing fossil fuel to biofuel will make a serious competition with their costs of production to IHP, operating in Kaunas. With modernization of its own production facilities the Company reduced heat price for its consumers by more than 15 per cent during the last 5 years.

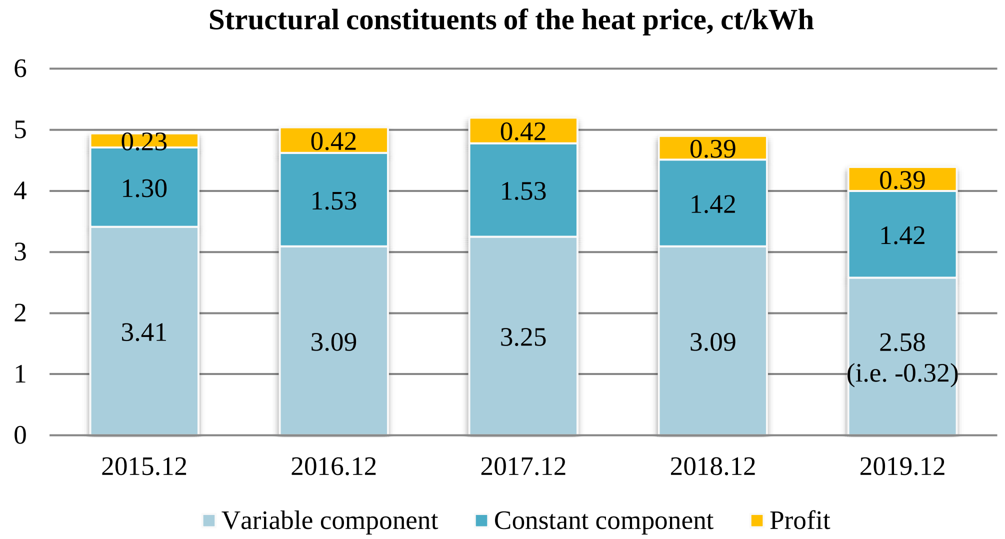
The dynamics of average price of heat of the Company in 2015–2019 is provided in Chart 7.

Chart 7



Components of Company's heat price structure in 2015–2019 are provided in Chart 8.

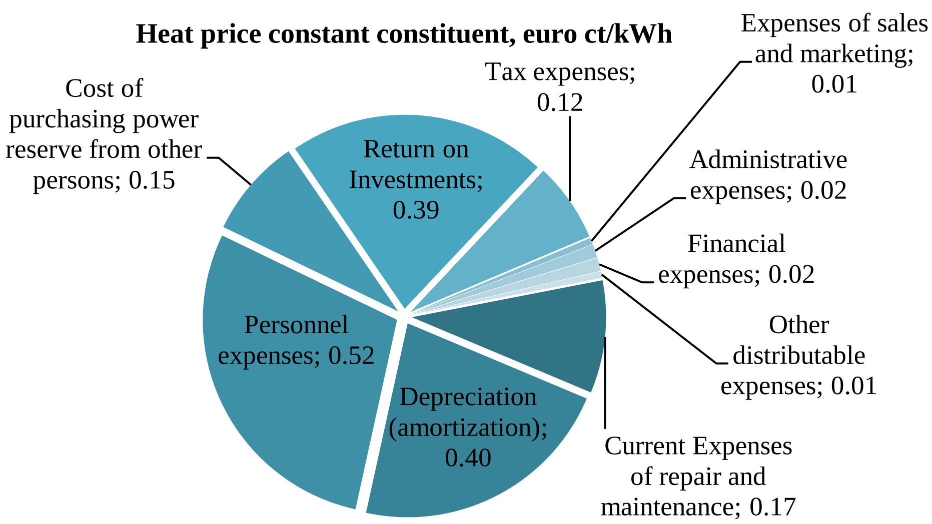
Chart 8



The prices for heat and hot water are calculated and approved in accordance with the Methodology for the determination of heat prices, approved by the Resolution No. O3-96 of NERC of July 8, 2009. The base heat price constituent is determined for a period of 3-5 years. In the case of pricing of regulated services (products), the mechanism of long-term prices applies to heat pricing, i.e. the base heat price (price constituents) is determined for the base period, and it is adjusted in the second and subsequent years by setting the recalculated heat price (price constituents).

Management Board of PLLC Kauno Energija determined by its decision of October 24, 2018 No. 2018-26-2 the heat price constituents for the first year of validity of basic heat price, which were agreed by NERC decision of November 16, 2018 No. O3E-390. The constant heat price constituent, which was valid until November 30, 2018 was amounted to 1.95 ct/kWh (incl. profit), and the new constant constituent, valid from December 1, 2018 amounts to 1.81 ct/kWh (incl. profit) (decrease of constant constituent was determined by the decrease in reserve capacity assurance expenditures from 0.26 ct/kWh to 0.15 ct/kWh). Details of constant heat price constituent are provided in Chart 9.

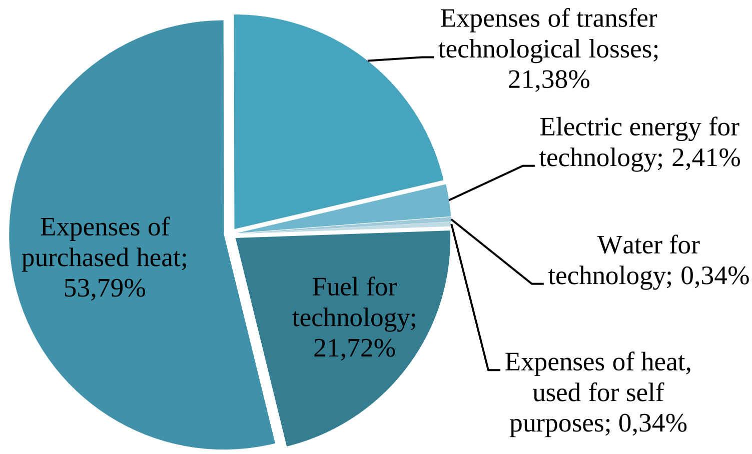
Chart 9



The Company recalculates values of heat price variable constituents and final heat prices every month, considering changes in prices of fuel and purchased heat. The additional constituent has been determined by the decision of the Management Board of the Company, to compensate the difference between actual price and prices of fuel and heat purchase included in heat price. This additional constituent reduces the price for consumers by 0.32 ct/kWh. Details of variable heat price constituent, valid on December 2019 are provided in Chart 10.

Chart 10

Heat price variable constituent in December 2019, per cent



Information related to environmental issues

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

Waste management

The Group and the Company have organized the waste collection, sorting and disposal to waste managers, i.e. to licensed waste management businesses. In the year 2019, the Group and the Company disposed for recycling 41.5 tons (bottom ash, slag and boiler's dust, of packages that contains hazardous chemicals or that are contaminated with them, absorbents, filter materials (including non-redefined oil filters), dust cloths, protective clothing; mixed municipal waste, used tyres, tons of laboratory chemicals, including mixtures of laboratory chemicals, consisting of or containing hazardous materials; of insulation materials containing asbestos, of paper and carton, of fluorescent lamps, concrete, of bricks, tiles and ceramic composites, of bituminous mixes).

Wastewater management

In accordance with the schedule agreed with the Environmental Protection Agency (EPA), the Group and the Company constantly monitor that the effluent discharges from stationary sources are within the permissible limits set out in the integrated pollution prevention and control permits.

Air pollution

The measurement laboratory of stationary air pollution sources of the Group and the Company, in possession with the permit issued by the EPA and following the schedule agreed with EPA, continuously monitors the emissions to the atmosphere from stationary sources to would not exceed the permissible limits established in integrated pollution prevention and control permits. Company's Šilkas, Ežerėlis, Girionys and Noreikiškės boiler-houses, and starting from 2015 – Inkaras boiler-house and Petrašiūnai power-plant use biofuel, thus reducing atmospheric pollution. Below in Table 4 you can find the comparison of the Company's pollutions to the atmosphere from stationary air pollution sources in 2019, with the amount in 2015–2018.

Table 4

Period	Particulates, t	Nitrogen oxides, t	Carbon monoxide, t	Sulphur dioxide, t	Hydrocarbons, t	Other pollutants, t
2019	86.0888	25.44433	1,090.2436	0.2746	1.1978	0.4313
2018	48.7984	283.0412	1,082.9366	31.6210	1.1982	0.1509
2017	79.7242	285.6461	1,236.7667	145.0571	1.1982	0.4297
2016	53.7542	265.0797	1,155.3349	231.4719	4.2871	0.2818
2015	43.5783	203.6775	904.8513	193.3228	20.1586	0.2818

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

8. References and additional explanations

Main financial data of the Group and the Company are provided in the explanatory notes to the consolidated and Company’s financial statements for the year 2019.

Internal control over consolidated statements

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

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

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

9. Significant events after the end of financial year

On February 26, 2020 Mr. Visvaldas Matijošaitis, Mr. Andrius Palionis, Mr. Visvaldas Varžinskas and Mrs. Ramunė Bičkauskienė resigned from the members of the Supervisory Board of the Company.

On March 30, 2020 the audit of financial statements for the year 2019 was completed. It was performed by the supplier group LLC Auditas and LLC Nexia JK. A nomination of the Company's audit company, which is auditing the financial statements for the year 2019, was proposed by the Board to the General Meeting of Shareholders following the results of a public procurement. This Annual Report of the Company is presented together with the Audited Financial Statements for the year 2019 and with the independent auditor's conclusion.

The Management Board of the Company elected Tomas Garasimavičius on March 27, 2020 as the General Manager of the company for the 5 (five) years of the term of office starting from March 30, 2020.

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

Inasmuch investments allow continual business development and profitability, the aims of the Group's and the Company's investment program for the year 2020 is further increase in volumes of heat production and effectiveness, expansion of heat selling market, through increase of use of biofuel for heat production, development of heat transmission and distribution increasing safety and reliability, developing services of maintenance of engineering systems and further improvement of consumers services quality.

In compliance with the provisions of the plan for the facilities on the implementation of the National Renewable Energy Development Strategy, in order to implement the Company's key business objectives and the provisions of the National Energy Independence Strategy related to the assurance of technical requirements for reliability of heat facilities and heat supply networks, to guarantee the quality keeps apply to consumers, Kaunas city municipality decided to approve Company's investment plans with the decision No. T-63 "Regarding Investment Plans Of PLLC Kauno Energija For The Year 2019 And For The Years 2017–2020 And Their Financing" on February 26, 2019.

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

In 2020 the implementation of Company's investment program will involve further modernization of boiler-houses owned by the Company automating the production process and installing condensational economizers; reconstruction of heat networks; replacement of heat meters. Implementation of these measures will allow to reduce losses of heat transmission and to perform optimization of heat supply to the consumers and to ensure heat supplies reliability.

It is planned that in 2020 in comparison with 2019, the Group's sales turnover will remain in similar level as in 2019. The greatest impact on the Group's and the Company's income and expenses will be made by fuel and purchased heat price changes, as the price of heat is recalculated every month under the requirements of the law. A significant impact on the price of purchased heat is provided by the procedures established by the NERC (for example, a description of the procedure and conditions for the purchase of heat from independent heat producers), the conditions of competition between the heat supplier and the IHP. The Group's profit in comparison with 2019 is planned to be in the similar level. The results planned may be adjusted by change in heat demand, i.e. consumption, which is mainly affected by the average outdoor air temperature, the amount of user investments in housing renovation, energy-saving and its rational use, decisions of NERC regarding issues of heat pricing, as well as changes in the economic situation in Lithuania.

11. Information on research and development activities

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

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

Company's representatives took part as every year in national conference "Heat energetics and technologies" organized by Kaunas University of Technology at the end of January.

The Company along with Lithuanian Energy Institute takes part in READY project ("Resource efficient cities implementing advanced smart city solutions") supported by European Commission. 23 companies from

Denmark, Sweden, Austria, France and Lithuania take part in it. Project will be pursued until the year 2022 by applying the latest measures of effective energy consumption in Kaunas city.

Starting from 2018 the Company together with 9 more European companies and research institutions and with the Innovation and Network Program Institution (INEA), which manages infrastructure and research programs in the EU transport, energy and telecommunications sectors, takes part in the international research project "Flexible combined heat and power generation from renewable energy sources" (FLEXCHX). The essence of the project is to ensure biomass power-plants to work in a full load the whole year. The goal of the project is to create a flexible energy production process, which could be used in various Europe's energy production facilities in the future, using high effectiveness at the minimal expenditures.

On January 15, 2019 the European Commission has proposed EUR 1.66 million support for project No. 847056 "Residential Building Energy Renovations with On-Bill Financing" (Ren-on-Bill). The application for financing of the project was submitted under the Horizon 2020 program. The Company takes part in the project as a partner with 8 other companies from Lithuania, Italy, Germany, Belgium and Spain. The project will be coordinated by Creara Consultores SL (Spain). EUR 71.5 thousand of EU support is allocated for the Company. The aim of the Ren-on-Bill project is to increase investment in residential renovation by promoting the use of OBF (On-Bill Financing) utility schemes based on cooperation between energy suppliers and financial institutions.

On May 16, 2019 another new electric car charging point was launched in Kaunas. It is located at Raudondvario Road 84 near the Company's administrative building. This is not the first public electric car charging point in Kaunas, but it is exceptional. Part of the electricity consumed at this point is generated from renewable energy - solar energy. This energy is "collected" right here by a solar power plant installed on the Company's administrative building. Even though this share of renewable energy is still small, it is already a breakthrough in the use of renewable energy sources. The point was installed by the Company to take another step towards the use of advanced future technologies.

On October 24, 2019 the Company was awarded a global award for the modernization of the big city's heat sector at the Global District Energy Climate Awards ceremony, that took place in Reykjavik, Iceland. The Company was awarded in the category Modernisation for modernization of Kaunas city heat sector, which has had the most positive impact on efficiency and the reduction of carbon dioxide (CO_2) emissions. It was emphasized that during the last few years the use of natural gas for heat production in Kaunas decreased from 95% to 10%, while the use of renewable resources increased from 3% to 90%. CO_2 emissions from the Company's heat production facilities decreased by 27.7% from 29 055 tonnes in 2012 to 21,008 tons in 2018.

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

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

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

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

All relevant information on this issue is provided in notes 2.11, 14, 22 of the Explanatory Notes to the Consolidated Financial Statements for the year 2019 of PLLC Kauno Energija.

14. Information on the Issuer's subsidiary undertakings

The authorised capital of LLC Kauno Energija NT registered in the Register of Legal Entities on December 31, 2019 amounts to 1,329,872 euros and it is divided into 45,921 ordinary registered shares with par value of 28.96 euros each.

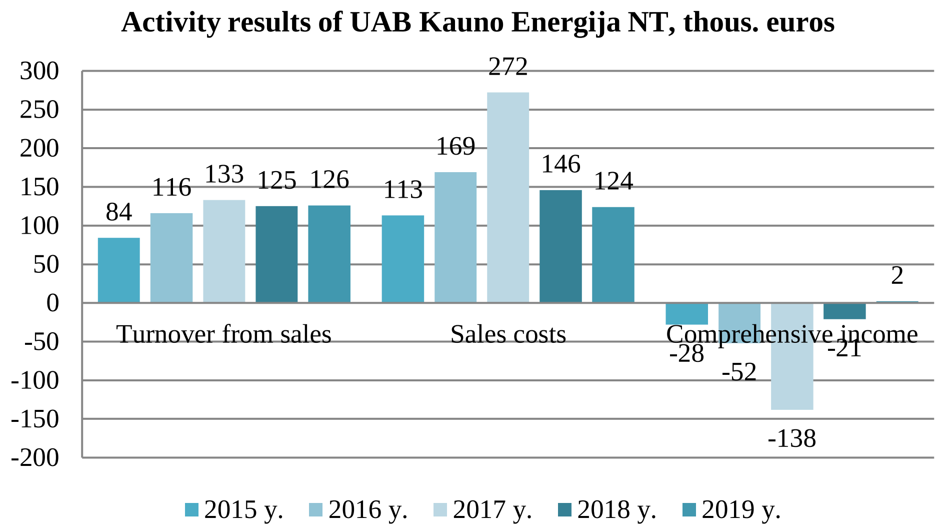
LLC Kauno Energija NT has no holdings directly or indirectly managed in other companies.

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

As at December 31, 2019 LLC Kauno Energija NT had 5 employees.

Comparison of financial indicators of LLC Kauno Energija NT of the year 2019 with the indicators of the years 2015–2018 is provided in Chart 11.

Chart 11



Authorized capital of LLC Petrašiūnų Katilinė registered at the Register of Legal Entities on December 31, 2019 amounts to EUR 231,696 and it is divided into 800 ordinary registered shares at par value of EUR 289.62 each.

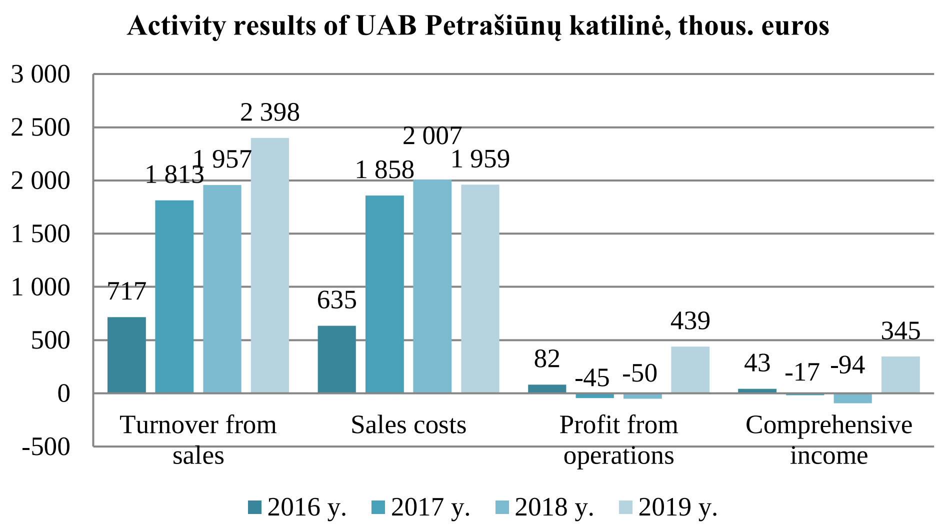
LLC Petrašiūnų katilinė has no holdings directly or indirectly managed in other companies.

Activities of LLC Petrašiūnų Katilinė include production of heat.

LLC Petrašiūnų Katilinė had 10 employees as at December 31, 2019.

Comparison of financial indicators of LLC Petrašiūnų Katilinė of the year 2019 with the indicators of the years 2016–2018 is provided in Chart 12.

Chart 12



15. Structure of authorized capital

The authorised capital of the Company registered in the Register of Legal Entities of the Republic of Lithuania as at December 31, 2019 amounts to EUR 74,475,728.82 (seventy-four million four hundred seventy-five thousand seven hundred twenty-eight euros and 82 cents).

Structure of authorized share capital of the Issuer by types of shares is specified in Table 5.

Table 5

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

16. Data on shares issued by the Issuer

The authorised capital of AB Kauno Energija was registered on May 18, 2015 by the decision of General Meeting of Shareholders held on April 28, 2015 and amounts to EUR 74,475,728.82 (seventy four million four hundred seventy five thousand seven hundred twenty eight euros and 82 cents) and it is divided into 42,802,143 (forty two million eight hundred and two thousand one hundred forty three) ordinary shares of par value of 1.74 euros each.

There are no limitations on the transfer of securities.

16.1. Main characteristics of shares released into free circulation of securities (as at December 31, 2019).

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

16.2. Main characteristics of shares issued and registered for non-public trading (as at December 31, 2019).

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

History of trade in Company's securities in the years 2015–2019 is provided in Table 6.

Table 6

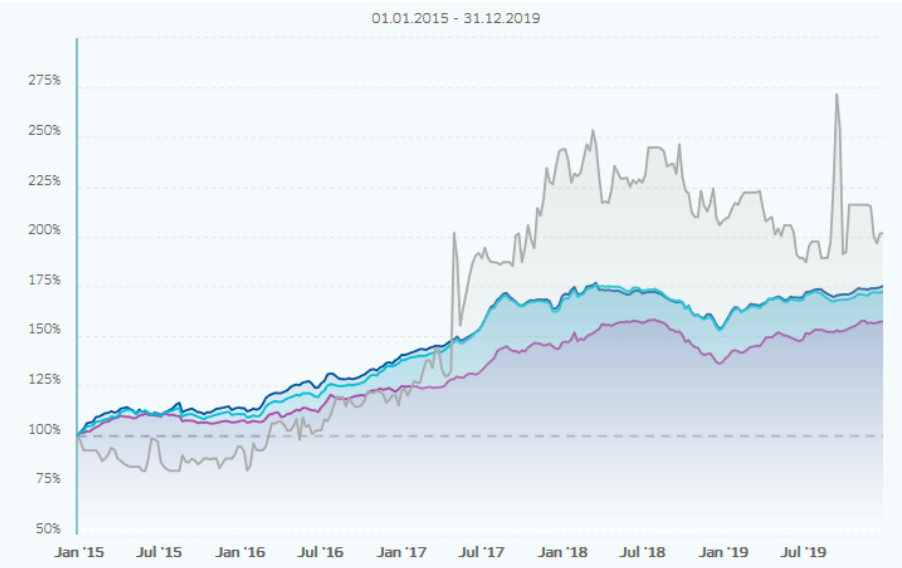
Indicator	2015	2016	2017	2018	2019
Opening price, euro	0.486	0.459	0.592	1.18	1.01
Highest price, euro	0.479	0.600	1.180	1.24	1.32
Lowest price, euro	0.400	0.401	0.571	1	0.905
Last price, euro	0.459	0.560	1.180	1	0.98
Circulation, units	41,193	190,801	229,220	147,516	40,868
Circulation, million euro	0.02	0.10	0.19	0.16	0.04
Capitalisation, million euro	9.19	11.22	23.64	20.03	19.63

Historical data on share prices (in euro) and turnovers in 2015–2019 are provided in Chart 13.

Chart 13

Comparison of Company's share price with the index of own sector (utility services) and OMX Vilnius index is given in Chart 14.

Chart 14



INDEX | EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Baltic Benchmark GI	566.56	992.83	+75.24
OMX Vilnius	452.42	712.14	+57.41
OMX Baltic Benchmark Cap GI	540.61	932.24	+72.44
KNR1L - Kauno energija	0.49	0.98	+101.65

17. Information on the Issuer's shareholders

The total number of Company's shareholders (accounting securities of clients of other account managers (not of SEB bank) as one shareholder) as at December 31, 2019 was 387.

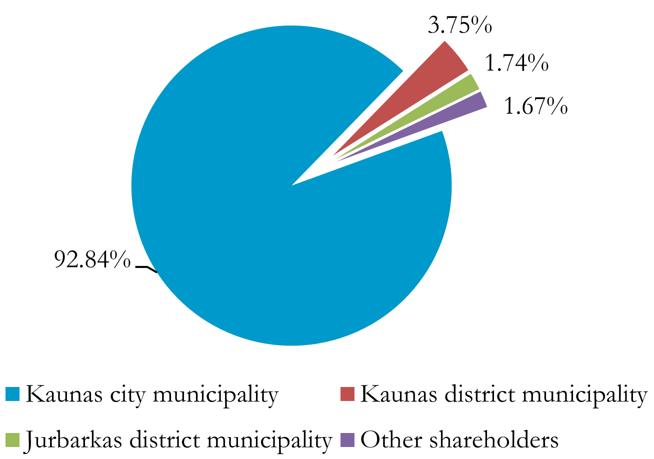
Information on Shareholders of the Issuer who as at December 31, 2019 owned more than 5 per cent of the authorised capital of the Company registered on May 18, 2015 (42,802,143 ordinary nominal shares), is provided in Table 7 and Chart 15.

Table 7

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

Chart 15

Structure of shareholders as at 31 December 2019



Repartition of shareholders of the Company in accordance with groups at the end of the reporting period is provided in table 8.

Table 8

The name of the Group	Number of shares owned by the Group, pcs.	Own part of share capital, per cent from all the shares
Local authorities	42,088,631	98.33
Households	305,955	1.08

The name of the Group	Number of shares owned by the Group, pcs.	Own part of share capital, per cent from all the shares
Securities of other accounts keepers clients	324,869	0.12
Private non-financial enterprises	53,508	0.37
Other financial brokers, except insurance companies and pension funds and other auxiliary enterprises	29,180	0.10
Other shareholders (non-financial enterprises controlled from abroad, financial auxiliary enterprises, companies holing deposits, except central bank	0	0
Total	42,802,143	100

17.1. The shareholders, who owned more than 5 per cent of the shares (20,031,977 ORS) issued for public trading (reg. No. A01031430, VP ISIN code – LT0000123010) as at December 31, 2019 are listed in Table 9.

Table 9

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

17.2. The shareholders, who owned more than 5 per cent of the shares (22,770,166 ORS) issued for non-public trading (VP ISIN code – LT0000128407) as at December 31, 2019 are listed in Table 10.

Table 10

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

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

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

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

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

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

In 2018, the dividends from the profit of the year 2017 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.078 euro, in total – 3.339 million euro. The profit was allocated to the statutory reserve, other reserves and bonuses for employees. A total of 0.1 million euros was allocated for sponsorship.

In 2019, the dividends from the profit of the year 2018 were allocated and paid to the shareholders of the Issuer. Dividend per share was 0.025 euro, in total – 1.070 million euro. The profit was allocated to the statutory reserve, other reserves and bonuses for employees. A total of 0.1 million euros was allocated for sponsorship.

18. Employees

A total of 402 employees were employed in the Group as at December 31, 2019. Changes in the number of employees of the Group in 2015–2019 are provided in Table 11.

Table 11

Actual number of employees	Group 31/12/2015	Group 31/12/2016	Group 31/12/2017	Group 31/12/2018	Group 31/12/2019
Total:	526	521	513	441	402
including: management	4	6	6	3	3
specialists	279	284	272	238	214
workers	243	231	235	200	185

Changes in number of employees of the Company in 2015–2019 are provided in Table 12.

Table 12

Actual number of employees	Company 31/12/2015	Company 31/12/2016	Company 31/12/2017	Company 31/12/2018	Company 31/12/2019
Total:	523	508	501	427	389
including: management	3	4	4	1	1
specialists	278	280	269	234	210
workers	242	224	228	192	178

Education of employees of the Group as at the end of the reporting period.

Table 13

No	Education	Group 31/12/2015	Group 31/12/2016	Group 31/12/2017	Group 31/12/2018	Group 31/12/2019
1	Secondary incomplete	7	5	5	3	3
2	Secondary	195	187	185	156	139
3	College	72	73	75	62	59
4	Higher	252	256	248	220	201
	Total:	526	521	513	441	402

Education of employees of the Company as at the end of the reporting period.

Table 14

No	Education	Company 31/12/2015	Company 31/12/2016	Company 31/12/2017	Company 31/12/2018	Company 31/12/2019
1	Secondary incomplete	7	5	5	3	3
2	Secondary	194	183	181	151	135
3	College	72	71	73	60	57
4	Higher	250	249	242	213	194
	Total:	523	508	501	427	389

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

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

The company actively cooperates with educational institutions and enables high school students to apply theoretical knowledge and gain practical skills. 6 students performed their internship in the Company in 2019. With demand for new workers, the most active and best students are provided with access to employment in the Company.

The salary of employees of the Issuer consists of the constant part of salary, variable part of salary, benefits and allocations paid according to the Labour Code of the Republic of Lithuania and other laws, Collective agreement of the Company, and bonuses. Bonuses are paid from net profit, if the General Meeting of Shareholders allocates part of the profit for the bonuses of the Company employees. From 1998 till 2014, the General Meeting of Shareholders has never allocated any part of the profit for the bonuses of the Issuer's employees. In the year 2019 the General Meeting of shareholders allocated EUR 470 thousand from the profit of the year 2018 as bonuses to employees.

The Collective agreement provides the special rights and responsibilities of the Issuer's employees or part of them. The Collective agreement that became effective in the Company on January 1, 2019 covers special rights as follows:

1. For continuous employment within the Company employees are granted additional paid leave.

2. The record of service of employees who worked in Lithuanian energy system companies and who were redeployed to the Company according to the corporate employer agreement, i.e. when the transfer was carried out according to the Labour Code or the Law on Employment Contract, is considered uninterrupted and those employees are granted an additional paid leave for an uninterrupted record of service within the Company.

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

4. Company's employees are entitled to additional paid leave.

The employer obligates:

1. To ensure the conditions of preventive health check and, if necessary, rehabilitation treatment of employees, to provide free health services at the Company's occupational health unit;

2. In case of death of an employee, the Company pays an allowance in the amount of two monthly average salaries of the last year of the Company gives free transport or covers transport costs. The allowance is granted to the burying person;

3. In case of death of a close relative of the employee (father (adoptive father), mother (adoptive mother), child (adoptee), or spouse), the employee is granted the allowance of the average salary of the previous year of the Company, given free transport or transport costs are covered;

4. In case of birth of one or more children, employees are granted 50 per cent of the of the average salary of the previous year of the Company for each child;

5. In case of wedding, employees are granted 50 per cent of the of the average salary of the previous year of the Company;

6. Employees who are growing up three or more children under the age of 16, widows (widowers) and unmarried persons who grow up one child or children (adoptees) alone, if they are studying at secondary schools until the age of 19, and while studying at higher schools or colleges full-time till the age of 21, or if they are caring for other family members with heavy or moderate disability level or lower than 55 per cent working ability level, or family members who have reached the retirement age, which according to the laws are established a major or moderate level of special needs, once a year (in 12 months) are granted 50 per cent of the of the average salary of the previous year of the Company according to the date of request;

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

8. In other cases, where the material support is needed (loss due to natural disasters or other reasons beyond the employee's control), employees are granted the allowance of up to 3 the average salaries of the previous year of the Company;

9. In case of a serious illness or accident of the employee, he is granted an allowance of up to 5 average salaries of the previous year of the Company. Illness allowance is granted once a year (in 12 months);

10. For the occasions of the Lithuanian Energy Day and jubilees of the Company deserving employees are granted a monetary gift of up to 150 euros.

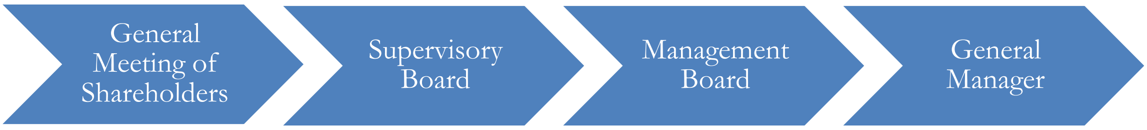
19. Procedure for amending the Issuer's Statutes

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

The Statutes of the Company were amended on September 10, 2019 by the decision of the General Meeting of Shareholders. The new wording of the Statutes was registered on October 1, 2019 in the Register of Legal Entities of the Republic of Lithuania. It can be found on Company's website at www.kaunoenergija.lt.

20. Issuer's management bodies

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



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

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

2 (two) General Meetings of Shareholders were convoked in the year 2019. Company's General Manager and the Chief Finance Officer attended them. Issuers' shareholders can ask questions and to get answers or explanations from Company's managers and speakers.

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

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

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

The Supervisory Board of the Company approved a new wording of the internal rules of procedure of the Audit Committee of the Company on May 21, 2019.

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

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

20.1. Data on the committees in the Company

On May 21, 2019 the Supervisory Board appointed by the decision No. 2019-4 members of the Audit Committee:

Full name	Position	Beginning of term	End of term*
Mrs Ramunė Bičkauskienė	Independent member of Audit Committee	May 21, 2019	February 26, 2020
Mr Mindaugas Šimkus	Independent member of Audit Committee	May 21, 2019	April 26, 2023
Mr Artūras Aladaitis	Member of Audit Committee	December 6, 2019	April 26, 2023

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

In carrying out its activities, the Audit Committee follows the internal rules of procedure of the Company's Audit Committee approved by decision No 2019-4 of May 21, 2019 of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. The Audit Committee performed the monitoring of the process of financial statements audit performed by independent auditor and had one session in the year 2019. Financial statements of the Company of the year 2018 were reviewed during the session. Considering the completion of the independent auditor's contract in 2019, the options for new independent auditors operating in the market were discussed. Requirements and recommendations for a new independent auditor have been formulated.

20.2. Information on the members of the Company's Supervisory Board

Members of the Supervisory Board of the Company as at December 31, 2019:

Full name	Position	Beginning of term	End of term
Mr. Visvaldas Matijošaitis	Chairman of the Supervisory Board	April 26, 2019	February 26, 2020
Mrs. Ramunė Bičkauskienė	Member of the Supervisory Board	April 26, 2019	February 26, 2020
Mr. Antanas Etneris	Member of the Supervisory Board	April 26, 2019	April 26, 2023
Mr. Konstantinas Pesenka	Member of the Supervisory Board	April 26, 2019	April 26, 2023
Mr. Mindaugas Šimkus	Member of the Supervisory Board	April 26, 2019	April 26, 2023
Mr. Visvaldas Varžinskas	Member of the Supervisory Board	April 26, 2019	February 26, 2020
Mr. Andrius Palionis	Member of the Supervisory Board	April 26, 2019	February 26, 2020

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

5 sessions of the Supervisory Board were held during the year 2019. More than ½ of members of the Supervisory Board attended the session.

Mr. Visvaldas Matijošaitis, a Mayor of Kaunas city (code 111106319, Laisvės av. 96, LT-44251 Kaunas), Member of the Kaunas City Municipality Council. Founder, leader and Chairman of the board of public election committee Vieningas Kaunas (United Kaunas), Chairman of the board of association Mentor Lietuva, President of association Žalgirio Fondas (Žalgiris Fund).
Mr. Visvaldas Matijošaitis holds no shares of the Company. Mr. V. Matijošaitis holds the shares of Vičiūnai Group of companies.
Resigned from the Company's Supervisory Board on February 26, 2020.

Dr. Visvaldas Varžinskas, a member of the Kaunas City Municipality Council, Chairman of Committee of Sustainable Development and Investments (code 111106319, Laisvės av. 96, LT-44251 Kaunas), Docent of Environmental Engineering Institute of Kaunas University of Technology, Head of Centre of Packaging Innovations and research of Kaunas University of Technology, member of the Committee on Circular Economy Policy Formation of the European Commission for the Urban Agenda for the EU; expert of Technical Committee TK 42 of Lithuanian Standards Board (LSB), member of the board of public election committee Vieningas Kaunas, member of council of National Cluster of Renewable Energy of Baltic Littoral.
Mr. Visvaldas Varžinskas holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Resigned from the Company's Supervisory Board on February 26, 2020.

Mrs. Ramunė Bičkauskienė, administrative director of LLC Vičiūnų Grupė (code 303211678, V. Krėvės av. 97, Kaunas); Director of LLC MIR Projektai (code 302836883, Vėjo str. 59, Didvyrių vil., Kaunas distr.), member of the Kaunas City Municipality Council, chairwoman of committee of Economics and Finances (code 111106319, Laisvės av. 96, LT-44251 Kaunas).
Holds no shares of the Company. Holds the shares of the companies LLC MIR Projektai, PLLC Apranga, PLLC Šiaulių bankas, PLLC Vilkyškių Pieninė.
Resigned from the Company's Supervisory Board on February 26, 2020.

Mr. Andrius Palionis, Deputy Mayor of Kaunas city (code 111106319, Laisvės av. 96, LT-44251 Kaunas), Member of the Board of public election committee Vieningas Kaunas (United Kaunas), chairman of the Committee of City Maintenance and Services (code 111106319, Laisvės av. 96, LT-44251 Kaunas).
Mr Andrius Palionis holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Resigned from the Company's Supervisory Board on February 26, 2020.

Mr. Konstantinas Pesenka, Member of the Management Board of LLC Windex Group (code 303522864, Draugystės str. 17-1, Kaunas), chairman of the Management Board of LLC Kauno Vandenys.
Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Antanas Etneris, Director of LLC Wisewood (code 302527538, Ringuvos str. 74, LT-45245 Kaunas), director of LLC Mana Grupė (code 303991865, Kruonio str. 16, Kaunas), director of LLC Airhotel (code 302598948, Oro Uosto str. 2, Karmėlava, LT-54460 Kaunas distr.), member of the Board of LLC Stoties Turgus, member of the Board of LLC Kauno Vandenys.
Holds no shares of the company. Hodls the shares of the companies LLC Wisewood, LLC Mana Ranga, LLC Mana Grupė, LLC Airhotel, LLC Dramart, LLC Ukrainiečių 4, LLC Vėjo Dukra, LLC Plėtros Fondas, LLC Aguonų Projektai, LLC My Group.

Mr Mindaugas Šimkus, Head of economics of LLC Vičiūnų Grupė (code 303211678, V. Krėvės av. 97, LT-50369 Kaunas), member of the Board of LLC Kauno Švara, member of the Board of LLC Kauno Vandenys.
Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

20.3. Information on the members of the Company’s Management Board

Members of Company’s Management Board as at December 31, 2019:

Full name	Position	Beginning of term	End of term
Nerijus Mordas	Chairman of the Management Board	May 21, 2019	May 21, 2023
Paulius Keras	Deputy chairman of the Management Board	May 21, 2019	May 21, 2023
Algimantas Stasys Anužis	Member of the Management Board	May 21, 2019	May 21, 2023
Karolis Šiugžda	Member of the Management Board	May 21, 2019	May 21, 2023
Karolis Dekeris	Member of the Management Board	May 21, 2019	May 21, 2023

21 sessions of Company's Management Board were held in the year 2019. More than 2/3 members of the Management Board attended all the sessions.

Mr. Nerijus Mordas, a chief finance officer of LLC Vičiūnų Grupė (code 303211678, V. Krėvės av. 97, LT-50369 Kaunas). Member of Company's Management Board from 1 June 2015.
Mr. Nerijus Mordas holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Nerijus Mordas charged EUR 15.0 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Paulius Keras, Deputy Director of Kaunas city municipality (code 111106319, Laisvės av. 96, LT-44251 Kaunas). Member of the Management Board of the Company from May 21, 2019.
Mr. Paulius Keras holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr Paulius Keras charged EUR 6.84 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Algimantas Stasys Anužis, member of the Council of Kaunas Chamber of Commerce, Industry and Crafts, president of Lithuanian Veterans Basketball League.

Member of Company's Management Board from June 1, 2015.
Mr. Algimantas Stasys Anužis holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Algimantas Stasys Anužis charged EUR 10.44 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Karolis Šiugžda, lawyer of LLC Vičiūnų Grupė (code 303211678, V. Krėvės av. 97, LT-50369 Kaunas), lawyer of LLC Groward Group (code 302764932, V. Krėvės av. 97, LT-50369 Kaunas).

Member of Company's Management Board from May 21, 2019.
Mr. Karolis Šiugžda holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Karolis Šiugžda charged EUR 6.84 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Karolis Dekeris, Marketing Director of LLC Kauno Autobusai (code 133154754, Raudondvario rd. 105, LT-47185 Kaunas).
Member of Company's Management Board from May 21, 2019.
Mr. Karolis Šiugžda holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Karolis Šiugžda charged EUR 6.84 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

Members of Company's Management Board until May 21, 2019:

Mr. Eugenijus Ušpuras, a habilitated doctor, chief of Laboratory of Nuclear Installation Safety (code 111955219, Breslaujos str. 3, LT-44403 Kaunas), Lithuanian Energetic, full member of the Lithuanian Academy of Sciences, professor.
Member of Company's Management Board from June 1, 2015 until May 21, 2019.
Mr. Eugenijus Ušpuras holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Eugenijus Ušpuras charged EUR 3.60 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Giedrius Bielskus, a director of public institution S. Dariaus ir S. Girėno Sporto Centras (S. Darius and S. Girėnas Sports Centre) (code 133556183, Perkūno av. 5, LT-44221 Kaunas).
Member of Company's Management Board from June 1, 2015 until May 21, 2019.
Mr. Giedrius Bielskus holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Giedrius Bielskus charged EUR 3.60 thousand of remuneration under agreement of activity of member of the Management Board. No bonuses estimated, nor any assets were transferred or guarantees issued during the reporting period.

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

Mr. Vaidas Šleivys, Director of Production of the Company, Interim General Director since December 11, 2018. Education – university degree from Kaunas University of Technology in 2001, thermal engineering. Director of the Company's Production Department since April 14, 2014, Project Manager of LLC Nomine Consult (code 304493084, Lvovo str. 25-701, Vilnius) since March 5, 2018.
Holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Inga Šliačkuvienė, Company's Chief Accountant since August 1, 2019. University education from Kaunas University of Technology, Faculty of Economics and Management, Bachelor of Economics. Employment during the last 10 years and positions: Senior Accountant of the Company since 2009-08, Deputy Chief Accountant of the Company since 2014-05.

Company's General Manager and the Chief Accountant charged 77.70 thousand euros of remuneration, and the average amount per member is 38.85 thousand euros during the year 2019. No other assets had been transferred, no guarantees granted.

21. Information on significant agreements

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

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

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

23. Information on major transactions with related parties

There were no larger individual transactions. More detailed information is provided in note 25 to the Explanatory Notes to financial statements.

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

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

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

Information on compliance with the corporate governance code is provided in Annex 1 to the Annual Report of the year 2019. Annual Reports on the Company's corporate social initiatives and policies are provided in Annex 2 to the Annual Report of the year 2019 named PLLC Kauno Energija Report on Social Responsibility and on the Company's website.

26. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information starting from January 1, 2019 over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. This information was also posted on the website of the Issuer. All the information is available on website of Nasdaq Vilnius (http://www.nasdaqbaltic.com/market/?lang=lt) and Issuer's website (http://www.kaunoenergija.lt).

Title	Announcement category	Language	Time
Information on The Election of The General Manager of The Public Limited Liability Company Kauno Energija	Notification on material event	EN, LT	27/03/2020 14:15
Convocation of the Extraordinary General Meeting of Shareholders of PLLC Kauno Energija	General meeting of shareholders	EN, LT	10/03/2020 16:00
Information on resignation of the members of Supervisory Board of AB Kauno Energija	Notification on material event	EN, LT	14/02/2020 16:00
Activity results of 12 months of the year 2019	Interim information	EN, LT	31/01/2020 07:45
AB Kauno Energija has signed an agreement on the purchase of Palemonas heat economy	Notification on material event	EN, LT	13/01/2020 16:00
Activity results of 9 months of the year 2019	Interim information	EN, LT	30/09/2019 16:00
AB Kauno Energija interim reports and unaudited financial statements for the 1 half of the year 2019	Half-Yearly information	EN, LT	26/09/2019 09:01

Title	Announcement category	Language	Time
Information on The Election of The General Manager of The Public Limited Liability Company Kauno Energija	Notification on material event	EN, LT	27/03/2020 14:15
Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	General meeting of shareholders	EN, LT	10/09/2019 16:40
Amendment to the agenda of the Extraordinary General Meeting of Shareholders of PLLC Kauno Energija	General meeting of shareholders	EN, LT	26/08/2019 15:05
Convocation of the Extraordinary General Meeting of Shareholders of PLLC Kauno Energija	General meeting of shareholders	EN, LT	16/08/2019 11:28
Business activity results of the 1 half of the year 2019	Notification on material event	EN, LT	31/07/2019 15:00
Information on election of the Chairman of Management Board and the Deputy Chairman of Management Board of AB Kauno Energija	Notification on material event	EN, LT	03/06/2019 11:59
Information on election of managing bodies of AB Kauno Energija	Notification on material event	EN, LT	22/05/2019 15:00
Activity results of the 1 quarter of the year 2019	Interim information	EN, LT	26/04/2019 11:00
Audited annual information of PLLC Kauno Energija for 2018	Annual information	EN, LT	26/04/2019 10:45
Dividend payment ex-date of PLLC Kauno Energija	Notification on material event	EN, LT	26/04/2019 10:20
Resolutions of the General Meeting of Shareholders of PLLC Kauno Energija	General meeting of shareholders	EN, LT	26/04/2019 10:15
Supplement of the agenda of the General Meeting of Shareholders of PLLC Kauno Energija	General meeting of shareholders	EN, LT	11/04/2019 15:00
Convocation of General meeting of shareholders of PLLC Kauno Energija	General meeting of shareholders	EN, LT	29/03/2019 15:00
Information on resignation of the member of Supervisory Board of AB Kauno Energija	Notification on material event	EN, LT	21/02/2019 12:00
Update: Activity results of 12 months of the year 2018	Interim information	EN, LT	31/01/2019 09:00
Activity results of 12 months of the year 2018	Interim information	EN, LT	30/01/2019 15:49

PLLC KAUNO ENERGIJA, PURSUE THE GOVERNANCE REPORT

PLLC Kauno Energija (hereinafter – the Company), following Article 22 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of PLLC NASDAQ Vilnius, discloses its compliance with the Corporate Governance Code for the Companies, whose securities are traded on the regulated market, as approved by the NASDAQ Vilnius PLLC, and its specific provisions and recommendations. If any of the provisions or recommendations of the Codex are not respected due to any reasons, the explicable information is provided herein.

Summary of the Corporate Governance Report:

Specifics of the Company's activities:

The Company is listed on the secondary list of the Nasdaq Vilnius Stock Exchange starting from December 28, 1998.

The main activities of the Company are production, rendering of services. The Company is the parent company of the Group consisting of LLC Petrašiūnų Katilinė and LLC Kauno Energija NT. The Company produces and supplies heat to consumers (for heating and hot water preparation purposes) in the cities of Kaunas and Jurbarkas and in the Kaunas district (Akademija, Ežerėlis, Domeikava, Garliavos, Girioniai, Neveronys, Raudondvaris).

Company's governance structure:

- The Company's managing bodies consists of the Management Board, elected for the 4 years term of office, and the General Manager, elected by the Management Board (for further information on the Issuer's governing bodies and the composition of the committees please refer to the Article 20 "Issuer's bodies" of this Consolidated Annual Report). The Management Board's and the manager's activities are concentrated on the fulfilment of the Company's strategic objectives taking count of the shareholders' equity value increase.

- A supervisory body – the Supervisory Board acts in the Company.

The Management Board and the general Manager acts in close cooperation seeking to obtain the maximum benefit for the Company and its shareholders. The Management Board periodically reviews and assesses Company's activity results.

- The Chairman of the Management Board of the Company is not and was not the Head of the Company. The duties he holds or held in the past shall not prevent independent and impartial supervision.

- The members of the Management Board elected by the General Meeting of Shareholders are independent and act for the benefit of the Company and its shareholders.

- The Audit Committee acts in the Company. 2 independent members act in this committee. There are no nomination and remuneration committees in the Company.

Accountability to the Company's shareholders:

- Information on the General Manager, composition of the Supervisory and Management Boards, members education, work experience, competence and participation in activities of other companies is disclosed and constantly updated in Company's periodical reports as well as website.

- The Company discloses all regulated information through PLLC Nasdaq Vilnius news distribution system. This ensures access to the broadest public in the Republic of Lithuania and other EU countries.

The information shall be provided simultaneously in Lithuanian and English. The company publishes the information before or after the trading session of PLLC Nasdaq Vilnius. The Company shall not disclose information that may affect the price of the issued securities in the form of comments, interviews or in any other manner until such information is made public through the news distribution system of PLLC Nasdaq Vilnius.

- All shareholders of the Company have equal access to and participate in the decision-making process important for the Company.

The procedures for convening and conducting general meetings of shareholders shall comply with the provisions of the legal acts and shall provide equal opportunities for shareholders to participate in the meeting, to acquaint themselves in advance with draft resolutions and decision-making materials, as well as to ask.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle 1: General Meeting of Shareholders, equitable treatment of shareholders, and shareholders' rights **The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.**		
1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	Yes	All shareholders have equal access to the information and / or documents provided for in legal acts and participate in making important decisions for the Company. The Company provides information through the Nasdaq Vilnius Stock Exchange Central Regulated Information Base in Lithuanian and English simultaneously. The information is published immediately at once, thus ensuring the simultaneous provision of information to all.
1.2. It is recommended that the Company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all of their holders.	Yes	The authorized capital of the Company consists of ordinary registered shares, which grant equal voting, ownership, dividend and other rights to all shareholders of the Company.
1.3. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company enables investors to familiarize themselves with the rights granted by the new or already issued shares well in advance.
1.4. Exclusive transactions that are particularly important to the Company, such as transfer of all or almost all assets of the Company which in principle would mean the transfer of the Company, should be subject to approval of the General Meeting of shareholders.	Yes	According to the Statutes of the Company, important transactions, such as decisions on the execution, assignment, lease, pledge and mortgage of long-term assets the book value of which exceeds EUR 3 million, an approval of General Meeting of Shareholders or Supervisory Board must be received Due to extremely important transactions, such as the transfer of all or almost all the Company's assets, the Company would be guided by the Law on Companies of the Republic of Lithuania and other legal acts establishing requirements for the approval of such transactions.

1.5. Procedures for convening and conducting a General Meeting of Shareholders should provide shareholders with equal opportunities to participate in the General Meeting of Shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the General Meeting of Shareholders should not prevent active participation of shareholders at the General Meeting. In the notice of the General Meeting of Shareholders being convened, the Company should specify the last day on which the proposed draft decisions should be submitted at the latest.	Yes	All shareholders of the Company are informed about the date, place and time of the General Meeting of Shareholders in accordance with the established procedure in advance, in accordance with the terms established by legal acts, announcing the General Meeting of Shareholders, agenda, and draft resolutions in the Central Regulated Information Base of PLLC Nasdaq Vilnius Stock Exchange. The Company specifies the date of the General Meeting of Shareholders and may propose draft resolutions in the Notice of the General Meeting of Shareholders to be convened on the Company's website www.kaunoenergija.lt In the notice of the convention of the General Meeting of Shareholders, the Company shall indicate when the shareholders may supplement the agenda of the General Meeting of Shareholders and propose draft resolutions.
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the General Meeting of Shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the General Meeting of Shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the Company. Such documents may be published to the extent that their public disclosure is not detrimental to the Company or the Company’s commercial secrets are not revealed.	Yes	The documents prepared for General Meeting of Shareholders including draft resolutions of the meeting are available not later than 21 day prior the date of General Meeting of shareholders as required by the Law on Joint stock companies. The documents placed on the website of NASDAQ Vilnius security exchange and the Company website are available in Lithuanian and English languages. Resolutions accepted by the General Meeting of Shareholders including financial reports, the audit report, annual report, amendments of the Statutes etc. are announce in Lithuanian and English languages are announced via the central base of regulated information of NASDAQ Vilnius security exchange and the Company website www.kaunoenergija.lt
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the General Meeting of Shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the General voting ballot.	Yes	The shareholders of the Company have the right to participate in the General Meeting of Shareholders both personally and through a representative, if the person has the appropriate authorization or the contract of transfer of voting rights concluded with him/her in accordance with the procedure established by legal acts, as well as the conditions for the shareholders to vote by filling in the General voting bulletin as provided by the Law on Companies of the Republic of Lithuania.

1.8. With a view to increasing the shareholders' opportunities to participate effectively at General Meetings of Shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in General Meetings of Shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured, and it must be possible to identify the participating and voting person.	No	The Company does not comply with the provisions of this recommendation as there is no possibility to ensure the security of the information transmitted and it is not possible to identify the person who participated and voted.
1.9. It is recommended that the notice on the draft decisions of the General Meeting of Shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit Company if these issues are included into the agenda of the General Meeting of Shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	Yes	When announcing the General Meeting of Shareholders, and if the agenda of the General Meeting of Shareholders includes the issue of electing new members of the collegial body or electing the audit firm, it shall disclose in the draft resolutions the nominations of the proposed new members of the collegial body and the proposed election Company. Information about the candidates to the members of the collegial body shall be provided in advance by publishing this information on the Nasdaq Vilnius Stock Exchange website, on the website of PLLC Kauno Energija, www.kaunoenergija.lt, or by publishing it to the shareholders participating in the General Meeting during the meeting if the shareholders, whose shares give at least 1/20 of all votes, propose an additional candidate during the meeting. In its annual and six-month interim report, the Company publicly informs about the positions held by the collegial body, work experience and education.
1.10. Members of the company's collegial management body, heads of the administration[1] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Yes	Members of the Company's collegial body and heads of administration participate in the General Meetings of Shareholders. Proposed nominees for members of the collegial body are also present if possible, if the election of new members is included on the agenda of the General Meeting.
Principle 2: Supervisory Board		

[1] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

2.1. Functions and liability of the Supervisory Board **The Supervisory Board of the Company should ensure representation of the interests of the Company and its shareholders, accountability of this body to the shareholders and objective monitoring of the Company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the Company.** **The Supervisory Board should ensure the integrity and transparency of the Company's financial accounting and control system.**		
2.1.1. Members of the Supervisory Board should act in good faith, with care and responsibility for the benefit and in the interests of the Company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Yes	According to the knowledge of the Company all the members of the Supervisory Board are acting in good faith in the interests of the Company following the Company's but not the own interests or interests of the third persons.
2.1.2. Where decisions of the Supervisory Board may have a different effect on the interests of the Company's shareholders, the Supervisory Board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the Company's strategy, risk management and control, and resolution of conflicts of interest.	Yes	The Company's Supervisory Board in its work aim to behave honestly and impartially with all the Company's shareholders and by the knowledge of the Company, there was no such kind of the contrary case. The Chairman of the Company's Supervisory Board and the Chairman of the Management Board harmonizes and coordinates interaction with Company's General Manager and in the name of Supervisory and Management Boards communicates with shareholders, informs the shareholders about the Company's strategy, activity and other essential questions.
2.1.3. The Supervisory Board should be impartial in passing decisions that are significant for the Company's operations and strategy. Members of the Supervisory Board should act and pass decisions without an external influence from the persons who elected them.	Yes	The Supervisory Board of the Company acts impartially when taking decisions that are significant for the Company's activities and strategy.
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[2] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Yes	According to the information available to the Company, all members of the Supervisory Board act in the best interests of the Company and shareholders, are guided by the interests of the Company and not by themselves or by third parties, trying to maintain their independence in decision making.
2.1.5. The Supervisory Board should oversee that the Company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the longterm	Yes	In exercising its competence to supervise the activities of the Company's management bodies, the Supervisory Council performs the duties specified in

[2] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

interests of the Company and its shareholders, which may give rise to reputational, legal or other risks.		the recommendation and submits its opinion on tax planning issues.
2.1.6. The Company should ensure that the Supervisory Board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the Supervisory Board and its committees.	Yes	Based on the Company's opinion, the Supervisory Board are provided with sufficient resources, including their right to get all the necessary information, especially from the employees of the Company.
2.2. Formation of the Supervisory Board **The procedure of the formation of the Supervisory Board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.**		
2.2.1. The members of the Supervisory Board elected by the General Meeting of Shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the Supervisory Board, it should be ensured that members of the Supervisory Board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Yes	Pursuant to the Law on Companies of the Republic of Lithuania, the Supervisory Board is elected, and the qualification of its members is assessed at the General Meeting of Shareholders.
2.2.2. Members of the Supervisory Board should be appointed for a specific term, subject to individual reelection for a new term in office in order to ensure necessary development of professional experience.	Yes	The Supervisory Board is elected for the term of 4 (four) years. The term of office of members on the Supervisory Board is the maximum term of office prescribed by the Lithuanian Law on Companies. A General Meeting of Shareholders may remove from office both the entire Supervisory Board and individual members thereof before the end of their term of office.
2.2.3. Chair of the Supervisory Board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or Management Board member of the Company should not be immediately appointed as chair of the Supervisory Board either. Where the Company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory Board and the CEO of the Company is not the same person. The members of the Supervisory Board and the Chairman have not been members of the Management Board of the Company or the CEO of the Company.
2.2.4. Each member should devote enough time and attention to perform his duties as a member of the Supervisory Board. Each member of the Supervisory Board should undertake to limit his other professional	Yes	Members of the Supervisory Board are active participants of the meetings of the collegial body and devote enough time to perform their duties as members of the collegial body. In 2019 there were 5

obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the Supervisory Board. Should a member of the Supervisory Board attend less than a half of the meetings of the Supervisory Board throughout the financial year of the Company, the shareholders of the Company should be notified thereof.		(five) Supervisory Board's meetings, and all of them were attended by more than 2/3 of all the members of the Supervisory Board.
2.2.5. When it is proposed to appoint a member of the Supervisory Board, it should be announced which members of the Supervisory Board are deemed to be independent. The Supervisory Board may decide that, even though a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or Company related circumstances.	Yes	Information on the candidates to the Company's Supervisory Board members (as well as information on the candidate's compliance with the independence requirements) is provided to the General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania (see commentary on recommendation 1.9).
2.2.6. The amount of remuneration to members of the Supervisory Board for their activity and participation in meetings of the Supervisory Board should be approved by the General Meeting of Shareholders.	Not applicable	The members of the Supervisory Board are not remunerated from the Company's funds. So, this provision is not relevant for the Company.
2.2.7. Every year the Supervisory Board should carry out an assessment of its activities. It should include evaluation of the structure of the Supervisory Board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the Supervisory Board, and evaluation whether the Supervisory Board has achieved its objectives. The Supervisory Board should, at least once a year, make public respective information about its internal structure and working procedures.	No	There was no practice of assessment of the activity of Supervisory Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Supervisory Board exhaustively knows the experiences and competences of each candidate.
Principle 3: Management Board **3.1. Functions and liability of the Management Board** **The Management Board should ensure the implementation of the Company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.**		
3.1.1. The Management Board should ensure the implementation of the Company's strategy approved by the Supervisory Board if the latter has been formed at the Company. In such cases where the Supervisory Board is not formed, the Management Board is also responsible for the approval of the Company's strategy.	Yes	The Company's Management Board carries out the duty of implementation of the Company's strategy approved by the Company's Supervisory Board.
3.1.2. As a collegial management body of the Company, the Management Board performs the functions assigned to it by the Law and in the Statutes of the Company, and in such	Yes	As the Supervisory Board is formed in the Company, the Management Board performs the functions of the Company's collegial management body. The

cases where the Supervisory Board is not formed in the Company, it performs inter alia the Supervisory functions established in the Law. By performing the functions assigned to it, the Management Board should consider the needs of the Company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development		obligation to consider the Company, the shareholders, the employees and other interest groups is established in the agreement on performance of the Management Board signed by each member of the Management Board.
3.1.3. The Management Board should ensure compliance with the laws and the internal policy of the Company applicable to the Company or a group of companies to which this Company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	The Management Board ensures that the laws and Company internal policies applicable to the Company and its entire group are respected. The Company also operates a risk management and control program. Risk management is carried out by the management of the Company.
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[3] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	The Company has a policy of internal control and business ethics. The Company has adopted a Business Ethics Policy that clearly and publicly declares a negative attitude towards bribery and corruption. The provisions of this policy apply to all employees, agents, intermediaries, suppliers and subcontractors of the Company.
3.1.5. When appointing the manager of the Company, the Management Board should consider the appropriate balance between the candidate's qualifications, experience and competence.	Yes	When appointing the CEO of the Company the Management Board considers the balance of his/her qualifications, experience and competence as well as the opinion of the Company's Supervisory Board.
3.2. Formation of the Management Board		
3.2.1. The members of the Management Board, elected by the Supervisory Board or, if the Supervisory Board is not formed, by the General Meeting of Shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the Management Board, it should be ensured that the members of the Management Board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	Yes	The members of the Management Board are elected by the Supervisory Board of the Company. The members of the Management Board of the Company are qualified and competent to perform their functions, having a long experience in management.
3.2.2. Names and surnames of the candidates to become members of the Management Board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and	Yes	Information about candidates to the Company's Management Board is provided to the shareholders together with the documents of the shareholders' meeting following the requirements of the Law on Public Limited Liability

[3] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the Supervisory Board in which the Management Board or individual members of the Management Board are elected. If the Supervisory Board is not formed, the information specified in this paragraph should be submitted to the General Meeting of Shareholders. The Management Board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the Company's annual report.		Companies of the Republic of Lithuania. Shareholders may see the documents prior the meeting. Information about the members of the Management Board (names, education, qualifications, professional experience, participation in the activities of other companies, other important professional obligations) is provided in the periodical reports.
3.2.3. All new members of the Management Board should be familiarized with their duties and the structure and operations of the Company.	Yes	All new members of the Management Board are familiarized with their duties, Company structure and activities.
3.2.4. Members of the Management Board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	The members of the Management Board are elected for a 4-year term. The number of terms is unlimited. Members of the Management Board are elected by the General Meeting of Shareholders. Shareholders who nominate and vote for the Management Board follow their own approach, which candidates are best to represent the interests of the shareholders.
3.2.5. Chair of the Management Board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the Supervisory Board is not formed, the former manager of the Company should not be immediately appointed as chair of the Management Board. When a Company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	Yes	The Chairman of the Company's Management Board hasn't been the General Manager of the Company. His current or past position is not an obstacle for independent and impartial supervision.
3.2.6. Each member should devote enough time and attention to perform his duties as a member of the Management Board. Should a member of the Management Board attend less than a half of the meetings of the Management Board throughout the financial year of the Company, the Supervisory Board of the Company or, if the Supervisory Board is not formed at the Company, the General Meeting of Shareholders should be notified thereof.	Yes	Each member of the collegial body fulfils his/her functions properly: actively participates at the meetings of collegial body and devotes enough time to perform his / her duties as a member of the collegial body. The quorum of each meeting was regulated so the Management Board would be enabled to accept decisions constructively. In 2019, 21 meeting of the Management Board had been held. All the meetings were attended by more, than 2/3 members of the Management Board.
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will	Yes	Al the members of the Management Board are independent.

be independent[4], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.		
3.2.8. The General Meeting of Shareholders of the Company should approve the amount of remuneration to the members of the Management Board for their activity and participation in the meetings of the Management Board.	Yes	Remuneration is paid for the work on the Management Board to its members, by decision of the General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania. The members of the Management Board are not remunerated for their performance and participation in the meetings.
3.2.9. The members of the Management Board should act in good faith, with care and responsibility for the benefit and the interests of the Company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to noncompete agreements and they should not use the business information or opportunities related to the Company's operations in violation of the Company's interests.	Yes	By the Company's information, all Management Board members should act in good faith, with care and responsibility for the benefit and in the interests of the Company and its shareholders. They are guided by the Company's interests but not their own or any third parties seeking to maintain their independence in decision-making, and they do not accept any unjustified privileges that would compromise their independence.
3.2.10. Every year the Management Board should carry out an assessment of its activities. It should include evaluation of the structure of the Management Board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the Management Board, and evaluation whether the Management Board has achieved its objectives. The Management Board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	No	There was no practice of assessment of the activity of Management Board at the Company and of informing shareholders about that up to now because the controlling shareholder who proposes candidates to the Management Board exhaustively knows the experiences and competences of each candidate.
Principle 4: Rules of procedure of the Supervisory Board and the Management Board of the Company **The rules of procedure of the Supervisory Board, if it is formed at the Company, and of the Management Board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the Company's management bodies.**		
4.1. The Management Board and the Supervisory Board, if the latter is formed at the Company, should act in close cooperation	Yes	Legal acts, Statutes and rules of procedure governing activities of the Company's Supervisory and

[4] For the purposes of this Code, the criteria of independence of the members of the board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.

in order to attain benefit for the Company and its shareholders. Good corporate governance requires an open discussion between the Management Board and the Supervisory Board. The Management Board should regularly and, where necessary, immediately inform the Supervisory Board about any matters significant for the Company that are related to planning, business development, risk management and control, and compliance with the obligations at the Company. The Management Board should inform he Supervisory Board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.		management bodies lay down the principles and procedure of cooperation between Supervisory and management bodies of the Company and ensure that management and Supervisory bodies cooperate to attain the greatest possible benefit to the Company and its shareholders.
4.2. It is recommended that meetings of the Company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each Company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the Company's collegial bodies should be convened at least once per quarter.	Yes	The Company follows the order foreseen in the work regulations of the Supervisory Board and the Management Board and the information about the convened meeting is presented in advance together with an agenda and all the necessary information and documents related to the meeting agenda. The Supervisory Board and the Management Board meeting agenda may be changed or added during the meeting, in the presence of all members of the collegial body, or when there is an urgent need to deal with Company's certain key issues.
4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have enough time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the Company require immediate resolution.	Yes	According to the Company's Statutes and the working procedure regulations of the Supervisory Board and the Management Board, the members of the collegial body and persons that are invited to such meetings, are informed of them in advance. They are also provided with all the information and materials, needed to examine the questions, presented in the agenda.
4.4. In order to coordinate the activities of the Company's collegial bodies and ensure effective decision-making process, the chairs of the Company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of	Yes	The chairmen of Company's Supervisory and management bodies coordinate dates of the meetings, their agendas and cooperate in solving other issues of corporate governance. The Chairman of the Management Board and members of the Management Board are invited to the

the Company's Supervisory Board should be open to members of the Management Board, particularly in such cases where issues concerning the removal of the Management Board members, their responsibility or remuneration are discussed.		meetings of the Supervisory Board of the Company.
Principle 5: Nomination, remuneration and audit committees **5.1. Purpose and formation of committees** **The committees formed at the Company should increase the work efficiency of the Supervisory Board or, where the Supervisory Board is not formed, of the Management Board which performs the Supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.** **Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.**		
5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees[5].	Yes/No	The Audit Committee is formed by the Supervisory Board from March 31, 2009 and the term of office of this committee coincides with the term of office of the Company's Supervisory Board.
5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	Yes/No	The Audit Committee is an independent, and objective committee carrying out the functions of supervision, analysing, evaluation and consultation in order to improve General organization and create value added. The main function of the Committee is systematic and versatile evaluation, as well as encouragement of better risk management, and enough control and maintenance procedures resulting in submission of recommendations to the Management Board and management regarding implementation of the objectives and tasks, risk management procedure and internal control functioning. The nomination and remuneration committees are not formed at the Company. As the Management Board of the Company is composed of competent members and they perform their activities efficiently, the Company does

[5] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

		not currently see the need for other committees.
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	Not applicable	The Management Board of the Company does not perform the functions assigned to the Audit Committee.
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the Management Board should not serve as the chair of committees.	Yes	The Audit Committee consists of 3 members, two of whom are independent, with at least 5 years of experience in accounting, with relevant experience in finance and accounting in listed companies. The Chairman of the Management Board is not a member of the Committee.
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the Company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes	The Audit Committee follows the regulations of the Committee approved by the Supervisory Board. These Regulations establish the rules defining the rights and duties of the Audit Committee, the size of the Audit Committee, the period of membership of the Audit Committee, the requirements for the education, professional experience and independence principles of the members of the Audit Committee. The Audit Committee annually submits an annual activity report to the General Meeting of Shareholders, announcing the composition of the Committee, the number of meetings and the attendance of the members, describing the work performed and presenting the results.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the Company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	The members of the collegial body take decisions at the meetings of their members, but in certain cases the committee invites the head of the Company and the responsible employees of the Company to attend its meetings, who are responsible for the areas of activity of the issues under discussion. The Chairman of the Audit Committee is also provided with the opportunity to communicate with the shareholders.

5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of Supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the Supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.	No	The Nomination Committee is not formed in the Company.
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the Company and the heads of the administration, the manager of the Company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.	No	See article 5.5.1
5.3. Remuneration committee		
The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the Supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the Company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the Company’s remuneration policy and the evaluation of the performance of the persons concerned;	No	There is no Remuneration Committee in the Company. The Company has implemented a remuneration policy that includes all forms of remuneration, including fixed salary, performance-based benefits and severance payments. The Company is approved by the Company's management in coordination with the Trade Union Committee operating in the Company.

3) review, on a regular basis, the remuneration policy and its implementation.		
5.4. Audit committee		
5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[6].	Yes	The Audit Committee follows the regulations of the Audit Committee approved by the Supervisory Board of the Company. The Audit Committee carries out independent, objective monitoring, investigation, evaluation and advisory activities to improve the Company's performance and create added value.
5.4.2. All members of the committee should be provided with detailed information on specific issues of the Company's accounting system, finances and operations. The heads of the Company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.	Yes	All members of the Committee are provided with detailed information on the specific accounting, financial and operational characteristics of the Company and, upon request, information on the execution of important transactions.
5.4.3. The audit committee should decide whether the participation of the chair of the Management Board, the manager of the Company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	Yes	The Audit Committee decides on the participation of other persons in its meetings and, if necessary, the Audit Committee invites the head of the Company and the responsible employees of the Company to its meetings, who are responsible for the areas of activity of the issues under consideration. The Chairman of the Audit Committee is also provided with the opportunity to communicate with the shareholders.
5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the Company and its group.	Yes	The Audit Committee is informed about the work performed by the Internal Auditor and receives conclusions about the research performed. Each year, the Audit Committee receives reports from external auditors describing all relationships between the independent auditor and the Company and its group.
5.4.5. The audit committee should examine whether the Company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the Company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	The Company has provided employees with the opportunity to submit complaints or anonymous reports about violations committed in the Company, however the Company has not received such complaints or reports during the reporting period.

[6] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

5.4.6. The audit committee should submit to the Supervisory Board or, where the Supervisory Board is not formed, to the Management Board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	The Audit Committee analyses and evaluates the Company's annual and semi-annual financial statements, makes recommendations to the Management Board for their approval, together with its activity reports for that period.
Principle 6: Prevention and disclosure of conflicts of interest **The corporate governance framework should encourage members of the Company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.**		
Any member of the Company's Supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the Company's interests. In case such a situation did occur, a member of the Company's Supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the Company which elected him/her or the Company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	Members of the Company's management bodies behave in such a way that there is no conflict of interest with the Company. During the reporting period, there is no known conflict of interest between the Company and the member of its management body.
Principle 7: Remuneration policy of the Company **The remuneration policy and the procedure for review and disclosure of such policy established at the Company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the Company's remuneration policy and its long-term strategy.**		
7.1. The Company should approve and post the remuneration policy on the website of the Company, such policy should be reviewed on a regular basis and be consistent with the Company's long-term strategy.	Yes/no	The Company has implemented and operates a remuneration policy approved by the Company's management, but it is not published on the Company's website. The Company will follow the recommendations of Principle 7 when the respective laws and other legal acts of the Republic of Lithuania are adopted.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the Company can recover the disbursed amounts or suspend the payments.	Yes	The Company has implemented a remuneration policy that includes all forms of remuneration, including fixed salary, performance-based benefits and severance payments. This procedure is approved by the management of the Company in agreement with the Trade Union Committee.
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the Supervisory functions should not receive remuneration based on the Company's performance.	Yes	See article 3.2.8
7.4. The remuneration policy should provide enough information on the policy regarding termination payments. Termination	Yes	Termination benefits shall be granted in accordance with the provisions of Chapter 5 of the Labour Code of the

payments should not exceed a fixed amount or a fixed number of annual wages and in General should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.		Republic of Lithuania and the provisions of the Collective Agreement in the Company.
7.5. If the financial incentive scheme is applied at the Company, the remuneration policy should contain enough information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	No	The Company does not apply a system of financial incentives.
7.6. The Company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the Company's remuneration policy, compared to the previous financial year.	No	See article 7.1.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the General Meeting of Shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the General Meeting of Shareholders.	No	See article 7.1.
Principle 8: Role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the Company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the Company concerned.**		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	The corporate governance framework assures the rights of stakeholders that are protected by law are respected. The Company applies a Corporate Contract
8.2. The corporate governance framework should create conditions for stakeholders to		

participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the Company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the Company's authorized capital, involvement of creditors in corporate governance in the cases of the Company's insolvency, etc.		with employees, and the contract is signed by the CEO and Trade Union. The Company pursues the maximum possible transparency in its relations with all stakeholders and the compliance with the highest ethical requirements and principles – in its activities, because honest and open business activities are one of the key elements of impeccable business reputation. The Company takes into account the changing customer needs, constantly improving its operational processes, empowering employees, taking care of the safety and health of its employees, seeking to maintain a close relationship with investors and ensure information accessible to all, continuously updating the information and posting it in the "Investors" section of its website.
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the Supervisory function.		
Principle 9: Disclosure of information **The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the Company.**		
9.1. In accordance with the Company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the Company should include but not be limited to the following:	Yes	The information contained in this recommendation shall be disclosed in the annual and semi-annual reports of the Company in accordance with the requirements of legal acts regulating data processing and confidential information procedures. This information is published on the website of PLLC Nasdaq Vilnius. Stock Exchange and on the Company's website.
9.1.1. operating and financial results of the Company;		
9.1.2. objectives and non-financial information of the Company;		
9.1.3. persons holding a stake in the Company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;		
9.1.4. members of the Company's Supervisory and management bodies who are deemed independent, the manager of the Company, the shares or votes held by them at the Company, participation in corporate governance of other companies, their competence and remuneration;		
9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;		

9.1.6. potential key risk factors, the Company's risk management and supervision policy;		
9.1.7. the Company's transactions with related parties;		
9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the Company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);		
9.1.9. structure and strategy of corporate governance;		
9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.		
9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the Company which is a parent Company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Yes	The Company discloses information on the Company's and the Group's consolidated results. The information is disclosed in the consolidated annual report and consolidated financial statements.
9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the Company's Supervisory and management bodies and the manager of the Company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the Company's Supervisory and management bodies and the manager of the Company should be disclosed, as provided for in greater detail in Principle 7.	Yes	The information specified in the recommendation is presented in the Company's annual and semi-annual reports. The Company will implement the recommendations of Principle 7 once the legislation governing is adopted.
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	The Company discloses all regulated information through the news distribution system of PLLC Nasdaq Vilnius. This ensures that it is accessible to the widest possible public. The information is simultaneously available in Lithuanian and English. In addition, the Company publishes information before or after the Nasdaq Vilnius trading

		session so that all shareholders and investors of the Company have equal access to information and make appropriate investment decisions. The Company shall not disclose information that may affect the price of the securities issued by it in the comments, interviews or other ways until such information is made public through the Central Regulatory Information base.
Principle 10: Selection of the Company's audit firm **The Company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.**		
10.1. With a view to obtain an objective opinion on the Company's financial condition and financial results, the Company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	Yes	An independent audit Company performs auditing of the Company's and its subsidiaries individual and consolidated (the group) annual financial reports in accordance with International Accounting Standards applicable in the EU. An independent auditing Company also evaluates conformity of annual report to the audited financial statements.
10.2. It is recommended that the audit firm would be proposed to the General Meeting of Shareholders by the Supervisory Board or, if the Supervisory Board is not formed at the Company, by the Management Board of the Company.	Yes	The Management Board proposes an audit Company to the General Meeting of Shareholders.
10.3. If the audit firm has received remuneration from the Company for the non-audit services provided, the Company should disclose this publicly. This information should also be available to the Supervisory Board or, if the Supervisory Board is not formed at the Company, by the Management Board of the Company when considering which audit firm should be proposed to the General Meeting of Shareholders.	Yes	Information on remuneration to the audit Company is made public in the decisions of the General Meeting of Shareholders. The audit firm provides non-audit services only with the approval of the Audit Committee. In 2019, the audit firm did not receive any remuneration for the non-audit services provided.

AB
KAUNO
ENERGIJA

CONSOLIDATED SUSTAINABILITY REPORT IN ACCORDANCE WITH GRI STANDARDS 2019


AWARD OF EXCELLENCE
MODERNIZATION
KAUNAS DH SYSTEM
KAUNAS, LITHUANIA
auga
KAUNO ENERGIJA
GLOBAL DISTRICT ENERGY CLIMATE AWARDS

This GRI Standards Report forms part of the Kaunas Energy "Social Responsibility Report", which is produced annually and published in conjunction with the company's consolidated annual report and financial statement.

The report has been prepared **in accordance with GRI Standards: Core option** - providing the minimum information required in order to understand the nature of the company and how it manages its material topics and related economic, environmental, and social impacts. Only those that are required for Core option are listed and reported on.

GRI Standards are separated into three distinct sections: **General Disclosures** (GRI 102); **Management Approach** (GRI 103) which reports on each of the topic specific standards; and **Topic Specific Standards** (GRI 200, 300, and 400).

Within the set of Topic Specific Standards, only those material topics with significance (as defined by guidance in GRI 101: clause 1.3) are reported on in full. In the few cases where a disclosure requires additional supporting information, an external reference with a specific publicly available location may be included. These additional external references may refer to other materials produced by the company such as its annual report and full financial statements. For some material topics it is not possible to provide a full disclosure. This is allowed under GRI 101: clause 3.2 'Reasons for Omission' and the reason for omission will be given.

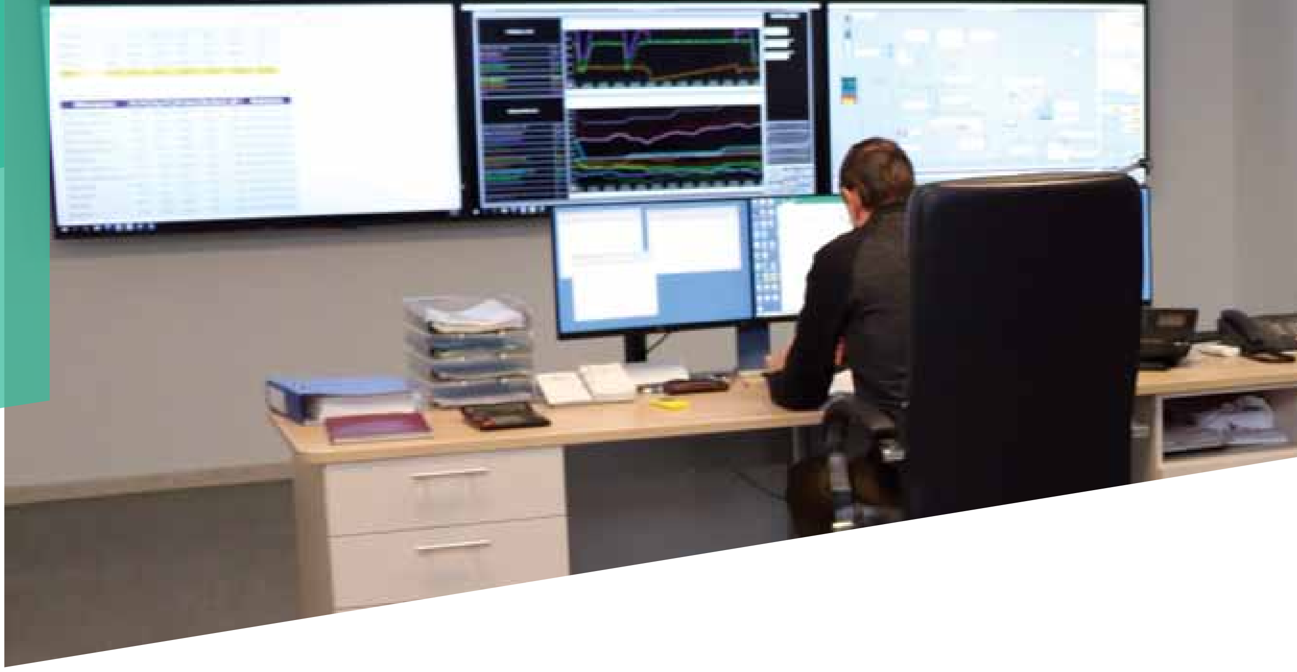
THE MATERIAL TOPICS CHOSEN FOR THIS REPORT ARE AS FOLLOWS:

GRI 204 Procurement Practices (2016)
GRI 205 Anticorruption (2016)

GRI 302 Energy (2016)
GRI 305 Emissions (2016)
GRI 307 Environmental Compliance (2016)

GRI 403 Occupational Health and Safety (2016)
GRI 404 Training and Education (2016)
GRI 405 Diversity and Equal Opportunity (2016)
GRI 406 Non-discrimination (2016)
GRI 407 Freedom of Association and Collective Bargaining (2016)
GRI 408 Child Labour (2016)
GRI 409 Forced or Compulsory Labour (2016)
GRI 415 Public Policy (2016)
GRI 416 Customer Health and Safety (2016)

With this report Kaunas Energy seeks to provide non-financial corporate responsibility information to its stakeholders: clients (users), shareholders, investors, employees, suppliers, business and social partners and the public. This sustainability report is produced as a stand-alone report in accordance with GRI Standards.



GRI 102: GENERAL DISCLOSURES (2016)
ORGANISATIONAL PROFILE

102-1	NAME OF THE ORGANISATION	AB „Kauno energija“ (EN Public Company Kaunas Energy).
102-2	ACTIVITIES, BRANDS, PRODUCTS, AND SERVICES	Provider of energy services to clients and customers in regions within Lithuania.
102-3	LOCATION OF HEADQUARTERS	Raudondvario pl. 84, Kaunas, LT- 47179, LIETUVA
102-4	LOCATION OF OPERATIONS	Lithuania – specifically Kaunas, Kaunas District and Jurbarkas.
102-5	OWNERSHIP AND LEGAL FORM	Information presented in the annual report - section 2.
102-6	MARKETS SERVED	Information presented in the annual report - section 3.
102-7	SCALE OF THE ORGANISATION	Information relating to the total number of employees and the total number of operations, net revenues, and quantity of products / services provided is all presented in the annual report in sections 5, 6, 7, 14 & 18. Information in this disclosure asking for total capitalisation broken down in terms of debt and equity is only for private sector organisations and is therefore not applicable here.

102-8 INFORMATION ON EMPLOYEES AND OTHER WORKERS

Figures shown are for the full year ending 31 December 2019.

Total Number of Employees by Employment Contract and Gender

Total Number	Fixed-term employment contracts			Open-ended contracts		
	Total	**Women**	**Men**	**Total**	**Women**	**Men**
402	5	1	4	397	120	277

All employees are employed in and within the Kaunas and Jurbarkas region.

Total Number of Employees by Employment Type and Gender

Total Number	Full-time Employees			Part-time Employees		
	Total	**Women**	**Men**	**Total**	**Women**	**Men**
402	377	107	270	25	14	11

The major parts of the company's activities are carried out by company employees. Although there are external service contractors employed on projects (selected and employed through public procurement in accordance with Lithuanian law), the percentage of work they perform is not monitored.

Since the last reporting period, there has been a reduction in staff numbers of approx. 6%.

All employee data is compiled and processed by the company's personnel administration department.

102-9 SUPPLY CHAIN

The company supplies heat to 3,500 businesses and organizations as well as to 115,990 households, in total – to 119,490 consumers. The main suppliers in terms of bulk services bought are the independent heat producers of which, in accordance with legislation, the company buys heat from 11 major suppliers in Kaunas and the Kaunas area, and in 2019, these 11 major suppliers were:

1. Kauno termofikacijos elektrinė;
2. UAB "Ekoresursai";
3. UAB "ENG";
4. UAB "Idex Taika";
5. UAB "Idex Taika elektrinė";
6. UAB "Lorizon energy";
7. UAB "Petrašiūnų katilinė";
8. UAB "Aldec General";
9. UAB "Idex Biruliškių";
10. UAB „Ekopartneris";
11. UAB "Foksita".

In 2019, the company engaged with 768 other suppliers who provided various volumes of services to the company. Of these, 755 were Lithuanian and 13 were non-Lithuanian suppliers. Local suppliers are defined as operating in Lithuania.

102-10 SIGNIFICANT CHANGES TO THE ORGANISATION AND ITS SUPPLY CHAIN

There were some significant changes to the structure of the company. All the changes to the company structure in terms of services and governance, departing and new members to the Management Board, and statutes relating to competences and structure of Supervisory Board and Management Board; are all detailed in the annual report – section 1.

102-11	PRECAUTIONARY PRINCIPLE OR APPROACH	The EU policy on the environment states that it shall "aim at a high level of protection taking into account the diversity of situations in the various regions of the Union. It shall be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay". Within this understanding, the company applies where practical the same precautionary principle in seeking not to generate significant environmental impact, and where there is impact of any nature the company seeks to address this quickly and clearly.
102-12	EXTERNAL INITIATIVES	The most impressive initiative during the year was the company winning the prestigious 6th Euroheat & Power 'Global District Energy Climate Award for Modernisation', with the awards ceremony in Reykjavik, Iceland on October 23-25. This biennial event rewards systems or projects that illustrate the importance of district energy resource efficiency and heat delivery. Kaunas Energy was judged by an international panel of experts to have made the most impressive impact on efficiency and reduction of CO2 emissions through its transition from fossil fuels to renewable sources. (LT - www.kaunoenergija.lt/naujienos/ab-kauno-energija-pelne-pasaulini-apdovanojima-uz-kauno-silumos-ukio-modernizavima-ir-co2-emisiju-mazinima/; ENG - www.euroheat.org/news/6th-global-district-energy-climate-awards-revealed/). Further highlights from the year include: April - May: Following some pipeline drainage works carried out by the company near to the historic Kaunas Fortress, some accidental flooding occurred. This flooding was quite substantial and had threatened the cancellation of a large outdoor public event. However, the company took the initiative to clean up the site with around 20 employees helping to ensure that the public event could go ahead as planned.The clean-up was a substantial amount of work that included the removal of long accumulated sludge soil, and various debris. Because the site was a national heritage site, the works were monitored by the representatives of Kaunas Fortress Association and the Department of Cultural Heritage who praised the results and achievements of the company's employees. May: The company joined the campaign "Workplace - Open to the Family", organized by Kaunas Family Council and Kaunas Region Industrialists and Employers Association to commemorate International Family Day. The essence of this campaign is to introduce a parent's workplace to family members. Approximately 30 people, including the children of 12 employees, took part in an excursion around the company, during which they were invited to ask questions, take photos and share them on social networks. June: In partnership with "Laisvės TV" and Kaunas University of Technology (KTU) the company created a promotional video for the TV show 'Antanas Wants to Be...' about the profession of a Thermal Engineer. This was widely promoted by KTU, and as of December 2019 there had been almost 20,000 hits for this video. (www.youtube.com/watch?time_continue=3&v=bYGK4JfX_pw&feature=emb_logo). November: Twelve students and a professor from Vytautas Magnus University Faculty of Economics and Management selected Kaunas Energy for an educational excursion to study more about how it operates. The company was chosen because of its high level of socially responsible activities and regular and transparent public reporting. The educational tour included heat production and supply methods, calculation of cost and environmental benefits for the consumers (including emission controls in place), and network management. (www.kaunoenergija.lt/naujienos/vdu-ekonomikos-ir-vadybos-fakulteto-studentai-domejosi-kauno-energijos-veiklos-organizavimu/). Throughout the year, the trade union organised a number of activities including inviting company employees to take part in the 'Employees of Lithuanian Industry' family sports games 2019. In addition, the trade union and a number of internal departments organised canoeing activities in the summer. As part of Christmas celebrations, the children of employees received presents as well as free tickets to puppet theatre performances.

102-13	MEMBERSHIP OF ASSOCIATIONS	The company is a member of the following associations: • Responsible Business Association of Lithuania • Lithuanian District Heating Association • Lithuanian Electricity Association • Kaunas Region Industrialists and Employers Association • Lithuanian Thermal Technology Engineers Association In addition, the company is a member of the United Nations Global Compact.

STRATEGY

102-14	STATEMENT FROM SENIOR DECISION-MAKER	The year 2019 was one of change as we revised and updated our company strategy to set new development goals. In order to achieve these new goals, the structure of our company changed. During this process, new structural units were created, and some were removed meaning that the number of our employees decreased slightly. The introduction of new technologies and services for consumers, further digitalisation of processes, the reduction of heat transfer costs and the creation of better working conditions for employees are all areas in which we will seek to continue to improve upon. The company compensated consumers for the additional return on investment earned in 2013-2017. In total in 2019, consumers were compensated in the form of lower heat prices; this was equal to as much as 3.3 million of this additional investment return. With the support of European Union Structural Funds, the company reconstructed a record 15 km of heat supply pipelines. In addition we built a new biofuel boiler in the city district of Noreikiškės, and carried out a high number of modernisation works. All of this has resulted in even greater resource savings, which in turn lowered the cost of heat to consumers and helped towards reducing environmental pollution. In October 2019, and in recognition of our progress to date, the company was awarded the Euroheat & Power 6th Global District Energy Climate Award for its efficient system modernization and pollution reduction. To further reduce our environmental impact, the company installed an electric car charging point near the main office building, where part of the electricity consumed is generated by a solar power plant installed on the same building. Electric vehicles can be charged at this point by employees or members of the public for free. This overall company commitment to continual improvement is reflected in this GRI Standards report – our fourth in succession.
102-15	KEY IMPACTS, RISKS, AND OPPORTUNITIES	Not required for Core reporting

ETHICS AND INTEGRITY

102-16	VALUES, PRINCIPLES, STANDARDS, AND NORMS OF BEHAVIOUR	Full information is provided on the company website under mission and vision, and values and strategic objectives: www.kaunoenergija.lt/bendroves-veikla/apie-bendrove/misija-ir-vertybes/. The Code of Ethics is publicly disclosed within the company and is applicable to all employees, agents, brokers, contractors, subcontractors or suppliers of the Company. A copy of this can be found on the company website: www.kaunoenergija.lt/bendroves-veikla/etikos-kodeksas/.
102-17	MECHANISMS FOR ADVICE AND CONCERNS ABOUT ETHICS	Not required for Core reporting

GOVERNANCE

102-18	GOVERNANCE STRUCTURE	The company governance structure changed in 2019. Information about the new governance and management structure is published on the company website: www.kaunoenergija.lt/bendroves-veikla/bendroves-valdymas/. Committees responsible for decision-making on economic, environmental, and social topics include: • Audit Committee: made up from a minimum of three members, at least one of which is independent. There are currently three members: two external and independent, and one from among the company's employees. During 2019 the Audit Committee had one session in which it monitored the financial statements for 2019 and the audit process performed by an independent auditor. • Technical Board: established by order of General Director, which examines adopted resolutions and makes recommendations to the company's General Manager on a range of economic, social and environmental topics. During 2019, the board met 20 times to discuss issues concerning the connection of new consumers to the district heating system. • Occupational Health & Safety Committee: established in 2017 and with no issues to deal with in 2019, it had no reason to meet.
102-19 to 102-39	GOVERNANCE	Not required for Core reporting

STAKEHOLDER ENGAGEMENT

102-40	LIST OF STAKE-HOLDER GROUPS	The following stakeholders are those individuals or groups to whom the company considers itself accountable and those expected to be affected by the company's activities or provision of services: • The company's shareholders (among them the city of Kaunas, and Kaunas and Jurbarkas District Municipality). A full list of the 300 or so individual shareholders is held by our financial partner SEB Bank • The company's managers and employees, and workers trade union • Non-employee workers (connected to key service providers for the company), and service customers • Business partners - including suppliers of goods, service providers, contractors, independent heat producers
102-41	COLLECTIVE BARGAINING AGREEMENTS	The company has a 'Collective Agreement' established and in operation. It is posted on the company intranet site and updated periodically. It applies not only to workers' trade union members, but also to all employees of the company (100%).
102-42	IDENTIFYING AND SELECTING STAKEHOLDERS	All stakeholders and interest groups are identified through their direct connection to the company and the company activities. Any other interested individuals or groups are encouraged to be involved in our engagement activities or events. With regard to suppliers of goods, service providers and works contractors, these are selected through public procurement in accordance with Lithuanian and/or EU law.
102-43	APPROACH TO STAKEHOLDER ENGAGEMENT	The company's shareholders receive periodical activity reports, annual reports, CSR reports, and reports on coordinated investment projects. The company's managers and employees communicate daily through departmental and inter-departmental communication. Customers with queries about their service provision are dealt with by the customer service staff at the centralised municipality service centre 'Mano Kaunas' via telephone, e-mail, and postal mail. Information is also available to consumers and the media through the company and through Kaunas city municipality websites. In 2019, the company held two face-to-face meetings with approx. 20 customer representatives at the company premises. These meetings were organised to respond to relevant new developments in the company services. Members of the management were available to answer questions from participants. In addition, once a year the company carries out customer quality service surveys. The purpose of the company's interaction with stakeholders is to ensure that the company remains an open and transparent company, constantly seeking to improve its performance and service delivery standards and as such, our engagement with stakeholders continues to help to improve our preparation of this report.

102-44	KEY TOPICS AND CONCERNS RAISED	Topics and concerns raised by customer representatives (including buildings administrators and systems supervisors), are related mainly to costs and technical issues. These are usually addressed on a wider basis by placing information articles, explaining some generic issues, in the local newspapers. Any other issues that might be raised by the main shareholder - Kaunas City Municipality - as well as the National Energy Regulatory Council (formerly the National Commission for Energy Control and Prices), are all controlled and responded to through the company's internal Sales Accounting department in partnership with the relevant technical and management leaders within the company.

REPORTING PRACTICE

102-45	ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS	a) A list of all entities is included in the company's consolidated financial statements or equivalent documents: please see annual report section 4 to 14. b) The company's consolidated financial statements or related documents cover the activities of AB Kauno Energija and its subsidiaries – UAB Kauno Energija NT and UAB Petrašiūnų Katilinė. Within this report so far and hereinafter, 'the company' refers to this group of three companies.
102-46	DEFINING REPORT CONTENT AND TOPIC BOUNDARIES	Now in our fourth year of reporting under the GRI Standards, the company have chosen those material topics that have the biggest bearing on its day-to-day activities; those that constitute the biggest part of our economic, social and environmental impact; and those which we are able to effectively monitor and report on.
102-47	LIST OF MATERIAL TOPICS (AND PUBLICATION YEAR)	GRI 204: Procurement Practices (2016) GRI 205: Anti-Corruption (2016) GRI 302: Energy (2016) GRI 305: Emissions (2016) GRI 307: Environmental Compliance (2016) GRI 403: Occupational Health and Safety (2016) GRI 404: Training and Education (2016) GRI 405: Diversity and Equal Opportunities (2016) GRI 406: Non-Discrimination (2016) GRI 407: Freedom of Association and Collective Bargaining (2016) GRI 408: Child Labour (2016) GRI 409: Forced or Compulsory Labour (2016) GRI 415: Public Policy (2016) GRI 416: Customer Health and Safety (2016)

102-48	RESTATEMENTS OF INFORMATION	There are no reasons for restatements of information during the reporting period of 2019.
102-49	CHANGES IN REPORTING	None this year.
102-50	REPORTING PERIOD	January 1st to December 31st 2019.
102-51	DATE OF MOST RECENT REPORT	This is the fourth report produced under GRI Standards with the last report being for 2018.
102-52	REPORTING CYCLE	Annual.
102-53	CONTACT POINT FOR QUESTIONS REGARDING THE REPORT	Mr. Ūdrys Staselka Communications and Public Relations Manager AB „Kauno energija“ Tel. +370 37 30 58 85 / Mob. +370 650 96883 Email: u.staselka@kaunoenergija.lt / www.kaunoenergija.lt
102-54	CLAIMS OF REPORTING IN ACCORDANCE WITH GRI STANDARDS	This report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI CONTENT INDEX	This report constitutes the GRI context index in full and in doing so fulfils the reporting requirements in accordance with disclosure 102-54.
102-56	EXTERNAL ASSURANCE	This report has been prepared by an externally appointed organisation, procured through an open tender call for services. The preparation of the report takes information prepared for the audited accounts and annual report. The assurance of the quality of this GRI Standards Report is limited to following the guidelines of the GRI Standards only. However, the completed audited accounts and annual report (upon which this GRI Standards report is based) have been passed and assured by the company board as part of its normal quality control of all information that is prepared for shareholders.

GRI 103: MANAGEMENT APPROACH (2016)

THE GRI 103: MANAGEMENT APPROACH APPLIED TO GRI 204: PROCUREMENT PRACTICES

103-1	EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY	The monthly procurement of heating services from independent heat producers represents the main services procurement for the company, and is a substantial amount representing approx. 62% of consumers heat demand. The boundary is with all of the business and residential customers who receive heating using these sources, and it is here where any potential impacts will be felt. The company seeks to minimise boundary impacts through close management and quality control of these relationships on a regular basis. If serious impacts are likely to occur, we can correct through improved procurement procedure month by month if necessary.
103-2	THE MANAGEMENT APPROACH AND ITS COMPONENTS	The company's procurement policy expired as the Law on Procurement of Contracting Entities in the Field of Water Management, Energy, Transport or Postal Services came into force. Now, the company needs only to follow the provisions of this law, according to which, the company provides a Description of The Procedure For Low Value Purchases, which is publicly available on the company's website: www.kaunoenergija.lt/bendroves-veikla/viesieji-pirkimai/mazos-vertes-pirkimu-tvarkos-aprasas/. The company also approved its Gift Policy in 2019, which is publicly available on its website: www.kaunoenergija.lt/bendroves-veikla/apie-bendrove/dovanu-politika/ and its Anticorruption Policy which is available here: www.kaunoenergija.lt/bendroves-veikla/korupcijos-prevencija/. Also, the company publicises on its website a Notice of Restrictive Practices, issued by The Competition Council of the Republic of Lithuania: www.kaunoenergija.lt/bendroves-veikla/apie-bendrove/atmintine-apie-konkurencijos-ribojima/.

Company goals and targets for procurement practices are defined in law as we are obliged to provide for the lowest price. All heat providers have technical measurements made of their service delivery to make sure it satisfies the conditions of the procurement contract. The company's procurement procedures are organised by the Procurement Commission constituted by the order of General Manager or Procurement Organiser, subject to the procurement amount. All announcements and winning contracts are published on the national central procurement portal: https://cvpp.eviesiejipirkimai.lt/.

A large majority of the company's procurement consists of the purchase of heat from independent heat producers. As such, the amendments to the Law on the Energy Resources Market (which came into force in May 2018) had a bearing on how the company procures its heat. The Operator of the Energy Exchange 'UAB Baltpool' was now entrusted with organising heat auctions in accordance with the procedure established by the law on heat, and the company started to purchase all of its heat through these electronic auctions. For all heat providers in Lithuania, procurement procedures are governed by national regulations based on legislation.

103-3	EVALUATION OF THE MANAGEMENT APPROACH	Evaluation of the management approach is not formally carried out. However, the management approach is systematically linked to the procurement process and adjustments can be made through employee or client feedback.

THE GRI: 103 MANAGEMENT APPROACH APPLIED TO GRI 205: ANTI-CORRUPTION

103-1	EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY	The company and its subsidiaries are guided by our anticorruption policy which identifies the main principles and requirements for the prevention of corruption in the company and its subsidiaries. The policy includes guidelines for ensuring compliance and for implementation. This anticorruption policy is in harmony with the laws of the Republic of Lithuania, and the company constantly works hard to minimize any risk of corruption through a range of management and quality control measures.

103-2	THE MANAGEMENT APPROACH AND ITS COMPONENTS	The Corruption Prevention Policy is approved by the company and publicised on the company's website: www.kaunoenergija.lt/bendroves-veikla/korupcijos-prevencija/. To prevent corruption, a system has been created within the company in which named or anonymous cases of abusive or corrupt practices can be reported. This system encourages all company employees, suppliers, and customers to report on any incidents that they feel are abusive or corrupt, such as personal gain in working relationships, exceeding powers granted, assimilating or disposing of company assets, disclosing official or commercial secrets, and any acts of bribery or bribe-taking. The information can be submitted by e-mail: pasitikejimo.linija@kaunoenergija.lt or by filling out the notification form published on the company website (www.kaunoenergija.lt/korupcijos-prevencijos-kontaktu-forma). Full confidentiality and assurance of anonymity of the data is guaranteed (although, applicants are invited but not forced to provide contact information). Compliance with corruption prevention requirements and standards is an integral part of the company's business ethics, and the Corruption Prevention Policy is applicable to all company representatives, subsidiaries, contractors, subcontractors, suppliers and intermediaries.
103-3	EVALUATION OF THE MANAGEMENT APPROACH	Evaluation of the management approach is not formally carried out, but improvements are considered whenever issues are raised by users of this process. For this category of 103-3 disclosure reporting, the company remains committed to developing a more effective method of encouraging and collecting evaluation feedback.

THE GRI: 103 MANAGEMENT APPROACH APPLIED TO GRI 302: ENERGY; GRI 305: EMISSIONS; AND GRI 307: ENVIRONMENTAL COMPLIANCE.

103-1	EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY	Three GRI 300 Environmental material topics have been combined for this disclosure (as per GRI 103 general guidance clause 1.1). Due to the particularity of activities the company uses a lot of electricity and water and has high emissions into the air. The saving of energy and its resources is very important for the company's economic performance. Environmental compliance is crucial if the company wants to maintain its commitment to the environment, to stay compliant, and to continue its high level of transparency in reporting such actions.

Emissions and environmental compliance have an impact wider than local company sites. Therefore, the boundary for impacts for these material topics is within all company sites as well as throughout the whole country.

103-2 THE MANAGEMENT APPROACH AND ITS COMPONENTS

Although the company does a good job of managing the environmental material topic within the company, it could still improve its management approach in relationships with clients / service providers outside the company.

Internally the management systems in place to record and report on environmental impact are very strong. There is a special certified environmental laboratory installed to manage, collect, and process all relevant environmental data on company activities. Links to all decision making for these material topics are referred to in disclosure 102-18 (Governance Structure) and all links to the principles that make up the company policies are in disclosure 102-16 (Values, Principles, Standards and Norms of Behaviour). For targets and issues related to emissions, the company is guided by the following:

- Kyoto Protocol
- Helsinki Commission (HELCOM) and environmental constraints of Helsinki Convention
- European Parliament and Council Directive 2001/80/EB of regulating energy emissions
- Lithuanian environmental normative document LAND 43-2013 for the use of natural resources, and emissions from air pollutants into the environment
- Lithuanian special requirements for large combustion plants
- Lithuanian emissions rates from average combustion plants

The company pays taxes for atmospheric and water pollution and if allowable emission rate limits or annual limits are exceeded, the company must pay the relevant fines under Lithuanian laws.

The company's laboratory for measurement of its stationary air pollution sources has a permit issued by the Lithuanian Environmental Protection Agency. This allows the laboratory, on behalf of the company and its group subsidiaries, to continuously monitor emissions into the atmosphere from stationary sources, and to make sure they do not exceed the permissible limits established within the integrated pollution prevention and control permits. Six of our suppliers' boiler-houses use biofuels which contributes towards reducing atmospheric pollution.

Small internal improvements, such as using recycled or environmentally friendly paper to print the company's annual report and financial statement on, are easy to implement. The company chooses to not print its sustainability report and instead, encourages e-downloads (unless events we attend require handout copies for participants). Improvements to our relationships with larger technical service providers, whose contracts are regulated based on national guidelines, are more difficult to make.

103-3 EVALUATION OF THE MANAGEMENT APPROACH

Evaluation of the management approach is not formally carried out. However, the management approach is systematically linked to the company's commitment to non-financial reporting. The company does encourage feedback and suggestions through employee or client feedback. For this category of 103-3 disclosure reporting, the company remains committed to developing a more effective method of encouraging and collecting evaluation feedback.

THE GRI: 103 MANAGEMENT APPROACH APPLIED TO ALL NINE GRI 400: SOCIAL MATERIAL TOPICS.

103-1	EXPLANATION OF THE MATERIAL TOPIC AND ITS BOUNDARY	Nine GRI 400: Social material topics (see 102-47 above) have been combined for this disclosure (as per GRI 103 general guidance clause 1.1). The company is strong on employee relations and wants to provide regular reports on progress made in the health and safety issues for the company and its employees. Qualification and technical improvement of employee skills is equally important to the company, and in support of this, the company promotes and supports an annual programme of different types of courses and trainings, seminars and conferences for employees to participate in. The company respects the principles of gender equality, non-discrimination, and freedom of association and collective bargaining agreements are automatically part of company policy (as is the outlawing of child labour and forced labour in the company). Public policy is important because we provide a public service and are part of the city municipality services offered to the public, and therefore our public policies need to reflect our public profile. The company follows a strict regime of compliance to health and safety regulations because it is tantamount to the services we provide, the people who provide them, and those who use them. The boundary for impacts remains mainly focused on local and regional sites, along with all stakeholders within these areas.

103-2	THE MANAGEMENT APPROACH AND ITS COMPONENTS	Internally the company has a strong management approach for social and health and safety issues related to employees. This includes a collective agreement for all employees, an employee's health and safety service, a Health and Safety Committee and established procedures for employees to voice their concerns, suggestions, or grievances. Links to all decision making for these material topics are referred to in disclosure 102-18 (Governance Structure) and all links to the principles that make up the company policies are in disclosure 102-16 (Values, Principles, Standards and Norms of Behaviour). The Work Safety Department has three staff: two for safety issues and one for medical issues. They follow and implement regulations as laid down by national state institutions and there are regular articles and campaign notices related to health and safety issues posted on the company intranet and notice boards for employees. Regular workplace inspections are carried out on company sites where employees are working, as well as company sites where non-employees are working. New employees are provided with instructions on basic health and safety company policies. Those working in manual roles are provided with a safety supervisor during the initial employment starting period. Special emphasis is paid to improving the qualifications of employees through their placement on specialist work-related training programmes run by either government institutions or professional associations and these take place annually. A trade union operates in the company and there were 130 members as of 31 December 2019. Both the trade union and individual employees are free to enter associations and negotiate collectively for better working conditions or pay. In 2019 and in previous years, the company did not record any violation of the principles of gender equality and non-discrimination. There were no cases of child or forced labour in 2019 nor the previous years in the company. With our policy on this issue, we can be sure of not having any cases in future reports.
103-3	EVALUATION OF THE MANAGEMENT APPROACH	Evaluation of the management approach is not formally carried out. However, the management approach is systematically linked to the company's commitment to non-financial reporting. The company does encourage feedback and suggestions through employee or client feedback. For this category of 103-3 disclosure reporting, the company remains committed to developing a more effective method of encouraging and collecting evaluation feedback.

TOPIC SPECIFIC STANDARDS:
GRI 200 ECONOMIC

GRI 204: PROCUREMENT PRACTICES (2016)

204-1	PROPORTION OF SPENDING ON LOCAL SUPPLIERS	The percentage of procurement budget that is spent on suppliers local to operations (such as percentage of products and services purchased locally) is 100%. Local is defined as being within Lithuania, and our definition of 'significant locations of operation' is within Kaunas, Kaunas District and Jurbarkas.

GRI 205: ANTI-CORRUPTION (2016)

205-1	OPERATIONS ASSESSED FOR RISKS RELATED TO CORRUPTION	Omission of full disclosure as allowed under GRI Standard 101: clause 3.2. Although the company has a proven anticorruption policy that includes a mechanism for assessing corruption risk factors, defining all types of corruption, responsibilities and roles, the specific number and percentage of corruption-related risk factors has not been assessed so far. As no specific corruption risk assessment has been carried out so far, no significant dangers related to corruption have been identified. The company is working to define a clear corruption risk assessment procedure.

205-2	COMMUNICATION AND TRAINING ABOUT ANTI-CORRUPTION POLICIES AND PROCEDURES	The company has a Corruption Prevention Policy, approved in February 2017 and published on its website: www.kaunoenergija.lt/wp-content/uploads/AB-Kauno-energija-ir-jos-dukteriniu-imoniu-korupcijos-prevencijos-politi.pdf. It also provides a clear statement of its position on corruption and what it is doing to help prevent it happening; this is also on the company website: www.kaunoenergija.lt/bendroves-veikla/korupcijos-prevencija. All 100% of the governance bodies (19 members) have been notified of the organization's anticorruption policies and procedures, as has 100% of the workforce (all 402 employees) across all work categories. In addition, all contractors and suppliers participating in public procurement procedures are made fully aware of the company's anticorruption policy and procedures on a compulsory basis. In total, 100% of our suppliers (11 major suppliers and 757 smaller suppliers - detailed in disclosure 102-9) are informed of the company's anticorruption policy. Compliance with the Corruption Prevention Policy is an integral part of our business ethics, and as such, it is fully applied to representatives (intermediaries) of the company. The regions covered by all of the above are as described in disclosure 102-4. In 2019 the company adopted a 'Gift Policy' covering the procedure of receiving, giving and dealing with Gifts. It must be respected by all employees of the company, regardless of position. In order to avoid possible conflicts of interest or possible misunderstandings, a description of procedures for receiving, giving and dealing with gifts is provided on the company's website: www.kaunoenergija.lt/bendroves-veikla/apie-bendrove/dovanu-politika/.
205-3	CONFIRMED INCIDENTS OF CORRUPTION AND ACTION TAKEN	No cases of corruption were identified in, or reported to, the company during 2019.

TOPIC SPECIFIC STANDARDS: GRI 300 ENVIRONMENTAL

GRI 302: ENERGY (2016)

302-1

ENERGY CONSUMED WITHIN THE ORGANISATION

The company is a producer of heat energy, so the largest part of electricity is consumed for the production and supply of this.

Information on total fuel consumption from renewable and non-renewable sources is available in full in section 6.1 of the company's annual report. Solid biofuel and natural gas account for 99.75% of fuel consumption.

The company purchased and consumed 13,617,942 kWh of electricity internally in 2019. Total internal energy consumption within the company and its subsidiaries in 2019 was 12,911,916 kWh with the remainder – 706,026 kWh – resold and used under a utilization contract. The electricity consumption internally was distributed as follows:

Internal needs	For heat production and supply
2 107 994 kWh	11 509 948 kWh

In 2019 the company did not produce steam and its cooling sales represent zero kWh and is therefore not included in this report.

302-2	ENERGY CONSUMED OUTSIDE THE ORGANISATION	Omission of full disclosure as allowed under GRI Standard 101: clause 3.2. Currently, the company does not have the methodologies, assumptions and/or calculation tools in place to collect and fully report on these disclosures, but it is endeavouring to improve its data collection procedures.
302-3	ENERGY INTENSITY	
302-4	REDUCTION OF ENERGY CONSUMPTION	
302-5	REDUCTIONS IN ENERGY REQUIREMENTS OF PRODUCTS AND SERVICES	

GRI 305: EMISSIONS (2016)

305-1 DIRECT (SCOPE 1) GHG EMISSIONS

CO_2 emissions for the year 2019 are not totally confirmed, but the figures are likely to be as follows:

- Petrašiūnai power plant – 5,947 t of CO_2
- Pergalė boiler house – 2,038 t of CO_2
- Šilkas boiler house – 3,227 t of CO_2
- Garliava boiler house – 112 t of CO_2
- Jurbarkas boiler house – 1,320 t of CO_2

As the company itself is a producer of heat energy, it monitors emissions from these sources of production and provides data to public authorities in accordance with the procedures established by law. From this data, we can report that the total direct emissions from the company's heat production sources in 2019 was 12,644 metric tonnes CO_2 equivalent, with gases included in these calculations being CO_2 only (the biological emissions of CO_2 in metric tonnes are not counted in CO_2 equivalents).

The base year of the calculation is applied based on the individual production sources and is chosen due to the higher median of activity data (reports and justifications are available from the Lithuanian Environmental Protection Agency (http://oras.gamta.lt/cms/index). According to the law, only the emissions of boiler houses that are more than 20 MW capacity are calculated. The company owns five boiler houses that are more than 20 MW capacity.

The baseline year of calculation of 2005-2008 is used for Petrašiūnai power plant (5,947 tonnes of CO_2), the boiler houses at Pergalė (2,038 tonnes of CO_2) and Garliava (112 tonnes of CO_2). For the boiler houses at Šilkas (3,227 tonnes of CO_2) and Jurbarkas (1,320 tonnes of CO_2), the baseline year of calculation of 2009-2010 is used.

The source of the emission factors and the reference to the global warming potential (GWP) rates used (as well as standards, methodologies, and calculating tools) are all taken from within the following articles and regulations:

- Directive 2003/87 / EC of the European Parliament and of the Council
- Commission Regulation No 600/2012
- Commission Regulation No 601/2012
- Standard ISO 14065

Actual total GHG emissions/t CO_2 equivalent from the company's heat production facilities from 2013 to 2019 are as follows:

Year	2013	2014	2015	2016	2017	2018	2019
GHG Emissions	36 042	32 711	8 607	8 480	8 918	21 008	12 644

Currently, no other scope 1 emissions data is collected by the company.

305-2 ENERGY INDIRECT (SCOPE 2) GHG EMISSIONS

305-3 OTHER INDIRECT (SCOPE 3) GHG EMISSIONS

305-4 GHG EMISSIONS INTENSITY

Omission of full disclosure as allowed under GRI Standard 101: clause 3.2. Currently, the company does not have the methodologies, assumptions and/or calculation tools in place to collect and fully report on these disclosures, but it is endeavouring to improve the necessary procedures.

305-5 REDUCTION OF GHG EMISSIONS

Greenhouse gas emissions decreased significantly from 21,008t CO_2 in 2018 to 12,644t CO_2 in 2019. The reason for this decrease was due mainly to a reduction in demand at the Petrašiūnai power plant, and competition between heat producers. In addition our Jurbarkas boiler-house burned more biofuel instead of natural gas, so it also affected the total emissions figure. The gas included in the calculation is CO_2 only.

The company's air pollution abatement initiatives involve public awareness campaigns to raise awareness of energy-saving measures. However, if the air temperature drops drastically, the company can do little and must produce more heat. Information on key numbers, standards, methodologies, or computational tools is provided in section 305-1 above.

305-6 EMISSIONS OF OZONE-DEPLETING SUBSTANCES (ODS)

Omission of full disclosure allowed under GRI Standard 101: clause 3.2. Full disclosure information is not available in the format required for this report. The company remains committed to developing the systems and procedures to allow this data to be monitored, evaluated and recorded.

305-7

NITROGEN OXIDES (NOX), SULPHUR OXIDES (SOX), AND OTHER SIGNIFICANT AIR EMISSIONS

For 2019 the increase in emissions for some of the reported categories is due to the use of more biofuels as well as the inclusion in calculations of the subsidiary UAB “Petrašiūnų katilinė” power plant.

Full reporting of those available and relevant requirements of this disclosure is contained in the company annual report, section 7.

Išmetama per metus, t	Particulates	Nitrogen Oxides	Carbon Monoxide	Sulphur Dioxide	Hydro-carbons	Vanadium Pentoxide	Others
2019	89.0913	280.7396	1 261.2142	0.2746*	1.1978	0.0000	0.4313
2018	48.7984	283.0412	1 082.9366	31.6210	1.1982	0.0000	0.1509
2017	79.7242	285.6461	1 236.7667	145.0571	1.1982	0.0000	0.4297
2016	53.7542	265.0797	1 155.3349	231.4719	4.2871	0.0000	0.2818
2015	43.5783	203.6775	904.8513	193.3228	20.1586	0.0000	0.2818
2014	23.613	154.570	534.443	47.158	16.294	0.0000	0.440
2013	10.5967	101.3197	299.6656	5.0747	14.9647	0.0000	0.770
2012	7.6130	54.3160	135.1510	6.0280	1.2080	0.0000	0.4397

* The huge decrease in SO_2 indicator in 2019 is due to the changes in calculations. This indicator was no longer counted in 2019 for production sources using biofuels. The calculations shown for 2019 are based on estimated data for the two small boilers using diesel fuel.

GRI 307: ENVIRONMENTAL COMPLIANCE (2016)

307-1

NON-COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS

During this reporting period, the company did not receive any fines or sanctions for serious non-compliance with environmental laws and/or regulations at all, nor were any legal cases brought against the company during this time. However, a minor non-serious incident did occur in which the company was penalised for a discharge of wastewater at Petrašiūnai power plant, where the concentration of pollutants exceeded the permissible norm. The damage to nature was negligible – less than one Euro - with the responsible person being fined 85 Euro.

TOPIC SPECIFIC STANDARDS: GRI 400 SOCIAL

GRI 403: OCCUPATIONAL HEALTH AND SAFETY (2016)

403-1	WORKERS REPRESENTATION IN FORMAL JOINT MANAGEMENT–WORKER HEALTH AND SAFETY COMMITTEES	An occupational health and safety committee operates in the company and it follows the principles, roles and responsibilities as defined by the Occupational Safety and Health Committees of the General Regulations, approved in 2013 by the Lithuanian Ministry of Social Security and Labour Minister. This committee operates at a senior management level within the company, reporting directly to the Company Director / Board, and represents 100% of the workforce employees.
403-2	TYPES OF INJURY AND RATES OF INJURY, OCCUPATIONAL DISEASES, LOST DAYS, AND ABSENTEEISM, AND NUMBER OF WORK-RELATED FATALITIES	All accidents are recorded and investigated if necessary under minor or major categories. Much of this reporting is required and covered by legal requirements and linked to information required by the national Social Insurance organisation (SODRA). In 2019 the company reported the following injuries in the workplace: • One reported accident in the workplace (N1): male (fracture of the heel, partial amputation of two fingers) • Two accidents on the way to work: both women (fracture of left and right hip and elbow bones; strain on the left foot) The company already separates reasons for absence into categories that include types of injuries, so it provides the information on how many days were lost through the above recorded injuries. For the above unfortunate accident (UA) cases, working days lost in 2019 totalled 149 days: • UA at work (1 employee) - 76 working days • UA on the way to work (2 employees) - 73 working days

403-3	WORKERS WITH HIGH INCIDENCE OR HIGH RISK OF DISEASES RELATED TO THEIR OCCUPATION	The company does not have any occupational activities that would put its workers at high incidence rate, or high risk of specific diseases.
403-4	HEALTH AND SAFETY TOPICS COVERED IN FORMAL AGREEMENTS WITH TRADE UNIONS	An occupational health and safety committee operates in the company and it follows the principles, roles and responsibilities as defined by the Occupational Safety and Health Committees of the General Regulations, approved in 2013 by the Lithuanian Ministry of Social Security and Labour Minister. This committee works with the trade union and covers 100% of all health and safety topics within the workplace and broader work environment.

GRI 404: TRAINING AND EDUCATION (2016)

404-1	AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE	The company has an annual programme of professional refresher courses and training, including attendance at various seminars and conferences, to help employees update and improve their work skills and knowledge. Once a year, renowned professional thematic experts are invited by the company to deliver lectures to employees on topics such as heat generation and supply. In comparison to last year, the increase in training and education for staff in 2019 is approx. 80% higher. The average duration of training hours per employee is 20 hours, an increase of five hours per employee on last year's figures. The gender split is approx. 484 hours for women and 3,652 hours for men. This disparity between male and female hours is based on the fact that there are a larger number of men working in specialist technical jobs that require specialist technical training. The split of training hours for categories of employees is as follows: 396 hours for managers, 1,328 hours for specialists, and 2,412 hours for workers.

404-2	PROGRAMMES FOR UPGRADING EMPLOYEE SKILLS AND TRANSITION ASSISTANCE PROGRAMMES	The company maintains its close relationship with the local Kaunas University of Technology (KTU) to help develop and better tailor some specific technical courses. This helps to strengthen the theoretical knowledge that all potential new employees, recruited after finishing studies at KTU, will have. For current employees there are no special programmes, except for some employees who need to update their existing certificates or professional competences on a regular basis. To date, the company does not record these by gender. Transition programmes for those who are retiring (or being made redundant) do not currently exist within the company.
404-3	PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEWS	Omission of full disclosure allowed under GRI Standard 101: clause 3.2. Full disclosure information is not available in the format required for this report. The company does not currently provide performance reviews as part of its training and education for employees.

GRI 405: DIVERSITY AND EQUAL OPPORTUNITY (2016)

405-1 DIVERSITY OF GOVERNANCE BODIES AND EMPLOYEES

Total number of people on governing bodies and by gender as at December 31, 2019:

Total Managers	Women	Men
19	4	15

There are four female managers but none sit within the ranks of the Senior Management, Board, or Supervisory Board.

When evaluating the composition of employees at management level by age, there are two persons under the age of 30, 11 between the ages of 30 and 50, and six over the age of 50. The figures for all the remaining employees totalling 402 (121 women and 281 men) are: 32 under 30, 144 are between 30 and 50, and 226 are over 50.

The company does not have any information on persons belonging to minorities or vulnerable groups.

405-2 RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN

The salaries of women and men with the same qualifications and working in the same positions are not different in the company.

GRI 406: NON-DISCRIMINATION (2016)

406-1	INCIDENTS OF DISCRIMINATION AND CORRECTIVE ACTIONS TAKEN	No cases of discrimination were recorded in the company in 2019.

GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING (2016)

407-1	OPERATIONS AND SUPPLIERS IN WHICH THE RIGHT TO FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING MAY BE AT RISK	There are no risks to employees' in being able to exercise their rights to freedom of association and collective bargaining. All employees of the company (and extended Group subsidiaries) are free to join any association and negotiate collectively for better working conditions or pay. A trade union operates in the company with 130 members as of December 31, 2019. A collective agreement operates in the company, which covers all issues related to the employee's working conditions as well as all issues of learning and professional development and social security.

GRI 408: CHILD LABOUR (2016)

408-1	OPERATIONS AND SUPPLIERS AT SIGNIFICANT RISK FOR INCIDENTS OF CHILD LABOUR	There is no child labour in the company or its subsidiaries. There are also no company operations, or suppliers that the company works with, that can be considered to have significant risk for incidents of child labour.

GRI 409: FORCED OR COMPULSORY LABOUR (2016)

409-1	OPERATIONS AND SUPPLIERS AT SIGNIFICANT RISK FOR INCIDENTS OF FORCED OR COMPULSORY LABOUR	There is no forced or compulsory labour in the company or its subsidiaries. There are also no company operations, or suppliers that the company works with, that can be considered to have significant risk for incidents of forced or compulsory labour.

GRI 415: PUBLIC POLICY (2016)

415-1	POLITICAL CONTRIBUTIONS	No financial or in-kind political contributions were made directly or indirectly by the company or through its subsidiaries.

GRI 416: CUSTOMER HEALTH AND SAFETY (2016)

416-1	ASSESSMENT OF THE HEALTH AND SAFETY IMPACTS OF PRODUCT AND SERVICE CATEGORIES	No significant product and service categories for which health and safety impacts are assessed for improvement. Please note however, that in terms of employee assessment, the company has a series of regular and routine health and safety checks and assessments made as part of its statutory legal working practices.
416-2	INCIDENTS OF NON-COMPLIANCE CONCERNING THE HEALTH AND SAFETY IMPACTS OF PRODUCTS AND SERVICES	The company has had no identified or recorded non-compliance with regulations and/or voluntary codes.

Company Contact Information

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