AB KAUNO ENERGIJA

SET OF CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR, ENDED 31 DECEMBER 2018, PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH CONSOLIDATED ANNUAL REPORT AND INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

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.

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Independent Auditor's Report

To the Shareholders of AB Kauno energija

Report on the Audit of the Separate and the Consolidated Financial Statements

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 2018,
- 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 2018, 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). 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 Accountants' 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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.

Property, plant and equipment (separate and consolidated financial statements)

We refer to the financial statements:

Significant accounting policies – „Property, plant and equipment", „Use of estimates in the preparation of financial statements", Note 4 „Property, plant and equipment"

The carrying amount of property, plant and equipment as at 31 December 2018: EUR 125.277 thousand in the consolidated statement of financial position and EUR 120.165 thousand in the separate statement of financial position; depreciation and amortization expenses in 2018: EUR 6.972 thousand recognized in the consolidated statements of profit (loss) and other comprehensive income and EUR 6.390 thousand recognized in the separate statements of profit (loss) and other comprehensive income.

The key audit matter	How the matter was addressed in our audit
Management's assessment of Property, plant and equipment involves significant estimation, primarily relating to their useful life. The key assumptions applied by management are further described in Note 2.8 Property plant and equipment. The subjectivity of the principal assumptions required an application of a significant amount of management's judgment and effort. Changes to these assumptions could result in a material change in the depreciation charge and result for the year. Accordingly, we consider this area to be our key audit matter.	Our audit procedures included among others: • considering the appropriateness of the Company's and Group's accounting policy relating to determination of useful life of property, plant and equipment and assessing compliance of the policies with the applicable accounting standards; • assessing the appropriateness of the controls implemented by the Company with respect to determination and subsequent revision of useful life of items of property, plant and equipment; • performing retrospective review of accuracy of management's estimate with respect to useful life of significant items of property, plant and equipment by comparing actual useful life of fully depreciated assets that were still in use to the initial estimate of useful life including subsequent revisions thereof. • comparing useful life of significant items of property, plant and equipment applied by the Company and the Group to useful life applied by other companies in the same industry; • inquiring the management as to their plans to dispose and/or replace significant items of property, plant and equipment whose useful life is scheduled to end in the following financial year and assessing consistency of these plans with the management's estimate of useful life of such assets; • considering the adequacy of the Company's and Group's disclosures (Note 2.8 and Note 4) in respect of Property, plant and equipment.

Impairment assessment of investments in subsidiaries (separate financial statements only)	
See Note 1 and Note 5 to the financial statements. The carrying amount of investments in subsidiaries in the separate financial statements as at 31 December 2018: EUR 2.064 thousand. Reversal of impairment losses recognized in 2018: EUR 156 thousand.	
The key audit matter	**How the matter was addressed in our audit**

The investments in subsidiaries are carried at cost in the separate financial statements of the Company. As disclosed in the note 1 to the financial statements both subsidiaries have generated losses in 2018 which indicates that the investments might be impaired.
As a result, the Company performed impairment tests for both investments as at 31 December 2018. The investments are individually assessed for impairment.
For the assessment of recoverability of investment in subsidiary UAB Petrašiūnų katilinė the Company applied the discounted future cash flow model.
We focused on this area as the estimate of the recoverable amounts of the investments in subsidiaries requires the use of significant judgement and subjective assumptions from the Company as to the future cash flows, the discount rate, selection of comparable properties and adjustments to their valuations.
Accordingly, we have identified this area as a key audit matter.
	Our audit procedures included, among others:
	• involving our own valuation specialists who assisted us in:
	  o assessing the appropriateness of the valuation methodologies applied by the Company by comparing them to methodologies commonly used in valuations of similar assets and the requirements of the relevant accounting standards;
	  o challenging the key assumptions used in the discounted cash flow model by comparing key inputs, such us increase in revenues, expenses, capital expenditures to our understanding of the subsidiary's current operations and trends, relevant industry data, comparing the forecasted growth rates, the discount rate to the ones used in the industry;
	  o checking mathematical accuracy of the discounted cash flow models used in the valuation of investment in subsidiary.
	• considering the Company's disclosure (Note 5) in relation to the use of estimates and judgements regarding the recoverable amount of investments in subsidiaries for compliance with the applicable financial reporting standards.

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Carrying amount of trade receivables (separate and consolidated financial statements)

See Note 7, Note 22 and Note 24 to the separate and consolidated financial statements.

The carrying value of trade receivable in the separate and consolidated financial statements as at 31 December 2018 amounts to EUR 10.188 thousand. The total impairment loss reversal recognized for the year ended 31 December 2018 amounts to EUR 785 thousand in the consolidated statement of comprehensive income and EUR 807 thousand in the separate statement of comprehensive income.

The key audit matter	How the matter was addressed in our audit
Impairment allowances represent the Management's best estimate of the expected credit losses within the trade receivables at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment from the Management over both the timing of recognition and the amounts of any such impairment. Additionally, as at 1 January 2018, the Company and the Group applied the new financial instruments standard, IFRS 9 Financial Instruments, whose impairment requirements are based on the expected credit loss (ECL) model rather than the incurred loss model, as previously used. As required by IFRS 9, the Company and the Group calculates impairment allowances for trade receivables based on expected credit losses (ECLs). 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 the probability of default and loss given default. Accordingly, the most significant areas of estimation uncertainty and judgements associated with recognition of impairment allowances for trade receivables are: • Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer. • Timely identification of exposures with significant increase in credit risk and credit impaired exposures. We focused on this area due to the materiality of the trade receivable balance	Our audit procedures included, among others: With respect of the IFRS 9 transition effects: • understanding the overall transition process activities and controls, including the process and controls over determining the impact of the new standard as well as the underlying process activities that generated the related disclosures; • obtaining the relevant forward-looking information and macroeconomic forecasts used in the ECL assessment. Independently assessing the information by inspecting publicly available information and through discussions with the Management; • assessing whether the definition of default and the staging criteria were consistently applied and in line with the requirements of IFRS 9; • performing an analysis of IFRS 9 based impairment allowances as at the standard's initial application date and comparing them to those calculated in accordance with IAS 39, and assessing their reasonableness based on inquiries of the Management. For trade receivables where impairment allowances provisions are based on modelled expected credit losses: • testing the underlying impairment model, including model approval and validation processes; • obtaining the relevant forward looking information and macroeconomic forecasts used in the Company's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management and through inspection of publicly available information; • challenging key parameters, by performing back-testing of historical default and by

and associated impairment loss allowances and the subjective nature of the impairment loss estimates. Accordingly, we have identified this area as a key audit matter.	reference to historical realized losses on defaults; • for a sample of exposures tested collectively, assessing the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; In order to assess loss allowances in totality: • critically assessing the reasonableness of the ECL allowances; • evaluating the accuracy and completeness of the financial statement disclosures relating to the adoption of the new standard.

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 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 the Separate and Consolidated 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 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's ability to continue as a going concern, disclosing, as 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 Separate and Consolidated 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 skepticism 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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 complied 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 auditors' 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 shareholders' meeting we were appointed on 21 July 2017 for the first time to audit the Company's and the Group's separate and consolidated financial statements. The total uninterrupted period of engagement is 2 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.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

Klaipėda, the Republic of Lithuania
20 March 2019

Management's approval of the financial statements

Today, the management discussed and approved the Separate Financial Statements of AB Kauno Energija (hereinafter - the Company or the Issuer) and Consolidated Set of Financial Statements with the Annual Report of group of companies owned by the Company and signed them.

Pursuant to Article 22 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. O3-127 of August 22, 2017 we confirm that the Separate and Consolidated Annual Financial Statements have been prepared in accordance with International Financial 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 2018 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 uncertainties encountered.

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

Kaunas, March 20, 2019

On behalf of management:

Director of Production Department, and Interim Director General — Vaidas Šleivys

Head of Finance Department of AB Kauno Energija — Gintautas Muznikas

Chief Accountant of AB Kauno Energija — Violeta Staškūnienė

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

Statements of Financial Position

	Notes	Group		Company	
		As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
ASSETS					
Non-current assets					
Intangible assets	**3**	**22**	**56**	**22**	**56**
Property, plant and equipment	**4**				
Land and buildings		8,087	8,857	6,677	7,307
Structures		88,762	89,857	88,181	89,213
Machinery and equipment		21,053	24,594	18,214	21,233
Vehicles		460	648	448	620
Devices and tools		2,888	3,223	2,885	3,216
Construction in progress and prepayments		3,588	2,487	3,588	2,487
Investment property		439	282	172	-
Total property, plant and equipment		**125,277**	**129,948**	**120,165**	**124,076**
Non-current financial assets					
Investments into subsidiaries	**1;5**	-	-	2,064	1,908
Loans to the group companies	**5**	-	-	-	60
Other financial assets		1	1	1	1
Total non-current financial assets		**1**	**1**	**2,065**	**1,969**
Total non-current assets		**125,300**	**130,005**	**122,252**	**126,101**
Current assets					
Inventories and prepayments					
Inventories	**6**	1,584	1,429	1,516	1,342
Prepayments		1,259	450	1,187	406
Total inventories and prepayments		**2,843**	**1,879**	**2,703**	**1,748**
Amounts receivable within one year	**7**				
Trade receivables	**22;24**	10,188	9,993	10,188	9,993
Loans to the group companies	**5**	-	-	443	-
Other receivables	**24**	969	671	938	649
Total accounts receivable		**11,157**	**10,664**	**11,569**	**10,642**
Cash and cash equivalents	**8;22**	8,761	6,610	8,673	6,511
Assets held for sale	**4**	205	-	205	-
Total current assets		**22,966**	**19,153**	**23,150**	**18,901**
Total assets		**148,266**	**149,158**	**145,402**	**145,002**

(cont'd on the next page)

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

Statements of Financial Position (cont'd)

	Notes	Group		Company	
		As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
EQUITY AND LIABILITIES					
Equity					
Share capital	**1**	74,476	74,476	74,476	74,476
Legal reserve	**9**	6,435	3,267	6,435	3,267
Other reserve	**9**	100	100	100	100
Retained earnings (deficit)					
Profit for the current year	**1**	3,963	6,861	4,414	6,046
Profit (loss) for the prior year	**1**	4,993	4,639	4,674	5,135
Total retained earnings (deficit)		**8,956**	**11,500**	**9,088**	**11,181**
Total equity		**89,967**	**89,343**	**90,099**	**89,024**
Payable amounts and liabilities					
Amounts payable after one year and oter long-term liabilities					
Non-current financial liabilities	**10;22**	19,257	18,676	17,556	18,676
Financial lease obligations	**11;22**	81	185	81	185
Deferred tax liability	**20**	5,458	4,869	5,693	5,104
Grants and subsidies	**12**	18,235	19,509	17,265	18,377
Employee benefit liability	**13;24**	704	864	698	859
Non-current trade liabilities	**22**	2	10	2	10
Total non-current liabilities		**43,737**	**44,113**	**41,295**	**43,211**
Current liabilities					
Current portion of non-current borrowings and financial lease	**10;11;22**	4,483	6,144	3,916	3,308
Current borrowings	**10;22**	-	-	-	-
Trade payables	**22**	7,650	7,183	7,751	7,154
Employment-related liabilities		790	800	771	785
Advances received		877	475	877	475
Taxes payable		392	375	357	353
Derivative financial instruments	**14.22**	16	16	-	-
Current portion of employee benefit liability	**13**	155	406	154	406
Interest liabilities		-	119	-	119
Accruals and deferred income		137	118	120	109
Other current liabilities		62	66	62	58
Total current liabilities		**14,562**	**15,702**	**14,008**	**12,767**
Total liabilities		**58,299**	**59,815**	**55,303**	**55,978**
Total equity and liabilities		**148,266**	**149,158**	**145,402**	**145,002**

(the end)

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

Statements of Profit (loss) and Other Comprehensive Income

Group

	Notes	2018	2017
Revenue			
Sales income	**15**	61,316	59,680
Other operating income	**17**	1,299	1,150
Total operating income		**62,615**	**60,830**
Expenses			
Fuel and heat acquired		(36,267)	(31,271)
Salaries and social security		(7,281)	(7,734)
Depreciation and amortization	**3;4**	(6,972)	(7,363)
Repairs and maintenance		(1,084)	(920)
Change in impairment of accounts receivable	**7**	785	833
Taxes other than income tax		(1,563)	(1,539)
Electricity		(1,145)	(1,195)
Raw materials and consumables		(568)	(639)
Water		(1,081)	(1,003)
Change in net realisable value and impairment of non-current assets	**6**	113	906
Other operating expenses	**16**	(2,289)	(2,725)
Other activities expenses	**17**	(380)	(368)
Total expenses		**(57,732)**	**(53,018)**
Operating profit (losses)		**4,883**	**7,812**
Other interest and similar income	**18**	237	267
Impairment financial assets and short-term investments	**19**	-	-
Interest and other similar expenses	**19**	(553)	(563)
Finance cost, net		**(316)**	**(296)**
Profit before income tax		**4,567**	**7,516**
Corporate income tax	**20**	19	(30)
Deferred tax income (losses)	**20**	(584)	(600)
Net profit (loss) of the reporting period		**4,002**	**6,886**
Employee benefit liability (accumulation), which will be reclassified subsequently to profit or loss when specific conditions are met	**13;20**	(39)	(25)
Comprehensive income		**3,963**	**6,861**
Net profit (loss) of the reporting period attributable to net owners of the Company		**4,002**	**6,886**
Total comprehensive income attributable to owners of the Company		**3,963**	**6,861**
Basic and diluted earnings per share (EUR)	**21**	**0.09**	**0.16**

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

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

Company

	Notes	2018	2017
Revenue			
Sales income	**15**	61,328	59,692
Other operating income	**17**	1,181	1,022
Total operating income		**62,509**	**60,714**
Expenses			
Fuel and heat acquired		(36,999)	(32,087)
Salaries and social security		(7,141)	(7,591)
Depreciation and amortization	**3;4**	(6,390)	(6,754)
Repairs and maintenance		(1,067)	(863)
Change in impairment of accounts receivable	**7**	807	859
Taxes other than income tax		(1,536)	(1,513)
Electricity		(1,017)	(1,050)
Raw materials and consumables		(559)	(630)
Water		(1,080)	(1,001)
Change in net realisable value and impairment of non-current assets	**6**	113	906
Other operating expenses	**16**	(2,243)	(2,663)
Other activities expenses	**17**	(265)	(259)
Total expenses		**(57,377)**	**(52,646)**
Operating profit (losses)		**5,132**	**8,068**
Other interest and similar income	**18**	239	248
Impairment financial assets and short-term investments	**19**	156	(1,060)
Interest and other similar expenses	**19**	(511)	(511)
Finance cost, net		**(116)**	**(1,323)**
Profit before income tax		**5,016**	**6,745**
Corporate income tax	**20**	19	(33)
Deferred tax income (losses)	**20**	(584)	(643)
Net profit (loss) of the reporting period		**4,451**	**6,069**
Employee benefit liability (accumulation), which will be reclassified subsequently to profit or loss when specific conditions are met	**13;20**	(37)	(23)
Comprehensive income		**4,414**	**6,046**
Basic and diluted earnings per share (EUR)	**21**	**0.10**	**0.14**

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (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 2016		**74,476**	**2,922**	**2,977**	**6,644**	**87,019**
Allocated to reserves	**9**	-	345	100	(445)	-
Transferred from reserves	**9**	-	-	(2,977)	2,977	-
Dividends	**1**	-	-	-	(4,537)	(4,537)
Profit for the reporting period		-	-	-	6,886	6,886
Other comprehensive income		-	-	-	(25)	(25)
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**

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2016		**74,476**	**2,922**	**2,977**	**7,140**	**87,515**
Allocated to reserves	**9**	-	345	100	(445)	-
Transferred from reserves	**9**	-	-	(2,977)	2,977	-
Dividends	**1**	-	-	-	(4,537)	(4,537)
Profit for the reporting period		-	-	-	6,069	6,069
Other comprehensive income		-	-	-	(23)	(23)
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**

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

Statements of Cash Flows

	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Cash flows from (to) operating activities					
Comprehensive income		**3,963**	**6,861**	**4,414**	**6,046**
Adjustments for non-cash items:					
Depreciation and amortization	**3.4**	8,665	9,049	7,905	8,237
Change in impairment of accounts receivable	**7**	(780)	(827)	(807)	(853)
Interest expenses	**19**	541	563	499	512
Change in fair value of derivatives	**19**	-	(18)	-	-
Loss (profit) from sale and write-off of property, plant and equipment	**17**	2	(31)	2	1
(Amortization) of grants and subsidies	**4**	(1,327)	(1,244)	(1,165)	(1,083)
Change in net realisable value and impairment of non-current assets	**3,4,6**	(113)	(906)	(113)	(906)
Change employee benefit liability	**13**	34	25	32	23
Corporate income tax expense	**20**	589	600	589	643
Change in accruals		(8)	136	(16)	134
Impairment of investment in subsidiary	**5**	-	-	(156)	1,060
Elimination of other financial and investing activity results		(225)	(249)	(227)	(248)
Total adjustments for non-cash items:		**7,378**	**7,098**	**6,543**	**7,520**
Changes in working capital:					
(Increase) decrease in inventories	**6**	(129)	(13)	(148)	4
(Increase) decrease in prepayments		(809)	41	(781)	(22)
(Increase) decrease in trade receivables	**7**	575	954	597	973
(Increase) decrease in other receivables	**7**	(530)	113	(516)	125
(Decrease) increase in non-current trade payables	**22**	(8)	-	(8)	-
(Decrease) increase in trade payables and advances received	**22**	467	(85)	597	(226)
(Decrease) increase in employment-related liabilities		(428)	(73)	(432)	(74)
Increase (decrease) in tax payable		17	(16)	4	10
Increase (decrease) in received prepayments		402	8	402	(8)
Increase (decrease) in other current liabilities		(5)	(12)	3	(4)
Total changes in working capital:		**(448)**	**917**	**(282)**	**778**
Net cash flows from operating activities		**10,893**	**14,876**	**10,675**	**14,344**

(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 2018 (all amounts are in EUR thousand unless otherwise stated)

Statements of Cash Flows (cont'd)

		Group		Company	
	Notes	**2018**	**2017**	**2018**	**2017**
Cash flows from (to) the investing activities					
Acquisition of property, plant, equipment and intangible assets	**1**	(4,052)	(12,091)	(4,052)	(12,091)
Proceeds from sale of property, plant and equipment		3	36	3	4
Interest received	**18**	237	249	239	248
Loans granted	**5**	-	-	(383)	(60)
Net cash flows from investing activities		**(3,812)**	**(11,806)**	**(4,193)**	**(11,899)**
Cash flows from (to) financing activities					
Proceeds from loans		2,943	2,501	2,943	2,501
Repayment of loans		(4,116)	(3,568)	(3,549)	(3,001)
Interest paid		(586)	(591)	(543)	(540)
Lease payments		(116)	(50)	(116)	(50)
Penalties and fines paid	**19**	(12)	-	(12)	-
Dividends paid	**1**	(3,338)	(4,535)	(3,338)	(4,535)
Received grants		295	3,498	295	3,498
Net cash flows from financing activities		**(4,930)**	**(2,745)**	**(4,320)**	**(2,127)**
Net (decrease) increase in cash and cash equivalents		**2,151**	**325**	**2,162**	**318**
Cash and cash equivalents at the beginning of the period	**8**	**6,610**	**6,285**	**6,511**	**6,193**
Cash and cash equivalents at the end of the period	**8**	**8,761**	**6,610**	**8,673**	**6,511**

(the end)

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (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 about the Company is collected and stored in the Register of Legal Entities.

Jurbarko Šilumos Tinklai, the branch of the Company (hereinafter referred to as the Branch) was removed from the Register of Legal Entities on 19 March 2018, after terminating its activities on 1 March 2018, pursuant to Decision No 2017-31-2 of the Management Board of the Company of 24 November 2017 "Regarding the approval of the new management structure of AB Kauno energija". The functions performed by the Branch were transferred to the structural units of the Company in accordance with their competence starting from 1 March 2018, ensuring the continuity of Jurbarkas boiler-house activities and the continued uninterrupted supply of district heating to the residents of Jurbarkas city.

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 2018 and as of 31 December 2017, the shareholders of the Company were as follows:

	As of 31 December 2018		As of 31 December 2017	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
Kaunas city municipality	39,736,058	92.84	39,736,058	92.84
Kaunas district municipality	1,606,168	3.75	1,606,168	3.75
Jurbarkas district municipality	746,405	1.74	746,405	1.74
Other minor shareholders	713,512	1.67	713,512	1.67
	42,802,143	100.00	42,802,143	100.00

All the shares are ordinary shares. In 2018 and 2017, the Company did not hold any own shares. All shares were fully paid as of 31 December 2018 and as of 31 December 2017.

On 26 April 2018, the Annual General Meeting of Shareholders adopted a decision to pay EUR 3,339 thousand, i.e. at 7.8 cents per share in dividends from the profit of the year 2017.

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

As of 31 December 2018, the Company and the subsidiaries UAB Kauno Energija NT and UAB Petrašiūnų Katilinė comprise 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	(21)	1,066	Rent
UAB Petrašiūnų Katilinė	R. Kalantos st. 49, Kaunas	100 percent	1,894	(94)	242	Heat production

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 Commission for Energy Control and Prices (hereinafter the Commission). On 26 February 2004, the Commission granted the Company the heat supply license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply. On 13 September 2018, the Commission adopted a decision No. 03E-283, by which new heating price components have been determined for the Company for the period till 30 September 2021. According to the heat pricing methodology, the Commission recalculates price components after the first year of base price validity and the tariff is adjusted prospectively.

In 2018, the average number of employees in the Group was 468 (522 employees in 2017). In 2018, the average number of employees at the Company was 456 (509 employees in 2017).

Operational Activity

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

The total installed heat production capacities of the Group consist of approx 607 MW (including 41 MW of condensational economizers) and total power production capacities of the whole the Group consist of approx 616 MW (including 41 MW of condensational economizers). Total installed heat production capacities of the Company amount to 588 MW (including 41 MW of condensing economizers). Electricity production capacities amount up to 8.75 MW. 314.6 MW of heat production capacities (including 17.8 MW condensing economizer) and 8 MW of electricity production capacities are located in Petrašiūnai power plant. 34.8 MW of heat production capacities (including 2.8 MW condensing economizer) are located in Jurbarkas city. Total the Company's power production capacities consist of approx. 597 MW (including 41 MW of condensing economizers).

The Company has accomplished the last (of three) investment litigation with UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE), after Vilnius Court of Commercial Arbitration issued a decision on 29 January 2016, based on which the Peace Treaty, dated 28 December 2015, was approved. Pursuant to the terms and conditions of the Peace Treaty, the parties agreed to terminate the investment agreement of 31 March 2003, according to which KTE has committed to pay a compensation to the Company in an amount of EUR 2.28 million. The Company has got EUR 0.24 million during the 2018 (EUR 2.04 million during 2016 – 2017), which is disclosed in Note 17. As an additional non-financial compensation according the terms of peaceful agreement KTE transferred to the Company a part of Kaunas centralized heat supplies infrastructure (manifolds building and coherent pipelines, as well as part of technological circuit equipment, needed by the Company) and the the right to lease the land plot, coherent to the assets disposed. The Company leased out to KTE a technological circuit equipment taken from it for the 25 years period, manifolds building – for 15 years period holding the right for bargain regarding additional term. This litigation with KTE lasted from April 2013 and the litigations regarding a non-compliance of investments – from the year 2009. Until the year 2016, he Company was awarded and received from KTE the total of more than 3.6 million EUR for non-performance of the investment obligations.

The Company conducts investments taking into account the economic situation, competition and financing possibilities. Investment plans are approved by shareholders, and regulated and controlled by Commission. The Company invested EUR 4,083 thousand in own assets in 2018, and EUR 12,390 thousand – in 2017.

The Company's management has signed these financial statements on March 20 2019. The Company's shareholders have a statutory right to approve these financial statements or not to approve them and to require management to prepare new financial statements.

2. Accounting principles

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, changes in fair value of which are recognised as profit or loss. 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 the Group companies coincides with the calendar year.

The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, 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

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

IFRS 9, Financial Instruments (IFRS 9) (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVTPL);
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition;
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

2. Accounting principles (cont'd)
2.3. Adoption of new and/or amended IFRS (cont'd)

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

See Notes 2.10. and 2.17. for further details on the impact of the change in accounting policy on the Group's and the Company's financial statements.

IFRS 15, Revenue from Contracts with Customers (IFRS 15**)** (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.

When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether the Company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for the Company when it first applies the new standard.Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21 The Effects of Changes in Foreign Exchange Rates (IAS 21), IAS 32 Financial Instruments: Presentation (IAS 32), and the Conceptual Framework. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Share-based Payments – Amendments to IFRS 2 (IFRS 2) (effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows:

- the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification;
- the liability is derecognised upon the modification;
- the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date; and
- the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

2. Accounting principles (cont'd)
2.3. Adoption of new and/or amended IFRS (cont'd)

Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Transfers of Investment Property - Amendments to IAS 40 (IAS 40) (effective for annual periods beginning on or after 1 January 2018). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (IFRS 4) (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach).

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). (2) In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2018). The improvements impact three standards:

- The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5;
- IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose;
- The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment – by – investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

IFRS 16 Leases (IFRS 16), adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognize a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

2. Accounting principles (cont'd)
2.3. Adoption of new and/or amended IFRS (cont'd)

The new Standard introduces a number of limited scope exceptions for lessees which include:
- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

So far, the most significant impact identified is that the Group and the Company will recognise new assets and liabilities for its operating leases of land. As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to EUR 2,244 thousand on an undiscounted basis. As at 31 December 2017, the Company's future minimum lease payments under non-cancellable operating leases amounted to EUR 1,880 thousand on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight operating lease expense by a depreciation charge for right-to-use assets and interest expense on lease liabilities.

Standards, interpretations and amendments that have not been endorsed by the European Union and that have not been early adopted by the Group/Company.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group and the Company are currently assessing the impact of the new standard on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards:
- IFRS 3 Business combinations (IFRS 3) was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business;
- conversely, IFRS 11 Joint Arrangements (IFRS 11) now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa;
- the amended IFRS 12 Disclosure of Interests in Other Entities (IFRS 12) explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits;

2. Accounting principles (cont'd)
2.3. Adoption of new and/or amended IFRS (cont'd)

- the revised IAS 23 Borrowing costs (IAS 23) now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.

Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Other standards, interpretations and amendments that have not been endorsed by European Union and that have not been early adopted by the Group/Company:

- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28;
- Insurance Contracts – IFRS 17;
- Prepayment Features with Negative Compensation – Amendments to IFRS 9;
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28;
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19;
- Amendments to References to the Conceptual Framework in IFRS Standards.

The Company and the Group are currently assessing the impact of these amendments on their financial statements.

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.

2.4. 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.

Entities acquired or disposed during the year are included in the consolidated financial statements from the effective date of the transfer of control. Consolidation eliminates all inter-company transactions, balances and unrealized gains and losses. 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 and/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 ontrolling 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

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

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 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 Statement 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 (IAS 36) 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.

2.6. Intangible assets

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

<u>Derecognition of intangible assets</u>
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.

<u>Licenses</u>
Amounts paid for licenses are capitalized and then amortized over their useful life (3 – 4 years).

<u>Software</u>
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.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

2. Accounting principles (cont'd)
2.7. Accounting for emission rights (cont'd)

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.

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

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment. Depreciation is computed on a straight-line basis over the following estimated useful lives:

	Years
Buildings	15 – 50
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 finance leases are depreciated over their expected useful lives on the same basis as owned assets of the respective group.

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 the statement of Profit (loss) and Other Comprehensive Income in the period in which they are incurred.

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

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 not in use or are not ready for use.

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.

Property, plant and equipment held for sale are measured at the lower of carrying amount and fair value less costs to sell. Property, plant and equipment are classified as held for sale if the asset's carrying amount will be recovered when sold and when the sale of the asset is highly probable. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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, intangible assets, items of property, plant and equipment are no longer amortized / depreciated.

Investment property
Investment property is designed to earn rental income and/ or for capital appreciation rather than for production, supply of services, administrative or selling purposes. Transfers to and from investment property are performed when and only when the purpose of the property is obviously changed.

When property, plant and equipment is transferred to investment property, the Group and the Company accounts for such assets in accordance with the accounting principles applicable to property, plant and equipment before the transfer date. The deemed cost of the transferred investment property is the carrying amount of that asset as at the transfer date.

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, the Group's and the 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.

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

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.

Accounting policies applied until 1 January 2018

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

The Company initially recognizes loans and receivables on the date when they are originated. All other financial assets are initially recognized on the trade date.

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

Effective interest rate method

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

Financial assets at FVTPL

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

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

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

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

Held-to-maturity financial assets

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. The effective interest

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

rate is determined as the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains or losses are recognized in profit or loss when the asset value decreases or it is amortized.

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting policies applied from 1 January 2018
From 1 January 2018, financial assets are classified into three groups. 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.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

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

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9.

The tables below lists the old valuation groups in accordance with IAS 39 and the new valuation groups according to IFRS 9 for each financial asset class of the Group and the Company at 1 January 2018.

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasurement	New carrying amount under IFRS 9
Trade receivables	Loans and receivables	Amortised cost	9,993	-	9,993
Other receivables			671	-	671
Cash and cash equivalents *			6,610	-	6,610
Other financial assets	Financial asset held at fair value through profit/loss	At fair value with its changes carried in profit/loss	1	-	1
Total financial assets:			**17,275**	**-**	**17,275**

* Major amounts are held in the banks and financial institutions with a Standards & Poor's rating not lower than A+, the impact of adoption of IFRS 9 has not had a significant effect on the remeasurement and valuation of the Group's and the Company's cash and cash equivalents.

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasurement	New carrying amount under IFRS 9
Trade receivables	Loans and receivables	Amortised cost	9,993	-	9,993
Other receivables			649	-	649
Loans to the group companies			60	-	60
Cash and cash equivalents *			6,511	-	6,511
Other financial assets	Financial asset held at fair value through profit/loss	At fair value with its changes carried in profit/loss	1	-	**1**
Total financial assets:			**17,214**	**-**	**17,214**

For measurement purposes, the expected credit loss (ECL) of the Group and the Company as at 31 December 2018, the Group and the Company has two groups of financial instruments:

- trade receivables and other receivables for which lifetime ECL is calculated using simplified approach described below in paragraph Measurement of ECL – trade receivables and other contract assets,
- other financial assets measured at amortized cost (includes loans granted to related parties). 12-month ECL is calculated for these financial assets if no significant increase in credit risk is identified, or lifetime ECL if significant increase in credit risk is identified. General individual assessment model is applied for ECL calculation, described below in paragraph Measurement of ECL – other financial assets measured at amortised cost.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

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

Measurement of significant increase in credit risk
The Group and the Company measure 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:

- 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.

Write-off policy
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.

Measurement of ECL- trade receivables and other contract assets
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. As trade receivables usually do not include any collateral or other credit enhancements, expected loss rate equals probability of default.

Trade receivables:	**Not past due**	**Past due**						**Total**
Group		**1-60 days**	**61-150 days**	**151-240 days**	**241-330 days**	**331-690 days**	**More than 691 days**	
Expected credit loss rate %	5	20	50	60	80	90	100	
Gross carrying amount	9,128	764	148	162	577	6,534	1,424	**18,737**
Expected credit loss provision for losses	458	153	74	97	462	5,881	1,424	**8,549**
Total 31/12/2018:								**10,188**

Lifetime expected credit loss is calculated for trade and other receivables applying the simplified approach and they are classified in Stage 2 in line with requirements of IFRS 9.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

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

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 %	5	20	50	60	80	90	100	
Gross carrying amount	9,128	764	148	162	577	6,534	1,424	**18,737**
Expected credit loss provision for losses	458	153	74	97	462	5,881	1,424	**8,549**
Total 31/12/2018:								**10,188**

<u>Measurement of ECL - other financial assets measured at amortised cost</u>
Other financial assets at amortised cost include loans to related parties. More in Note 2.25.

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.

2.12. Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable 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 have a present obligation (legal or constructive) as a result of a past event, it is probable that the Group and the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

2.14. Cash and cash equivalents

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

2. Accounting principles (cont'd)

2.15. Employee benefits

Post-employment defined benefit plan obligation is calculated annually using projected unit credit method. The projected unit credit method requires the Company to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). The Company attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that the Company expects to pay in future reporting periods. Actuarial techniques allow the Company to measure that obligation with sufficient reliability to justify recognition of a liability. Remeasurement of the defined benefit liability, which comprise actuarial gains and losses, are recognized immediately 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.

2.17. Financial liabilities and equity instruments

Accounting policies applied until 1 January 2018

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Other financial liabilities

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

Accounting policies applied from 1 January 2018

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.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

2. Accounting principles (cont'd)
2.17. Financial liabilities and equity instruments (cont'd)

The Group and the Company assigns trade payables, financial liabilities, finance lease liabilities, interest liabilities and other payables at amortized cost.

Classification of financial liabilities on the date of initial application of IFRS 9.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial liabilities as at 1 January 2018.

Financial liabilities	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasure-ment	New carrying amount under IFRS 9
Trade payables	Other financial liabilities	Financial liabilities measured at amortised cost	7,193	-	7,193
Financial liabilities			24,704	-	24,704
Finance lease obligations			297	-	297
Interest liabilities			123	-	123
Other current liabilities			66	-	66
Derivative financial instruments	Financial liability held at fair value through profit/loss	At fair value with its changes carried in profit/loss	16	-	16
Total financial liabilities:			**32,399**	-	**32,399**

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial liabilities as at 1 January 2018.

Financial liabilities	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasure-ment	New carrying amount under IFRS 9
Trade payables	Other financial liabilities	Financial liabilities measured at amortised cost	7,164	-	7,164
Financial liabilities			21,868	-	21,868
Finance lease obligations			297	-	297
Interest liabilities			123	-	123
Other current liabilities			58	-	58
Total financial liabilities:			**29,510**	-	**29,510**

2.18. Leasing

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

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

2. Accounting principles (cont'd)
2.18. Leasing (cont'd)

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

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

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

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

2.19. Grants 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 and subsidies in the Statements of Financial Position.

2.20. Income tax

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

2. Accounting principles (cont'd)
2.20 Income tax (cont'd)

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2018 the income tax applied to the Group and the Company was 15 percent (2017 - 15 percent).

Deferred tax
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.

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 the Group and the 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 expect, 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:

2. Accounting principles (cont'd)
2.22. Revenue recognition (cont'd)

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 or goods, or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately.
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 and hot water
Revenue from sales of heat energy and hot water 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 and water meters.

Revenue from the sale of goods
Revenue from the sale of goods have 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 retain 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.

Other revenue
Delay interest on overdue receivables is recognized upon receipt.

2. Accounting principles (cont'd)
2.22. Revenue recognition (cont'd)

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.

Adoption of IFRS 15
On 1 January 2018, the Group and the Company adopted IFRS 15 (Revenue from Contracts with Customers), interpretations of which are mandatory for future accounting periods from 1 January 2018.

Revenue recognition criteria
Until 1 January 2018, the Group recognised revenue in accordance with IAS 18 (Revenue), which requires, that revenue is recognized when it is "probable that future economic benefit will flow" to the Group.

IFRS 15 requires that revenue is recognised at the "transaction price" when certain contractual obligations are met but with any "variable consideration" elements of the price recognised when it is "highly probable" that there will be no reversal of that revenue. There are no material differences in the Group and the Company revenue policy and estimation methodology compared to the IAS 18 policy.

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 (Notes 3, 4).

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).

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

Allowances for accounts receivable and loans to subsidiaries
Accounting policies applied until 1 January 2018

The Group and the Company make allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performanceare considered.

Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements (Note 7).

Accounting policies applied from 1 January 2018
The Group and the Company recognise loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost: trade receivable, loans, other receivable and accrued revenue.

Loss allowances for trade receivables, loans and contract assets are always measured at an amount equal to lifetime ECL, all other financial assets with no significant increase in credit risk are measured as 12-month ECL, with significant increase in credit risk – lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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

The maximum period are exposed when estimating ECLs is the maximum contractual period over which the Group and the Company is exposed to credit risk.

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 consider 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.

For more detailed information about ECL modules used by the Group and the Company and significant increase in credit risk details see Note 2.10.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The loss allowance is charged to profit or loss and is recognised in operating expenses as impairment-related expenses (Notes 5,7).

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).

<u>Fair value of financial instruments</u>
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.

A number of the Company's accounting policies and disclosures require determination of fair value, for both financial and non-financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow 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. Below listed are financial assets and financial liabilities:

The tables below present the residual and fair value of financial assets and financial liabilities, including their levels according to the fair value hierarchy.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

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

The Group and the Company's categories of financial instruments as of 31 December 2018:

Group	**Carrying amount**	**Fair value hierarchy level**			
		Level 1	**Level 2**	**Level 3**	**All in:**
Other financial assets	1	-	-	1	1
Trade receivables	10,188	-	-	-	-
Other receivables	969	-	-	-	-
Cash and cash equivalents	8,761	-	-	-	-
Non-current borrowings and lease obligations	(23,821)	-	(23,821)	-	(23,821)
Trade payables and other current liabilities	(7,851)	-	-	-	-
Derivative financial instruments	(16)	-	(16)	-	(16)
		-	**(23,837)**	**1**	**(23,836)**

Company	**Carrying amount**	**Fair value hierarchy level**			
		Level 1	**Level 2**	**Level 3**	**All in:**
Other financial assets	1	-	-	1	1
Loans to entities of the entities group	443	-	-	-	-
Trade receivables	10,188	-	-	-	-
Other receivables	938	-	-	-	-
Cash and cash equivalents	8,673	-	-	-	-
Non-current borrowings and lease obligations	(21,553)	-	(21,553)	-	(21,553)
Trade payables and other current liabilities	(7,935)	-	-	-	-
		-	**(21,553)**	**1**	**(21,552)**

The Group and the Company's categories of financial instruments as of 31 December 2017:

Group	**Carrying amount**	**Fair value hierarchy level**			
		Level 1	**Level 2**	**Level 3**	**All in:**
Other financial assets	1	-	-	1	1
Trade receivables	9,993	-	-	-	-
Other receivables	671	-	-	-	-
Cash and cash equivalents	6,610	-	-	-	-
Non-current borrowings and financial lease obligations	(25,005)	-	(25,005)	-	(25,005)
Trade payables and other current liabilities	(7,496)	-	-	-	-
Derivative financial instruments	(16)	-	(16)	-	(16)
		-	**(25,021)**	**1**	**(25,020)**

Company	**Carrying amount**	**Fair value hierarchy level**			
		Level 1	**Level 2**	**Level 3**	**All in:**
Other financial assets	1	-	-	1	1
Loans to entities of the entities group	60	-	-	-	-
Trade receivables	9,993	-	-	-	-
Other receivables	649	-	-	-	-
Cash and cash equivalents	6,511	-	-	-	-
Non-current borrowings and financial lease obligations	(22,169)	-	(22,169)	-	(22,169)
Trade payables and other current liabilities	(7,450)	-	-	-	-
		-	**(22,169)**	**1**	**(22,168)**

2. Accounting principles (cont'd)

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.

2.27. 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 offsetting.

2.29. Segments

The activities of the Group and the Company are organized in one operating segment in Kaunas city, Kaunas district and Jurbarkas city. The Company's Management estimates, that UAB Kauno Energija NT and UAB Petrašiūnų Katilinė are not significant segments on the Group level; therefore further information on segments has not been disclosed in these financial statements.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

3. Intangible assets

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

	Group	Company
	Acquired rights and software	**Acquired rights and software**
Acquisition cost:		
Balance as of 31 December 2016	**1,446**	**1,446**
Additions	-	-
Disposals and write-offs	(28)	(28)
Transfers from construction in progress	5	5
Balance as of 31 December 2017	**1,423**	**1,423**
Additions	5	5
Disposals and write-offs	(23)	(23)
Transfers from construction in progress	2	2
Balance as of 31 December 2018	**1,407**	**1,407**
Amortization:		
Balance as of 31 December 2016	**1,339**	**1,339**
Charge for the year	56	56
Disposals and write-offs	(28)	(28)
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**
Net book value as of 31 December 2016	**107**	**107**
Net book value as of 31 December 2017	**56**	**56**
Net book value as of 31 December 2018	**22**	**22**

As of 31 December 2018, part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,340 thousand (as of 31 December 2017 – EUR 1,303 thousand) were fully amortised but were still in active use.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (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 2016	**18,818**	**154,737**	**57,121**	**1,994**	**11,787**	**974**	**382**	**245,813**
Additions	-	-	195	292	404	11,499	-	12,390
Disposals and write-offs	-	(662)	(357)	(154)	(205)	-	-	(1,378)
Reclassifications	55	8,565	826	33	502	(9,981)	-	-
Transfers to intangible assets	-	-	-	-	-	(5)	-	(5)
Impairment loss(-)	-	(24)	-	-	-	-	-	(24)
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**
Accumulated depreciation:								
Balance as of 31 December 2016	**9,528**	**69,818**	**29,701**	**1,497**	**8,601**	**-**	**83**	**119,228**
Charge for the year	488	3,599	3,846	174	869	-	17	8,993
Disposals and write-offs	-	(658)	(356)	(154)	(205)	-	-	(1,373)
Reclassifications	-	-	-	-	-	-	-	-
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)	-	-	-	-	-	-	(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**
Net book value as of 31 December 2016	**9,290**	**84,919**	**27,420**	**497**	**3,186**	**974**	**299**	**126,585**
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**

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (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	Investment property	Total
Acquisition cost:								
Balance as of 31 December 2016	**16,525**	**153,905**	**51,938**	**1,656**	**11,722**	**974**	**-**	**236,720**
Additions	-	-	195	292	404	11,499	-	12,390
Disposals and write-offs	-	(662)	(357)	(154)	(205)	-	-	(1,378)
Reclassifications	55	8,565	826	33	502	(9,981)	-	-
Transfers to intangible assets	-	-	-	-	-	-	-	-
Transfers to intangible assets	-	-	-	-	-	(5)	-	(5)
Impairment loss(-)	-	(24)	-	-	-	-	-	(24)
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)
Reclassifications	(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**
Accumulated depreciation:								
Balance as of 31 December 2016	**8,935**	**69,698**	**28,431**	**1,208**	**8,547**	**-**	**-**	**116,819**
Charge for the year	338	3,531	3,294	153	865	-	-	8,181
Charge for the year from subsidiary	6	-	-	-	-	-	-	6
Disposals and write-offs	-	(658)	(356)	(154)	(205)	-	-	(1,373)
Reclassifications	-	-	-	-	-	-	-	-
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 current 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**
Net book value as of 31 December 2016	**7,590**	**84,207**	**23,507**	**448**	**3,175**	**974**	**-**	**119,901**
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**

The depreciation costs of the Group's and the Company's property, plant and equipment in 2018 amounts to EUR 7,302 thousand and EUR 6,704 thousand respectively (as of 31 December 2017 – EUR 7,751 thousand and EUR 7,100 thousand respectively). The depreciation expenses, amounting to EUR 7,244 thousand and EUR 6,662 thousand (as of 31 December 2017 – EUR 7,641 thousand and EUR 7,010 thousand, respectively) were included in the operating expenses in the statements of Profit (loss) and Other Comprehensive Income, the remaining amounts EUR 58 thousand and EUR 42 thousand (as of 31 December 2017 – EUR 110 thousand and EUR 90 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 determined an additional impairment of property, plant and equipment in an amount of EUR 42 thousand (EUR 24 thousand – during 2017 year) and reversed the impairment of EUR 129 thousand during 2018 year.

As of 31 December 2018, part of the property, plant and equipment of the Group with acquisition cost of EUR 55,102 thousand (EUR 51,275 thousand as of 31 December 2017) and the Company – EUR 54,945 thousand were fully depreciated (EUR 51,230 thousand as of 31 December 2017), but were still in active use. The management reviewed the useful lives of non-current assets. Given the fact that most of the depreciated assets are made up of heat supply networks, no adjustments have been made as some of these assets will be reconstructed in the coming years.

As of 31 December 2018 and as of 31 December 2017, the major part of the Group's and the Company's construction in progress consisted of reconstruction and overhaul works of boiler-houses equipment and heat supply networks.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

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

As of 31 December 2018, the Group and the Comoany had contractual commitments for the acquisition of property, plant and equipment amounting to EUR 21,833 thousand (as of 31 December 2017 – EUR 8,070 thousand).

As of 31 December 2018, property, plant and equipment of the Group with the carrying amount of EUR 49,624 thousand (EUR 52,225 thousand as of 31 December 2017) and the Company of EUR 46,005 thousand (EUR 48,036 thousand as of 31 December 2017) was pledged to banks to secure the loans (Note 10).

In 2018, the Group and the Company capitalized interest was equal to EUR 31 thousand (in 2017 – EUR 31 thousand). The capitalization rate varied from 0.93 percent to 1.10 percent in 2018 (in 2017 – from 0.93 percent to 1.09 percent).

As of 31 December 2018, the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 182 thousand in the category Devices and tools (EUR 241 thousand as of 31 December 2017).

The Group and the Company in their operations use the assets, acquired under leasing contracts. The acquisition cost of this asset was EUR 280 thousand as of 31 December 2018 (EUR 358 thousand in 2017, respectively), and the net book value respectively EUR 216 thousand and EUR 308 thousand, respectively. Unpaid part of it is disclosed in Note 11. After the evaluation of the internal and external indications, the management of the Group and the Company did not determine any impairment.

As at December 31 2018, the Group and the Company reclassified part of the property, plant and equipment with the book value of EUR 205 thousand into assets held for sale. In the Statement of Financial Position, assets are stated at the lower of carrying amount (EUR 205 thousand) and fair value, less costs to sell (EUR 399 thousand). Sales auction has taken place.

5. Investments in subsidiaries and loans to group companies

The management of the Company used valuation reports prepared by an independent appraiser UAB Corporation Matininkai to determine recoverable amount of the investmets in UAB Kauno Energija NT. The valuation was performed on 31 August 2017. The independent appraiser used asset-based approach (adjusted balance sheet method) to determined recouvarable amount of investments. According to the Company's management and the evaluators, without significant changes in the physical condition of the property, the value of the company's real estate as at 31 December 2018, has also not changed significantly due to market changes (such assets in Kaunas city) and it is approximately equal to the value set on 31 August 2017.

An impairment test for investments in UAB Petrašiūnų Katilinė as at 31 December 2018, was performed according IAS 36. The value of the shares is determined on a basis of the cash flows generated according to projections made for 5 years along with the eternal (continuing) value.

	As of 31 December 2018			As of 31 December 2017		
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	(1,058)	836
Total	**3,224**	**(1,160)**	**2,064**	**3,224**	**(1,316)**	**1,908**

As a result of impairment teste performed as at 31 December, the impairment allowance (EUR 902 thousand in 2018 and EUR 1,058 thousand in 2017) was recognised for UAB Petrašiūnų Katilinė and (EUR 258 thousand in 2018 and EUR 258 thousand in 2017) for UAB Kauno Energija NT.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

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

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 1st 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 %;
• it is forecasted, that biofuel prices will be lower in 2019 than last year, taking into account historical information and market forecasts. 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 9 months in 2019 and 7 months each year from 2020 onwards. 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;
• the change in net working capital and net debt was taken into account when forecasting cash flows.

The discounted cash flow is based on the weighted average cost of capital (WACC). The weighted average cost of capital is calculated at 8.0 percent. Calculation of the recoverable amount is particularly sensitive to the WACC and change in selling price. The table below shows possible impairment of the investment in UAB Petrašiūnų Katilinė, if

- the actual income remains as currently forecasted and if the WACC rates, used for impairment test would be 9 percent or 10 percent;
- the WACC rates, used for impairment test would 8 percent, and selling price would change (from -1 percent to 2 percent).

	Additional impairment losses		
WACC base	**As of 31 December 2018**	**Selling price**	**As of 31 December 2018**
9 %	370	minus 1%	458
10%	658	plus 1%	(310)
		plus 2%	(610)

<u>Loans to the subsidiaries</u>
As of 31 December 2018, the Company granted a loan for working capital needs in an amount of EUR 443 thousand (as of 31 December 2017 – EUR 60 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 2019. 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.

6. Inventories

	Group		Company	
	As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
Technological fuel	1,358	1,182	1,291	1,096
Spare parts	415	466	415	466
Materials	437	433	436	432
	2,210	2,081	2,142	1,994
Less: write-down to the net realisable value of inventory at the end of the period	(626)	(652)	(626)	(652)
Carrying amount of inventories	**1,584**	**1,429**	**1,516**	**1,342**

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

6. Inventories (cont'd)

As of 31 December 2018, the write-down of the Group's and the Company's inventories to the net realisable value amounted to EUR 626 thousand (as of 31 December 2017 – EUR 652 thousand). Changes in the write-down to the net realisable value of inventories for the 2018 and for the year 2017, were included into change in write-down to the net realisable value of inventories caption in the Group's and the Company's statements of Profit (loss) and Other Comprehensive Income.

7. Current accounts receivable

	Group		Company	
	As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
Trade receivables, gross	18,734	20,005	18,736	20,024
Less: expected credit losses*	(8,546)	(10,012)	(8,548)	(10,031)
	10,188	**9,993**	**10,188**	**9,993**

*In this table and in the financial statements for 2017 the balances are presented on the basis of the accounting principles and IAS 39, effective as at 1 January 2018.

Change in the impairment of doubtful receivables in 2018 and 2017 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.

Change in expected credit losses of the Group's and the Company's receivables were as follows:

	Group	**Company**
Balance as of 31 December 2016	**11,255**	**11,293**
Expected credit losses recognised	(830)	(849)
Write-off	(413)	(413)
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**

In 2018, the Group and the Company wrote-off EUR 696 thousand and EUR 696 thousand of bad debts respectively (in 2017 – EUR 413 thousand and EUR 413 thousand). In 2018, the Group recovered EUR 5 thousand and the Company – EUR 5 thousand (in 2017 the Group and the Company – EUR 6 thousand) of doubtful receivables, which were written-off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 31 December 2018 and 31 December 2017 is as follows:

	Trade receivables not past due	**Trade receivables past due**					
		Less than 60 days	**60 - 150 days**	**151 - 240 days**	**241 - 360 days**	**More than 360 days**	**Total**
2018	8,670	611	74	65	115	653	10,188
2017	8,381	760	150	144	138	420	9,993

The ageing analysis of the Company's net value of trade receivables as of 31 December 2018 and as of 31 December 2017 is as follows:

	Trade receivables not past due	**Trade receivables past due**					
		Less than 60 days	**60 - 150 days**	**151 - 240 days**	**241 - 360 days**	**More than 360 days**	**Total**
2018	8,670	611	74	65	115	653	10,188
2017	8,381	760	150	144	138	420	9,993

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

7. Current accounts receivable (cont'd)

As of 31 December 2018 and 31 December 2017, the Group's and the Company's other receivables included taxes receivable from the state budget, compensations from municipalities for low income families, receivables for sold inventories (metals, heating equipment) and services supplied (maintenance of manifolds and similar services).

	Group		Company	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
Taxes	**490**	**-**	**490**	**-**
Other receivables	**772**	**974**	**795**	**1,011**
Less: expected credit losses*	**(293)**	**(303)**	**(347)**	**(362)**
	969	**671**	**938**	**649**

Change in expected credit losses of the Group's and the Company's other receivables were as follows:

	Group	Company
Balance as of 31 December 2016	**300**	**366**
Expected credit losses recognised	3	(4)
Write-off	-	-
Balance as of 31 December 2017	**303**	**362**
Expected credit losses recognised	(10)	(15)
Write-off	-	-
Balance as of 31 December 2018	**293**	**347**

The ageing analysis of the Group's other receivables (excluding receivable taxes) as of 31 December 2018 and as of 31 December 2017 is as follows:

	Other receivables not past due	Other receivables past due					
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2018	380	65	15	8	5	6	479
2017	499	123	20	18	2	9	671

The ageing analysis of the Company's other receivables (excluding receivable taxes) as of 31 December 2018 and as of 31 December 2017 is as follows:

	Other receivables not past due	Other receivables past due					
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	Total
2018	349	65	15	8	5	6	448
2017	477	123	20	18	2	9	649

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

As to trade receivables and other receivables that are neither impaired nor past due, the management is of the opinion that there are no indications as of 31 December 2018, that the debtors will not meet their obligations.

8. Cash and cash equivalents

	Group		Company	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
Cash in transit	154	428	154	428
Cash at bank	8,607	6,180	8,519	6,081
Cash on hand	-	2	-	2
	8,761	**6,610**	**8,673**	**6,511**

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8. Cash and cash equivalents (cont'd)

The Group's accounts in banks amounting to EUR 2,332 thousand as of 31 December 2018 (as of 31 December 2017 – EUR 4,815 thousand) and the Company's to EUR 2,255 thousand as of 31 December 2018 (as of 31 December 2017 – EUR 4,749 thousand) are pledged as collateral for the loans (Note 10).

9. Reserves

Legal and other reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 percent of net profit 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 2018, the Company's shareholders took a decision to cancel other reserves (EUR 100 thousand) and to transfer EUR 3,168 thousand from retained earnings to the legal reserve and EUR 100 thousand to other reserves. A reserve of EUR 100 thousand was established for sponsorship purposes.

On 28 April 2017, the Company's shareholders took a decision to cancel other reserves (EUR 2,977 thousand) and to transfer EUR 345 thousand from retained earnings to the legal reserve and EUR 100 thousand to other reserves. A reserve of EUR 100 thousand was established for sponsorship purposes.

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**	
	As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
Current borrowings	-	-	-	-
Non-current borrowings	2.22	2.25	2.32	2.39

Terms of repayment of non-current borrowings are as follows:	**Group**		**Company**	
	As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
Non-current borrowings:	**19,257**	**18,676**	**17,556**	**18,676**
Payable in 2 to 5 years	11,780	10,207	10,079	10,207
Payable in more than 5 years	7,477	8,469	7,477	8,469
Current portion of non-current borrowings (except leasing which is disclosed in Note 11)	4,272	6,028	3,705	3,192
	23,529	**24,704**	**21,261**	**21,868**

According to loan agreement signed between Luminor Bank AB and the Group's subsidiary UAB Petrašiūnų Katilinė on 22 August 2012, 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 3.5 in 2017 and not more, than 3.0 in later years.

UAB Petrašiūnų Katilinė does not comply with the financial ratios determined by the Luminor Bank AB. As a result, the carrying amount of the loan as of 31 December 2017 (EUR 2,836 thousand) is accounted under the current portion of non-current borrowings and financial lease caption of the Group's Statements of Financial Position, as the bank as of 21 December 2018 has confirmed, that it will not require early repayment of the loan. The Company has provided a guarantee to the bank for this loan, as described in Note 23.

10. Borrowings (cont'd)

Detailed information on the loans of the Group as of 31 December 2018:

	Credit institution	Date of contract	Effective interest rate	Sum EUR thousand	Term of maturity	Balance as of 31/12/2018 EUR thousand	A part of 2019, EUR thousand
1	MF Lithuania*	09/04/2010	3.948	2,410	15/03/2034	1,497	94
2	MF Lithuania*	26/10/2010	3.948	807	15/03/2034	616	39
3	MF Lithuania*	02/09/2011	4.123	1,672	01/09/2034	1,391	87
4	Luminor**	22/08/2012	1.179	3,403	29/04/2022	2,268	567
5	AB SEB Bank	03/06/2013	1.42	799	30/06/2020	200	133
6	AB SEB Bank	03/06/2013	1.32	1,228	30/06/2020	302	205
7	AB SEB Bank	10/09/2013	1.78	1,506	30/09/2020	439	251
8	Luminor**	27/09/2013	1.92	377	30/09/2020	13	7
9	MF Lithuania*	15/01/2014	3.36	793	01/12/2034	665	41
10	AB SEB Bank	31/03/2014	1.73	1,564	15/01/2021	529	261
11	MF Lithuania*	31/03/2014	3.342	7,881	01/12/2034	6,616	414
12	AB SEB Bank	09/03/2015	1.63	579	28/02/2022	318	96
13	AB SEB Bank	09/03/2015	1.63	579	28/02/2022	171	97
14	OP Corporate***	02/12/2015	0.98	4,842	02/12/2022	2,767	692
15	AB SEB Bank	09/05/2016	0.94	459	30/04/2023	331	76
16	AB SEB Bank	09/05/2016	0.96	1,000	30/04/2021	467	200
17	AB SEB Bank	09/05/2016	0.94	579	30/04/2023	418	96
18	Luminor**	25/10/2016	1.12	1,894	29/09/2023	1,350	284
19	AB SEB Bank	22/12/2016	0.79	4,127	30/11/2024	2,504	511
20	AB SEB Bank	26/07/2017	0.92	697	30/07/2024	667	121
21	Danske Bank A/S	18/12/2017	-	2,340	18/12/2024	-	-
22	OP Corporate***	17/05/2018	-	10,070	30/04/2023	-	-
						23,529	**4,272**

Detailed information on the loans of the Company as of 31 December 2018:

	Credit institution	Date of contract	Effective interest rate	Sum EUR thousand	Term of maturity	Balance as of 31/12/2018 EUR thousand	A part of 2019, EUR thousand
1	MF Lithuania*	09/04/2010	3.948	2,410	15/03/2034	1,497	94
2	MF Lithuania*	26/10/2010	3.948	807	15/03/2034	616	39
3	MF Lithuania*	02/09/2011	4.123	1,672	01/09/2034	1,391	87
4	AB SEB Bank	03/06/2013	1.42	799	30/06/2020	200	133
5	AB SEB Bank	03/06/2013	1.32	1,228	30/06/2020	302	205
6	AB SEB Bank	10/09/2013	1.78	1,506	30/09/2020	439	251
7	Luminor**	27/09/2013	1.92	377	30/09/2020	13	7
8	MF Lithuania*	15/01/2014	3.36	793	01/12/2034	665	41
9	AB SEB Bank	31/03/2014	1.73	1,564	15/01/2021	529	261
10	MF Lithuania*	31/03/2014	3.342	7,881	01/12/2034	6,616	414
11	AB SEB Bank	09/03/2015	1.63	579	28/02/2022	318	96
12	AB SEB Bank	09/03/2015	1.63	579	28/02/2022	171	97
13	OP Corporate***	02/12/2015	0.98	4,842	02/12/2022	2,767	692
14	AB SEB Bank	09/05/2016	0.94	459	30/04/2023	331	76
15	AB SEB Bank	09/05/2016	0.96	1,000	30/04/2021	467	200
16	AB SEB Bank	09/05/2016	0.94	579	30/04/2023	418	96
17	Luminor**	25/10/2016	1.12	1,894	29/09/2023	1,350	284
18	AB SEB Bank	22/12/2016	0.79	4,127	30/11/2024	2,504	511
19	AB SEB Bank	26/07/2017	0.92	697	30/07/2024	667	121
20	Danske Bank A/S	18/12/2017	-	2,340	18/12/2024	-	-
21	OP Corporate***	17/05/2018	-	10,070	30/04/2023	-	-
						21,261	**3,705**

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

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10. Borrowings (cont'd)

AB SEB Bankas has determined that the Company must comply 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 equity ratio (equity/total assets), shall not be lower than 35 %. The Company complied with financial covenants as at 31 December 2018 and 31 December 2017.

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. Finance lease obligations

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

Future minimal lease payments were:

	Group		Company	
	As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
Within one year	105	122	105	122
After one year	81	185	81	185
Total financial lease obligations	186	307	186	307
Interest	(5)	(10)	(5)	(10)
Present value of financial lease obligations	**181**	**297**	**181**	**297**
Financial lease obligations are accounted for as:				
- current	101	116	101	116
- non-current	80	181	80	181

12. Grants and subsidies

	Group		Company	
	As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
Balance at the beginning of the reporting period	**19,509**	**17,469**	**18,377**	**16,176**
Received during the period	53	3,284	53	3,284
Amortization	(1,327)	(1,244)	(1,165)	(1,083)
Balance at the end of the reporting period	**18,235**	**19,509**	**17,265**	**18,377**

The Group accounted EUR 1,322 thousand grants amortization related to property, plant and equipment, EUR 5 thousand – related to costs in 2018 (EUR 1,242 thousand and EUR 2 thousand – in 2017), and the Company – EUR 1,160 thousand and EUR 5 thousand (EUR 1,081 thousand and EUR 2 thousand – in 2017, respectively).

As of 31 December 2018, the balance of the Group's projects listed below amount to EUR 3,589 thousand, not specified – EUR 14,646 thousand, of the Company – EUR 3,589 thousand and EUR 13,676 thousand, respectively.

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 3Ž of Kaunas integrated network", according to which a financing in amount of EUR 450 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 450 thousand by 31 December 2018. The project is accomplished.

12. Grants and subsidies (cont'd)

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in Eiguliai catchment" according to which a financing in amount of EUR 894 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 889 thousand by 31 December 2018. The project is accomplished.

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in Kalniečiai catchment" according to which a financing in amount of EUR 905 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 888 thousand by 31 December 2018. The project is accomplished.

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 4T of Kaunas integrated network", according to which a financing in amount of EUR 447 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 441 thousand by 31 December 2018. The project is accomplished.

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of heat supply network built from "Pergalė" boiler-house" according to which a financing in amount of EUR 449 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 265 thousand by 31 December 2018. The project is accomplished.

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in P. Lukšio str.", according to which a financing in amount of EUR 983 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 457 thousand by 31 December 2018. The project is accomplished.

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of main pipeline 2Ž of Kaunas integrated network", according to which a financing in amount of EUR 548 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 272 thousand by 31 December 2018. The project is accomplished.

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 6T of Kaunas integrated network", according to which a financing in amount of EUR 184 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 2 thousand by 31 December 2018.

On 29 December 2016, the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 1T of Kaunas integrated network", according to which a financing in amount of EUR 967 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 70 thousand by 31 December 2018.

On 22 August 2017, the Company together with partners applied for funding under Horizon 2020 (Horizon 2020), the EU's largest research and innovation program. The project code name FLEXCHX (Flexible Combined Production of Power, Heat and Transport Fuels from Renewable Energy Sources). The essence of the project is to ensure that biomass plants can operate at full load all year round. The goal of the project is to develop a flexible energy production process that could be used in future for various energy sources in Europe to achieve high efficiency at the lowest cost. The European Commission was asked EUR 4.5 million support. Project Coordinator is VTT – Finnish Applied Research Institute, partners: Enerstena UAB, Lithuanian Energy Institute, German Airspace Centre, Neste and technology companies from Germany, Finland and the United

12. Grants and subsidies (cont'd)

Kingdom. On 28 February 2018, the Company and 9 other European companies and research institutions with the Innovation and Network Program Institution (INEA), which manages infrastructure and research programs in the EU transport, energy and telecommunications sectors, signed a financing agreement that will provide financial support to the Company for participation in an international research project "Flexible Combined Production of Power, Heat and Transport Fuels from Renewable Energy Sources" (FLEXCHX). The Company received the financial support in the amount of EUR 42 thousand by 31 December 2018.

On 9 March 2018, the Group and the Company signed the agreement on the financing and administration of the project "Installation up to 1 MW biofuel burned boiler in Noreikiškės boiler-house", according to which a financing in amount of EUR 147 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018, the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 1T", according to which a financing in amount of EUR 1,083 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018, the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 1Ž and 7Ž", according to which a financing in amount of EUR 968 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018, the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 4T", according to which a financing in amount of EUR 1,427 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018, the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 5T", according to which a financing in amount of EUR 2,288 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018, the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 8K", according to which a financing in amount of EUR 609 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018, the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 8Ž and 9Ž", according to which a financing in amount of EUR 996 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018, the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of district heating networks of Kaunas city in Chemijos and Medvėgalio streets", according to which a financing in amount of EUR 2,489 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 16 November 2018, the Group and the Company signed the agreement on the financing and administration of the project "Biofuel boiler installation in Jurbarkas boiler house", according to which a financing in amount of EUR 528 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 16 November 2018, the Group and the Company signed the agreement on the financing and administration of the project "Biofuel boiler installation in Raudondvaris boiler house", according to which a financing in amount of EUR 288 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

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12. Grants and subsidies (cont'd)

On 16 November 2018, the Group and the Company signed the agreement on the financing and administration of the project "Development of district heating supply in Kaunas City in Aleksotas District", according to which a financing in amount of EUR 1,903 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

13. Employee benefit liability

According to Lithuanian legislation and the conditions of the collective employment agreement as of 31 December 2018, each employee of the Group and the Company is entitled to 0.5 – 4 months' (as of 31 December 2017, respectively 1 – 6 months') salary payment when leaving the job at or after the start of the pension period and at the age of 40, 50 or 60 years, and having not less than 15 years of work experience in the Company – jubilee gift of the value fixed in the collective employment agreement.

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.

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
Employee benefit liability at the beginning of the year	**1,270**	**1,331**	**1,265**	**1,328**
Paid	(445)	(86)	(445)	(86)
Formed	34	25	32	23
Employee benefit liability at the end of the year	**859**	**1,270**	**852**	**1,265**
Non-current employee benefit liability	704	864	698	859
Current employee benefit liability	155	406	154	406

During the year 2018, total amount of the benefit paid to the employees by the Group amounted to EUR 445 thousand (in 2017 – EUR 86 thousand), and by the Company – EUR 445 thousand (in 2017 – EUR 86 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statements of Profit (loss) and Other Comprehensive Income.

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

	As of 31 December 2018	**As of 31 December 2017**
Discount rate	1.298 percent	1.099 percent
Employee turnover rate	6,621 percent	3.370 percent
Expected average annual salary increases	3.668 percent	1.500 percent

14. Derivative financial instruments

On 16 December 2016, the Group entered into an 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 value of the transaction was EUR 2,268 thousand as at 31 December 2018. This derivative instrument is recognized at fair value calculated by the bank as at 31 December 2018 – EUR 16 thousand (31 December 2017 – EUR 16 thousand).

The change in the market value is recognised in the statement of Profit (loss) and Other Comprehensive Income under other interest and similar income, as according to management's decision, financial instrument is not held for hedging.

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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	
	2018	**2017**	**2018**	**2017**
Heat supplies	57,387	56,084	57,399	56,096
Hot water supplies	3,260	2,981	3,260	2,981
Maintenance of hot water meters	408	355	408	355
Maintenance of manifolds	250	250	250	250
Maintenance of heat and hot water systems	11	10	11	10
	61,316	**59,680**	**61,328**	**59,692**

Sales income by user groups:

	Group		Company	
	2018	**2017**	**2018**	**2017**
Residents	46,511	45,555	46,511	45,555
Other users	5,949	5,536	5,961	5,548
Budgetary organizations financed from the state budget	4,774	4,597	4,774	4,597
Budgetary organizations financed from municipal budgets	3,343	3,279	3,343	3,279
Institutions funded by Territorial Health Insurance funds	371	360	371	360
Industrial users	368	353	368	353
	61,316	**59,680**	**61,328**	**59,692**

16. Other expenses

	Group		Company	
	2018	**2017**	**2018**	**2017**
Equipment verification and inspection	406	542	404	541
Maintenance of manifolds	381	396	381	396
Cash collection expenses	195	180	195	180
Expenses of ash utilization	145	125	127	105
Information technology expenses	132	137	132	137
Consulting expenses	124	72	124	72
Employees related expenses	102	83	102	83
Customer bills issue and delivery expenses	98	117	98	117
Membership fee	84	81	84	81
Maintenance of long term assets and related services	76	95	76	95
Transport expenses	70	116	69	116
Debts collection expenses	60	102	60	102
Insurance	56	68	48	60
Communication expenses	51	54	50	53
Advertising expenses	44	54	44	54
Audit expenses	44	52	44	41
Rent of equipment and machinery	16	24	16	24
Sponsorship	5	287	5	287
Other expenses	200	140	184	119
	2,289	**2,725**	**2,243**	**2,663**

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17. Other operating income and expenses

	Group		Company	
	2018	**2017**	**2018**	**2017**
Income from other operating activities				
Sold inventories	394	408	394	408
Various services rendered	382	375	264	259
Damage compensation received	241	241	241	241
Income from previous periods	180	1	180	1
Gain from sale of non-current assets	1	15	1	3
Other	101	110	101	110
	1,299	**1,150**	**1,181**	**1,022**

	Group		Company	
Expenses from other operating activities	**2018**	**2017**	**2018**	**2017**
Cost of rendered services	(273)	(258)	(158)	(149)
Cost of inventories sold	(65)	(2)	(65)	(2)
Expenses from previous periods	(7)	(70)	(7)	(70)
Write off of non-current assets	(3)	(4)	(3)	(4)
Other	(32)	(34)	(32)	(34)
	(380)	**(368)**	**(265)**	**(259)**

The Group and the Company rent real estate, supply technical water, provide services of maintenance of heating equipment, transportation services. The compensation received from KTE is described in Note 1.

18. Other interest and similar income

	Group		Company	
	2018	**2017**	**2018**	**2017**
Interest from late payment of accounts receivable	237	249	237	248
Change in market value of derivative financial instruments	-	18	-	-
Interest	-	-	2	-
	237	**267**	**239**	**248**

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
Interest	(541)	(563)	(499)	(511)
Impairment of non-current financial assets	-	-	156	(1,060)
Penalties and fines	(12)	-	(12)	-
	(553)	**(563)**	**(355)**	**(1,571)**

20. Corporate income tax

In 2018 and 2017, deferred tax asset and liability were accounted for by applying 15 percent rate.

The recorded corporate 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:

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20. Corporate income tax (cont'd)

	Group		Company	
	2018	**2017**	**2018**	**2017**
Profit before tax, before the accumulation of employee benefit liability	4,567	7,491	5,016	6,722
Profit (loss) from the accumulation of employee benefit liability	(34)	-	(32)	-
Corporate income tax (expenses) calculated at statutory rate from profit (loss) before the accumulation of employee benefit liability	(685)	(1,124)	(752)	(1,008)
Corporate icome tax (expenses) calculated at statutory rate from profit (loss) of the accumulation of employee benefit liability	(5)	-	(5)	-
Influence of permanent and temporary differences	322	572	396	415
Change of unrecognized deferred tax asset	(221)	(78)	(228)	(83)
Adjustments to income tax of prior periods	19	-	19	-
Corporate income tax (expenses) reported in the statement of comprehensive income	**(570)**	**(630)**	**(570)**	**(676)**
Effective rate of income tax (percent)	**12.48**	**8.41**	**11.36**	**10.06**

	Group		Company	
	2018	**2017**	**2018**	**2017**
Components of the corporate income tax expense				
Current income tax for the reporting year	19	(30)	19	(33)
Deferred tax income (expenses)	(589)	(600)	(589)	(643)
Corporate income tax (expenses) recorded in the statement of comprehensive income	**(570)**	**(630)**	**(570)**	**(676)**

As of 31 December 2018, net deferred income tax (expenses) EUR 584 thousand recorded in the Group and the Company statements of Profit (loss) and other Comprehensive Income and EUR 5 thousand accounted for as the loans Employee benefit liability (accumulation), which will be reclassified subsequently to profit or loss when specific conditions are met of the Group and the Company statements of Profit (loss) and Other Comprehensive Income.

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	
	2018	**2017**	**2018**	**2017**
Deferred tax asset				
Tax losses	2,567	2,824	2,510	2,767
Accruals	140	220	136	216
The change in value of financial assets	19	19	19	19
Deferred tax asset	**2,726**	**3,063**	**2,665**	**3,002**
Deferred tax liability				
Differences of depreciation	(8,162)	(7,904)	(8,162)	(7,904)
Investment relief	(22)	(28)	(22)	(28)
Revaluation of the assets transferred to subsidiary	-	-	(174)	(174)
Deferred tax liabilities	**(8,184)**	**(7,932)**	**(8,358)**	**(8,106)**
Deferred tax, net	**(5,458)**	**(4,869)**	**(5,693)**	**(5,104)**

Deferred income tax assets have been recognised 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:

20. Corporate income tax (cont'd)

	Group		Company	
	2018	2017	2018	2017
Credit losses expected from trade receivables	1,282	1,502	1,282	1,505
Property, plant and equipment depreciation	44	44	44	44
ECL allowance for other accounts receivable	43	40	49	50
Impairment for the investment into subsidiary	-	-	122	122
Accruals	94	98	94	98
Unrecognized deferred tax asset, net	**1,463**	**1,684**	**1,591**	**1,819**

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	
	2018	2017	2018	2017
Net profit (loss) of the reporting period	4,002	6,886	4,451	6,069
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)	**0.09**	**0.16**	**0.10**	**0.14**

22. Financial instruments - fair value and risk assessment

<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 (units).

Customers	Group		Company	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
Private persons	114,965	114,843	114,965	114,843
Other legal entities	2,438	2,380	2,439	2,381
Legal entities financed from municipalities' and state budget	658	678	658	678
	118,061	**117,901**	**118,062**	**117,902**

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

	Group		Company	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
Private persons	8,025	7,950	8,025	7,950
Other legal entities	1,288	1,186	1,288	1,186
Legal entities financed from municipalities' and state budget	875	857	875	857
	10,188	**9,993**	**10,188**	**9,993**

The Group and the Company considers that maximum risk is equal to the sum of receivables from buyers and other receivables, less expected credit losses as of the date of balance sheet (note 7).

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

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

	Group		Company	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
AA-	7,161	2,716	7,073	2,617
A+	1,174	3,350	1,174	3,350
A	249	60	249	60
Bank with no rating attributed	23	54	23	54
	8,607	**6,180**	**8,519**	**6,081**

*- 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

Non-current borrowings of the Group and the Company, except for the loans, signed with Ministry of Finance of the Republic of Lithuania, bear 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 2018 and as of 31 December 2017, the Group had valid interest rate swap agreement to Luminor Bank AB credit EUR 3,403 thousand of 22 August 2012, in order to manage variable rate risk, described in Note 14.

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

	Increase/decrease in basis points	Effect on net profit (loss) of the reporting period
2018		
EUR	50	(52)
EUR	(50)	52
2017		
EUR	50	(52)
EUR	(50)	52

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 31 December 2018, were 1.58 and 1.47 respectively (1.22 and 1.13 as of 31 December 2017). The Company's liquidity and quick ratios as of 31 December 2018, were 1.65 and 1.54 respectively (1.48 and 1.38 as of 31 December 2017). As of 31 December 2018, the Groups' and the Company's net working capital was plius respectively (EUR 8,404 thousand and EUR 9,142 thousand) (as of 31 December 2017, it was also plius – EUR 3,451 thousand and EUR 6,134 thousand).

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

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

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

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2018 and as of 31 December 2017, based on contractual undiscounted payments (scheduled payments including interest):

Financial liabilities	Carrying amount	Contractual cash flows	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years
Borrowings and financial lease obligations	23,821	(27,123)	(1,330)	(3,542)	(13,258)	(8,993)
Trade payables	7,451	(7,451)	(7,393)	(56)	(2)	-
Payables to contractors	201	(201)	(201)	-	-	-
Derivative financial instruments	16	(16)	(16)	-	-	-
Balance as of 31 December 2018	**31,489**	**(34,791)**	**(8,940)**	**(3,598)**	**(13,260)**	**(8,993)**

Financial liabilities	Carrying amount	Contractual cash flows	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years
Borrowings and financial lease obligations	25,005	(28,836)	(3,774)	(2,901)	(11,892)	(10,269)
Trade payables	5,444	(5,444)	(5,409)	(25)	(10)	-
Payables to contractors	1,749	(1,749)	(1,749)	-	-	-
Derivative financial instruments	16	(16)	(16)	-	-	-
Balance as of 31 December 2017	**32,214**	**(36,045)**	**(10,948)**	**(2,926)**	**(11,902)**	**(10,269)**

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2018 and as of 31 December 2017, based on contractual undiscounted payments (scheduled payments including interest):

Financial liabilities	Carrying amount	Contractual cash flows	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years
Borrowings and financial lease obligations	21,553	(24,807)	(1,040)	(3,243)	(11,531)	(8,993)
Trade payables	7,552	(7,552)	(7,494)	(56)	(2)	-
Payables to contractors	201	(201)	(201)	-	-	-
Balance as of 31 December 2018	**29,306**	**(32,560)**	**(8,735)**	**(3,299)**	**(11,533)**	**(8,993)**

Financial liabilities	Carrying amount	Contractual cash flows	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years
Borrowings and financial lease obligations	22,169	(25,992)	(930)	(2,901)	(11,892)	(10,269)
Trade payables	5,415	(5,415)	(5,380)	(25)	(10)	-
Payables to contractors	1,749	(1,749)	(1,749)	-	-	-
Balance as of 31 December 2017	**29,333**	**(33,156)**	**(8,059)**	**(2,926)**	**(11,902)**	**(10,269)**

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

	Group		**Company**	
	As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
For heat purchased	4,072	3,740	4,528	3,976
To contractors	201	1,749	201	1,749
To other suppliers	3,379	1,704	3,024	1,439
	7,652	**7,193**	**7,753**	**7,164**

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

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

As of 31 December 2018, the Group and the Company had an EUR 18 thousand (as of 31 December 2017 – EUR 16 thousand) of overdue trade payables.

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 2018 and as of 31 December 2017.

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

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

	Group		**Company**	
	As of 31 December 2018	**As of 31 December 2017**	**As of 31 December 2018**	**As of 31 December 2017**
Non-current liabilities (including deferred tax and grants and subsidies)	43,737	44,113	41,295	43,211
Current liabilities	14,562	15,702	14,008	12,767
Liabilities	**58,299**	**59,815**	**55,303**	**55,978**
Equity	**89,967**	**89,343**	**90,099**	**89,024**
Debt* to equity ratio (percent)	**64.80**	**66.95**	**61.38**	**62.88**

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

No full-scope tax audits were carried out by the tax authorities at the Company or the Group during the period starting 1 January 2014 and ending 31 December 2018. Pursuant to the effective laws, the State Tax Inspectorate is authorized to inspect the Company's and the Group's books and records at any time within 5 years (2014 – 2018) and consequently may additionally impose taxes or penalties. The Company's management is not aware of any circumstances, which may in the future give rise to potential significant tax liability in that respect.

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23. Commitments and contingencies(cont'd)

UAB Energijos Taupymo Centras has placed a claim to the Company for the annulment of the decision of the Public Procurement Commission on termination of the tender. In case the decision is not canceled, the plaintiff to compensate EUR 775 thousand for damages. The trial is still in process. No provision has been established for the mentioned amount.

UAB Katlita Engineering has placed a claim against the Company for termination of the contract and for payment of EUR 76 thousand for works that were not performed properly. The trial is still in process. No provision has been established for the mentioned amount.

The Company has issued support letters to the subsidiaries UAB Kauno Energija NT and UAB Petrašiūnų Katilinė, that it will continue supporting the subsidiaries financially until 1 January 2020 and will ensure that the subsidiaries fulfill their liabilities as they fall due.

Leasing and construction work purchase arrangements
Future liabilities of the Group and the Company under valid purchase arrangements as of 31 December 2018, amounted to EUR 24,567 thousand.

Guarantees
On 28 November 2016, the Company provided a guarantee in an amount of EUR 3,913 thousand to Luminor bank AB regarding the liabilities of the subsidiary UAB Petrašiūnų Katilinė to this bank according to credit agreement concluded on 22 August 2012, for the amount of EUR 3,403 thousand. On 28 November 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. The carrying amount of the loan is EUR 2,268 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.

In 2018 and 2017, 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. A list of companies related to the Municipality of Kaunas can be found here: http://www.kaunas.lt/administracija/struktura-ir-kontaktai/pavaldzios-imones-ir-istaigos/.

In 2018 and 2017, the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by the Municipality of Kaunas and their amounts receivable and payable at the end of the year were as follows:

2018	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,228	5,520	6,693	237
Jurbarkas city municipality	15	465	40	2

2017	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,144	4,755	960	239
Jurbarkas city municipality	14	391	120	-

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

As of 31 December 2018, the Group's and the Company's allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 265 thousand (as of 31 December 2017 –

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2018 (all amounts are in EUR thousand unless otherwise stated)

24. Related parties transactions (cont'd)

EUR 271 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

As of 31 December 2018 and as of 31 December 2017, the Company's transactions with the subsidiaries and the inter-company balances at the end of the year were as follows:

UAB Petrašiūnų Katilinė	Purchases	Sales	Receivables	Payables
2018	1,957	5	443	456
2017	1,813	2	60	236
UAB Kauno Energija NT	**Purchases**	**Sales**	**Receivables**	**Payables**
2018	5	11	64	-
2017	5	10	90	-

Receivables from UAB Petrašiūnų Katilinė comprise a loan granted to the subsidiary. More in Note 5.

As of 31 December 2018, the Company has determined an impairment in amount of EUR 64 thousand (as of 31 December 2017, in amount of EUR 90 thousand) for the receivables from subsidiaries.

UAB Petrašiūnų Katilinė supplied all goods and services to the Company in 2018 and 2017. In the year 2018, expenditure of UAB Petrašiūnų Katilinė has increased the expenditure of the Group by EUR 220 thousand (expenditure of the purchased fuel and energy decreased by EUR 732 thousand, and of depreciation and all other expenses have increased by EUR 952 thousand), in the 2017 – increased by EUR 214 thousand (expenditure of the purchased fuel and energy decreased by EUR 815 thousand, and of depreciation and all other expenses have increased by EUR 1,029 thousand) respectively.

<u>Remuneration of the management and other payments</u>
As of 31 December 2018, the Group's and the Company's management team comprised 4 and 1 persons respectively (as of 31 December 2017 – 7 and 4).

	Group		Company	
	2018 m.	**2017 m.**	**2018 m.**	**2017 m.**
Key to management remuneration	169	195	128	161
Calculated post-employment benefits to management	3	21	1	20

In the year 2018 and 2017, 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 15 January 2019, the European Commission proposed allocate a financial support of 1.66 million for the project No. 847056 „Residential Building Energy Renovations with On-Bill Financing" („Ren-on-Bill"). The application for this project was submitted under Horizon 2020 program.The Company will participate in this 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). The Company will receive EUR 72 thousand support from the European Commission. The aim of "Ren-on-Bill" project is to increase investments in residential renovation by promoting the use of OBF (On-Bill Financing) return financing schemes based on cooperation between energy suppliers and financial institutions.

At the date of signing these reports, the Company's profit distribution project was not prepared.

There were no other events that would have a significant impact on the financial statements or require a disclosure occurred subsequent to the reporting date.

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CONSOLIDATED ANNUAL REPORT OF AB KAUNO ENERGIJA OF THE YEAR 2018




Kaunas, 2019

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

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1. Reporting period of the Consolidated Annual Report

Reporting period, for which the Consolidated Annual Report of AB Kauno Energija was prepared, is the year 2018.

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

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

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

Company name	Private Limited Liability Company Kauno Energija NT
Legal-organizational form	Private Limited Liability Company
Headquarters address	Savanorių pr. 347, 49423 Kaunas
Code of legal entity	303042623
Telephone	(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 making) in the cities of Kaunas and Jurbarkas and in Kaunas district (Akademija town, Ežerėlis town, Domeikava village, Garliava town, Girionys village, Neveronys village, Raudondvaris village), (hereinafter referred to as Kaunas district).

Also, following provisions of the Law on Heat Sector, the Company supplies hot water (is engaged in hot domestic water supplier activities) from 1 May 2010 for consumers in the cities of Kaunas and Jurbarkas and

Kaunas district (hereinafter the supplies of heat and hot domestic water without cold water are referred to as heat, with the exception of information provided in Tables 7 and 8), who chose the Company as a hot water supplier. As at 31 December 2018, the Company was a hot water supplier for 681 residential buildings in Kaunas and Kaunas district and 7 in Jurbarkas. Income from hot water supplies amounts to approximately 5.3 per cent of all of Company's sales revenue.

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

The vision of the Group and the Company is to be an innovative, competitive, and added value for shareholders creating group of companies engaged in heat and cooling generation and centralized supply, and maintenance of indoor heating and hot water supply 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 qualification 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: AB Kauno Energija is the most advanced and innovative DH company in Lithuania.

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

- Increase and expansion of heat economy – Kaunas city needs at least one bigger than 100 MW capacity modern, up-to-date production facility – cogeneration power-plant, using renewable energy sources (hereinafter – RES) and / or waste, and / or natural gas. New power-plant should ensure tankage / use of reserved fuel, reservation of heat production facilities, stable hydraulic mode of centralized heat supply, flexible reaction to network peak demand changes, should have an emergency replenishment system and should be economically "balanced";
- Increase of safety and reliability of heat supply – the Company intends to formulate an expert assessment of safety / vulnerability of heat supply system, to implement update and modernization of system of parameters data transfer, collection and evaluation, to implement optimization of the network hydraulic mode and increase of speed of parameters reaction / change, to reconstruct and optimize sections of thermofication pipelines and elements (average age of pipelines of district heating network (hereinafter – DHN) reaches approximately 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 agreements with credit institutions

On 13 September 2018, the Issuer Service Agreement with AB SEB Bankas (company code 112021238, Gedimino pr. 12, Vilnius), represented by the Finance Markets Department, has been 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 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 31 December 2018, were listed in the secondary trade list of Nasdaq Vilnius Baltic stock exchange. The beginning of listing of the Company's shares is on 28 December 1998.

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

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

In the year 2018, the Company performed its activities with a focus on development of capacities of production sources and increase of reliability of CHS network, considering Strategic guidelines of centralized heat supplies of Kaunas city.

When planning its activities, the Company also considers the AB Kauno Energija Strategy for the Heating System Development for the years 2017–2020 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.

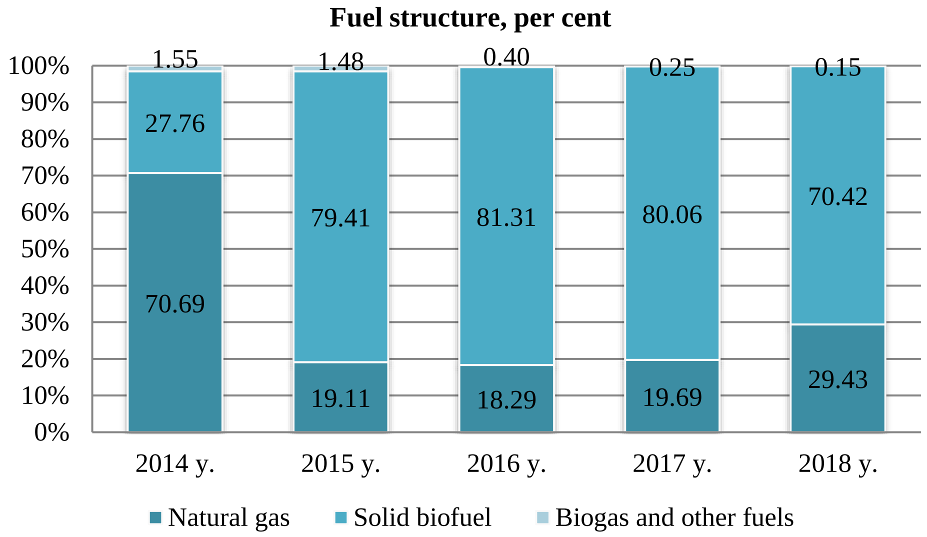
On 7 February 2019, The Supervisory Board of the Company approved the "Adjustment report of AB Kauno Energija Strategy, implementing the directions of the development of the energy sector until 2021".

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 28 local gas burning boiler-houses (27 burned with gas and 1 with wooden pellets) in Kaunas city, also 8 local water heating boiler-houses in Sargėnai catchment. Total installed heat generation capacity is approximately 607 MW, and total energy generation capacity of the whole Group is approx. 616 MW (including 41 MW capacities of condensational economizers). Total installed heat production capacity of the Company consists of approx. 588 MW (including 41 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 amongst them are in Petrašiūnai power plant. 34.8 MW of heat generation capacities (including 2.8 MW capacities of condensational economizer) are in Jurbarkas city. Total Company's power generation capacity is 597 MW (including 41 MW of condensational economizers' capacities).

Almost 39.2 per cent of heat supplied to consumers in 2018, was produced in Company's heat production facilities. The rest of required quantity of heat was purchased from independent heat producers (hereinafter – IHP). The required amount of heat was purchased at auctions organized each month in accordance with the applicable normative documents. Starting from May 2018, electronic heat purchase auctions are organized by energy resource operator Baltpool UAB. Electronic auctions are conducted in accordance with the Heat Auction Regulation approved by the NCC. Description of the Procedure and Conditions for Heat Purchase from Independent Heat Producers, Methods for Determining Heat Prices, Rules for Information of Energy, Drinking Water Supply and Wastewater Treatment, Surface Wastewater Treatment Companies, Terms of Use of Heat Transmission Networks, Description of Publicly Available Information Procedure, have been amended accordingly.

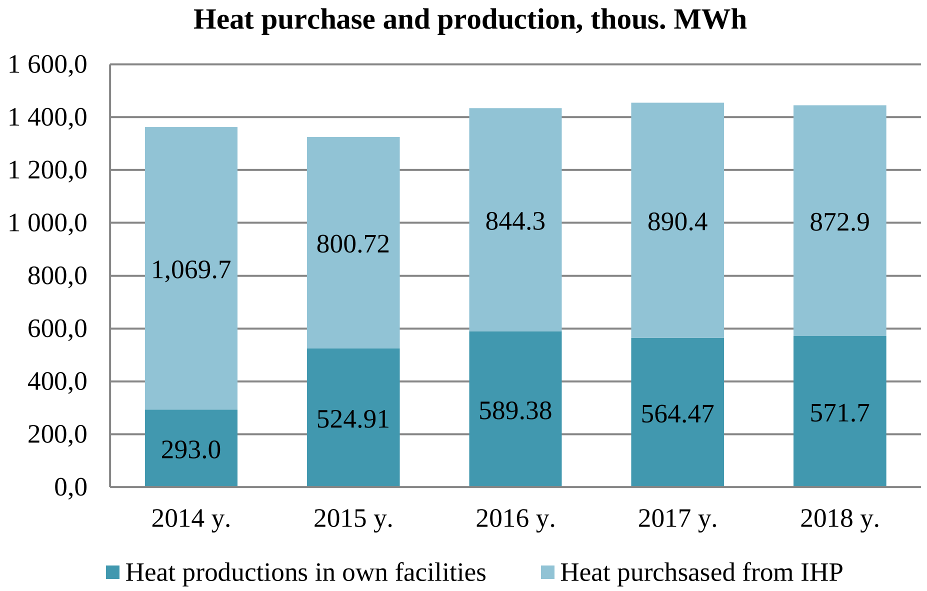
The fuel used for Company's heat production in 2018, is presented in Chart 1.

Chart 1



In the year 2018, the Company purchased heat from 11 IHP in Kaunas and Kaunas district: from UAB Kauno Termofikacijos Elektrinė, UAB Danpower Baltic Taika, UAB Danpower Baltic Taika elektrinė, UAB Lorizon energy, UAB Ekoresursai, UAB Petrašiūnų katilinė, UAB Aldec General, UAB ENG, UAB Danpower Baltic Biruliškių, UAB Ekopartneris and UAB Foksita. Total purchases consisted of 872.9 thousand MWh of heat, i.e. 60.8 per cent of heat supplied to the network (in the year 2017 – 61.5 per cent). Amounts of heat purchased from IHP and produced with Company's equipment during the period of 2014–2018 are presented in chart 2, thousand MWh:

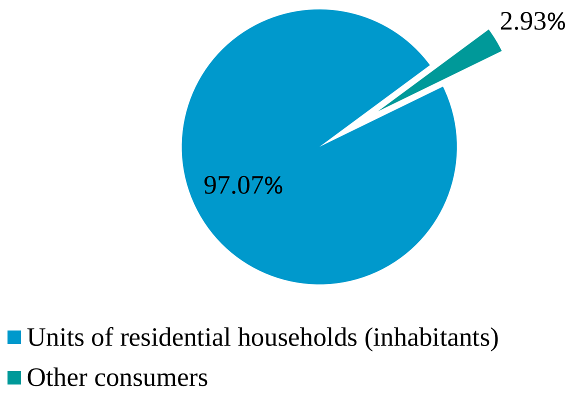
Chart 2



As at 31 December 2018, the Company supplied this produced and purchased heat with integrated heating and local area networks to 3,500 businesses and organizations as well as to 115,990 households, in total – to 119,490 consumers (objects by addresses).

Chart 3

Repartition of Company's heat consumers by groups



Investments

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

Investments are made in accordance with Company's revised investment plan for the year 2018, which was approved by decision No T-14 of Kaunas City Municipality Council of 6 February 2018, “Regarding investment plans of AB Kauno Energija for the year 2018 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 February 2018, a new boiler burned with natural gas or diesel fuel, with a total capacity of 16.4 MW with a condensing economizer, was brought to Pergalė boiler-house and started to be installed. The new unit will produce up to 143 GWh of heat per year. The new installation complies with the new stricter requirements of Directive (EU) 2015/2193 of the European Parliament and of the Council on the limitation of emissions of certain pollutants into the air from medium combustion plants, which will come into force from 2020 onwards. For natural gas combustion, it is anticipated that the concentration of NOx (nitrogen oxides) will not exceed 80 mg/m^3. Project value – EUR 2.4 million. It is carried out with the Company's funds, consistently implementing Kaunas City Municipal District Heating Strategy approved by Kaunas City Municipality.

According to the financial support contracts signed with the Lithuanian Business Support Agency (LBSA) in December 2016, the Company will complete two projects in 2020, i.e. “Modernization of Trunk Pipeline 6T of Kaunas City Integrated Network” (code 04.3.2-LVPA-K-102-01-0010) and “Modernization of Trunk Pipeline 1T of Kaunas City Integrated Network” (code 04.3.2-LVPA-K-102-01-0024). Value of the projects is EUR 2.3 million, incl. EUR 1.15 million of European Union structural support.

On 9 March 2018, the Company signed a contract with LBSA for the support for the project “Installing up to 1 MW Capacity Biofuel Burned Boiler in Noreikiškės Boiler-house” (code 04.1.1-LVPA-K-109-01-0006). Project value is EUR 0.25 million, icnl. EUR 0.15 million of European Union structural support. The project is focused on the efficiency of heat production facilities and the reduction of greenhouse gas emissions. The new boiler will replace the natural gas used to produce heat into biofuels.

On 23 May 2018, the Company signed 7 agreements with the LBSA under the measure No. 04.3.2-LVPA-K-102 “Modernization and development of heat supply networks” of the 4th priority “Promoting energy efficiency and production and use of renewable energy” of Operational Programme for the European Union Funds’ Investments in 2014–2020:

- “Modernization of trunk pipeline 1T of Kaunas city” (code 04.3.2-LVPA-K-102-02-0028);
- “Modernization of trunk pipelines 1Ž and 7Ž of Kaunas city” (code 04.3.2-LVPA-K-102-02-0029);
- “Modernization of trunk pipeline 4T of Kaunas city” (code 04.3.2-LVPA-K-102-02-0030);
- “Modernization of trunk pipeline 5T of Kaunas city” (code 04.3.2-LVPA-K-102-02-0031);
- “Modernization of trunk pipeline 8K of Kaunas city” (code 04.3.2-LVPA-K-102-02-0032);
- “Modernization of trunk pipelines 8Ž and 9Ž of Kaunas city” (code 04.3.2-LVPA-K-102-02-0034);
- “Modernization of heat supply networks in Chemijos and Medvėgalio streets” (code 04.3.2-LVPA-K-102-02-0035).

Accomplishment of these projects is scheduled in 2019–2020. Total value of the projects is EUR 19.7 million. European Union Structural support in amount of EUR 9.86 million is included.

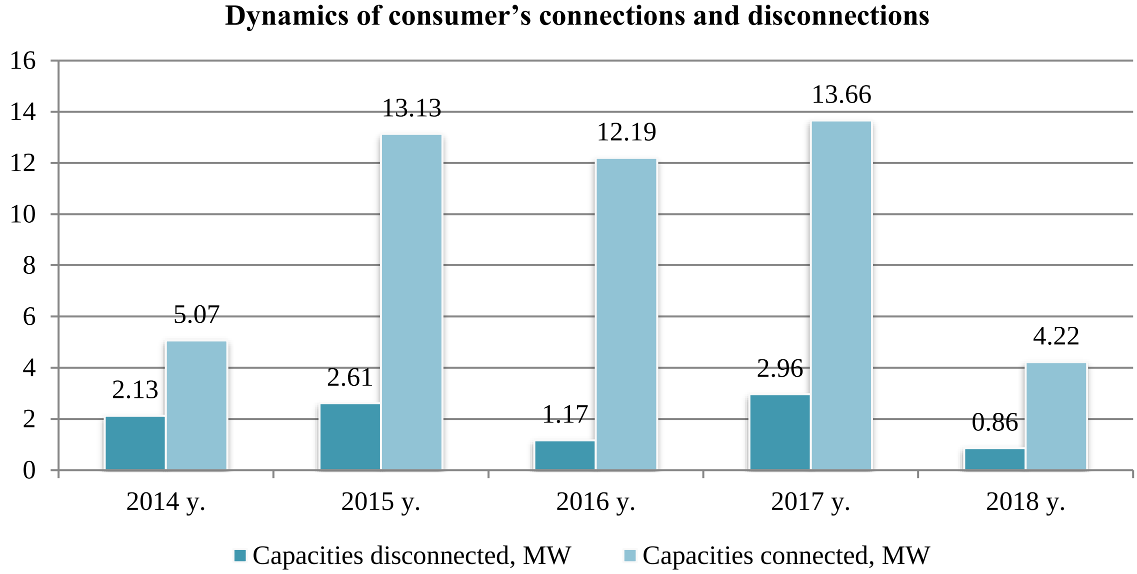
On 16 November 2018, the Company signed an agreement with the LBSA under the measure No. 04.3.2-LVPA-K-102 “Modernization and development of heat supply networks” of the 4th priority “Promoting energy efficiency and production and use of renewable energy” of Operational Programme for the European Union Funds’ Investments in 2014-2020 for financing of the project “Development of Kaunas City District Heating Supply Network in Aleksotas Catchment” (code 04.3.2-LVPA-K-102-04-0001). Value of the project is EUR 3.8 million, inc. EUR 1.9 million of European Union structural support.

On 16 November 2018, the Company signed two contracts with the LBSA for financing of the project “Installation of Biofuel Burned Boiler in Raudondvaris Boiler-house” and “Installation of Biofuel Burned Boiler in Jurbarkas Boiler-house”. Raudondvaris boiler-house will be equipped with a 1.5 MW capacity biofuel burned boiler. Value of the project is 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 boiler-house. Value of the project is EUR 0.8 million, incl. EUR 0.5 million of European Union structural support.

In order to expand the consumer market, the Company built the new heat supply trunk pipeline to a residential block under construction in Brastos street, Kaunas in 2018. The 966-meter-long 250 mm-diameter pipeline which will provide heat to the entire block under construction, was built in Brastos Street, which is currently being reconstructed. The new pipeline has been connected (“ringed”) to the Company's first heat supply pipeline to Brastos Street, built 2 years ago. The pipeline system will ensure high levels of heat supply for the entire Brastos Street block. In other words, if the heat supply is interrupted on one side, the residents of the block will receive heat from the other side of the network and will not feel any disturbance. The project was executed by the Company itself and using Company’s funds. Value of the project is EUR 0.7 million.

The dynamics of consumer’s connections to Company’s DHN and disconnections from it in 2014–2018 is shown in Chart 4.

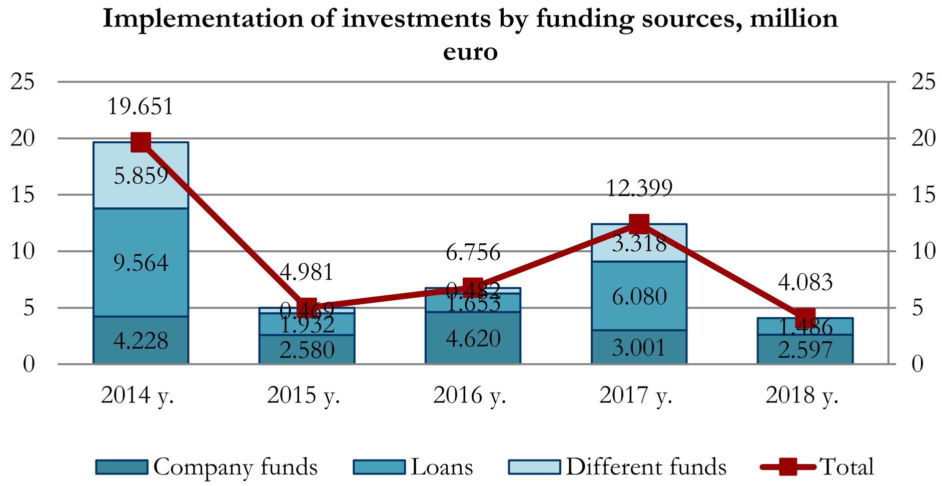
Chart 4



A total installed capacity of objects disconnected from DHN in 2018, was approx. 0.86 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.

In 2018, a major part of the investments was assigned for modernization of heat supply networks and renewal of heat production boilers. A part of investments was assigned for connection of new objects to DHN, a total consumption capacity of whose is 4.22 MW. Company's investments by funding sources for the years 2014–2018 are shown in Chart 5.

Chart 5



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

External risk factors affecting the Company's core business:

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

Competition environment risk factors. 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. In this way, the regulatory environment is used, competition is increased and the cost of purchasing and selling heat to consumers is reduced.

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 order of heat purchase from IHP.

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. 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 price differences of different types of fuel.

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

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

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 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 Heat Supply Plan are disconnections of consumers from DHN system. Heating equipment disconnection from the DHN is carried out in accordance with the procedures specified in the “Rules on heat supply and consumption” approved by order No 1-297 of 25 October 2010, of the Minister of Energy of the Republic of Lithuania (and their further amendments) and the Description of procedure for disconnection of the building or heating facilities of premises from heat supply networks at the initiative of consumers approved by order No A 1830 of the director of administration of Kaunas City Municipality of 14 May 2012. Kaunas City Municipality has approved a Special Heat Supply Plan, which provides a way to separate the heat supply in different urban areas. Disconnection of buildings in the district heating area from the DH network is only possible with the appropriate permit of Kaunas City Municipality. A Special Heat Supply Plan of Kaunas District Municipality was approved by the decision of Kaunas District Municipality No TS-43 of 26 January 2012. A Special Heat Supply Plan of Jurbarkas City and District was approved by the decision of Jurbarkas District Municipality No T2-67 of 10 March 2005.

Operational risk: Limited consumers’ solvency and the debts. Risks can be mitigated by the factoring of debts and current charges of some user groups 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 AB Kauno Energija Consolidated and Company's Report of the year 2018.

During the year 2018 in comparison with the year 2017, heat consumer debts decreased by approximately 14 % and consisted of EUR 9.609 million in 2018. During the year 2017 in comparison with the year 2016, heat consumer debts decreased by approximately 12 % and consisted of EUR 11.152 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 was started to apply as a prevention measure (if there are technical possibilities and according to the law).

In all cases, the Company first notifies the user of his indebtedness. When debtors respond to warnings and contact the Company, the Company discusses the options of debt settlement with them, signs documents guaranteeing the repayment of the debt. If the debtor does not respond to warnings and if pre-trial measures are not effective, the judicial recovery begins. The Company then applies to the court and after a decision accompanied with receiving-order – to bailiff. In such case the debtor must pay not only the debt but also the court and execution expenditures. Several debt prevention and pre-trial actions were made in 2018. There were several debt management measures applied: more than 21,759 of written notices, 1,342 of telephone notices, 373 bills of exchange, 106 peaceful agreements concluded, and 138,972 of notices in bills.

Starting from 2 January 2018, the unified service centre of Kaunas "Mano Kaunas" started functioning at Statybininkų str. 3, Kaunas, at the premises of UAB Kauno Švara. Residents can get operative information / advice on services provided by the municipal companies – AB Kauno Energija, UAB Kauno Švara, UAB Kauno Autobusai, UAB Kauno Butų Ūkis, UAB Kauno Gatvių Apšvietimas and UAB Kauno Vandenys in it. They also can conclude agreements there, pay bills, place their applications, requests, get warrants, etc.

Activities of the Company are cyclical. During the heating season (October – April) the highest operating income is earned. During the non-heating season, the Company's revenues are at their lowest since only heat for hot water is used. In addition, during the non-heating season, the Company incurs more costs because it 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 1 November 2011, in accordance with Article 7, the heat and hot water prices may not include any costs related with the indoor building heating (including heat units), and hot water systems. In implementing the legislation, from 1 November 2011, all 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.).

The Company accomplished the last (of three) investment litigation with Kauno Termofikacijos Elektrinė (hereinafter – KTE), after Vilnius Court of Commercial Arbitration approved on 29 January 2016, a peaceful agreement concluded on 28 December 2015. Following the terms of agreement, the sides agreed to terminate Investment agreement of 31 March 2003, KTE taking obligations to pay compensation for the Company in amount of EUR 2.3 million paying in equal parts yearly until 28 February 2018. As an additional non-financial compensation according, the terms of peaceful agreement KTE disposed to the Company a part of Kaunas centralized heat supplies infrastructure (manifolds building and coherent pipelines, as well as part of technological circuit equipment, necessary to the Company) and the rights of lease of land plot, coherent to the assets disposed.

This juridical litigation with KTE continued from April 2013 and the litigations regarding a non-compliance of investments – from the year 2009.

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 0.86 MW were disconnected in 2018; also limited purchasing power of consumers and slow growth of it, unemployment and exceptionally negative opinion about district heating supplier in the public domain.

However, an increased number of consumers (from 118,891 in the year 2017, to 119,490 in the year 2018) had a positive impact. Total installed capacities of new consumer's amounts to 4.22 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, several 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 2018, was close to the average heat price of all heat supply companies.

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

Technical and process factors: greatest process risks are so shaded with the condition of heating systems. Company's trunk pipelines are an average about 38 years old. Modernization rate of them is determined by lack of funds – it is necessary to reconstruct more than 13.5 km of pipelines per year 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.

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

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

The other technical risk factor is the lack of own heat generation capacities after selling the main heat generation facility – Kaunas Termofication power-plant in 2003. Existing Company's own capacities of approx. 467 MW cannot secure customers demand in Kaunas integrated network. In addition, heat supplies companies must have reserve capacities that must be a 50 per cent more, than the maximum instantaneous demand of heat according to Lithuanian legal acts. Therefore, the Company is obliged by NCC to buy a reserve capacity security service. In the year 2018, this service was bought from KTE. Considering that and estimating common trends in development of heat economies in Kaunas and Lithuania, one of the aims of the Company is to continually reasonably invest in own heat production facilities, i.e. to modernize existing and to build new heat production capacities. More detailed information on Company's investments and modernization of production facilities is provided in chapters 6.1 and 7.

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

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

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

The Company pays taxes for atmospheric and water pollution. If allowable emission rate limits or annual limits are exceeded, the Company must pay the fines under the applicable laws of the Republic of Lithuania. There have been no pollution-related incidents and the Company was not imposed any penalties in 2018.

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 2018, the fuel balance was dominated by solid biofuel – 70.42%, natural gas – 29.43%, other fuels – 0.15 %).

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

The result of Company's activities of the year 2018, reflects an impact of investments that were implemented by the Company during the years 2014–2015. The Company implemented 3 big investment projects, focused to the development of production sector, reaching to reduce costs of heat production and purchase, ensure reliable heat supplies, reduce losses of heat transmission, and increase effectiveness of heat supply system.

Company's sales revenue of the year 2018, was EUR 61,328 thousand and in comparison, with the year 2017, increased by 2.74 per cent (in the year 2017, it consisted of EUR 59,692 thousand). Sales revenue of the Group of the year 2018, was EUR 61,316 thousand (in the year 2017, it consisted of EUR 59,680 thousand).

This change was mainly affected by higher price of heat, the main part of which consist of fuel and purchased heat constituent, notwithstanding decreased amount of heat sold. Amount of heat sold in 2018, in comparison with the year 2017, decreased at 0.77 per cent. Average price of heat in the year 2018, increased at 3.31 per cent (in 2018, it was 4.99 ct/kWh, and in 2017, it was 4.83 ct/kWh).

The comprehensive income of the Group consisted of EUR 3,963 thousand in 2018, and the Company's – EUR 4,414 thousand. Comprehensive income of the year 2018, in comparison with the year 2017, decreased by EUR 2,898 thousand and EUR 1,632 thousand respectively. The heat price was reduced by an additional contribution of 0.62 ct/kWh (0.29 ct/kWh from December 2018) by the decision of the Board of the Company starting from May 2018 until December 2018 in order to bring back an additional earned income in 2015–2016 to consumers before the new base heat price is approved. EUR 2.7 million is brought back to consumers during 2018.

The Group and the Company accounts impairment loss in doubtful receivables. Change of impairment loss in doubtful receivables in 2018 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 amounted to EUR -770 thousand and EUR -787 thousand respectively in 2018, i.e. expenses decreased an because of that profit increased (in 2017 – EUR -830 thousand and EUR -849 thousand). During 2018, the Group and the Company wrote of EUR 696 thousand and EUR 696 thousand of bad debts respectively (in 2017 – EUR 413 thousand and EUR 413 thousand). During 2018, the Group and the Company recovered EUR 5 thousand (in 2017 – EUR 6 thousand) of bad debts which were written off in prior years.

Comparison of financial indicators of the Group of the year 2018, with the indicators of the years 2014–2017 is presented in Table 1.

Table 1

No	Indicator of the Group	2014	2015	2016	2017	2018
1	Revenue from sales, thousand euros	75,746	60,725	61,178	59,680	61,316
1.1	Including: Heat energy	72,484	57,396	58,004	56,084	57,387
1.2	Electric energy	220	253	38	0	0
1.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	27	21	10	10	11
1.4	Income from the maintenance of collectors	227	226	227	250	250
1.5	Hot water supply including cold water price	2,633	2,569	2,611	2,981	3,260
1.6	Income from maintenance of hot water meters	155	260	288	355	408
2	Profit, thousand euros	862	4,509	6,957	6,861	3,963
3	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	7,344	12,083	14,787	15,861	12,417
4	Profitability of core business, per cent (operating profit / sales and services)* 100	0.9	9.1	10.0	11.7	6.4
5	Net profitability, per cent (net profit / sales and services)*100	1.1	7.4	11.4	11.5	6.5
6	Assets, thousand euros	145,130	134,442	145,073	149,158	148,266
7	Equity, thousand euros	77,382	81,860	87,019	89,343	89,967
8	Return on equity (ROE), per cent (net profit / average equity)*100	1.1	5.7	8.5	8.2	4.7
9	Return on assets (ROA), per cent (net profit / average assets)*100	0.6	3.2	5.0	4.8	2.8
10	Asset turnover ratio (sales and services / assets)	0.52	0.45	0.42	0.40	0.41
11	Return on tangible assets, per cent (net profit / average value of tangible assets)*100	0.7	3.7	5.6	5.4	3.2
12	Debt ratio (liabilities /assets)	0.47	0.39	0.40	0.40	0.39
13	Debt-to-equity ratio (liabilities / equity)	0.9	0.6	0.7	0.7	0.6
14	General liquidity ratio (short-term assets / short-term liabilities)	0.69	1.10	1.18	1.22	1.58
15	Quick ratio ((short-term assets- inventory) / short-term liabilities)	0.68	1.07	1.14	1.13	1.47

No	Indicator of the Group	2014	2015	2016	2017	2018
16	Cash ratio (cash in hand and at bank / short-term liabilities)	0.01	0.21	0.49	0.42	0.60
17	Net earnings per share (net profit / average weighted number of shares in issue)	0.02	0.11	0.18	0.16	0.09
18	Equity per share, euros	1.8	1.9	2.0	2.09	2.1
19	Last share market price of the year /net profit /number of shares at year-end (P / E ratio)	6.99	4.36	3.45	7.36	10.80
20	Share capital, thousand euros	74,378	74,476	74,476	74,476	74,476
21	Share capital-to-assets ratio	0.51	0.55	0.51	0.5	0.5
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	1.1	5.8	8.7	8.8	4.9
23	Dividend payment ratio	0.03	0.38	0.66	0.49	

Comparison of financial indicators of the Company of the year 2018 with the indicators of the years 2014–2017 is presented in Table 2.

Table 2

No	Indicator of the Company	2014	2015	2016	2017	2018
1	Revenue from sales, thousand euros	75,755	60,733	61,188	59,692	61,328
1.1	Including: Heat energy	72,494	57,404	58,013	56,096	57,399
1.2	Electric energy	220	253	38	0	0
1.3	Maintenance of indoor heating and hot water supply systems, heating substation facilities	26	21	10	10	11
1.4	Income from the maintenance of collectors	227	226	227	250	250
1.5	Hot water supply including cold water price	2,633	2,569	2,611	2,981	3,260
1.6	Income from maintenance of hot water meters	155	260	288	355	408
2	Profit, thousand euros	867	4,528	6,901	6,046	4,414
3	EBITDA (earnings before interest, taxes, depreciation and amortization), thousand euros	7,339	12,085	14,631	14,391	12,227
4	Profitability of core business, per cent (operating profit / sales and services)* 100	1.0	9.2	9.9	12.2	6.8
5	Net profitability, per cent (net profit / sales and services)*100	1.1	7.5	11.3	10.13	7.2
6	Assets, thousand euros	145,853	135,173	141,071	145,002	145,402
7	Equity, thousand euros	77,915	82,412	87,515	89,024	90,099
8	Return on equity (ROE), per cent (net profit / average equity)*100	1.1	5.6	8.1	7.05	5.12
9	Return on assets (ROA), per cent (net profit / average assets)*100	0.6	3.2	5.0	4.32	3.1
10	Asset turnover ratio (sales and services / assets)	0.52	0.45	0.43	0.41	0.42
11	Return on tangible assets, per cent	0.7	3.7	5.7	4.9	3.7

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No	Indicator of the Company	2014	2015	2016	2017	2018
	(net profit / average value of tangible assets)*100					
12	Debt ratio (liabilities /assets)	0.47	0.39	0.38	0.39	0.38
13	Debt-to-equity ratio (liabilities / equity)	0.9	0.6	0.6	0.6	0.6
14	General liquidity ratio (short-term assets / short-term liabilities)	0.69	1.10	1.48	1.48	1.65
15	Quick ratio ((short-term assets-inventory) / short-term liabilities)	0.68	1.07	1.44	1.38	1.54
16	Cash ratio (cash in hand and at bank / short-term liabilities)	0.01	0.21	0.51	0.51	0.62
17	Net earnings per share (net profit / average weighted number of shares in issue)	0.02	0.11	0.17	0.14	0.10
18	Equity per share, euros	1.8	1.9	2.0	2.08	2.11
19	Last share market price of the year /net profit /number of shares at year-end (P / E ratio)	6.95	4.34	3.47	8.35	9.70
20	Share capital, thousand euros	74,378	74,476	74,476	74,476	74,476
21	Share capital-to-assets ratio	0.51	0.55	0.53	0.51	0.51
22	Return on equity (capital), per cent (net profit / capital and reserves)*100	1.1	5.8	8.6	7.8	5.4
23	Dividend payment ratio	0.03	0.38	0.66	0.56	

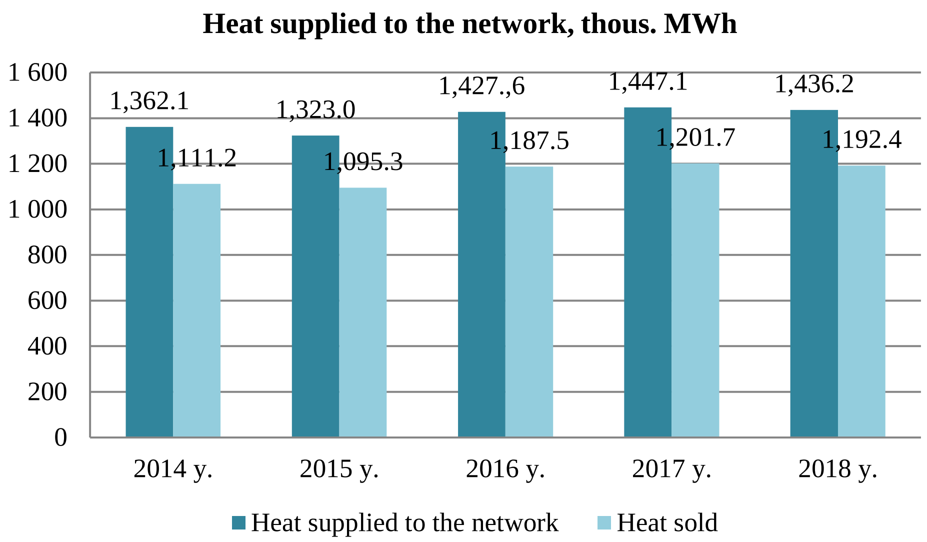
A more detailed analysis of financial indicators of the Group and the Company is provided in notes to Consolidated and Company's financial statements for the year 2018.

Comparison of non-financial indicators of the Company of the year 2018, with the indicators of the years 2014–2017 is provided in Table 3.

Table 3

No	Denomination of Indicator	2014	2015	2016	2017	2018
1.	Energy produced, purchased and supplied to the network, thous. MWh	1,364.8	1,326.3	1,428.1	1,447.1	1,436.2
1.1.	thermal energy	1,362.1	1,323.0	1,427.6	1,447.1	1,436.2
1.2.	electric energy	2.7	3.3	0.5	0	0
2.	Energy sold thous. MWh	1,113.9	1,098.6	1,188.0	1,201.7	1,192.4
2.1.	thermal energy	1,111.2	1,095.3	1,187.5	1,201.7	1,192.4
2.2.	electric energy	2.7	3.3	0.5	0	0
3.	Reconstructed heat supply pipelines, m	4,197	1,835	6,201	7,315	1,850
4.	Newly built heat supply pipelines, m	759	1,062	2,468	4,391	2,688

Chart 6

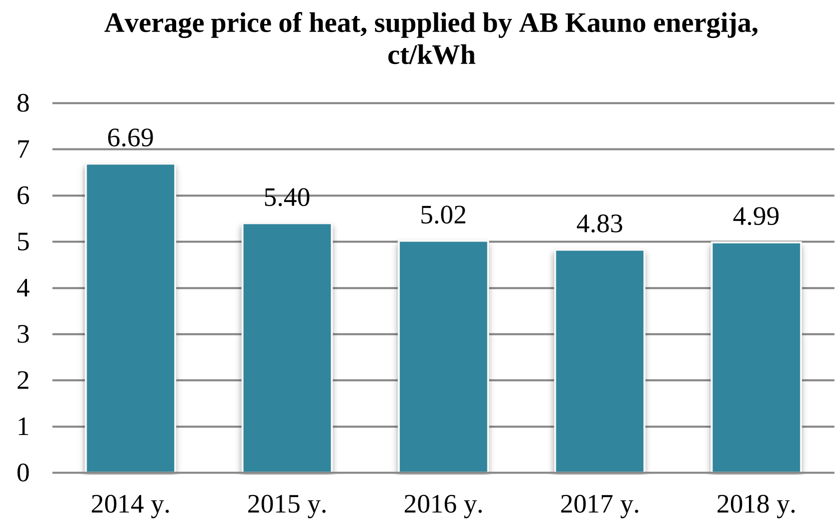


Environmental impact on operations: The Company's performance can be affected by changes in sales turnovers caused by changed heat demand, which can be caused by consumer investments in the renovation of buildings, heat saving and rational consumption, average higher of lower outdoor temperature during 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 25 per cent during the last 5 years.

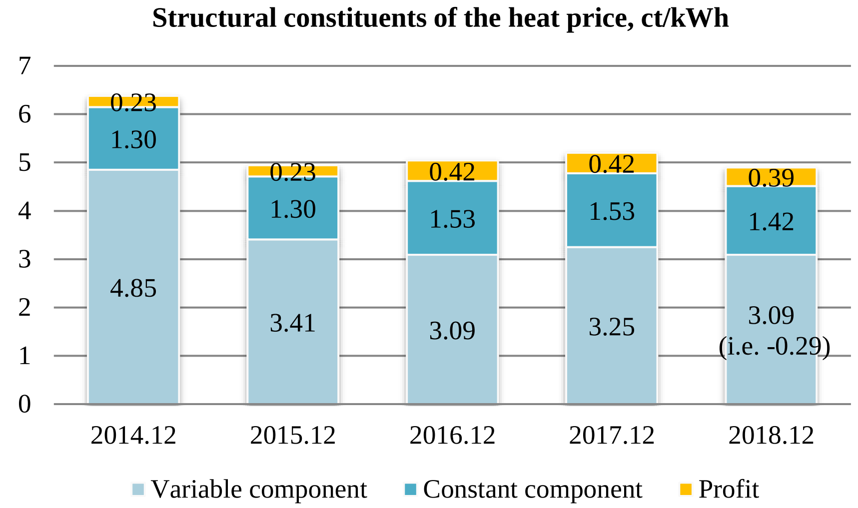
The dynamics of average price of heat of the Company in 2014–2018 is provided in Chart 7.

Chart 7



Components of Company's heat price structure in 2014–2018 are provided in Chart 8.

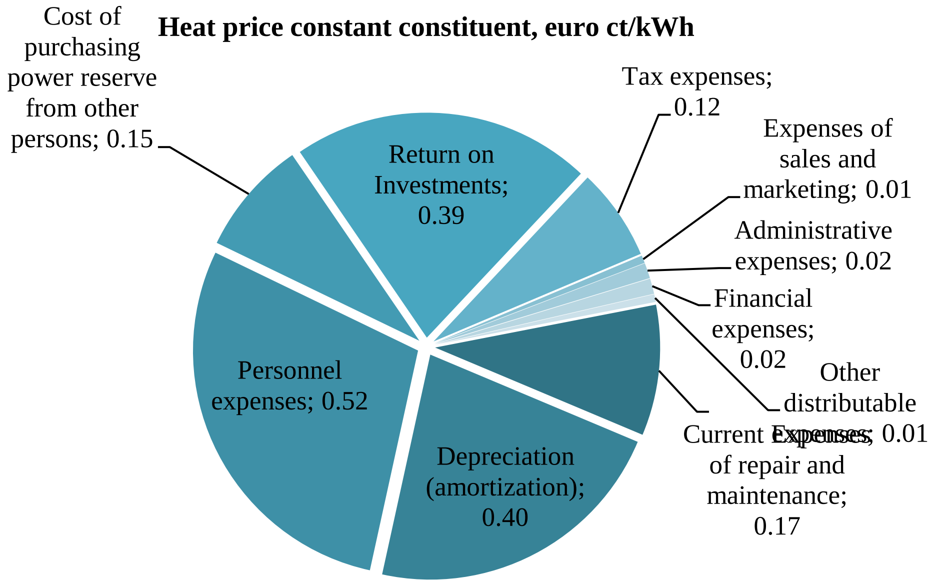
Chart 8



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 NCC of 8 July 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 AB Kauno Energija determined by its decision of 24 October 2018, No. 2018-26-2 the heat price constituents for the first year of validity of basic heat price, which were agreed by NCC's decision of 16 November 2018, No. O3E-390. Constant constituent of heat price, valid until 30 November 2018, was 1.95 ct/kWh (including profit), and the new constant constituent, valid from 1 December 2018, is 1.81 ct/kWh (including profit) (decrease in constant constituent was determined by the change in expenditures of assurance of reserve capacities from 0.26 ct/kWh to 0.15 ct/kWh). Details of constant heat price constituent are provided in Chart 9.

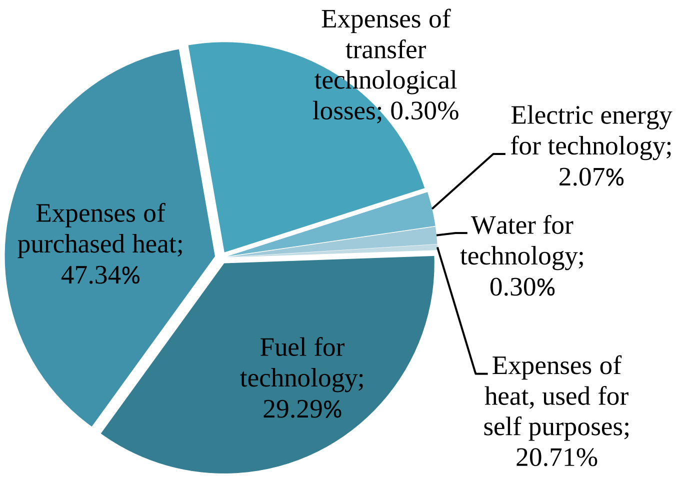
Chart 9



The Company recalculates values of variable constituents of heat price and final heat prices every month, considering changes in prices of fuel and purchased heat. In order to compensate the difference between the purchase price of the fuel and the purchase price of heat included in the heat price, an additional constituent was determined by the decision of the Management Board of the Company and it was valid from May 2018 to November 2018. It reduced the price of heat to consumers by 0.62 ct/kWh. After determination of the new base heat price, an additional constituent reduces the price by 0.29 ct/kWh starting from December 2018. Detailed variable heat price constituents of December 2018, are provided in Chart 10.

Chart 10

Heat price variable constituent in June 2018, per cent



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

Waste management. The Group and the Company have organized the waste collection, sorting and disposal of them to waste managers, i.e. to licensed waste management businesses. In 2018, the Group and the Company disposed for recycling 3 tons of absorbent and filter materials; 1.04 tonnes of packages containing or contaminated with dangerous chemical residues; 2.78 tons of paper and cardboard; 87.1 tonnes of insulating materials containing asbestos; 1.05 tonnes of used tires; 21.44 tonnes of bituminous mixtures; 0.233 tons of batteries and accumulators; 0.0725 tons of daylight lamps; 79.12 tonnes of concrete; 1,452.14 tons of bottom ash, 1,929.72 tons of iron and steel.

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

Air pollution. The measurement laboratory of stationary air pollution sources of the Group and the Company, having the permit issued by the Environmental Protection Agency, continuously monitors the emissions to the atmosphere from stationary sources would not exceed the permissible limits established in integrated pollution prevention and control permits. Company’s Šilkas, Ežerėlis, Girionys and Noreikiškės boiler-houses, and starting from 2015 – Inkaras boiler-house and Petrašiūnai power-plant use biofuel, thus reducing atmospheric pollution. Below in Table 4 you will find the comparison of the Company's pollutions to the atmosphere from stationary air pollution sources in 2018, with the amount in 2014–2017.

Table 4

Period	Particulates, t	Nitrogen oxides, t	Carbon monoxide, t	Sulphur dioxide, t	Hydrocarbons, t	Other pollutants, t
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
2014	23.613	154.570	534.443	47.158	16.294	0.440

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 2018.

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

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

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

9. Significant events after the end of the year

Tomas Bagdonavičius resigned from the Company's Supervisory Board on 21 February 2019.

On 20 March 2019, the audit of the financial statements for 2018 is completed. It was performed by KPMG Baltics, UAB. The Company's audit company, performing the audit of the financial statements for 2018, was nominated by the Management Board for the General Meeting of Shareholders following the results of the Company's 2017, public procurement. This Company's Annual Report is presented in conjunction with the Audited Financial Statements for the year 2018 and the independent auditor's report on it.

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 2019 is further increase in volumes of heat production and effectiveness, expansion of heat selling market, through increase of use of biofuel for heat production, development of heat transmission and distribution increasing safety and reliability, developing services of maintenance of engineering systems and further improvement of consumers services quality.

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

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 2019, 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 2019, in comparison with 2018, the Group's sales turnover and the amount of heat sold will remain in the similar level as in 2018. The greatest impact on the Group's and the Company's income and expenses will be made by fuel and purchased heat price changes, as the price of heat under the requirements of the law is recalculated every month. A significant influence on the price of purchased heat is provided by the procedure established by the NCC (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 IHP. The Group’s profit in comparison with 2018, is planned to be less due to the recalculated constituents of heat price and compensation to consumers. Planned results may be adjusted by change in heat demand, i.e. consumption, which is mainly affected by the average outdoor air temperature, the size of user investment in housing renovation, energy-saving and its rational use, NCC’s decisions on pricing issues as well as changes in the economic situation in Lithuania.

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

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

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

Like every year Company’s representatives take part in national conference “Heat energetics and technologies” organized by Kaunas University of Technology at the beginning of February. This year, the Company introduced how competition between heat producers is developing in Kaunas and what benefits this competition brings to consumers. It was emphasized that competition in the heat sector is beneficial for consumers, but it works only in the warm season of Kaunas city, when the demand for heat is low. Meanwhile, in winter, when the demand for heat is high, there is virtually no competition between producers, because (apart from Kaunas CHP, which due to the specifics of its activities is not working well recently) the existing capacity of the producers is not enough. It was also emphasized that the basic heat prices of heat supply companies are recalculated according to the procedure established by the law, and this will certainly not be the merit of independent producers if the base heat price of the heat supply company decreases after the statutory conversion.

On 11 April 2018, the delegation of the Kyrgyz capital Bishkek Heat Supply Company visited the Company under initiative of World Bank. The World Bank has chosen the Company as an example of good practice for the renovation of district heating systems in the Kyrgyz capital. The achievements of Lithuania and Kaunas in the development of biofuel energy were presented to guests from Bishkek. It was emphasized that the use of biofuel for heat production in Kaunas, as well as competition in the heat production sector since 2012 has allowed to reduce the price of heat supplied to consumers by more than half. The guests were interested in the experience of Kaunas city colleagues in modernizing district heating systems, moving from open to closed systems, installing modern measuring devices with remote data reading, installing data collection and billing systems.

On 12 April 2018, a discussion “Looking to the Future: How to Purchase Heat in Kaunas during the 2018–2019 heating season” was organized at the hall of the Lithuanian Energy Institute, where representatives of public authorities, heat supply companies, independent heat producers and research institutions shared their insights on the problems of the heat sector in Lithuania and individually, about changes in the heat purchase regime and suggested what could be done to reduce the heat price for consumers even more. The discussion was attended by Vidmantas Macevičius, Vice-Minister of Energy of the Republic of Lithuania, Valdas Lukoševičius, President of the Lithuanian Association of Heat Suppliers, Members of the NCC, representatives of CHP and representatives of heat supply companies.

On 3 April 3 2018, the Company, together with Kaunas University of Technology, Lithuanian Energy Institute and UAB Enerstenos Grupė, in the light of the importance of science and new technology development and presentation to the public, has signed a cooperation agreement, which has developed an agreement to develop research and experimental development in the field of energy production and biofuel. to implement research results in industry, to improve energy production equipment and processes, to reduce energy production costs and emissions, to develop new technologies for biofuel production and biomass, to participate in Lithuanian and international research and experimental development projects and to cooperate in the development and improvement of study programs. This agreement is the formation of a future large research and science cluster that will be the energy leader in the development of future science, innovation trends and energy market in Lithuania. One of the biggest energy challenges of today is the reduction of carbon dioxide emissions and the increase of energy efficiency, so this cluster, by joining the biggest energy players in Kaunas region, will help to solve the most pressing energy issues.

Starting from 11 June 2018, the Company started using mobile devices – tablet computers for checking the status and readings of domestic hot water meters in flats. From now on, the Company's employees, who come to the customers to check the hot water meter, will not write the paper check documents, but will record the meter readings and status on the tablet. The special software installed on the tablet is online connected to the accounting system. It allows you to refrain from completing and checking the paperwork and entering data into the accounting system. It is sufficient for an employee arriving to check the meter to enter its actual readings and transmit them immediately to the accounting system. The program automatically generates an electronic checklist of the operating conditions and readings of the hot water meter. This will save labour costs, eliminate paperwork, and perform all the verification and accounting activities much faster and more accurately. There will be no human intervention at all in the transmission chain, so the probability of error is minimized.

On 12 June 2018, the Company was honoured for its significant contribution to urban welfare at growing business awards K.A.V.A. 2018. This first-ever event was aimed at thanking the most initiative enterprises that contributed most to urban welfare and glorification. In its activities, the Company strictly follows the provisions of regulatory acts, observes the highest ethical and moral standards. The Company has a collective agreement that provides employees with better working conditions and protection than the Labour Code. All investments made by the Company reduce the demand for fossil fuels, increase the reliability of heat production and transmission and reduce the cost of heat to consumers. For these reasons, centralized heat supply is more a social service than a profitable business.

In November 2018, the solar power plant was installed on the administrative building of the Company located at Raudondvario pl. 84, in Kaunas. The Company benefits from solar power to meet the energy needs of the building. The solar power plant has been installed by the Company to develop advanced technologies for renewable energy production and to further reduce electricity costs.

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

On 28 February 2018, the Company together with 9 other European companies and educational institutions signed a financing agreement with the Innovation and Networking Program Executive Agency (INEA), which administers EU transport, energy and telecommunications infrastructure and research programs, to provide financial support to the Company to participate in the international research project FLEXCHX (Flexible Combined Production of Power, Heat and Transport Fuels from Renewable Energy Sources). The essence of the project is to ensure biomass plants can operate full load all year round. The goal of the project is to develop a flexible energy production process that could be used in future for various energy sources in Europe to achieve high efficiency at the lowest cost.

On 15 January 2019, the European Commission has proposed EUR 1.66 million support for project no. 847056 “Ren-on-Bill” (Renovation of Residential Buildings Using a Billing Model). The application for this project was submitted under the Horizon 2020 program. The Company will participate in the project as a partner with another 8 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 to the Company. The aim of Ren-on-Bill is to increase investment in residential renovation by promoting the use of OBF (On-Bill Financing) return financing schemes based on cooperation between energy suppliers and financial institutions.

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 to the consolidated financial statements for the year 2018, of AB Kauno Energija.

14. Information on the Issuer branch office and subsidiary undertakings

On 19 March 2018, the branch of the Company Jurbarko Šilumos Tinklai was removed from the Register of Legal Entities, having terminated its activities on 1 March 2018, in accordance with the decision of the Management Board of the Company No. 2017-31-2 of 24 November 2017, “Regarding the approval of the new management structure of AB Kauno Energija”, on the basis of which the structural management reorganizations optimizing Company’s administrative activities were performed. The functions of the branch (their administration), ensuring the continuity of Jurbarkas boiler-house operation, were transferred from 1 March 2018, to the structural units of the Company in accordance with their competence, fully ensuring the operation of Jurbarkas boiler-house as the Company's heat production facility, supplying district heating to the residents of Jurbarkas. The changes in the management structure of the Company terminating the activities of the branch as a structural unit of the Company from 1 March 2018, had no impact on the reliability and uninterrupted supply of district heating in Jurbarkas city.

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

After completion of the procedures of reorganisation in the way of separation of AB Kauno Energija subsidiary UAB Pastatų Priežiūros Paslaugos, a statutes of the newly established entity UAB Kauno Energija NT were registered in the Register of Legal Entities on 16 April 2013. Company's headquarter address is Savanorių pr. 347, 49423 Kaunas, company number 303042623.

The authorised capital of UAB Kauno Energija NT registered in the Register of Legal Entities on 31 December 2018, in total of 1,329,872 euros is divided into 45,921 ordinary nominal shares with the par value of 28.96 euros each.

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

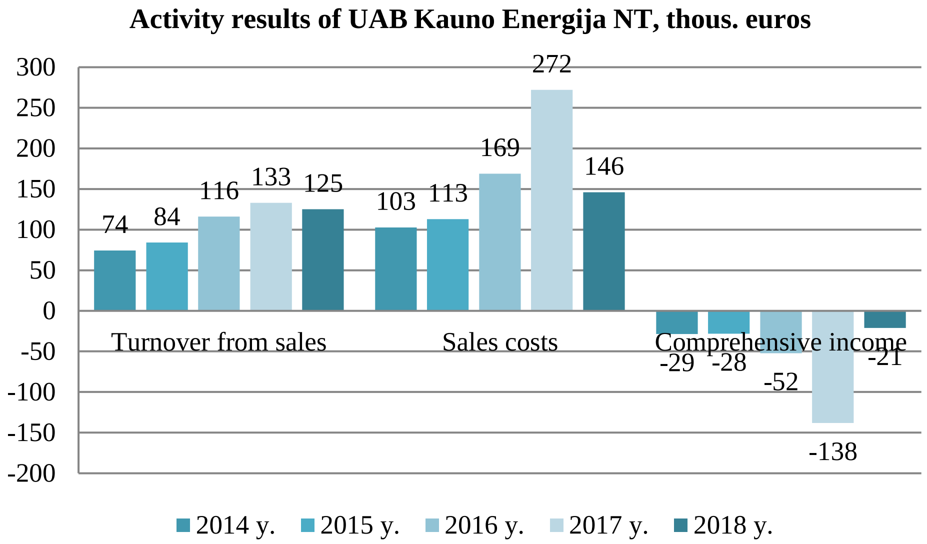
Activities of UAB Kauno Energija NT include the real estate development, management, leases, purchase and sale.

Turnover of UAB Kauno Energija NT of the year 2018, was EUR 125 thousand, Comprehensive income was amounted to EUR (21) thousand.

As at 31 December 2018, UAB Kauno Energija NT had 4 employees.

Comparison of financial indicators of UAB Kauno Energija NT of the year 2018, with the indicators of the years 2014–2017 is provided in Chart 11.

Chart 11



Procedures of acquisition of 100 per cent of the shares of UAB Petrašiūnų Katilinė accomplished on 27 October 2016. The residence address of newly established legal entity is R. Kalantos str. 49, 52303 Kaunas, code 304217723. Statutes were registered at the Register of Legal Entities on 22 May 2017.

Authorized capital of UAB Petrašiūnų Katilinė registered at the Register of Legal Entities as at 31 December 2018, amounts to EUR 231,696 and is divided into 800 ordinary registered shares at par value of EUR 289.62 each.

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

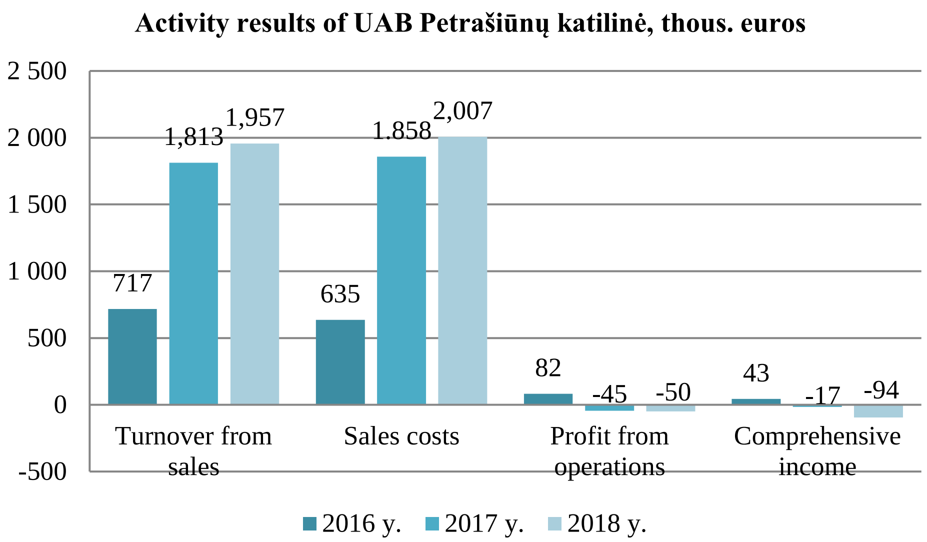
Activities of UAB Petrašiūnų Katilinė include production of heat.

UAB Petrašiūnų Katilinė had 10 employees as at 31 December 2018.

UAB Petrašiūnų Katilinė financial indicators of the year 2018, are as follows: operating revenue is EUR 1,957 thousand, operating expenses are EUR 2,007 and Comprehensive income is EUR (94) thousand.

Comparison of financial indicators of UAB Petrašiūnų Katilinė of the year 2018, with the indicators of the years 2016–2017 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 on 31 December 2018, is EUR 74,475,728.82 (seventy-four million four hundred seventy-five thousand seven hundred twenty eight euros and 82 cents).

Structure of authorized share capital by types of shares is specified in Table 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 18 May 2015, by the decision of General Meeting of Shareholders held on 28 April 2015, and amounts to EUR 74,475,728.82 (seventy-four million four hundred seventy five thousand seven hundred twenty eight euros and 82 cents) and it is divided to 42,802,143 (forty two million eight hundred and two thousand one hundred forty three) ordinary shares of par value of 1.74 euros each.
There are no limitations on the transfer of securities.

16.1. Main characteristics of shares released into free circulation of securities (as at 31 December 2018).

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 31 December 2018).

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 in trade in Company's securities in 2014–2018 is provided in Table 6.

Table 6

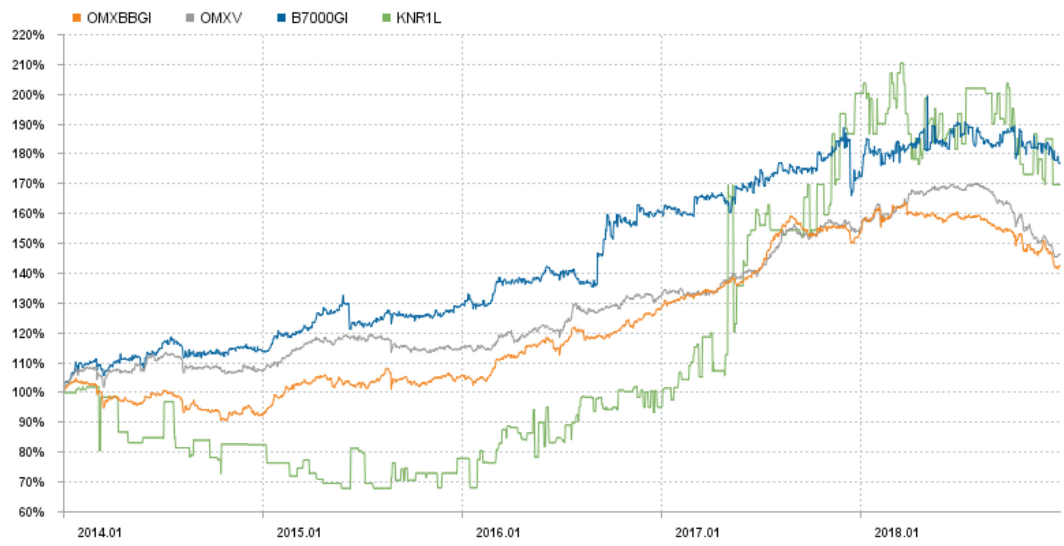
Indicator	2014	2015	2016	2017	2018
Opening price, euro	0.589	0.486	0.459	0.592	1.18
Highest price, euro	0.600	0.479	0.600	1.180	1.24
Lowest price, euro	0.430	0.400	0.401	0.571	1
Last price, euro	0.486	0.459	0.560	1.180	1
Circulation, units	70,160	41,193	190,801	229,220	147,516
Circulation, million euro	0.04	0.02	0.10	0.19	0.16
Capitalisation, million euro	9.74	9.19	11.22	23.64	20.03

Historical data on share prices (in euro) and turnovers in 2014–2018 is 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



Data of Chart 14:

Index/Shares	01/01/2014	12/31/2018	+/-%
OMX Baltic Benchmark GI	613.5	873.81	42.43
OMX Vilnius	421.6	616.9	46.32
B7000GI Utilities	1,344.55	2,378.81	76.92
KNR1L	0.589 EUR	1.0 EUR	69.78

17. Information on the Issuer shareholders

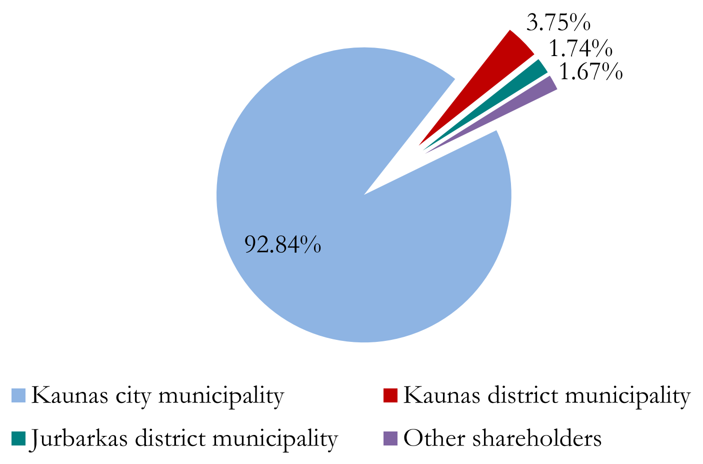
The total number of Company's shareholders (securities of other accounts keepers (not AB SEB bank) clients accounting them as one shareholder) as at 31 December 2018, was 289.
Information on Shareholders of the Issuer who owned as at 31 December 2018, more than 5 per cent of the authorised capital of the Company registered on 18 May 2015, (42,802,143 ordinary nominal shares), is provided in Table 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 2018



Repartition of shareholders 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 apital, per cent from all the shares
Local authorities	42,088,631	98.33
Households	311,003	0.73
Securities of other accounts keepers clients	323,801	0.76
Private non-financial enterprises	53,508	0.12
Other financial brokers, except insurance companies and pension funds and other auxiliary enterprises	25,200	0.06
Other shareholders (non-financial enterprises controlled from abroad, financial auxiliary enterprises, companies holing deposits, except central bank	0	0.00
Total	42,802,143	100

17.1. The shareholders, who owned more than 5 per cent of the shares (20,031,977 ORS) issued for public trading (reg. No. A01031430, VP ISIN code – LT0000123010) as at 31 December 2018, 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 authorised capital (%)
Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319	Ordinary registered shares	16,965,892	29,520,652	84.69	39.64
Kaunas District Municipality Savanorių pr. 371, 49500 Kaunas, Code 111100622	Ordinary registered shares	1,606,168	2,794,732	8.02	3.75
Other shareholders	Ordinary registered shares	1,459,917	2,540,256	7.29	3.41
Total:		20,031,977	34,855,640	100	46.80

17.2. The shareholders, who owned more than 5 per cent of the shares (22,770,166 ORS) issued for non-public trading (VP ISIN code – LT0000128407) as at 31 December 2018, 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 authorised capital (%)
Kaunas City Municipality Laisvės al. 96, 44251 Kaunas Code 111106319	Ordinary registered shares	22,770,166	39,620,089	100	53.20

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

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

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

In 2015, the dividends from the profit of the year 2014, were allocated and paid to the shareholders of the Issuer. Dividend per share was EUR 0.003, in total – EUR 0.129 million. The profit was allocated to the statutory reserve, other reserves. A total of EUR 0.2 million was allocated for 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 EUR 0.042, in total – EUR 1.798 million. 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 EUR 0.05 million 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 EUR 0.106, in total – EUR 4.537 million. The profit was allocated to the statutory reserve, to other reserves, bonuses for employees. A total of EUR 0.1 million 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 EUR 0.078, in total – EUR 3.339 million. The profit was allocated to the statutory reserve, to other reserves, bonuses for employees. A total of EUR 0.1 million was allocated for sponsorship.

18. Employees

A total of 441 employees were employed in the Group as at 31 December 2018. Changes in the number of employees of the Group in 2014–2018 are specified in Table 11.

Table 11

Actual number of employees	Group 2014-12-31	Group 2015-12-31	Group 2016-12-31	Group 2017-12-31	Group 2018-12-31
Total:	545	526	521	513	441
including: management	6	4	6	6	3
specialists	290	279	284	272	238
workers	249	243	231	235	200

Changes in the number of employees of the Company in 2014–2018 are specified in Table 12.

Table 12

Actual number of employees	Company 2014-12-31	Company 2015-12-31	Company 2016-12-31	Company 2017-12-31	Company 2018-12-31
Total:	542	523	508	501	427
including: management	4	3	4	4	1
specialists	290	278	280	269	234
workers	248	242	224	228	192

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

Table 13

No	Education	Group 2014-12-31	Group 2015-12-31	Group 2016-12-31	Group 2017-12-31	Group 2018-12-31
1	Secondary incomplete	6	7	5	5	3
2	Secondary	206	195	187	185	156
3	College	77	72	73	75	62
4	Higher	256	252	256	248	220
	Total:	545	526	521	513	441

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

Table 14

No	Education	Company 2014-12-31	Company 2015-12-31	Company 2016-12-31	Company 2017-12-31	Company 2018-12-31
1	Secondary incomplete	6	7	5	5	3
2	Secondary	205	194	183	181	151
3	College	77	72	71	73	60
4	Higher	254	250	249	242	213
	Total:	542	523	508	501	427

Average conditional number of employees and average monthly salary Eur (at the end of 2018 before taxes)

Table 15

No	Employees	Company	Group
1.1.	Average conditional number of managers	1.67	3.51
1.2.	Average monthly salary of managers	4,830.3	2,993.0
2.1.	Average conditional number of specialists	230.1	238.9
2.2.	Average monthly salary of specialists	1,080.0	1,080.1
3.1.	Average conditional number of workers	189.7	190.17
3.2.	Average monthly salary of workers	818.6	823.9

Company’s management pays a lot of attention to increase in work efficiency, to improve working conditions, to supply of the 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 managers of structural units, the main goal of which is to evaluate the employee's qualifications and abilities to perform functions 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 for better coordination of the Company's activities and for encouraging employees to improve their working activities.

The Company actively cooperates with educational institutions and allow high school students to apply their theoretical knowledge and gain practical skills. 10 students performed their internship in the Company in 2018. 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. EUR 500 thousand were allocated as bonuses to employees from the profit of the year 2017, by the meeting of shareholders in 2018.

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

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

2. The length of service of employees of the Lithuanian power system companies transferred to the Company according to the corporate employer agreement, i.e. when the transfer was carried out according to the Labour Code or the Law on Employment Contract, is considered not interrupted, and such employees are granted additional paid leave for a continuous period of employment with the Company.

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

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

The employer obligates:

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

2. In case of death of an employee, the Company pays an allowance in the amount of two monthly average salaries of the last year of the Company or a branch (depending on where the employee has worked), gives free transport or covers transport costs. The allowance is granted to the burying person;

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

4. In case of birth of one or more children, employees are granted 50 per cent of the of the average salary of the previous year of the Company or an affiliate (depending on where the employee works) for each child;

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

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

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

8. In other cases, where the material support is needed (loss due to natural disasters or other reasons beyond the employee's control), at the agreement of the representatives who have signed the Collective

Agreement, the Company pays an allowance in the amount of three monthly average salaries of the last year of the Company;

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

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

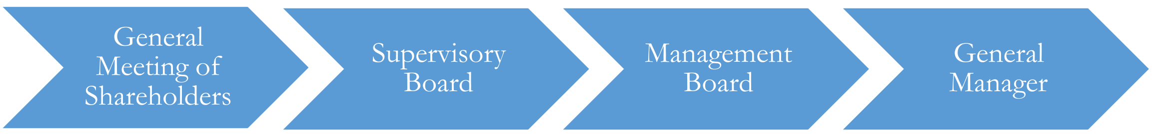
19. Procedure for amending the Issuer Articles of Association

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

The statutes of the Company were amended on 22 February 2018, by the decision of the General Meeting of Shareholders. Scope of competence and functions of Supervisory Board, Management Board and General Manager were specified in these Statutes. The new version of the statutes was registered in the Register of Legal Entities of the Republic of Lithuania on 13 March 2018. It can be found in the Internet website of the Company at www.kaunoenergija.lt.

20. Issuer 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 2018. Company's General Manager and the Chief Finance Officer took part in 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 Board members and supervises the activities of the Board and the General manager of the Company; submits its comments and proposals to the General Meeting of Shareholders on the Company's operating strategy, set of annual financial statements, draft of profit / loss allocation and the annual report of the Company as well as the activities of the Board and the General manager of the Company; submits proposals to the Board and the General manager of the Company to revoke their decisions which are in conflict with laws and other legal acts, the statutes of the Company or decisions of the General Meeting of Shareholders; addresses other issues assigned to the scope of powers of the Supervisory Board by decisions of the General Meeting of Shareholders regarding the supervision of the activities of the Company and its management bodies. The Supervisory Board shall not be entitled to assign or delegate the functions assigned to the scope of its powers by the Law on Companies of the Republic of Lithuania and the statutes of the Company to other organs of the Company.

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

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

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

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

20.1. Data on the committees in the Company

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

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

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

In carrying out its activities, the Audit Committee follows the internal rules of procedure of the Company's Audit Committee approved by decision No 2015-4 of 26 October 2015, of the meeting of the Supervisory Board of the Company. The Audit Committee performs its functions provided for in article 52 of the Law on Audit of the Republic of Lithuania. In 2018, the Audit committee supervised the independent auditor's audit of the financial statements audit process and held one meeting. The interim financial statements of 9 months of the Company reviewed on the meeting. Considering the end of an independent auditor's contract in 2019, options for new independent auditors working in the market were discussed. Requirements and recommendations for a new independent auditor were formulated.

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

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

Mr. Audrius Lukoševičius. Head of internal audit service in Alytus Credit Union, Credit Union Neris, Aukštaitija Credit Union, Kaunas Region Credit Union, Credit Union Moterų Taupa, Central Credit Union, Achema Credit Union, Credit Union Memel Savings Bank. Member of the board of UAB Kauno Autobusai, Palanga Credit Union, association Kauno mažoji beisbolo lyga. Member of loan committee in Lithuanian Central Credit Union. Lector at Public Institution Kauno Kolegija. He was elected as an independent member of Company's Audit Committee on 26 October 2015. Education – University degree, bachelor's in business administration and management from Vilnius University (1996), master's in business administration and management from Vilnius University (1998). Workplaces and positions held over the last 10 years: 08.2004–12.2013 – Manager of customer service centre at Swedbank, AB, 04.2015–12.2015 – Specialist of supervision of credit unions of Lithuanian Central Credit Union. Mr. Audrius Lukoševičius holds no shares of the Company. No interest in the capital of other Lithuanian companies.

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

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

Mr. Juozas Gontis is a senior lawyer of the Law Division of the Department of Law and Purchases of the Company. He was elected as a member of Company's Audit Committee on 26 October 2015. Education – University degree, bachelor in English philology from Vilnius University (1998), master's in international law from Vytautas Magnus University (2002). Workplaces and positions held over the last 10 years: 08.2002–06.2010 – senior solicitor of Kaunas branch of Bank of Lithuania, 08.2010–03.2012 – lawyer of

UAB Vilniaus Valda, 04.2014–11.2014 – lawyer of AB Kauno Dujotiekio Statyba, 09.2010–12.2014 – lawyer of UAB Rotada, 08.2010–12.2014 – lawyer of UAB KDS Group. Mr. Juozas Gontis holds no shares of the Company. No interest in the capital of other Lithuanian companies.

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

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

Members of the Supervisory Board of the Company as at 31 December 2018:

Full name	Position	Beginning of term	End of term
Visvaldas Matijošaitis	Chairman of the Supervisory Board	29 May 2015	29 May 2019
Tomas Bagdonavičius	Member of the Supervisory Board	29 May 2015	21 February 2019
Visvaldas Varžinskas	Member of the Supervisory Board	29 May 2015	29 May 2019
Rimantas Mikaitis	Member of the Supervisory Board	29 May 2015	29 May 2019
Darius Razmislevičius	Member of the Supervisory Board	22 February 2018	29 May 2019
Andrius Palionis	Member of the Supervisory Board	29 May 2015	29 May 2019

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

1 session of the Supervisory Board was held during the year 2018. More than ½ of members of the Supervisory Board attended the session.

Mr. Visvaldas Matijošaitis is a Mayor of Kaunas city (code 111106319, Laisvės al. 96, LT-44251 Kaunas), Member of the Kaunas City Municipality Council. He is also a founder, leader and Chairman of the board of Public election committee 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.

Mr. Rimantas Mikaitis is a member of the Kaunas City Municipality Council (Chairman of City Maintenance and Services Committee); Director of Athletics Federation of Lithuania (code 190722989, Kareivių g. 6, LT-09117 Vilnius).
Mr. Rimantas Mikaitis holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Dr. Visvaldas Varžinskas is a member of the Kaunas City Municipality Council, Chairman of Sustainable Development and Investment Committee (code 111106319, Laisvės al. 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 of Circular Economics Policy Formation of the European Commission (Urban Agenda), expert of Lithuanian Standards Board (LST) Technical Committee TK 42, member of the board of Public election committee United 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.

Mr. Tomas Bagdonavičius is a member of the Kaunas City Municipality Council, head of Business planning and analysis of UAB Vičiūnai Group (code 303211678, V. Krėvės av. 97, LT-50369 Kaunas), member of Public election committee United Kaunas.
Mr. Tomas Bagdonavičius holds no shares of the Company. Mr. T. Bagdonavičius holds the shares of UAB Baltic Fish Export.
Member of Company's Supervisory Board until 21 February 2019.

Mr. Darius Razmislevičius is a member of the Kaunas City Municipality Council, Chairman of Health and Social Affairs Committee, Deputy director of the budget institution Parkavimas Kaune (code 134929849, Puodžių g. 24-1, LT-44239 Kaunas).
Mr. Darius Razmislevičius holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Member of Company's Supervisory Board since 23 February 2018.

Mr. Andrius Palionis is a Deputy Mayor of the Kaunas City (code 111106319, Laisvės al. 96, LT-44251 Kaunas), Director of Irena Matijošaitienė fund (303033453, V. Krėvės pr. 97, LT-50369 Kaunas), Director of Public election committee United Kaunas, Deputy Chair of Sports, Tourism and Leisure Committee, member of Kaunas city Youth Affairs Council. Mr. Andrius Palionis holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Members of Company's Supervisory Board until 22 February 2018:

Mr. Židrūnas Garšva. Member of the Kaunas City Municipality Council, member of City Maintenance and Services Committee, General Manager of UAB Dextera (code 134665673, Jonavos g. 260, LT-44131 Kaunas), member of supervisory board of Public Institution K. Grinius Nursing and Sustaining Treatment Hospital, also involved in personal business (activities such as head offices and management consultancy activities).
Member of Company's Supervisory Board from 29 May 2015 until 22 February 2018.
Mr. Židrūnas Garšva holds no shares of the Company. Mr. Ž. Garšva holds the shares of UAB Dextera Holding.

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

Members of Company's Supervisory Board until 16 October 2018:

Mr. Povilas Mačiulis. Lithuanian political and public person, director of Public Institution Maironio Fondas (code 300648929, Trakų Str. 35-17 Kaunas).
Holds no shares of the Company. Holds the shares of UAB Munava, UAB Erudito Licėjus and UAB Pakelti Antakiai.
Member of Company's Supervisory Board from 29 May 2015 until 16 October 2018.

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

Members of Company's Management Board as at 31 December 2018:

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

31 sessions of Company's Management Board were held in the year 2018. More than 2/3 members of the Management Board attended all the sessions.

Mr. Nerijus Mordas is a Chief Finance Officer of UAB Vičiūnai Group (code 303211678, V. Krėvės pr. 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 9.11 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Algimantas Stasys Anužis is a member of the Management Board of UAB Kauno Švara (code 132616649, Statybininkų g. 3, LT-50124 Kaunas), member of the Council of Kaunas Chamber of Commerce, Industry and Crafts, president of Veterans Basketball League.
Member of Company's Management Board from 1 June 2015.
Mr. Algimantas Stasys Anužis holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Algimantas Stasys Anužis charged EUR 9.11 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Eugenijus Ušpuras is a habilitated doctor, chief of Laboratory of Nuclear Installation Safety, of Lithuanian Energy Institute (code 111955219, Breslaujos g. 3, LT-44403 Kaunas); famous person of Lithuanian energy sector, full member of the Lithuanian Academy of Sciences, professor.
Member of Company's Management Board from 1 June 2015.
Mr. Eugenijus Ušpuras holds no shares of the Company. No interest in the capital of other Lithuanian companies. Mr. Eugenijus Ušpuras charged EUR 9.11 thousand of

remuneration under agreement of activity of member of the Management Board, no bonuses, nor any assets were transferred or guarantees issued during the reporting period.

Mr. Giedrius Bielskus is a director of public institution S. Dariaus ir S. Girėno Sporto Centras (code 133556183, Perkūno al. 5, LT-44221 Kaunas.
Member of Company's Management Board from 1 June 2015.
Mr. Giedrius Bielskus holds no shares of the Company. No interest in the capital of other Lithuanian companies.
Mr. Giedrius Bielskus charged EUR 9.11 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses, nor any assets were transferred or guarantees issued during the reporting period.

Members of Company's Management Board until 8 June 2018:

Mr. Ramūnas Paškevičius. Director of UAB Frostera (code 302431988, Draugystės g. 12, 3 floor, LT-51260 Kaunas), member of Supervisory Board of AB Panevėžio Stiklas.
Member of Company's Management Board from 10 April 2017 until 8 June 2018.
Mr. Ramūnas Paškevičius holds no shares of the Company. He holds the shares of UAB Frostera (12.5 %), UAB CARGO WAGONS (12.5 %), UAB Stiklo Investicija (25 %), UAB Keturtaktis (25 %), UAB Balduva (33 %).
Mr. Ramūnas Paškevičius charged EUR 6.58 thousand of remuneration under agreement of activity of member of the Management Board, no bonuses, nor any assets were transferred or guarantees issued during the reporting period.

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

Mr. Rimantas Bakas is Doctor in Technical sciences. Company's General Manager from 24 November 2008 until 10 December 2018. Member of the Lithuanian Thermal Engineers Association, member of council of PI Kaunas Regional Energy Agency, member of Council of The Lithuanian District Heating Association, member of Scientific Council of Lithuanian Energy Institute, chairman of Master Qualification Committee of the Thermal and Nuclear Energy Department of Kaunas University of Technology, certified expert of the PET Lithuanian Committee on Energy approved by the Lithuanian committee of the World Energy Council, member of the Company's Management Board from 3 May 2011 to 2 January 2012, and from 28 September 2012 to 1 June 2015. Mr. Rimantas Bakas has a higher university education of Kaunas University of Technology, graduated in 1985, industrial thermal energy engineer. Workplaces and positions over the last 10 years: Manager of Strategy Division – 01.2006–11.2008.

Company's General Manager Rimantas Bakas was awarded with letters of appreciation from the Lithuanian District Heating Association (2007), Lithuanian Electricity Association (2008), Lithuanian Committee of World Energy Council (2010), Minister of Energy of the Republic of Lithuania (2013), Chairman of the Seimas of the Republic of Lithuania (2013), Lithuanian Committee of World Energy Council (2013), and the 600th Anniversary medal of Kaunas City Municipality (2008), Medal of Honour of Lithuanian energetics (2011), silver-plated brassy medal of Jonas Vileišis, burgomaster of Kaunas city for the merits in development of energy economy of the city (2015).
Mr. Rimantas Bakas holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mr. Vaidas Šleivys. Director of the Production Department of the Company (and Interim Director General) since 11 December 2018. Education – University education from Kaunas University of Technology, graduated in 2001, Thermal Engineering. Director of Production Department since 14 April 2014. Project Manager of UAB Nomine Consult (code 304493084, Lvovo g. 25-701, Vilnius) since 5 March 2018.
Mr. Vaidas Šleivys holds no shares of the Company. No interest in the capital of other Lithuanian companies.

Mrs. Violeta Staškūnienė is a Company's Chief Accountant since 16 January 2003. She has a University education from Vilnius University, graduated in 1984, labour economics, profession – economist.

Mrs. Violeta Staškūnienė holds 2,641 of the Company's shares, which represent less than 5 per cent of the authorised capital. No interest in the capital of other Lithuanian companies.

Company's General Manager and the Chief Accountant charged EUR 110.8 thousand of remuneration during the year 2018, and the average amount per member is EUR 55.4 thousand. No other assets have been transferred, no guarantees granted.

22. Information on significant agreements

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

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

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

24. Information on major transactions with related parties

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

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

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

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

Information on compliance with the corporate governance code is provided in Annex 1 to this annual report. Annual reports on the Company's corporate social initiatives and policies are provided in Annex 2 to this annual report named AB Kauno Energija Consolidated Sustainability Report in Accordance with GRI Standards and on the Company's website.

27. Data on publicised information

In performing its obligations under the applicable legislation regulating the securities market, the Issuer has announced the following information starting from 1 January 2018, over the GlobeNewswire news distribution service, in which notices are disseminated within the European Union. This information was also posted on the website of the Issuer. All information is available on **Nasdaq Vilnius** websites (http://www.baltic.omxgroup.com/?id=3304) and the issuer's website (http://www.kaunoenergija.lt).

Title	Announcement category	Language	Time
Information on resignation of the member of Supervisory Board of AB Kauno Energija	Notification on material event	EN, LT	2019-02-21 12:00
Update: Activity results of 12 months of the year 2018	Interim information	EN, LT	2019-01-31 09:00

Title	Announcement category	Language	Time
Activity results of 12 months of the year 2018	Interim information	EN, LT	2019-01-30 15:49
Regarding the resignation of General Manager of AB Kauno Energija	Notification on material event	EN, LT	2018-12-11 12:57
Activity results of 9 months of the year 2018	Interim information	EN, LT	2018-10-29 15:05
Information on resignation of the member of Supervisory Board of AB Kauno Energija	Notification on material event	EN, LT	2018-10-16 14:12
AB Kauno Energija interim reports and unaudited financial statements for the 1 half of the year 2018	Half-Yearly information	EN, LT	2018-09-28 10:00
Business activity results of the 1 half of the year 2018	Notification on material event	EN, LT	2018-07-30 15:39
Regarding resignation of Chairman of the Management Board	Notification on material event	EN, LT	2018-06-08 12:50
Activity results of the 1 quarter of the year 2018	Interim information	EN, LT	2018-04-27 15:00
Resolutions of the General Meeting of Shareholders of AB Kauno Energija	General meeting of shareholders	EN, LT	2018-04-26 15:00
Audited annual information of AB Kauno energija for 2017	Annual information	EN, LT	2018-04-26 15:00
The audited activity results of AB Kauno Energija of the year 2017	Notification on material event	EN, LT	2018-03-30 16:20
Convocation of General Meeting of Shareholders of AB Kauno Energija	General meeting of shareholders	EN, LT	2018-03-30 16:08
Notification on removal of Jurbarko Šilumos Tinklai, the branch of AB Kauno Energija from the Register of Legal Entities	Notification on material event	EN, LT	2018-03-20 15:00
Resolutions of the Extraordinary General Meeting of Shareholders of AB Kauno Energija	General meeting of shareholders	EN, LT	2018-02-22 15:00
Supplement of the agenda of the Extraordinary General Meeting of Shareholders of PLLC Kauno Energija	General meeting of shareholders	EN, LT	2018-02-08 15:17
Activity results of 12 months of the year 2017	Interim information	EN, LT	2018-01-30 15:41
Convocation of the Extraordinary General Meeting of Shareholders of PLLC Kauno Energija	General meeting of shareholders	EN, LT	2018-01-18 15:22

Annex 1

AB Kauno Energija report on the compliance with the Governance Code for the companies listed on the Stock Exchange Nasdaq Vilnius

AB Kauno Energija (hereinafter – the Company), following paragraph item 3of Article 22 of the Law on Securities of the Republic of Lithuania and item 24.5 of The Listing Rules of AB Nasdaq Vilnius, discloses its compliance with the Governance Code, approved by the Stock Exchange Nasdaq Vilnius, for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company prepares and revises the strategies of heat production and supply system development every year, specifies investment plans and the sources of their financing. Investment plans are being presented for ratifying to Kaunas city, Kaunas region and Jurbarkas region municipalities as well as to The National Control Commission for Prices and Energy (NCC). The provisions of the Company's strategy which contain no confidential information and the decisions-making process, as well as the Company's development policies and objectives are published in Company's interim and annual reports and company's website. Periodic reports and notifications are disclosing the directions for Company's growth. Those reports, notification on stock event and notifications are presented by the Company's managers and are published in press.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's board accepts strategic decisions and approves Company's activities strategy. The Company's board has also created a long-term and short-term Company's development strategic objectives. Company's Supervisory Board renders responses and suggestions for shareholders regarding Company's activities strategy. The management of the Company, the heads of the areas concerned are making their every effort in order to implement those objectives – the structure of the Company and of the subdivision of the Group is optimised.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Supervisory Board and the Management Board are formed. All the bodies of the Company (Manager, the Management board and the Supervisory board) aim to implement this

		recommendation, mutual meetings of the Management board and the Supervisory board are held during the year.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's supervisory and managing bodies aim to ensure with their activities all interests of the persons concerned. The Company's management and the separate areas managers spend a lot of time communicating with customers, suppliers, contractors, representatives of the municipalities, in order to find optimal solutions, related to the Company's activities. Company's politics in respect of employees, customers and local society is stated in Company's Social Responsibility politics and implementation of this politics is described in Company's Corporate Social Responsibility reports. The specific of Company's activities ensures that consumers (customers) are periodically, i.e. 2-3 times per year invited to attend meetings where the relevant issues related to the activity of the Company are discussed. In addition the "Open doors days" are being arranged in order to better inform customers and to ensure closer relations with them.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The General Meeting of Shareholders and the Company's general manager are compulsory management bodies of the Company set by the Law on Joint Stock Companies of the Republic of Lithuania. The collegial supervisory body - the Supervisory Board and the collegial management body – the Management Board are also being formed. Division of Company's management bodies' competences and responsibility is determined in Company's statute, regulations of management bodies' activities, are published Company's web site and in Company's managers' job description.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	A collegial management body of the Company – the Management Board is responsible for the strategic management of the Company and also performs other key functions of the Company management. A collegial supervisory body – the Supervisory Board is responsible for the effective supervision of activities of the Company's managing bodies.
2.3. Where a company chooses to form only one	Not	The Supervisory Board and the Management

collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	applicable	Board is being formed.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	The Supervisory Board of the Company is elected and it acts partly in compliance with the principles III and IV set out in the procedures and basic principles for the requirements are not violated.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	According to the Statute of the Company the Supervisory Board of 7 (seven) members is elected and the Supervisory Board elects the Management Board. It is elected of 5 (five) members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Supervisory Board of the Company is elected for 4 (four) years. According to the Statute of the Company and to the practice it is not forbidden to re-elect the single members of the Supervisory Board for the new term (Supervisory Board member's number of terms of office is not limited). Also the General meeting of shareholders is able to recall the Supervisory Board in-corpore or its individual members before the end of term of Supervisory Board and the member of Supervisory Board is able to resign before the end of term giving a 14 days written warning.

[1] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

[2] Definitions *'executive director'* and *'non-executive director'* are used in cases when a company has only one collegial body.

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory Board hasn't been the General Manager of the Company. His current or past position is not an obstacle for independent and impartial supervision.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	The mechanism of forming of the Supervisory Board, which corresponds to the requirements of the Law on Joint Stock Companies of the Republic of Lithuania, ensures the objective supervision of the collegial management body.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information regarding candidates for the members of Supervisory Board is being disclosed for shareholders even before and during General meeting of shareholders. Information regarding their education, qualifications, professional experience, occupation and other important professional obligations is being presented in Company's annual and interim reports and publicized in Company's website as well. It is foreseen in the work regulations of the Supervisory Board that every member of the body has to inform the Chairman of the Supervisory Board and the Company about his data changes and this data is being presented in the Company's annual and interim reports and publicized in Company's website as well.

[3] Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	The shareholders of the Company by offering candidates for the collegial body must ensure that these members have the required competence. The Company publishes only the information which is provided by the members of the collegial body. Information which is presented in the annual and in interim report (data on participation of the issuer's statute capital, data on participation in other undertakings, bodies and organisations (title of the company, institution or organization and personal occupation), is publicized in Company's website.
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	According to the Company's structure and activities, the main shareholder of the Company introduces candidates for members of the collegial body with relevant qualifications. The Collegial body as a unit has a versatile knowledge, opinions and experience enabling them to perform their tasks properly. Audit Committee as a unit, has up-to-date knowledge and relevant experience in finance, accounting, and (or) auditing.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	In the practice of the Company all the new members of Supervisory Board are regularly informed about Company's activities and its alterations, as well as substantial changes of legal acts, regulating Company's activities and of circumstances, making an influence on Company's activities at the sessions of Supervisory Board of individually if there is such need or upon request of members.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	No	The Company does not make any influence on the composition of the collegial body. Candidates to the members of the Company's collegial body are offered by the main shareholder. Detailed information is provided in article 3.7.

[4] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[5] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the	No	Elected Company's Supervisory Board consists of seven dependent members who are also the members of the Kaunas City Council. All the members of Supervisory Board meet criteria indicated in item 3.7 of recommendations, except criteria 4, because all the members of Supervisory Board partly represent controlling shareholder, i.e. Kaunas city municipality having 92.84 % of votes.

past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, advisory and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes	Company's Supervisory Board does not determine the term of independence, notwithstanding that a particular member meets all the requirements for independence indicated in this Code, because the elected Company's Supervisory Board consists of seven dependent members who are also the members of Kaunas City Municipality Council.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one	Yes	The Company discloses dependence of the members of Supervisory Board in this report.

or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.		
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	Information provided by members of the Supervisory Board regarding their professional experience, occupation and other important professional obligations and their relations with the Company is being presented in Company's annual and interim reports.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	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.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	The Supervisory Board presents to the general shareholders meeting their opinions and proposals about the Company's activities, set of the annual financial statements, profit allocation project, the Company's annual report, the activity of the Company's general manager and the Management Board, and also carries out other functions allotted to the Supervisory Board competence regarding the Company's and it's managing bodies activity supervision. The Chairman of the Supervisory Board regularly meets the Chairman of the Management Board and the General Manager to discuss the events or changes of the Company that have taken place, also the essential questions of the Company's activity.

[6] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

[7] See Footnote 3.

[8] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	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.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The members of the Company's Supervisory Board devote enough time and pay enough attention individually and collectively for the functions assigned to the competence of the Supervisory Board to carry properly. All the members of Supervisory Board took part in more than a half sessions of the Supervisory Board during Company's financial year. A quorum determined in all standard acts was present in all sessions (was attended by more than 2/3 of the Supervisory Board members) of Supervisory Board in 2018. Members of Supervisory Board participating in session are registered in session protocol and in list of session participants.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company's Supervisory Board in its work aim to behave honestly and impartially with all of 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

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

		questions.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	Company's management bodies conclude and approve their contracts following requirements of legal acts and Company's Statute. Members of Company's supervision or management bodies or shareholders are not concluded any contracts with Company, including of a big value or concluded in non-standard conditions. More detailed information is provided in Note 25 of explanatory notes to the financial statements.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	As members of the Supervisory Board are partly related with Kaunas city municipality because they are members of Kaunas City Municipality Council, all their decisions are made only following Company's interests. Company's Supervisory Board is independent from Company's management bodies. Based on the Company's opinion, the collegial body and the Audit Committee are provided with sufficient resources, including their right to get all the necessary information, especially from the employees of the Company. Remuneration Committee is not set up in the Company because the salaries of the managers of the Company, their deputies and of the chief accountant are determined according to the schedule approved by Kaunas Municipality used in the municipality enterprises. Salary of Company's General Manager is determined by the Company's Board. The schedule of accounting and allocation of employees' variable part of salary is presented in the annex of the Company's collective agreement. Determination of per cent of variable part of salary, accounting and allocation of variable part of salary is detailed in this schedule.

[10] In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[11]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Not applicable	Company's Audit Committee is formed by the Supervisory Board starting from 31 March 2009. The Supervisory Board appointed six member of Audit Committee from 29 May 2015. The Nomination and the Remuneration Committees are not formed in the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No. 4.6. Nomination Committee, which would be obliged to perform all the functions appointed for this committee is not formed in Company and these functions are partly performed by the Supervisory Board and / or Company's Board. The Company will seek to implement this provision In the future.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is	Yes	Audit committee is being formed in the Company. Al least one member of this Committee is independent. Three independent members act in Audit committee starting from 29 May 2015. The Committee acts independently and principally and renders recommendations and prepares reports that are presented to Supervisory Board.. The Supervisory Board is responsible for decisions made within its competence.

[11]The Law on Audit of the Republic of Lithuania (*Official Gazette*, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.		
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Audit Committee acts in the Company and it consists of six members, three of whom are independent members. Term of office of this Committee coincides with the term of office of the Company's Supervisory Board.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6. Allocation Committee, which would be obliged to implement all the functions allocated to this committee, is not being formed in Company and all these functions are being performed by the Supervisoty Board and / or Management Board. The information on composition of the Audit Committee, the number of sessions and attendance during the year 2018 is being announced in this Annual Report.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the	No	The Company does not follow this recommendation partly because there are no Committees of Nomination and Remuneration at the Company. The Remuneration Committee is not formed according to the circumstances shown in the article No 4.6.

meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.		
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	The Company does not form the committee which would be obligated to perform all of the tasks that were designated for the Nomination Committee. These functions are partly being performed by Supervisory Board and / or Company's Management Board.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements,	Not applicable	The Committee of Remuneration is not formed according to the circumstances shown in the article No 4.6.

and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; • Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the		

granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body	Yes	However, as of 31 March 2009 the Audit Committee was formed by the Supervisory Board. The term of office of this committee coincides with the term of office of the Company's Supervisory Board. This committee will seek to fully implement functions assigned to it by this recommendation.

related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be		

entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	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 V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Company fully implements this recommendation. The Company's Supervisory Board and Management Board are run by the Chairman de jure and de facto. In accordance with the work regulations of the bodies the chairmen of Supervisory Board and Managing Board convenes meetings, ensures proper informing about convening meeting and about agenda of the meeting. This recommendation is fully implemented by the Supervisory Board and by the Managing Board.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[12].	Yes	This recommendation is implemented by the Supervisory Board and by the Management Board.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents 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 are present or certain issues of great importance to the company require immediate resolution.	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 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.
5.4. In order to co-ordinate operation of the	Yes	The chairmen of Company's supervisory and

[12] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.		management bodies coordinate dates of the meetings, their agendas and cooperate in solving other issues of corporate governance.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. 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 their holders.	Yes	The ordinary registered shares which make the authorized capital of the Company give the equal rights for all share owners.
6.2. 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 allows investors to take a look at the rights conceded by newly issued or already issued shares. Company's Statute in which the rights conceded to Company's shareholders are determined, are publicized in Company's website.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[13] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	Yes	In compliance with the Law on the Companies and the Company's statutes the transactions confirmation issues foreseen in this recommendation are ascribed to the competence of the Management Board but in individual cases for the asset disposal transactions the Company applies to the Meeting of Shareholders, as it is prescribed in Company's statutes.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	There is a possibility for shareholders to vote in advance by filling up a general vote bulletin.

[13] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Draft decisions of convoked meeting and decisions taken by meeting are being disclosed publicly by the Company in Company's website and using GlobeNewswire information dissemination system of Nasdaq Vilnius Stock Exchange as it is foreseen in the Law on Companies not only in Lithuanian, but also in English.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting 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 can implement the right to participate in the General meeting of shareholders personally or through their representatives if the person has a proper authorization or the voting right delegation agreement is made with him in compliance with the legal acts order. The Company also creates conditions for the shareholders to vote in advance in writing by completing the general voting bulletin as it is foreseen by the Law on the Joint Stock Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	Not applicable	According to the order of the Company's shareholders meetings and the lists of shareholders, there was no need to implement this recommendation in the Company up to now.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest**		

regarding members of the corporate bodies.		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The members of the Company's Supervisory and of the managing bodies act in according with the interests of the Company and their competences and individual features suggest that they behave so as to avoid conflicts of interests and they were not observed in practice. The members of the Company's Supervisory and of the managing bodies did not conclude deals with the Company, including high value deals or ones made in not standard conditions.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The members of the Company's supervisory and management body are not entered into transactions with the Company, including those consisting of high value or non-standard conditions.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	In accordance with regulations of Company's supervisory and management bodies, the provisions of the Law on Joint Stock companies of the Republic of Lithuania, the members of the Company's Supervisory and of the managing bodies must abstain from voting when decisions on deals or other questions in which they have a personal or professional interest.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		

8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	Not applicable	The Company publicizes average wages of employees of the Company (by category) and the average wage of all employees of the Company. The remuneration policy as provided in this recommendation is not confirmed in the Company because this is not determined by the valid legal acts. The remuneration for the Supervisory Board and the Management Board of the Company is determined by the meeting of shareholders. Remuneration for the members of the Management Board for the results of the year 2017 was no allocated. Remuneration for members of the Management Board is paid following the order determined in Company's Statutes. The remuneration of the managing director is determined by the Managing Board considering the schedule of remuneration order of managers of municipal enterprises, companies, municipal controlled joint-stock and close-end companies, their deputies and chief accountants approved by Kaunas municipality. Considering this schedule the remuneration of the General Manager and chief accountant of the Company is determined. Estimating this there was no need to prepare separate remuneration policy. Nevertheless in compliance with the legal acts orders, the Company publicly announces the information on the termination payments and loans for the members of the Supervisory Board, the Management Board and General Manager, Chief accountant in the annual report. The information regarding average remuneration of employees of the Company is also announced in Company's website.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.

8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • An explanation how the choice of performance criteria contributes to the long-term interests of the company; • An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; • Sufficient information on deferment periods with regard to variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • Sufficient information on the policy regarding termination payments; • Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; • Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; • Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; • A description of the main characteristics of supplementary pension or early retirement schemes for directors; • Remuneration statement should not include commercially sensitive information.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company, but the information on the termination and other payments is publicly announced in the Company's annual report.. Also Company publicizes average wages of employees of the Company (by category).

8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.

• All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial **report** of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Not applicable	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable Not	

8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	applicable	
8.11. Termination payments should not be paid if the termination is due to inadequate performance	Not applicable	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1 the remuneration policy according to which the report on remuneration would be prepared is not approved by the Company.
8.13. Shares should not vest for at least three years after their award.	Not applicable	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	

8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1., remuneration policy according to which the report on remuneration would be prepared is not approved by the Company. Nevertheless, the Company publishes information on the remuneration and other payments of the members of the Supervisory Board, Management Board, General Manager and to the chief accountant in Company's annual reports in accordance with the legislation. Information on average remuneration of Company's employees is also announced in Company's website. The Company does not use schemes under which the directors can be paid with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	Because of the reasons foreseen in the recommendation No. 8.1. the Company does not use schemes under which the directors can be remunerated with the shares, stock selection transactions or other rights to acquire shares, or to be paid by the stock price changes.

8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company follows all the requirements foreseen by the law for the stakeholders' opportunities to participate in the management of the Company, but any group of interest, having the right to participate in management of the Company, determined by the law, is not created yet in accordance with law.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to	Yes	The Company discloses information, provided in this recommendation, in the reports, in the annual and interim reports, the Company's website and Centre of Registers electronic publication, in which the public information of legal persons are announced, except the report of remuneration policy determined in VIII principle. This report is not prepared in the Company because of the reasons foreseen in the article No. 8.1., and it is not approved, as it is not required by the law. According to the Law on Companies and to Company's Statute the remuneration for the members of the Company's Supervisory Board and of the Management Board can be determined by the meeting of shareholders. In the year 2018 remuneration has been allotted for the members of Company's Management Board for the results of the year 2017 and it is paid following the order determined in Company's Statutes. The company also attempts not to disclose the information that can affect the price of Securities issued by the Company in the comments, interviews or other means, as long as such information will be publicly announced at the Nasdaq Vilnius Stock Exchange GlobeNewswire dissemination system on the

which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		Company's website.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company simultaneously presents the information using the Nasdaq Vilnius Stock Exchange information dissemination system GlobeNewswire in Lithuanian and English languages as it possible. The Stock Exchange places received information on its website and in trading system assuring simultaneous presentation of this information to all. In addition, the Company strives to announce the information before or after a trading session on the Nasdaq Vilnius Stock Exchange and to present it to all the markets in whom the trade in Company's stocks is being in progress at the same time. The Company does not provide the information which can have an influence on the price of its issued stocks on comments, interview and other ways till this information is publicly announced using the Nasdaq Vilnius Stock Exchange dissemination system.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by	Yes	Company's information is published on its website in Lithuanian. Topical information for investors is published also in English.

placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.		
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information provided in this recommendation is announced publicly and placed on the Company's website, on the website of Nasdaq Vilnius Stock Exchange and it can be reached by all the interested persons.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements	Yes	The set of annual financial statements and the annual report of the Company is verified by the independent audit company.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The candidature of the Company's audit company which accomplished audit of financial statements of the year 2018, was presented to the General meeting of shareholders by the Management Board in compliance with the results of the public procurement implemented in 2017.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The information provided in the recommendation was not presented to the shareholders because the audit company did not provide non-audit services for the Company in the year 2018.

AB
KAUNO
ENERGIJA

CONSOLIDATED SUSTAINABILITY REPORT IN ACCORDANCE WITH GRI STANDARDS
2018

We are proud to present this - our third GRI Standards Sustainability Report.

In 2018, we continued to implement our new company four year strategy, concentrating on increasing customer satisfaction, working closer with suppliers to ensure that they are aware of our commitment to sustainability, and continuing to train and increase the knowledge of our employees on all aspects of our environmental management initiatives.

In addition, we started the process of developing a closer exchange of ideas and feedback with our stakeholders. This is something we want to improve so that our GRI Standards report fully represents their assessments and decisions.

Our choice of Material Topics currently reflects the company's impact in social, economic and environmental areas. However, with more of our customers (and some suppliers) gaining more and more interest in our environmental performance, we will try to improve our reporting and data collection processes so that we are gradually able to increase the number of material topics we can report on.

The company has made great progress since it started reporting using GRI Standards, and we want to continue this progress, and are committed to doing so in the foreseeable future.

Vaidas Sleivys
Director of Production Department, (and Interim Director General).

Introduction

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

The report has been prepared **in accordance with GRI Standards 2016: 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.

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 GRI 101: clause 1.3) are reported on in full. In a few cases where supporting information for a disclosure has an external reference, all efforts have been made to ensure that a specific location is referenced, as well as ensuring that this location is publicly available. These additional external sources may include other materials produced by the company such as its annual report and full financial statements. If some material topics are not provided with 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
GRI 205 Anticorruption

GRI 302 Energy
GRI 305 Emissions
GRI 307 Environmental Compliance

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

With this report AB Kaunas Energija 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 2016.

GRI 102 General Disclosures

Organizational profile

102-1	**Name of the organization**	AB „Kauno energija“ (Public Limited Liability 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, 47179 Kaunas Lithuania
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:**	1. Information relating to total number of employees, the range of company activities, net revenues, and quantity of products / services provided is all presented in the annual report in sections 18, 7, 6 14 & 18; 5 & 14; 7 & 14; and 6.1.respectively. 2. Information in this disclosure asking for total capitalisation broken down in terms of debt and equity in 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 2018and are recorded in A/R section 18 – pages 87-89.

Total Number of Employees by Employment Contract and Gender						
Total Number	Fixed-term employment contracts			Open-ended contracts		
	Total	**Women**	**Men**	**Total**	**Women**	**Men**
427	12	5	7	415	132	283

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**
427	401	121	280	26	16	10

All employee data is compiled and processed by the company's staff and administration departments, and there are no significant changes in the figures above since the last reporting period.

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.

102-9 **Supply chain**

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 supplies heat to 119,165 consumers. In 2018, these 11 major suppliers were:

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

In 2018, the company engaged with a total of 675 smaller Lithuanian suppliers and six external to Lithuania: a total of 681 suppliers providing a range of small local services across the broad scope of the company's activities.

102-10	**Significant changes to the organization and its supply chain**	There were some significant changes to the structure of the company and the way in which it communicates with clients and customers. At the start of 2018 as part of the city municipality's efforts to centralise and streamline the customer service centres of all municipality controlled companies and enterprises, the single service centre 'Mano Kaunas' was launched. Now city inhabitants can receive from this single 'one-stop-shop', information or consultation regarding services of six enterprises including energy, waste, water, building maintenance, and the public transport services. This takes away much of the public interface traffic we previously received at our head office building. Additional changes to the company structure in terms of services and ownership of company subsidiaries; departing and new members to the Management Board; 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**	April: The company supports and encourages its employees to participate in the national and regional initiative "MesDarom.lt" (http://mesdarom.lt/apie-mus/istorija) - a scheme for members of the community and companies to clean up local areas. June: The company encouraged and supported its employees to participate in the XXIII Lithuanian Energy Sector Sports Games in Šventoji. These games are not only a sporting event, but also a great opportunity to communicate with colleagues outside the office to meet the energy of other companies. October: As part of the Kaunas University of Technology's career days activities (KTU 'WANTed'), the company participated in a major exhibition of career opportunities, an event it has participated in for over a decade. Throughout the year, five tours of the company took place. Participants were invited to sign up via a special Facebook page. During the tour, the company introduced its activities, presented its production capacities, and helped participants to understand energy efficiency and reducing the cost of heating. In total about 120 people visited the company during these five tours.
102-13	**Membership of associations**	The company is a member of the following associations: • Lithuanian District Heating Association • Lithuanian Electricity Association • Kaunas Region Industrialists and Employers Association • Lithuanian Thermal Technology Engineers Association

Strategy

102-14	**Statement from senior decision-maker**	We are proud to present this - our third GRI Standards Sustainability Report. In 2018, we continued to implement our new company four year strategy, concentrating on increasing customer satisfaction, working closer with suppliers to ensure that they are aware of our commitment to sustainability, and continuing to train and increase the knowledge of our employees on all aspects of our environmental management initiatives. In addition, we started the process of developing a closer exchange of ideas and feedback with our stakeholders. This is something we want to improve so that our GRI Standards report fully represents their assessments and decisions. Our choice of Material Topics currently reflects the company's impact in social, economic and environmental areas. However, with more of our customers (and some suppliers) gaining more and more interest in our environmental performance, we will try to improve our reporting and data collection processes so that we are gradually able to increase the number of material topics we can report on. The company has made great progress since it started reporting using GRI Standards, and we want to continue this progress, and are committed to doing so in the foreseeable future.

Ethics and Integrity

102-16	**Values, principles, standards, and norms of behaviour**	Information 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/apie-bendrove/etikos-kodeksas.

Governance

102-18	**Governance structure**	Information about the company's management structure, along with a governance structure scheme diagram, is 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 six members: three external and independent, and three from among the company's employees (Economic, Accounting, and Judicial/Legal department). The Audit Committee operates under the Company's audit committee's internal rules approved by Supervisory Board on 26 October 2015: the (www.kaunoenergija.lt/wp-content/uploads/2016/02/Audito-komiteto-vidaus-taisykl%C4%97s_20151026.pdf). During 2018 The Audit Committee had 1 session in which it monitored the financial statements and audit process performed by an independent auditor and reviewed the interim financial statements of nine months of the Company. • **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 2018, the board met 16 times. • **Occupational Health & Safety Committee** established in 2017 and with no issues to deal with in 2018, it had no reason to meet. • **A few permanent committees** established to address specific operational issues.

Stakeholder Engagement

102-40	**List of stakeholder groups**	These stakeholders are those individuals or groups to whom the company considers itself accountable and those to whom we expect to be affected by the company's activities or provision of services: • The company's heat supply customers (residents of Kaunas, Kaunas District, and Jurbakas, and organisations consuming heat and/or hot water from the district heating system). • 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 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' set up and operating. 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 in touch with the company Customer Service Department through the new 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 Kaunas Municipality websites.

Once a year the company carries out customer quality service surveys. Also, two to three times a year there are face to face meetings with customers held at the company premises and organised to respond to relevant new developments in the company services. Here members of the management take questions from participants. Announcement of the meetings are published in local newspaper "Kauno diena", also on the company web site and at the entrance to the company's Customer Service Department building door. In 2018 we held two such meetings.

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 will inevitable help to improve our preparation of this report.

102-44 **Key topics and concerns raised**

Regarding topics and concerns raised by customers, these are related to costs and to technical problems with the heating system. We address these on a wider basis by placing information articles in the local newspapers explaining some generic issues.

Regular issues that are raised by the main shareholder Kaunas City Municipality as well as the National Commission for Energy Control and Prices are all controlled and responded to through the company's Department of Sales in partnership with the relevant technical and management leaders within the company.

Reporting Practice

102-45 **Entities included in the consolidated financial statements**

A list of all entities included in the organization's consolidated financial statements or equivalent documents is included throughout all of the A/R – in particular sections 2-14.

The organization's consolidated financial statements or related documents cover the activities of AB Kauno Energija (including its subsidiaries UAB Kauno Energija NT and UAB Petrašiūnų Katilinė). The subsidiary Jurbarko Šilumos Tinklai was removed from the register of legal entities on March 01 2018 (in accordance with a management board decision dated No 24 2017).

102-46	**Defining report content and topic Boundaries**	Now in our third year of reporting under the GRI Standards, the Company have chosen those material topics that have the biggest bearing on their day to day activities, and that constitute the biggest part of their economic, social and environmental impact.
102-47	**List of material topics**	GRI 204 – Procurement Practices GRI 205 – Anti-Corruption GRI 302 – Energy GRI 305 – Emissions GRI 307 – Environmental Compliance GRI 403 - Occupational Health & Safety GRI 404 – Training and Education GRI 405 – Diversity & Equal Opportunities GRI 406 – Non-Discrimination GRI 407 – Freedom of Association & Collective Bargaining GRI 408 – Child Labour GRI 409 – Forced or Compulsory Labour GRI 415 – Public Policy GRI 416 – Customer Health & Safety
102-48	**Restatements of information**	There are no reasons for restatements of information during the reporting period of 2018.
102-49	**Changes in Reporting**	None this year. However, from 2020, two GRI Standards will have new revised versions: *GRI 403 Occupational Health and Safety* and *GRI 303 Water* (which will become *GRI 303 Water and Effluents*). We will start to report on these new versions from next year.
102-50	**Reporting Period**	January 1st to December 31st 2018
102-51	**Date of most recent report**	This is the third report produced under GRI Standards. The last report was for 2017 and this, along with company annual reports and financial statements are available.
102-52	**Reporting Cycle**	Annual
102-53	**Contact point for questions regarding the report**	Mr. Ūdrys Staselka Public Relations AB „Kauno energija“ Tel. +370 37 30 58 85 / Mob. +370 650 96 883 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 this GRI standard 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 and it has not been externally assured. However, the completed audited accounts and annual report 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

GRI 200 – Economic

GRI 204 – Procurement Practices

103-1	**Explanation of the material topic and its boundary**	The company main procurement of services comes through the monthly procurement of provision of heating services from independent heat producers. This is a substantial amount of service procurement - representing 60% of consumers heat demand - making this topic an obvious choice. 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.

103-2	**The management approach and its components**	The company's procurement policy is determined in the Rules of Procurement, which is available publicly on the company's website: www.kaunoenergija.lt/bendroves-veikla/viesieji-pirkimai/mazos-vertes-pirkimu-tvarkos-aprasas Company goals and targets for procurement practices are defined in law as we are obliged to provide 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 organized by the Procurement Commission constituted by the order of General Manager or Procurement Organizer, subject to procurement amount. All announcements and winning contracts are published on the Central Procurement Portal: https://cvpp.eviesiejipirkimai.lt For all heat providers in Lithuania, procurement procedures are governed by national regulations based on legislation. For any local company related procurement grievances, the responsibility for dealing with such is managed within the company's Heat Procurement Commission and associated company departments.
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.

GRI 205 - Anti-Corruption

103-1	**Explanation of the material topic and its boundary**	The company and its subsidiaries are guided by its 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, the implementation.The Company's anticorruption policy is in harmony with the laws of the Republic of Lithuania.The company constantly works hard to minimize the risk of corruption through a range of management and quality control measures.

103-2	**The management approach and its components**	To prevent corruption, a system has been created in which named or anonymous cases of abusive or corrupt practices can be reported to the Company. 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 companyassets, 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: http://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 is working to develop a more effective method of encouraging and collecting evaluation feedback in order to improve this section of reporting.

GRI 300 - Environmental

With reference to clause 1.1 of GRI 103 Management Approach, the disclosures are combined for GRI 300- Environmental material topics.

GRI 302 – Energy

GRI 305 – Emissions

GRI 307 – Environmental Compliance

103-1	**Explanation of the material topic and its boundary**	The material topics within GRI 300 listed above have been chosen as the most relevant for reporting purposes.Due to the particularity of activities the company uses a lot of electricity and has high emissions into the air and generates a specific amount of effluents and waste. 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 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 – 102-17 (*Values, Principles, Standards and Norms of Behaviour and Mechanisms for Advice and Concerns about Ethics*). For 305 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 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 Lithuanian laws. The company has its own air pollution laboratory that operates with a permit from the Lithuanian Environmental Protection Agency. This continuously monitors the emissions to the atmosphere from stationary sources to make sure that they do not exceed the permissible limits Six company boiler-houses use biofuels, thus 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 the Sustainability Report and instead, encourages e-downloads (unless events we attend require handout copies for participants). Improvements to 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 committment to non-financial reporting and although evaluation is not carried out, suggestions can be made to the management approach through employee or client feedback. For this category of 103-3 disclosure reporting, the company is working to develop a more effective method of encouraging and collecting evaluation feedback in order to improve this section of reporting.

GRI 400 - Social

With reference to clause 1.1 of GRI 103 Management Approach, the disclosures are combined for GRI 400-Social material topics.

GRI 403 - Occupational Health and Safety

GRI 404 – Training and Education

GRI 405 – Diversity and Equal Opportunities

GRI 406 – Non-Discrimination

GRI 407 – Freedom of Association and Collective Bargaining

GRI 408 – Child Labour

GRI 409 – Forced or Compulsory Labour

GRI 415 – Public Policy

GRI 416 – Customer Health and Safety

103-1	**Explanation of the material topic and its boundary:**	The material topics within GRI 400 listed above have been chosen as the most relevant for reporting purposes. 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 important to the company, so 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 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 (reorganised into the 'Work Safety Department' from March 01 2018), a Health and Safety Committee (established in 2017). 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 five staff: three for safety issues and two for health issues, as well as a company medical team in the head office. 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 for 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 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 through professional associations. These take place on an annual basis. Both in 2018 and in previous years, the Company did not record any violation of the principles of gender equality, non-discrimination. The trade-union operates in the Company. 147 of employees belonged to the trade-union as of 31 December 2018. Both the trade-union and individual employees are free to enter associations and negotiate collectively for better working conditions or pay. There were no cases of child or forced labour in 2018 nor the previous years in the Company. With our policy on this issue, there will not be any cases expected at all 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 committment to non-financial reporting and although evaluation is not carried out, suggestions can be made to the management approach through employee or client feedback. For this category of 103-3 disclosure reporting, the company is working to develop a more effective method of encouraging and collecting evaluation feedback in order to improve this section of reporting.

Topic Specific Standards

GRI 200 - Economic

201	*Economic Performance*	*Using the guidance in GRI 101: Foundation 2016 - clause 1:3, the company has not considered these topics for this report.*
202	*Market Presence*	
203	*Indirect Economic Impacts*	
204	**Procurement Practices**	
204-1	**Proportion of spending on local suppliers**	The percentage of procurement budget that is spent on suppliers local to that operation (such as percentage of products and services purchased locally) is 99,9749%. Local is defined as being within Lithuania. Our definition of 'significant locations of operation' is as above: the wider areas in which the company operates.
205	**Anti-corruption**	
205-1	*Operations assessed for risks related to corruption*	*Omission of full disclosure 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 – something we hope will be ready within the next reporting period.*

205-2	**Communication and training about anti-corruption policies and procedures**	The company has an approved Corruption Prevention Policy (approved by the decision of the Company's Board No. 2017-4-3 on 24 February 2017), which is published on its website: https://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: https://www.kaunoenergija.lt/bendroves-veikla/korupcijos-prevencija All 21 members – representing 100% - of the governing bodies (Management) have been notified of the organization's anticorruption policies and procedures, as have all 406 employees of the workforce – representing 100% of all categories of work. 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, 11 major suppliers and 670 smaller suppliers (detailed in disclosure 102-9) representing 100% 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. One anti-corruption themed training took place in 2018 for approximately 30 Managers and Senior Management employees. This training was organised and delivered by Transparency International.
205-3	**Confirmed incidents of corruption and action taken.**	No case of corruption was identified in the company during 2018.
206	Anti-competitive Behaviour	Using the guidance in ***GRI 101: Foundation 2016 - clause 1:3***, the company has not considered these topics for this report.

GRI 300 – Environmental

301	*Materials*	*Using the guidance in GRI 101: Foundation 2016 - clause 1:3, the company has not considered these topics for this report.*
302	**Energy**	
302-1	**Energy consumed within the organisation**	The organization itself is a producer of heat energy, so the largest part of electricity is consumed for the production and supply of heat energy. Information on total fuel consumption from renewable and non-renewable sources is disclosed in section 6.1 of the company's annual report. Solid biofuel and natural gas account for almost 100% of fuel consumption. Information on heat produced and sold is disclosed in section 7 of the annual report of the Company. In total, the electricity bought, and internally consumed, by the company was 12,685,301 kWh. This is split as follows:

Internal needs / Other purposes	For heat production and supply
1,581,913 kWh	10,437,135 kWh

The remainder - 666,253 kWh -was electricity resold and used under loan agreements.

The company did not produce steam and therefore reports no consumption or sale in 2018. The company provided no sale or consumption of cooling in 2018.

Total electric energy consumption in organization in 2018 was– 12,019,048 kWh.

302-2	Energy consumed outside the organisation	Omission of Disclosure (allowed under GRI 101 Foundation – section 3.2). The company currently has insufficient reporting standards, methodologies, assumptions, and/or calculation tools in place to fully report on these disclosures. The company is endeavouring to improve in all these areas and expects to be able to report fully in the next reporting period.
302-3	Energy intensity	
302-4	Reduction of energy consumption	
302-5	Reductions in energy requirements of products & services	
303	Water	Using the guidance in GRI 101: Foundation 2016 - clause 1:3, the company has not considered these topics for this report.
304	Biodiversity	Using the guidance in GRI 101: Foundation 2016 - clause 1:3, the company has not considered these topics for this report.

305	Emissions	
305-1	**Direct (Scope 1) GHG emissions.**	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 2018 was 21 008 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). No other Scope 1 emissions are monitored or recorded. 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 here: https://www.kaunoenergija.lt/bendroves-veikla/apie-bendrove/aplinkosauga/). According the law, only the emissions of boiler houses, that are more than 20 MW capacity are calculated. The company owns 6 boiler houses, that are more than 20 MW capacity: For Petrašiūnai power plant (28,568 tonnes of CO_2), and the boiler houses at Pergalė (7,506 tonnes of CO_2), Noreikiškės (22,700 tonnes of CO_2), and Garliava (30,594 tonnes of CO_2), the baseline year of calculation of 2005-2008 is used. For the boiler houses at Šilkas (6,853 tonnes of CO_2) and Jurbarkas(19,088 tonnes of CO_2), the baseline year of calculation of 2009-2010 is used. The base year has not been recalculated since 2011. 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 2018 are as follows:

Year	2013	2014	2015	2016	2017	2018
Emissions of GHG	36,042	32,711	8,607	8,480	8,918	21,008

305-2	*Energy indirect (Scope 2) GHG emissions*	*Omission of Disclosure (allowed under GRI 101 Foundation – section 3.2). The company currently has insufficient reporting standards, methodologies, assumptions, and/or calculation tools in place to fully report on these disclosures. The company is endeavouring to improve in all these areas and expects to be able to report fully in the next reporting period.*
305-3	*Other indirect (Scope 3) GHG emissions*	
305-4	*GHG emissions intensity*	

305-5	**Reduction of GHG emissions**	Greenhouse gas emissions increased quite significantly compared to 2017 (8,918 tonnes CO_2 in 2017, to 21,008 tonnes in 2018). The reason is the increased demand for heat from consumers resulting in additional burning of natural gas for heating systems. Gases included in the calculations are CO_2 only. The company's only reduction initiatives are based on public information campaigns to help customers understand more about energy efficiency measures. However, if the weather temperature drops drastically, then there is very little the company can do to stop the need to produce more heating energy. For baseline figures, please refer to the information in disclosure 305-1, as well as for the standards, methodologies, and calculating tools.
305-6	*Emissions of ozone-depleting substances (ODS)*	*Omission of full disclosure allowed under GRI Standard 101: Clause 3.2. The company has insufficient methodologies, assumptions, and/or calculation tools in place to fully report on these disclosures.*
305-7	**Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions**	Full reporting of those available and relevant requirements of this disclosure is contained in the company Annual Report - Section 7.

Per Year, t	Particulates	Nitrogen Oxides	Carbon Monoxide	Sulphur Dioxide	Hydro-carbons	Others
2018	48,7984	283,0412	1,082,9366	31,6210	1,1982	0,1509
2017	79,7242	285,6461	1236,7667	145,0571	1,1982	0,4297
2016	53,7542	265,0797	1155,3349	231,4719	4,2871	0,2818
2015	43,5783	203,6775	904,8513	193,3228	20,1586	0,2818
2014	23,613	154,570	534,443	47,158	16,294	0,440
2013	10,5967	101,3197	299,6656	5,0747	14,9647	0,770
2012	7,6130	54,3160	135,1510	6,0280	1,2080	0,4397

There have been no pollution-related incidents and the Company was not imposed any penalties in 2018.

306	*Effluents and Waste*	*Using the guidance in **GRI 101: Foundation 2016 - clause 1:3**, the company has not considered these topics for this report.*
307	**Environmental Compliance**	
307-1	**Non-compliance with environmental laws and regulations**	During this reporting period, the company did not receive any fines or sanctions for non-compliance with environmental laws and/or regulations at all, nor were any legal cases brought against the company during this time.
308	*Supplier Environmental Assessment*	*Using the guidance in **GRI 101: Foundation 2016 - clause 1:3**, the company has not considered these topics for this report.*

GRI 400 – Social

401	*Employment*	*Using the guidance in GRI 101: Foundation 2016 - clause 1:3, the company has not considered these topics for this report.*
402	*Labour Management Relations*	
403	**Occupational Health and Safety**	
403-1	**Workers representation in formal joint management–worker health & 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 by the Lithuanian Ministry of Social Security and Labour Minister in 2013. 9 September. Order no. A1-502. 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 & rates of injury, occupational diseases, lost days, & absenteeism, & 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 2018 the company reported the following injuries in the work place: In the workplace (N1), three reported accidents: two male employees (right shoulder dislocation, and left fracture II finger I phalanx fracture) and one female employee (right lumbar joint rupture). On the way to the workplace (N2), one reported accident: one female (left ankle ligament sprain). In addition, ther was one case of Osteochondrosis reported and recorded under the category of Occupational Disease. As yet, the company does not separate reasons for absence into categories that include types of injuries, and therefore cannot state how many days were lost through the above recorded injuries.
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**	The company has established an occupational health and safety committee following the principles, roles and responsibilities as defined by the Occupational Safety and Health Committees of the General Regulations, approved by the Lithuanian Ministry of Social Security and Labour Minister in 2013. 9 September. Order no. A1-502. This committee works with the trade union and covers 100% of all health and safety topics within the work place and broader work environment.
404	**Training and Education**	
404-1	**Average hours of training per year per employee**	The company has an annual programme of professional refresher courses and trainings – including participation in various seminars and conferences – to allow employees to update and upgrade their workplace skills and knowledge. The company also continues to invite recognised experts to deliver lectures to the employees once a year on topics related to the production or supply of heat. The average number of hours training per employee per year is 15 hours. And the split by gender of training is: women 300 hours, and men 375 hours. By category of employees this looks like: 240 hours for Managers, 405 hours for Specialists, and 30 hours for other workers.

404-2	**Programmes for upgrading employee skills & transition assistance programmes**	The company works 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. However, there are no special programmes, except those for some employees who need to update their existing certificates or professional competences on a regular basis. To date, the company has not recorded 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 Disclosure (allowed under GRI 101 Foundation – section 3.2). Reporting standards are not sufficient to allow adequate data reporting here. The company does not currently provide performance reviews as part of its training and education for employees.*
405	**Diversity and Equal Opportunity**	
405-1	**Diversity of governance bodies and employees**	The share of individuals in the management bodies of each of the following categories: Total Managers – as of 2018-12-31: 21; Women: 6; Men: 15 Although there are six women Managers, there are currently no women within the ranks of Senior Management, or at Board or Supervisory Board level. The age group of those within the company governance bodies / senior management is as follows: two are younger than 30 years; ten are between the ages of 30-50 years; and nine are over 50 years. For all other employees by employment category the figures are as follows: the total number of women is 137 and for men the figure is 290. The age-group split is: 33 are younger than 30 years old; 136 are between 30-50 years old; and 237 are over 50 years old. The company does not have any information on persons belonging to minorities or vulnerable groups.
405-2	**Ratio of basic salary & 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.
406	**Non-discrimination**	
406-1	**Incidents of discrimination & corrective actions taken**	No cases of discrimination were recorded in the Company in 2018.

Table within 405-1:

Total Managers – as of 2018-12-31	Women	Men
21	6	15

407	**Freedom of Association and Collective Bargaining**	
407-1	**Operations & suppliers in which the right to freedom of association & 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 147 members as at 31 December 2018. 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.
408	**Child Labour**	
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.
409	**Forced or Compulsory Labour**	
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.
410	*Security Practices*	*Using the guidance in GRI 101: Foundation 2016 - clause 1:3, the company has not considered these topics for this report.*
411	*Rights of Indigenous Peoples*	
412	*Human rights Assessment*	
413	*Local Communities*	
414	*Supplier Social Assessment*	
415	**Public Policy**	
415-1	**Political contributions**	No financial or in-kind political contributions made directly or indirectly.

416	**Customer Health and Safety**	
416-1	**Assessment of the health & safety impacts of product & 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 & safety impacts of products & services**	The company has had no identifed or recorded non-compliance with regulations and/or voluntary codes.
417	*Marketing and Labelling*	
418	*Customer Privacy*	*Using the guidance in GRI 101: Foundation 2016 - clause 1:3, the company has not considered these topics for this report.*
419	*Socioeconomic Compliance*	

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