Vilniaus vandenys

INDEPENDENT AUDITOR'S REPORT, ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Vilniaus vandenys UAB

Independent Auditor's Report,
Annual Report and
Financial Statements for the
Year ended 31 December 2017

CONTENT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UAB Vilniaus vandenys

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UAB Vilniaus vandenys (the Company), which comprise the statement of financial position as at 31 December 2017, the statement of profit (loss) and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matters	How the matter was addressed in the audit
1. Impairment assessment of property, plant and equipment Property, plant and equipment amounts to EUR 109.821 thousand in the statement of financial position of the Company as at 31 December 2017. As disclosed in Note 3.24 to the financial statements, the Company performed an annual impairment test of these assets as at 31 December 2017 based on the value in use estimation. The annual impairment test was significant to our audit as it involves management judgment regarding the assumptions used in the underlying cash flows forecasts. Furthermore, the property, plant and equipment represent more than 81% of the total assets of the Company as at 31 December 2017. Based on the outcome of this impairment test, the Company has not recognized an impairment charge.	Among other procedures, we involved a valuation specialist to assist us with the assessment of the impairment model's structure and composition as well as the discount rate used by the management in the impairment test. We also considered other key assumptions used by the management in the estimation of cash flows forecasts for revenue, costs, level of capital expenditure by comparing them to historical performance levels and management's expectations of their development in the future. We tested the sensitivity in the available headroom of the impairment test by considering if a reasonably possible change in assumptions could cause the carrying amount of property, plant and equipment to exceed its recoverable amount. We have also assessed the historical accuracy of the management's estimates. Finally, we have reviewed the adequacy of the Company's disclosures included in Note 3.24 about the assumptions used in the impairment test and the outcome of the test.
2. Impairment assessment of trade accounts receivable As at 31 December 2017 the Company had current trade accounts receivable balance amounting to EUR 5.727 thousand reported in the statement of financial position, part of which was overdue as disclosed in Note 13 of the financial statements. The determination as to whether a trade receivable is collectable involves management's judgment. Specific factors management considers include the age of the various receivable balances, existence of disputes, recent historical payment patterns as well as data on subsequent collections. This matter is significant to our audit due to materiality of the amounts as these receivables constitute over 29% of the total current assets of the Company in the statement of financial position as at 31 December 2017 and high level of management judgment involved in impairment allowance calculation.	Among other procedures, we reviewed the impairment recorded by the Company by assessing the management's assumptions used to calculate the impairment. Our procedures included testing the correctness of aging of the receivables data and clerical accuracy of the calculation of impairment recorded for the customer groups based on their ageing. We reviewed the management's assessment of individual material overdue receivables by examining the available repayment schedules agreed with these clients, relevant court decisions and subsequent payments information to support individual facts and circumstances underlying the management's judgment on these receivables. In addition, we performed external confirmation procedures with selected customers. Furthermore, we have assessed the disclosure in the financial statements on this matter (Note 13).
3. Contingent liabilities and provisions relating to legal matters As it is disclosed in the Note 27 of these financial statements, the Company is involved in legal proceedings and is exposed to potential claims. This matter is significant to our audit because an adverse outcome of these claims and litigations could have a material adverse effect on the financial position, results of operations and cash flows of the Company and it involves significant management's judgment to assess the probable outcomes of the uncertainties and consequently the amount of provisions to be recorded and contingent liabilities to be disclosed in the financial statements.	Among other procedures, our audit procedures included discussions with the management and the Company's internal legal advisor of the basis underlying the management's assessment of the potential outcome of the claims and litigations. We also obtained letters from the external legal counsels of the Company outlining the material contingencies to evaluate the judgment made by the management. We inspected relevant legal correspondence, meeting minutes of the Board and Shareholders and other relevant information to support individual facts and circumstances underlying the management's judgment on provisions and contingent liabilities, as per criteria set in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Furthermore, we have assessed the disclosure in the financial statements on this matter (Note 27).

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Other Information

Other information consists of the information included in the Company's Annual Report, including Corporate Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection to our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

We also have to evaluate, if the financial information included in the Company's Annual Report corresponds to the financial statements for the same financial year and if the Company's Annual Report was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Company's Annual Report corresponds to the financial information included in the financial statements for the same year; and
- The Company's Annual Report was prepared in accordance with the requirements of the Law on Financial Reporting by 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of auditor
In accordance with the decision made by the shareholders we have been chosen to carry out the audit of Company's financial statements for the first time on 14 November 2016. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for approximately 2 years.

Consistency with the audit report submitted to the audit committee
We confirm that our opinion in the section 'Opinion' is consistent with the additional Audit report which we have submitted to the Company and its Audit Committee.

Non-audit services
We confirm that to the best of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period, we have not provided any other services except for the audit of the financial statements, the audit of the interim condensed financial statements for the period ended 30 April 2017 and the audit of the regulated activity report as required by the legislation.

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

26 March 2018

(all amounts are in thousand EUR unless otherwise stated)

STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME

	Note	2017-01-01 2017-12-31	2016-01-01 2016-12-31
Revenue			
Sales income	4	39.880	39.906
Other income	5	1.872	527
Total revenue for the year:		**41.752**	**40.433**
Payroll and other related expenses	6	(10.711)	(12.417)
Depreciation and amortization	11,12	(5.055)	(7.607)
Repair and technical maintenance expenses	7	(3.463)	(4.099)
Sludge treatment expenses		(1.232)	(902)
Electrical energy expenses		(2.957)	(3.299)
Transportation expenses		(622)	(455)
Telecommunication and IT services		(803)	(673)
Tax expenses		(2.490)	(2.540)
Trade and other accounts receivable allowance	13	4.711	12.552
Non-current assets write-off expenses		(64)	(109)
Office rent expense		(152)	-
Other expenses	8	(1.778)	(2.366)
Total expenses for the year:		**(24.616)**	**(21.915)**
Operating profit (loss)		**17.136**	**18.518**
Financial income	9	1.299	2.315
Financial expenses	9	(320)	(566)
Net financial result		**979**	**1.749**
Profit (loss) before tax		**18.115**	**20.267**
Income tax (expenses)	10	(2.305)	(334)
Profit (loss) for the year		**15.810**	**19.933**
Other comprehensive income, net of income tax			
Items that will reclassified subsequently to profit or loss		-	-
Items that will not reclassified subsequently to profit or loss		-	-
Other comprehensive income for the year, net of tax		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15.810**	**19.933**

The notes on pages 12 to 41 are an integral part of these financial statements,
These financial statements were approved and signed on 26 March 2018.

Virgilijus Žukauskas Acting General Director	Viktoras Baltuškonis Chief Financial Officer	Zina Chmieliauskienė Accounting department manager

(all amounts are in thousand EUR unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Note	2017-12-31	2016-12-31
ASSETS			
Non-current assets			
Property, plant and equipment	11	109.821	110.711
Intangible assets	12	254	23
Deferred tax asset	10	-	179
Non-current part of trade and other receivables	13	5.600	-
Total non-current assets		115.675	110.913
Current assets			
Inventories		980	532
Trade and other receivables	13	5.729	13.044
Prepayments, deferred expenses and accrued income	14	485	442
Other current assets		-	19
Cash and cash equivalents	15	12.583	19.352
Total current assets		19.777	33.389
Non-current assets held for sale		-	2.615
TOTAL ASSETS		**135.452**	**146.917**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	112.664	112.195
Legal reserve	17	426	116
Retained earnings (deficit)		8.903	(2.597)
Total equity		121.993	109.714
Non-current liabilities			
Borrowings and financial lease obligations	18	2.141	21.183
Deferred tax liabilities	10	532	-
Non-current employee benefits		321	309
Other non-current liabilities		391	102
Total non-current liabilities		3.385	21.594
Current liabilities			
Borrowings and financial lease obligations	18	857	1.721
Trade and other payables	20	2.507	1.747
Advances received		1.222	6.999
Provisions	27	604	977
Income tax payable	10	1.393	879
Other current liabilities	21	3.491	3.286
Total current liabilities		10.074	15.609
TOTAL EQUITY AND LIABILITIES		**135.452**	**146.917**

The notes on pages 12 to 41 are an integral part of these financial statements,

These financial statements were approved and signed on 26 March 2018.

Virgilijus Žukauskas	Viktoras Baltuškonis	Zina Chmieliauskienė
Acting General Director	Chief Financial Officer	Accounting department manager

(all amounts are in thousand EUR unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Legal reserve	Retained earnings (losses)	Total equity
Balance as at 1 January 2016		**111.561**	**116**	**(22.530)**	**89.147**
Comprehensive income					
Profit for the year		-	-	19.933	19.933
Total comprehensive income for the year		**-**	**-**	**19.933**	**19.933**
Increase in share capital	16	634	-	-	634
Balance as at 31 December 2016		**112.195**	**116**	**(2.597)**	**109.714**
Balance as at 1 January 2017 *		**112.195**	**116**	**(2.597)**	**109.714**
Comprehensive income					
Profit for the year		-	-	15.810	15.810
Total comprehensive income for the year		-	-	15.810	15.810
Increase in share capital	16	469	-	-	469
Transfer to reserves	17	-	310	(310)	-
Dividends	16	-	-	(4.000)	(4.000)
Balance as at 31 December 2017		**112.664**	**426**	**8.903**	**121.993**

The notes on pages 12 to 41 are an integral part of these financial statements.

These financial statements were approved and signed on 26 March 2018:

Virgilijus Žukauskas Acting General Director	Viktoras Baltuškonis Chief Financial Officer	Zina Chmieliauskienė Accounting department manager

(all amounts are in thousand EUR unless otherwise stated)

STATEMENT OF CASH FLOWS

	Note	2017-01-01 2017-12-31	2016-01-01 2016-12-31
Cash flows from (to) operating activities			
Net profit (loss)		15.810	19.932
Adjustments for:			
Income tax expenses	10	1.594	954
Depreciation and amortisation	11,12	9.562	15.135
Change in deferred income tax	10	711	(620)
Depreciation of grants	11	(4.507)	(7.527)
Result from property, plant and equipment disposals and write-offs		64	109
Disposal of non-current assets held for sale	5	(1.285)	-
Change in allowance of financial assets		(25)	25
Change in allowance of doubtful receivables	13	(4.686)	(12.577)
Change in allowance of inventories		(139)	45
Change in provisions		(361)	166
Interest expenses	9	224	566
Financial income recognised in the statement of profit (loss) and other comprehensive income	9	(1.203)	(2.315)
		15.759	13.892
Changes in working capital:			
Decrease (increase) in inventories		(412)	311
(Increase) decrease in trade and other receivables	13	6.401	5.380
Increase (decrease) in trade and other payables		(5.498)	4.385
Income tax paid		(1.080)	(251)
Net cash from operating activities		**15.170**	**23.717**
Cash flows from (to) investing activities			
(Acquisition) of property, plant and equipment		(2.872)	(4.799)
Proceeds from sale of non-current assets		3.900	-
Loans (recovery)		19	24
Interest received		416	1.111
Net cash from (to) investing activities		**1.463**	**(3.663)**
Cash flows from (to) financing activities			
Proceeds from loans		-	10.000
(Repayment) of loans and financial lease	18	(19.906)	(13.701)
Interest and similar expenses (paid)		(322)	(590)
Received grants		128	1.940
Received late payments and penalties		794	1.203
(Paid) dividends		(4.000)	-
(Paid) late payment fines and penalties		(96)	-
Net cash from (to) financing activities		**(23.402)**	**(1.148)**
Net increase (decrease) in cash and cash equivalents		**(6.769)**	**18.906**
Cash and cash equivalents at the beginning of the year	15	**19.352**	**445**
Cash and cash equivalents at the end of the year	15	**12.583**	**19.352**

The notes on pages 12 to 41 are an integral part of these financial statements,

These financial statements were approved and signed on 26 March 2018.

Virgilijus Žukauskas Acting General Director	Viktoras Baltuškonis Chief Financial Officer	Zina Chmieliauskienė Accounting department manager

(all amounts are in thousand EUR unless otherwise stated)

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND OTHER NOTES

1. General information

Vilniaus Vandenys, UAB (hereinafter "the Company") was registered in on 27 March 1991, the Company's code is 120545849. The address of its permanent establishment is Spaudos str. 8-1, LT-01517, Vilnius, Lithuania.

The principal activities of the Company are the supply of water and wastewater treatment services. Vilniaus Vandenys, UAB is the largest water supply company in Lithuania. It operates water supply and waste water assets in Vilnius City, Šalčininkai, Švenčionys and Vilnius District. As at 31 December 2017, the number of private customers of the Company was 243,1 thousand (as at 31 December 2016 – 239,9 thousand), juridical entities – 7.5 thousand (in year 2016 – 7.5 thousand). Private customers and juridical entities are treated as specified in Drinking-water supply and waste treatment law and price set methodology. The Company supplies 88 thousand m3 water per day and collects 112 thousand m3 and treats approximately 114 thousand m3 waste water per day. The main goals of the Company are clear water and clean environment for society. The main activities of the Company – orientation to the client, efficiency of activity and transparency.

As at 31 December 2017 and 2016 the shareholders of the Company were:

	2017-12-31		2016-12-31	
	Number of shares held	Percentage (%)	Number of shares held	Percentage (%)
Vilnius city municipality	3.691.509	94,89	3.675.320	94,87
Vilnius district municipality	73.196	1,88	73.196	1,89
Švenčionių district municipality	69.738	1,79	69.738	1,80
Šalčininkų district municipality	55.883	1,44	55.883	1,44
	3.890.326	100,00	3.874.137	100,00

In September 2017, the Company's share capital was increased by Vilnius district municipality contribution, valued EUR 469 thousand (Note 16).

As at 31 December 2017 the number of employees of the Company was 659 (as at 31 December 2016 – 620).

According to the Law on Companies of the Republic of Lithuania, the annual financial statements are prepared by the Management and should be approved by the General Shareholders' meeting, the shareholders hold the power not to approve the annual financial statements and the right to request new financial statements to be prepared.

2. Application of new and amended International Financial Reporting Standards

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2017:

- **IAS 12 Profit taxes: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combine versus separate assessment. The Amendments had no impact on the Company.

- **IAS 7 Cash flow statement: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Amendments had no impact on the Company, as the changes in liabilities arising from financial activities were only due to cash flows which were disclosed in cash flow statement.

2. Application of new and amended International Financial Reporting Standards (continued)

Standards issued but not yet effective

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not effective yet:

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The management of the Company preliminary assessed that the effect of this standard on the financial statements for the year 2018 would be EUR 188 thousand, which would be recognised as an additional allowance for trade receivables.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed the application of the standard and based on the preliminary analysis performed, the Company does not expect significant impact on its Financial Statements (except extended disclosure requirements) as the Company does not have long-term contracts with multi-element arrangements, no take-or-pay agreements, no sales incentives are provided, no material contract costs are generally incurred and contract modifications are rare.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has preliminary assessed the application of the standard and standard adoption will not have a significant impact for the Company, as described above.

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The management has not evaluated the impact of the implementation of this standard yet.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Amendments will have no impact on the Company's financial statements and results.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Amendments will have no impact on the Company's financial statements and results.

2. Application of new and amended International Financial Reporting Standards (continued)

- **IAS 40: Transfers to Investment Property (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this amendment. The Amendments will have no impact on the Company's financial statements and results.

- **IFRS 9: Prepayment features with negative compensation (Amendments)**
The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The management has not evaluated the impact of the implementation of this amendment yet.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Amendments will have no impact on the Company's financial statements and results.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Company has not evaluated the impact of the implementation of this standard yet.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Company has not evaluated the impact of the implementation of this standard yet.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities (adopted by EU in 2018) and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These amendments will not have any impact on the financial statements of the Group/Company.

- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.
- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

2. Application of new and amended International Financial Reporting Standards (continued)

- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Company has not evaluated the impact of the implementation of this interpretation yet.

  The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Group's Management has assessed the application of the improvements and they will not have any impact on Company's financial statements.

  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements***: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - ***IAS 12 Income Taxes***: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - ***IAS 23 Borrowing Costs***: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The Company plans to adopt the above mentioned annual improvements not earlier than their effective date provided they are endorsed by the EU.

3. Accounting policy

3.1. Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with accounting and financial reporting legislation of the Republic of Lithuania.

3.2. Basis of preparation

These financial statements have been prepared on a historical cost basis.

Financial statements are presented in euros and all values are rounded to the nearest thousand (000 euros).

Property, plant and equipment

Property, plant and equipment acquired or constructed by the Company is recognised at acquisition (construction) cost and subsequently carried at cost method. Selecting the acquisition cost method, property, plant and equipment is recorded at cost, presented at historical cost at financial statements, less accumulated depreciation and accumulated impairment losses, if any.

If the property, plant and equipment is received in the form of monetary contributions (increase of the share capital), the cost of acquisition includes assets value set by real estate appraisers and all of its registration and preparation related costs.

Assets received free of charge from third parties is recognised at cost determined in accordance with the real estate registry central database and accounted for as an income in the profit (loss) and other comprehensive income statement in the period, when the asset has been received.

The acquisition value includes the cost of replacing part of property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Replaced parts are written-off. All other repair and maintenance costs are recognised in profit or loss as incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised 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 statement of profit (loss) and other

3. Accounting policy (continued)

comprehensive income in the year the asset is derecognised. Gains and losses on disposal of property, plant and equipment are calculated on the basis of the income received less the carrying amount of the property sold.

Depreciation rates of financial year
Depreciation is calculated on a straight-line basis over the useful life of the assets as follows:

Buildings	15 – 50 years,
Structures	5 – 50 years,
Transmission devices	5 – 80 years,
Machinery and equipment	5 – 15 years,
Vehicles	6 – 15 years,
Other property, plant and equipment	5 – 8 years.

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

Construction in progress is not depreciated until the relevant assets are completed and are available for their intended use.

3.3. Intangible assets

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

Other intangibles
Intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment losses, if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise. Intangible assets are amortised on a straight-line basis over 3-4 years, which is the best estimate of its useful lives.

Projects in progress
The Company carries out the development of a billing system (MS Navision).

Gain or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in statement of profit (loss) and other comprehensive income when the asset is derecognised.

Costs incurred in order to restore or maintain the Company's software are recognised as an expense when the restoration or maintenance work is carried out.

3.4. Impairment of non-financial assets

At the end of each reporting period, 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). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

At the end of each reporting period, the Company reviews the carrying amounts of its intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of an asset's 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of profit (loss) and other comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 recognised for the asset (or cash-generating unit) in prior years.

3. Accounting policy (continued)

A reversal of an impairment loss is recognised immediately in statement of profit (loss) and other comprehensive income.

3.5. Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets. The Company determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus transaction costs, except for the financial assets at fair value through profit or loss. Purchases and sales of financial assets are recognised on the trade date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition accounted at fair value. The Company did not have any investments into financial assets at fair value through profit or loss as at 31 December 2017 and 2016.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities. After initial measurement held to maturity investments are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in statement of profit (loss) and other comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process. The Company did not have any held-to-maturity investments as at 31 December 2017 and 2016.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are included in current assets, except for loans and receivables with a maturity greater than 12 months after the balance sheet date; in this case the loans and receivables are recognized as non-current assets.

After initial recognition at cost, loans and receivables are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in statement of profit (loss) and other comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment loss is recognized when there is objective evidence that the Company will not be able to recover the receivables by the deadline. Significant financial difficulties of the debtor, probability that the debtor will go bankrupt or financial reorganization is planning, and default or delinquency – are indications of amounts receivable impairment. An asset's carrying value is reduced and the loss is recognized in profit (loss) part in trade and other receivables impairment position. When a receivable amount is not recoverable, it is written off reducing impairment amount of receivables. Previously written off, though subsequently received amounts accounted through profit (loss) in profit (loss) and other comprehensive income statement in a separate position.

Available-for-sale financial instruments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available for sale financial assets intended to be held for an indefinite period.

Available-for-sale financial assets are initially recognized at fair value plus acquisition costs and subsequently revalued at fair value. Unrealized gains and losses arising from changes in fair value are recognized as other comprehensive income, except for impairment losses and foreign exchange result. When the financial asset is derecognised, the total accumulated revaluation result is transferred from other comprehensive income to profit (loss) in profit (loss) and other comprehensive income statement. The Company did not have any available for sale investments as at 31 December 2017 and 2016.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or when the Company has transferred substantially all of the asset inherent risks and benefits.

3. Accounting policy (continued)

3.6. Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an negative impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortised cost

For amounts due from loans and amounts due from other parties carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in statement of profit (loss) and other comprehensive income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in statement of profit (loss) and other comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

3.7. Inventories

Inventories are valued at the lower of cost or net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. Unrealizable inventories are fully written-off.
During inventory count process all illiquid inventories are identified and allowance is formed for it. If the Commission of inventory count states that such stock is no longer fit for use, 100% allowance is formed, for the right inventories to use – 80% impairment of value.

3.8. Non-current assets held for resale

Non-current assets classified as held for sale when their carrying amount will mainly be recovered from the sale transaction and a sale is considered highly probable. Non-current assets held for sale are stated at the lower of carrying amount or fair value less costs to sell.

3.9. Cash and cash equivalents

Cash includes cash on hand and cash at banks. 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 and in current bank account as well as deposits in bank with original term of three months or less.

3.10. Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings – at fair value plus directly attributable transaction costs.

3. Accounting policy (continued)

The Company's financial liabilities include trade and other payables, bank overdrafts, loans, finance lease liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on liabilities held for trading are recognised in statement of profit (loss) and other comprehensive income. The Company has not designated any financial liabilities as at fair value through profit or loss during the years ended 31 December 2017 and 2016.

Other financial liabilities

After initial recognition other financial liabilities (including loans and borrowings, trade and other liabilities) are subsequently measured at amortised cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised 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.

3.11. Leases

The Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in statement of profit (loss) and other comprehensive income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in statement of profit (loss) and other comprehensive income on a straight-line basis over the lease term.

The Company as a lessor

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

3.12. Grants

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

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. Grants related to assets reduce cost of acquisition associated tangible assets and recognized as income (respectively reducing related expenses – depreciation of tangible assets) in the periods and in the proportions, which corresponds the Company's useful life.

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. As at 31 December 2017 and 2016 the Company did not have any grants related to income.

3.13. Employee benefits

Social security expenses

The Company pays social security contributions to the state Social Security Fund (hereinafter - Fund) on behalf of its employees based on the defined contribution plan in accordance with local legal requirements. Defined contribution plan - a plan under which the Company pays fixed contributions to the Fund and have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay to employees all benefits related to their work

3. Accounting policy (continued)

in the current and previous periods. Social security contributions are recognized as an expense on an accrual basis and included in payroll expenses. Since 01 January 2017 the Company pays the social security contribution at rate amounting to 31,39%.

Non-current employee benefits

The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the statement of comprehensive income as incurred. The past service costs are recognized in the statement of profit (loss) and other comprehensive income as incurred.

The above mentioned employee benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognized in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognized in other comprehensive income as incurred.
Current liabilities to employees are not discounted.

3.14. Contingencies

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

A contingent asset is not recognised in the financial statements.

3.15. Provisions

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

The amount recognised 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. When 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 the effect of the time value of money is material).

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 recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.16. Income tax

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit (loss) and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period. The standard income tax rate in Lithuania for the Company in the years ended 31 December 2017 and 31 December 2016 is 15%.

For companies operating in Lithuania tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments not designated for hedging. Starting from 1 January 2014 the transferable tax loss cannot cover more than 70% of the taxable profit of the current year. Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments not designated for hedge can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable

3. Accounting policy (continued)

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 assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

<u>Current and deferred tax for the period</u>

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.17. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable net of value-added tax and discounts.

The following specific recognition criteria must also be met before the revenue is recognised:

- Revenue is recognised when the service has been provided to the customer;
- Revenue from sales of goods are recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Late payment interest income from overdue receivables is recognised upon receipt;
- Interest revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on an accrual 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.

3.18. Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

3.19. Foreign currencies

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

Gain and losses due to exchange differences are recognised in statement of profit (loss) and other comprehensive income in the period in which they arise.

3. Accounting policy (continued)

3.20. Related parties

A related party is a person or company related with the company that prepares its financial statements.

A person or close member of the family is related to reporting company, if the person:
- has control or common control of reporting company;
- has a significant influence on the reporting company; or
- is one of the key management personnel of reporting company or parent company.

The company is related to the reporting company if they meet any of the conditions below:
- The company and the reporting company are the members of the same group (it means that every parent, subsidiary or sister company is affiliated with each other).
- One company is in associate or joint activity with the other company (or an associate or joint activity with the other member of the group, of which another company is a member).
- Both companies are involved in the same third party joint activities.
- One party is in joint activity with the third party and the other company is associated with third party.
- The company is managing the retirement benefits plan for the benefit of employees of reporting company or company that is related with reporting company. If the reporting company is the manager of this plan, the financing employers are also related with reporting company.
- The company is controlled or jointly controlled by the person related with reporting company.
- A person or a close member of the family has a significant influence on the company or is one of the key management personnel of reporting company (or its parent company).

3.21. Fair value evaluation

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Valuations are performed by the Company's management at each reporting date. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of asset or liability and the level of the fair value hierarchy as explained above.

3.22. Offsetting and comparative figures

Financial assets and liabilities are offset and the net amount is shown in the balance sheet when it is eligible to set off the recognized amounts and when there is an intention to settle the net amount or to realize assets and liabilities

3. Accounting policy (continued)

simultaneously. Such right does not depend on future events and is legally implemented by the entity and all counterparties both in normal operating conditions as well as the default, insolvency or bankruptcy.

Where needed, comparative figures were adjusted to reflect changes in the presentation of the current year.

3.23. Regulated activity

The Company's profitability of regulated services is regulated by the State Prices and Energy Control Commission (VKEKK) by approved methodology for drinking water supply and waste water services pricing. Until 30 September 2017 valid prices were set based on valid prior year version of Price setting Methodology. Since 1 October 2017 prices were set according to the new methodology, which was valid at the time and included necessary costs and normative profit. Necessary costs are determined based on the actual costs of the basic year, long-term operating and development plan and other reasons influencing change in the level of service and costs, and water suppliers benchmarking indicators. According to the new Price setting Methodology, base prices will be recalculated in 2018, including efficiency coefficient, sold services amount, completed investments, electricity, heat, technological materials price, taxes tariffs, changes in salary, actual return of investment and also other factors that do not depend on the Company.

The Company does not recognize assets and liabilities of the regulated activity, which purpose would be to equalize current year profit till regulated level, if this difference will be recovered / returned through the provision of services in the future.

3.24. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management of the Company to make judgments, estimates and assumptions that affects the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities, 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. The significant areas of estimation used in the preparation of these financial statements are discussed below.

<u>Useful life of property, plant and equipment</u>

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.

In 2017 property, plant and equipment and depreciation and amortization expenses decreased by EUR 2.5 million, down to EUR 5.1 million, compared to expenses, which were in 2016 – EUR 7.6 million. Such change occurred due to reviewed and updated non-current asset useful life periods starting from 1 January 2017.

<u>Accrued income</u>

In order to fully account for revenue for provided services as at 31 December the Company has accrued income for last month of the financial year, for which water supply/ wastewater treatment services were provided to consumers, though they will pay for these services during January of the next financial year. Accrual of income for December of the financial year was estimated for accounting purposes for the first time in 2016.

<u>Accounted income based on average</u>

The Company provides services to natural and legal persons/customers uninterruptedly, regardless of whether they declare readings or not. In order to represent the Company's revenue as accurately as possible for the services provided and the water consumed, an average consumption for the last 12 months of water and sewage is applied for the customers that do not declare meter-reading results for the ongoing month.

(all amounts are in thousand EUR unless otherwise stated)

3. Accounting policy (continued)

Impairment loss of accounts receivable

The Company accounts for allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Percentage can be changed if the data of new analysis shows significant changes.

For the purpose of the estimation of doubtful accounts receivable from entities the individual debts are grouped by overdue period and based on past experience, the following percentages are applied in the calculation of impairment:

Limitation	Allowance, %
Less than 3 months	0%
4-6 months	50%
More than 6 months	100%

For amounts due less than 3 months allowance is not formed due to the fact that it is a period during which it is most likely to recover the debt. For debts due from 4 till 6 months the Company is carrying out actions to terminate the provision of services and judicial processes are initiated. For debts due more than 7 months legal proceeding are completed and the Company is starting to work with bailiffs.

Doubtful debts of natural persons are subject for following percentages in the calculation of impairment:

Limitation	Allowance, %
Less than 5 months	0%
6-11 months	50%
More than 11 months	80%

Up to 5 months allowance is not formed as it is a period, during which debts are usually recovered. For debts due from 6 till 11 months the Company is carrying out actions to terminate the provision of services and judicial processes are initiated. For debts due more than 12 months legal proceeding are completed and the Company is starting to work with bailiffs.

By separate decision of the Company's management an individual assessment of the impairment of the debt may be applied for individual customers. Debt of Vilniaus Energija UAB was assessed individually. As at 31 December 2016 for the trade receivable from Vilniaus Energija UAB which was already past due, eliminated subsequent payments received in January 2017 and evaluation a tripartite agreement on Subrogation and offsetting among Vilnius city municipality, Vilniaus energija UAB and the Company which was signed as at 29 December 2016, 100% allowance was formed (EUR 4.555 thousand) because according to the Company's management assessment, it was high possibility at that time that this amount may not be recovered.

During the 2017 the allowance for trade receivable from Vilniaus Energija UAB was reversed, as the Company has made a tripartite agreement with Vilniaus Energija UAB and Vilnius city municipality for subrogation and debts offsetting (Note 13). Starting from 30 March 2017 Vilniaus silumos tinklai AB has taken over heating and hot water provision services from Vilniaus Energija UAB.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of property, plant and equipment

The Company makes an assessment, at least annually, whether there are any indications of impairment of property, plant and equipment, and construction in progress. If that is the case, the Company makes an impairment test. The recoverable amount of cash-generating units is determined based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the forecast for the next five years and steady growth of terminal value (1,5%), and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

Based on impairment test of property, plant and equipment, no impairment was accounted for property, plant and equipment as at 31 December 2017 and 2016.

3. Accounting policy (continued)

Below presented key assumptions that were applied by the management for the budget and long-term planning, and respectively the impairment assessment:

- 8,24% (8,09% as at 31 December 2016) WACC discount rate (pre-tax) is applied in the impairment evaluation model.
- Average WACC of the market used by the management is higher than the one approved by the State Price and Energy Commission. Management believes that in the long-term (starting from the year 2023), it is reasonable to expect that return on investment set by regulator (as well as profitability of the Company) will exceed the currently set regulated level (4,7%) and converge to the market level.
- During the period of 2018 – 2022 capital investments to property, plant and equipment will consist of EUR 62.308 thousand in total.

The impairment assessment at this stage is highly dependent on the assumptions used in the model. Below is provided sensitivity analysis for key assumptions of impairment assessment as at 31 December 2017 and 2016:

- The increase in the discount rate in the years 2018 and onwards by 0.5 percentage point would result in an impairment in the amount of EUR 1.841 thousand;
- Additional annual investment in non-current assets amounting to EUR 1.000 thousand in the years 2018 and onwards would result in an impairment in the amount of EUR 5.450 thousand.

3.25. Subsequent events

Subsequent events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

(all amounts are in thousand EUR unless otherwise stated)

4. Sales income

	01/01/2017 31/12/2017	01/01/2016 31/12/2016
Services rendered (water supply, wastewater treatment)	36.426	36.408
Selling fee (subscriber fee)	3.162	3.183
Drainage	292	315
Total	**39.880**	**39.906**

100% of the Company's income was earned in the Republic of Lithuania.

5. Other income

	01/01/2017 31/12/2017	01/01/2016 31/12/2016
Income for commercial work and services	198	163
Gain (loss) from sales of property, plant and equipment, net	1.285	-
Gain from sales of inventories, net	16	1
Income due to assets received from third parties	373	359
Other income	-	4
Total	**1.872**	**527**

The Company's premises located in Dominikonai Street of Vilnius Old Town, which were accounted as non-current asset held for sale as at 31 December 2016, was sold at a public auction. It was acquired for initial price of EUR 3.9 million (VAT excluded) by Asgaard Property in the auction held at the Vilnius City Municipality as at 21 February 2017. The net profit from disposal of the premises was EUR 1,285 million.

Income from the property received free of charge in 2017 and 2016 is based on the average market value of the constructors cost of newly built networks which are registered in the name of Company, which is determined on the basis of the real estate register data.

6. Payroll and other related expenses

	01/01//2017 31/12/2017	01/01/2016 31/12/2016
Payroll	7.951	9.390
Change in vacation reserve	206	(76)
Social security expenses	2.469	2.913
Guarantee fund taxes	-	18
Change in accrued liabilities to employees	85	172
Total	**10.711**	**12.417**

7. Repairs and technical maintenance expenses

	01/01//2017 31/12/2017	01/01/2016 31/12/2016
Technological materials	473	360
Exploitation materials expenses	361	492
System diagnostics and repair works	123	216
System cleaning	130	396
Digging recovery	410	291
Equipment maintenance	1.749	2.110
Repair of tools and equipment	22	40
Repair of construction	96	9
Laboratory services (monitoring)	36	37
Topo geodesic photos and legal registration	63	148
Total	**3.463**	**4.099**

(all amounts are in thousand EUR unless otherwise stated)

8. Other expenses

	01/01//2017 31/12/2017	01/01/2016 31/12/2016
Customer service expenses	549	428
Heating	206	284
Rent of collectors	174	174
Work safety and special clothes	133	100
Insurance	112	136
Premises cleaning	110	67
Trash removal	106	74
Doubtful debts write-off	86	1
Security	76	68
Audit	54	42
Trainings	56	26
Promotion and commerce	48	29
Consultations	40	-
Household-economic expenses	19	25
Office administration expenses	18	11
Representative expenses	8	8
Change in inventory allowance	(139)	45
Other expenses	122	848
Total:	**1.778**	**2.366**

9. Financial income and expenses

	01/01//2017 31/12/2017	01/01/2016 31/12/2016
Financial income		
Interest income	495	1.111
Received late payments and penalties	804	1.204
Total	**1.299**	**2.315**
Financial expenses		
Interest (expenses)	(224)	(567)
(Paid) late payments and penalties	(96)	1
Total	**(320)**	**(566)**
Financial activities net result	**979**	**1.749**

Increase in financial income was influenced by the late payments and penalties paid by Vilniaus Energija UAB in 2017 – EUR 1.024 thousand, in 2016 – EUR 2.226 thousand.

(all amounts are in thousand EUR unless otherwise stated)

10. Income tax expenses

Income tax expenses (benefit) calculation is prepared based on income tax expenses, calculated at statutory income tax rate:

	01/01//2017 31/12/2017	01/01/2016 31/12/2016
Profit (loss) before income tax	18.115	20.267
Income tax expenses calculated at statutory tax rate	2.717	3.040
Expenses not deductible for income tax	166	229
Non-taxable income	(236)	(182)
Tax incentive	(17)	(93)
Previously unrecognised tax loss utilisation	-	(216)
Correction of prior periods income tax	(253)	-
Previously unrecognised deferred income tax asset recognition	(72)	(2.444)
Income tax expenses recorded in statement of profit (loss) and other comprehensive income	2.305	334

Income tax expenses (benefit) are as follows:

	01/01//2017 31/12/2017	01/01/2016 31/12/2016
Income tax expenses		
Current income tax	1.594	954
Deferred income tax expenses (benefit)	711	(620)
Income tax expenses recorded in statement of comprehensive income	2.305	334

Change in deferred tax asset during 2017 and 2016:

	Balance as at 1 January 2016	Income tax (expenses) benefit accounted in profit (loss)	Balance as at 31 December 2016	Income tax (expenses) benefit accounted in profit (loss)	Balance as at 31 December 2017
Accumulated tax losses	216	(216)	-	-	-
Accrual for vacation reserve	81	(11)	70	31	101
Impairment for accounts receivable	2.756	(1.886)	870	(703)	167
Impairment of securities	-	4	4	(4)	-
Non-current employee benefits	95	26	121	13	134
Impairment for inventories	17	6	23	(21)	2
Provisions accrued for boreholes liquidation	1	-	1	-	1
Provisions for cadastral measurement and cases recording	-	8	8	(3)	5
Investment incentive for tangible assets	(897)	28	(869)	27	(842)
Income accrual	(50)	1	(49)	49	-
Differences of property, plant and equipment financial and tax depreciation	-	-	-	(100)	(100)
Total	2.219	(2.040)	179	(711)	(532)
Less: valuation allowance	(2.660)	2.660	-	-	-
Deferred tax, net	(441)	620	179	(711)	(532)

As at 31 December 2017 the deferred tax asset is recognized in the statement of financial position to the extent that the Company's management believes that it will be realized in the near future, based on taxable profit.

The Company is deferred income tax asset and liability were estimated at 15%

(all amounts are in thousand EUR unless otherwise stated)

11. Property, plant and equipment

	Buildings	Structures	Transmission devices	Machinery and equipment	Vehicles	Other assets	Construction in progress	Prepayments	Total
Cost									
Balance as at 31 December 2016	36.018	45.906	140.111	28.378	4.475	7.821	1.263	395	264.367
Acquisitions	11	24	948	426	479	400	648	99	3.035
Disposals and write-offs (-)	-	-	(177)	(118)	-	(301)	(37)	-	(633)
Reclassifications from NS	6	89	1.530	89	-	167	(1.387)	(494)	-
Reclassification to inventories	-	-	-	-	-	-	(210)	-	(210)
Reclassification to assets held for resale	(3.476)	-	(4)	-	-	-	-	-	(3.480)
Balance as at 31 December 2016	32.559	46.019	142.408	28.775	4.954	8.087	277	-	263.079
Balance as at 1 January 2017	32.559	46.019	142.408	28.775	4.954	8.087	277	-	263.079
Acquisitions	4	6	793	365	2	501	2.379	177	4.227
Disposals and write-offs (-)	-	(214)	(271)	(310)	(15)	(320)	(1)	-	(1.131)
Reclassifications from CIP	-	127	1.549	117	-	615	(2.403)	(5)	-
Reclassifications from one tangibles assets group to another	-	-	-	85	(85)	-	-	-	-
Balance as at 31 December 2017	32.563	45.938	144.479	29.032	4.856	8.883	252	172	266.175
Accumulated depreciation									
Balance as at 1 January 2016	11.510	27.256	77.319	20.103	2.952	7.115	-	-	146.255
Charge for the year	559	1.365	2.603	1.994	312	661	-	-	7.494
Disposals and write-offs (-)	-	-	(99)	(116)	-	(301)	-	-	(516)
Reclassification to assets held for resale	(861)	-	(4)	-	-	-	-	-	(865)
Balance as at 31 December 2016	11.208	28.621	79.819	21.981	3.264	7.475	-	-	152.368
Balance as at 1 January 2017	11.208	28.621	79.819	21.981	3.264	7.475	-	-	152.368
Charge for the year	456	767	1.897	968	308	641	-	-	5.037
Disposals and write-offs (-)	-	(209)	(209)	(302)	(15)	(316)	-	-	(1.051)
Reclassifications from one tangibles assets group to another	(1)	(6)	(6)	1.617	(6)	(1.598)	-	-	-
Balance as at 31 December 2017	11.663	29.173	81.501	24.264	3.551	6.202	-	-	156.354
Net book value as at 31 December 2016	21.351	17.398	62.589	6.794	1.690	612	277	-	110.711
Net book value as at 31 December 2017	20.900	16.765	62.978	4.768	1.305	2.681	252	172	109.821

11. Property, plant and equipment (continued)

As at 31 December 2017 property, plant and equipment cost was reduced by received grants, related to the assets, which cost was EUR 128.774 thousand (2016 year – EUR 128.619 thousand), and net book value of such assets - EUR 98.718 thousand (EUR 103.097 thousand as at 31 December 2016).

The grants consists of financing received from Structural Funds of the European Union for the development of infrastructure. In 2017 the amount of grants received was EUR 128 thousand (EUR 1.940 thousand in 2016). In 2017 grants depreciation expenses were EUR 4.507 thousand (as at 31 December 2016 – EUR 7.527 thousand).

As at 31 December 2017 property, plant and equipment of the Company with net book value* of EUR 7.421 thousand (EUR 12.034 thousand as at 31 December 2016) was pledged to banks as a collateral for the loans (Note 18).

Property, plant and equipment of the Company with an acquisition cost* of EUR 62.092 thousand were fully depreciated as at 31 December 2017 (as at 31 December 2016 – EUR 64.460 thousand) but were still in use.

As at 31 December 2017 property, plant and equipment of the Company with net book value* of EUR 274 thousand during inventory counting was identified as not used in Company's activity (as at 31 December 2016 – EUR 285 thousand).

During the year 2017 and 2016 the Company did not include borrowing cost into the cost of property, plant and equipment as the Company did not have assets, which would meet capitalization criteria.

As at 31 December 2017 the Company has 1,098 items of property, plant and equipment with the carrying amount* of EUR 14.651 thousand, which is inventoried, though not registered legally (as at 31 December 2016 – 1.176 items with the carrying amount* of EUR 16.075 thousand). Also the Company has 387 items pf property, plant and equipment with the carrying amount* of EUR 10.811 thousand, for which neither inventory count, nor legal registration was performed (as at 31 December 2016 – 516 items with the carrying amount* of EUR 19.262 thousand). Such property, plant and equipment is accounted for in accounts of tangible assets as the Company has all the material risks and rewards related to it.

* - all total values are shown before offsetting with grants received.

<u>New projects</u>

In December 2016 the new project "Drinking-water supply and waste treatment system renovation and development in Vilnius City" agreement was signed (financed by EU structure funds). 22 objects will be accomplished until the end of the year 2020, total project value – EUR 41.914 thousand.

(all amounts are in thousand EUR unless otherwise stated)

12. Intangible assets

	Software	Unfinished projects	Total
Balance as at 1 January 2016	1.349	-	1.349
Acquisitions	6	-	6
Disposals and write-offs (-)	(35)	-	(35)
Balance as at 31 December 2016	**1.320**	-	**1.320**
Balance as at 1 January 2017	**1.320**	-	**1.320**
Acquisitions	151	99	250
Reclassifications from UP	44	(44)	-
Write-offs (-)	(245)	-	(245)
Balance as at 31 December 2017	**1.270**	**55**	**1.325**
		-	-
Accumulated amortisation		-	-
Balance as at 1 January 2016	**1.219**	-	**1.219**
Charge for the year	113	-	113
Write-offs (-)	(35)	-	(35)
Balance as at 31 December 2016	**1.297**	-	**1.297**
Balance as at 1 January 2017	**1.298**	-	**1.298**
Charge for the year	18	-	18
Write-offs (-)	(245)	-	(245)
Balance as at 31 December 2017	**1.071**	-	**1.071**
		-	-
Net book value as at 31 December 2016	**23**	-	**23**
Net book value as at 31 December 2017	**199**	**55**	**254**

As at 31 December 2017 part of the non-current intangible assets of the Company with the acquisition value of EUR 1.056 thousand was fully amortised (EUR 1.215 thousand as at 31 December 2016), but was still in use.

13. Trade and other receivables

	2017-12-31	2016-12-31
Trade and other receivables non-current amount		
Trade receivables	5.600	-
Total:	**5.600**	**-**

	2017-12-31	2016-12-31
Trade and other receivables current amount		
Trade receivables	6.839	18.841
Other receivables	2	1
	6.841	18.842
Less: allowance for doubtful receivables	(1.112)	(5.798)
Total	**5.729**	**13.044**

Trade receivables are non-interest bearing and are generally settled on 30 days terms, if no separated arrangements for the deferred payment exist.

Allowance of trade receivables is recognised when debtor is overdue to pay more than 3 months, if debtor is legal person or natural person who does individual activity, or more than 5 months, if debtor is natural person.

(all amounts are in thousand EUR unless otherwise stated)

13. Trade and other receivables (continued)

As at 31 December 2017 amount receivable from Vilnius city municipality amounted to EUR 7.466 thousand. This debt constituted when the debt was transferred to Vilnius City the municipality as part of the debt of Vilniaus energija UAB under the tripartite agreement on the transfer and settlement of claim rights between the Company, Vilniaus Energija UAB and Vilnius City municipality. In the terms of the Tripartite Agreement, the repayment of debt (with interest) is scheduled in installments up to the year 2021. Therefore as at 31 December 2017 EUR 5.600 thousand is classified as non-current receivables.

As at 31 December 2016 trade receivable from Vilniaus energija UAB amounted to EUR 14.163 thousand. The Company's management implemented individual evaluation of the debt of Vilniaus Energija UAB and recognised allowance in the amount of EUR 4.555 thousand as at 31 December 2016 (Note 3.24). In 2017 the allowance for Vilniaus Energija UAB debt was fully reversed, as the Company received part of the debt from Vilniaus energija UAB and the other part of the debt was taken over by Vilnius City municipality according to the tripartite agreement.

Change of allowance for accounts receivables from customers of the Company was as follows:

	31/12/2017	31/12/2016
Opening balance	**5.798**	**18.375**
Charge for the year	9	684
Reversal	(4.632)	(13.260)
Bad debts write-off	(63)	(1)
Closing balance	**1.112**	**5.798**

During the years 2016 based on court decision Vilniaus Energija UAB repaid debt in the amount of EUR 10.828 thousand, for which allowance was formed.

In 2017 and 2016 the change of account receivables allowance is presented in the statement of profit (loss) and other comprehensive income in separate line.

The ageing analysis of trade receivables of the Company as at 31 December 2017 was as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired: Less than 30 days	31 – 90 days	91 – 180 days	181-365 days	More than 365 days	Total
Vilnius City municipality	7.108	40	-	-	-	-	7.148
Natural persons	447	8	376	328	94	218	1.471
Other legal entities	1.895	735	56	22	-	-	2.708
Total	**9.450**	**783**	**432**	**350**	**94**	**218**	**11.327**

The ageing analysis of trade receivables of the Company as at 31 December 2016 was as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired: Less than 30 days	31 – 90 days	91 – 180 days	181-365 days	More than 365 days	Total
Vilniaus Energija UAB	7.348	628	1.249	179	204	-	9.608
Vilnius City municipality	740	12	-	-	-	-	752
Natural persons	441	1	363	183	138	229	1.355
Other legal entities	1.046	95	120	50	12	5	1.328
Total	**9.575**	**736**	**1.732**	**412**	**354**	**234**	**13.043**

(all amounts are in thousand EUR unless otherwise stated)

14. Prepayments, deferred expenses and accrued income

	31/12/2017	31/12/2016
Deferred expenses	136	116
Accrued income	268	322
Accrued interest income	78	-
Prepayments received	3	4
Total	**485**	**442**

15. Cash and cash equivalents

	31/12/2017	31/12/2016
Cash at bank	12.390	19.013
Cash in transit	193	338
Cash on hand	-	1
Total	**12.583**	**19.352**

As at 31 December 2017 all the funds and future inflows that are in the OP Corporate bank plc Lietuvos filialas bank account were pledged to this bank.
As at 31 December 2016 the Company's all cash at bank accounts and future inflows are pledged to the banks, except for the accounts, which are used for direct transfers of European Union targeted support.

16. Share capital

During 2016 the Company's share capital was increased by Vilnius district municipality property contribution in value of EUR 634 thousand in September 2016. As at 31 December 2016 the share capital of the Company comprised of 3.874.137 ordinary shares with par value of EUR 28.96 each. The Company's share capital was increased by Vilnius City municipality property contribution in value of EUR 469 thousand in September 2017. As at 31 December 2017 Vilnius City municipality shares number for property contribution comprised of 16.189 units, the Company's share capital comprised 3.890.326 ordinary shares with par value of EUR 28,96.%

The share capital of the Company was fully paid as at 31 December 2017 and 2016. The Company did not hold its own shares.

As at 27 July 2017 during the extraordinary shareholders meeting of Vilniaus vandenys UAB a decision was made to approve interim dividends to the shareholders amounting to EUR 4 million for a four-month period ended on 30 April 2017 (EUR 1.032488 dividends per share).

17. Reserves

Legal reserve

A Legal reserve is a compulsory reserve under the legislation of the Republic of Lithuania. Annual transfers of no less than 5% of net profit are compulsory until the reserve reaches 10% of share capital. As at 31 December 2016 the compulsory reserve was EUR 116 thousand and was not fully formed as the Company incurred losses in previous periods. In 2017, with a net profit for four months period, EUR 310 thousand were allocated to the compulsory reserve. As at 31 December 2017 the compulsory reserve amounted to EUR 426 thousand.

18. Borrowings and financial lease obligations

	31/12/2017	31/12/2016
Non-current borrowings and financial lease obligations		
Non-current borrowings	2.141	21.183
	2.141	21.183
Current borrowings and financial lease obligations		
Current portion of non-current borrowings	857	1.708
Obligations under finance leases	-	13
	857	1.721
Total	**2.998**	**22.904**

(all amounts are in thousand EUR unless otherwise stated)

18. Borrowings and financial lease obligations (continued)

Non-current and current borrowings of the Company include:

Lender	Average interest rate, %	Original currency	Principal amount in original currency	Maturity date	31/12/2017	31/12/2016
Nordic Investment Bank	1,34	Euro	10.300	13/09/2026	-	6.759
Finance Ministry of Republic of Lithuania	4,29	Euro	12.000	01/06/2021	2.998	3.855
Finance Ministry of Republic of Lithuania	3,94	Euro	2.453	15/03/2029	-	2.277
OP Corporate bank plc branch of Lithuania	1,05	Euro	10.000	31/12/2022	-	10.000
				Total borrowings	2.998	22.891
				Less: current portion	(857)	(1.708)
				Non-current borrowings, net of current portion	**2.141**	**21.183**

The terms of repayments of non-current and current borrowings are as follows:

	31/12/2017	31/12/2016
Within one year	857	1.708
From one to five years	2.141	17.253
After five years	-	3.930
Total	**2.998**	**22.891**

As at 31 December 2017 The Company's property, plant and equipment with the carrying value of EUR 7.421 thousand were pledged to banks as a collateral for the loan (as at 31 December 2016 – EUR 12.034 thousand) (Note 11).

During 2017 the Company has repaid a loan to Finance Ministry of Republic of Lithuania in amount of EUR 2.277 thousand, North Investment Bank loan – EUR 6.759 thousand and OP Corporate bank plc Lietuvos filialas loan – EUR 10.000 thousand before their maturity.

As at 6 May 2016 the Company has signed overdraft agreement for 2 years with OP Corporate Bank plc Lietuvos filialas. The amount of overdraft is EUR 10.000 thousand and the maturity date is 6 May 2018. As at 31 December 2017 and 2016 the overdraft was not used.

19. Finance lease obligations

In 2017 the Company has redeemed computers when the lease contract has ended.
As at 31 December 2016 the book value of property acquired by financial lease was EUR 13 thousand.

20. Trade and other payables

	31/12/2017	31/12/2016
Trade payables for services	1.088	1.470
Trade payables for repairs and reconstruction	89	63
Trade payables for constructions in progress	728	46
Trade payables for financial projects	16	-
Trade payables for non-current assets	248	36
Trade payables for inventories	338	132
Total	**2.507**	**1.747**

(all amounts are in thousand EUR unless otherwise stated)

21. Other current liabilities

	31/12/2017	31/12/2016
Taxes payable	1.304	1.627
Accrual for vacation reserve	670	464
Accrued current liabilities to employees	572	500
Taxes, salaries and social security expenses	261	240
Accrued expenses	216	191
Other liabilities	468	264
Total	**3.491**	**3.286**

Other payables are non-interest bearing.

22. Financial risk management objectives and policies

The Company's principal financial liabilities comprise bank loans, advances received and trade payables. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as trade and other receivables and cash, which arise directly from its operations.

The principal financial risks to which the Company is exposed are those of interest rate, liquidity and credit. The Company's management reviews and agrees policies for managing each of these risks, which are summarised below. Due to the fact that liabilities of the Company are not affected by other currencies, thus risk of foreign exchange rates is not applicable.

Interest rate risk

At the end of the year 2017 the Company had a loan and a long-term receivable with fixed interest rate, therefore the Company does not face the risk of interest rate fluctuations.

Part of the Company's borrowings were with variable interest rates (Euribor) in 2016, therefore the Company faced an interest rate risk. In 2017 and 2016 the Company has not entered into any interest rate swap agreements to manage variable rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates in 2016 (increase and decrease in basis points was determined based on Lithuanian economic environment and the Company's historical experience), with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). There is no impact to the Company's equity, other than impact on current year profit.

	31/12/2016	
	Increase/ decrease in %	Effect on profit before tax
EUR	0,50	84
EUR	(0,10)	(17)

Liquidity risk

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 Company's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as at 31 December 2017 were 1,96 and 1,87, respectively (2,31 and 2,27 as at 31 December 2016).

The management reviews the Company's liquidity risks annually as part of the planning process and on ad hoc basis. The report considers projected cash flows from operations and allows for the management to effectively plan cash injection if needed. The Company monitors its risk to a shortage of funds using a standard monthly report on the cash flows with a liquidity projection for the future periods.

In 2017 the cash flow from operating activities was EUR 15.170 thousand (in 2016 – EUR 23.717 thousand). The Company has managed to ensure its continuity – to cover obligations to suppliers, employees, pay taxes, etc. At the date of signing these financial statements the Company's operating cash flow is also positive.

(all amounts are in thousand EUR unless otherwise stated)

22. Financial risk management objectives and policies (continued)

Management believes that positive operating cash flows are sufficient to ensure adequate funding for the activities of the Company and the Company will be able to continue to operate for at least 12 months after the signing date of these financial statements.

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings	-	-	891	2.315	-	3.206
Trade and other payables	2	2.505	-	-	-	2.507
Other liabilities	-	45	639	391	-	1.075
Balance as at 31 December 2017	**2**	**2.550**	**1.530**	**2.706**	**-**	**6.788**
Interest bearing borrowings	-	667	1.465	18.380	4.191	24.703
Finance lease	-	7	6	-	-	13
Trade and other payables	299	1.448	-	-	-	1.747
Other liabilities	-	34	421	102	-	557
Balance as at 31 December 2016	**299**	**2.156**	**1.892**	**18.482**	**4.191**	**27.020**

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

Credit risk
Trade receivables are distributed among many customers, so credit risk is diversified. Credit risk, or the risk of counterparties defaulting, is controlled by the Company's debt management department, using the control procedures. Due to the Company's business specifics deposit or prepayment of the customers are not required.

In order to diversify the credit risk, the Company's cash resources are held in a number of financial institutions, which or whose parent companies have at least A - by Fitch Ratings agency (or other equivalent rating agency) long-term debt credit rating.

As at 31 December 2017 and 2016 the Company did not invest available funds into instruments of cash and securities market (deposits, bonds, government securities).

Fair value of financial instruments

The Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

Fair value is supported by quoted market prices, discounted cash flow models and options pricing models depending on the circumstances.

The book value of the financial assets and financial liabilities of the Company as at 31 December 2017 and 2016 is approximate to their fair value (3 level).

Fair value of borrowings was calculated by discounting the expected future cash flows at prevailing interest rates. Fair value of loans and other financial assets was calculated using the market interest rate.

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

(a) The carrying amount of current trade accounts receivable, current trade accounts payable and short-term borrowings approximates fair value due to their short maturities (3 level).
(b) The fair value of non-current receivables and debts is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile, the fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts (3 level).

(all amounts are in thousand EUR unless otherwise stated)

22. Financial risk management objectives and policies (continued)

Categories of financial instruments:

	31/12/2017	31/12/2016
Financial assets		
Cash and cash equivalents	12.583	19.352
Non-current receivables, trade and other receivables	11.329	13.044
Financial liabilities		
Carried at amortized cost	5.505	24.651

Capital management

The primary objective of the capital management is to ensure that the Company maintains a strong credit health and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2017 and 2016.

The Company is obligated to keep its equity ratio not less than 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania, The Company meets the requirements of equity by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on the Company.

The Company monitors capital using capital concentration ratio, which is calculated as ratio between equity and total assets (after eliminating advances received) of the Company. Equity includes ordinary shares, reserves, retained earnings or accumulated losses. The Company's management seeks the capital concentration ratio to be no lower than 40%:

	31/12/2017	31/12/2016
Total assets	135.452	146.917
Advances received	(1.222)	(6.999)
	134.230	139.918
Equity	**121.993**	**109.714**
Capital concentration ratio	90,88%	78,41%

23. Related party transactions

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

The Company's transactions with related parties in 2017 and related year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Trade receivables from related parties	Trade and other payables to related parties
Shareholders	557	1	7.149	1
Entities controlled by shareholders	6.005	391	1.331	96
Total	**6.562**	**392**	**8.480**	**97**

Since 30 March 2017 Vilniaus silumos tinklai AB has taken over heating and hot water provision services from Vilniaus Energija UAB. In 2017 sales to Vilniaus šilumos tinklai AB accounted for EUR 5.041 thousand.

(all amounts are in thousand EUR unless otherwise stated)

23. Related party transactions (continue)

The Company's transactions with related parties in 2016 and related year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Trade receivables from related parties	Trade and other payables to related parties
Shareholders	640	635	756	5.647
Entities controlled by shareholders	771	128	64	50
Total	**1.411**	**763**	**820**	**5.697**

Under a tripartite agreement between the Company, Vilniaus Energija UAB and Vilnius city municipality, in December 2016 the Vilnius city municipality paid EUR 5.647 thousand (accounted for as advances received), which in accordance with the tripartite agreement were offset against Vilniaus Energija UAB debt in February 2017, after the execution of obligations stated in the agreement.

The services provided to the shareholders and the entities controlled by the shareholders were executed at market prices.

As at 31 December 2016 the Company received 2 guarantees from Vilnius city municipality for the amount EUR 9.036 thousand to secure obligations of the loan agreements. In 2017, after the loans were repaid to Finance Ministry of Republic of Lithuania and Nordic Investment Bank, guarantees were terminated.

24. Remuneration of the management and other payments

As at 31 December 2017 and 2016 the Company's management team comprised 4 people.

	01/01/2017 31/12/2017	01/01/2016 31/12/2016
Key management remuneration	268	172
Social security	84	53
Total	**352**	**225**

During the year 2017 Company's management received payment in amount of EUR 9,78 thousand for rent of vehicles (in 2016 – EUR 6 thousand).

25. Non-cash transactions

	01/01/2017 31/12/2017	01/01/2016 31/12/2016
Property, plant and equipment received from the shareholders	469	634
Non-current assets received free of charge	373	358

26. Subsequent events

Subsequent information about legal procedures is presented in Note 27.

Increase of share capital

Share capital of the Company was increased by the property contribution made by Vilnius district municipality in amount of EUR 196 thousand and was registered in January 2018.

Loan received

As at 7 February 2018 the Company signed a loan agreement with Finance Ministry of Republic of Lithuania for amount EUR 20.000 thousand in order to finance the project "Renovation and Development of Drinking Water Supply and Sewage Cleaning System in Vilnius City".

27. Commitments and contingencies

Litigations

The Company has submitted claims to the following persons:

As at 20 July 2016 July Vilniaus vandenys UAB filed lawsuits in 3 cases with Vilniaus energija UAB, in respect of the debt for drinking water supplied for the preparation of hot water. The total amount of claims was EUR 7.208.574:

The claim amount – EUR 1.052.769, the Case No. e2-5387-580/2016. The claim was submitted as at 20 July 2016.
The claim amount – EUR 4.368.841, the Case No. e2-5390-560/2016. The claim was submitted as at 20 July 2016.
The claim amount – EUR 1.786.964, the Case No. e2-5392-232/2016. The claim was submitted as at 20 July 2016.

The courts of first instance satisfied the claims, but the defendant lodged appeals against Vilniaus energija UAB and the cases were further dealt with by the Lithuanian Court of Appeal.

In 2017 the Company has initiated 3 cases against Vilniaus energija UAB due to debt for drinking-water supplied for preparation of hot water. Total amount of claims was EUR 3.663.416:

The claim amount – EUR 2.335.239, the Case No. e2-3750-803/2017. The claim was submitted as at 14 March 2017.
The claim amount – EUR 564.278, the Case No. e2-3787-262/2017. The claim was submitted as at 17 March 2017.
The claim amount – EUR 763.900, the Case No. e2-3788-803/2017. The claim was submitted as at 17 March 2017.

29 December, 2016 the Company entered into a trilateral agreement with Vilniaus energija UAB and the Vilnius City Municipality Administration regarding the transfer and assignment of claim rights, whereby the Company transferred to Vilniaus city municipality administration a claim of EUR 5.646.806 to Vilniaus energija UAB, and the Vilnius City Municipality Administration committed to transferable payment request. The requirement has passed to the Vilnius City Municipality Administration in 28 February 2017 and payment was made by the Vilnius City Municipality Administration for the transferable claim.

24 April 2017 the Company concluded a trilateral agreement with Vilniaus energija UAB and the Vilnius City Municipality Administration regarding the assignment and set-off of claims rights, in which the Company committed itself to transfer to the Vilnius City Municipality Administration a claim of EUR 8.418.703 from Vilniaus energija UAB, and the Vilnius City Municipality Administration committed to transferable the requirement to pay by 31 December 2021 in equal parts every quarter, starting payments from 31 March 2018.

After the agreements made on 29 December 2016 and 24 April 2017, trilateral agreement with Vilniaus energija UAB and the Vilnius City Municipality Administration regarding the transfer and assignment of claims rights, the Company signed a peace agreement and withdrew demands for the payment of debts from Vilniaus energija UAB for drinking water supplied for the preparation of hot water in 2016 and 2017 cases above, however, the Company, when claiming claims in connection with the debt repayment, also demanded the payment of interest and late payment for late settlement, therefore, after the conclusion of both tripartite agreements, the Company continued to file lawsuits against Vilniaus energija UAB for the payment of interest and interest for late payment for the services rendered. Following the favorable decisions for Vilniaus Vandenys UAB, Vilniaus Energija UAB paid interest and interest for interest for latency in 2017.

Persons, who have submitted claims against the Company:

- The District court of the Vilnius has examined civil case based on the claim of VITI AB-F against defendant LR Aplinkos ministerijjos Aplinkos projektu valdymo agenturai ir Vilniaus vandenys UAB due to claim (21 November 2014) No. (29-2-7)-APVA-1928 to pay amount EUR 263.385 as a bank guarantee. This case was recognised as illegal and unreasonable

  As at 25 January 2016 the claim of 'VITI' AB-F was partly upheld partly, adjudging from the Ministry of Environment, Environmental Project Management Agency in favor of AB-F VITI amount of EUR 263.385, 5% annual interest from adjudged amount from the day of civil claim proceeding (as at 8 December 2014) up to complete implementation of court decision and the amount EUR 2.844 for stamp-duty. The amount of losses EUR 34.863 was not adjudged.

  As at 24 February 2016 the Company (defendant) has appealed. As at 27 October 2016 the Appellate court of Lithuania has made a decision in civil case under the claim of AB-F VITI against defendants the Ministry of Environment, Environmental Project Management Agency and the Company due to claim No. (29-2-7)-APVA-1928 (as at 12 November 2014) to pay the amount of EUR 263.385 (LT 909.415) of recognition illegal of bank guarantee pay-out. The requirements of claimants were rejected. The claimant submitted the cassation complaint and it was accepted for hearing. On 16 June 2017 the appeal was inspected and dismissed, the decision remained unchanged. As at 31 December 2016 the Company has formed the provision in the amount of EUR 263.285, as at 2017 the provision was fully reversed.

27. Commitments and contingencies (continue)

- In the District court of Vilnius the claim of plaintiff AS Merko Ehitus is proceeding due to payment for additional expenses, extension of expiry date, illegal accounting and usage of bank guarantee. The amount of claim: EUR 60.200 for implemented additional works and EUR 93.491 as a suffered losses by plaintiff. As at 31 December 2017 and 2016 the Company has formed the provision in the amount of EUR 153.691.
- In the District court of Vilnius the case was proceeding, related to claim of the plaintiff Vilnista UAB, which is going bankrupt, to adjudge illegally accounted prepayments and compensate losses. Total claim amount: EUR 451.208 of compensation of losses. As at 30 November 2016 the court dismissed claim of plaintiff and made a decision in favor of the Company. On 29 September 2017 the appeal was rejected and initial decision remained valid. As at 31 December 2016 the Company formed the provision in the amount of EUR 451.208, as at 31 December 2017 the provision was full reversed.
- In the District court of Vilnius district court cases are proceeding where Dalia Uzusiene, Jonas Uzusienis and others submitted claim. The defendants: Gabijos Investicijos UAB, Vilnius city municipality and the Company due to damage compensation (claim amount was not set) or determination of remuneration easement (claim amount was not set).

  The ruling on the change of countries was adopted in the case, the ruling was appealed.

  On 31 of July, 2017 the applicants filed a revised claim for the award of moral and non-material damages to defendants Vilnius City Municipality, the Republic of Lithuania and UAB Vilniaus vandenys, third parties interested in Dalia Dubietytė-Užusienienė, Stanislava Paulikienė, Irena Mėlinauskienė. On 13 February 2018 Vilnius City Administrative Court passed the decision to reject Jonas Užusytis's complaint as unfounded. 31 December 2017 and 31 December 2016 the provision was not formed due to the existing uncertainty surrounding the identification of the perpetrator and the assessment of the size of the claim.
- As at 5 July 2016 Apskaitos ir mokesciu konsultacijos UAB made a claim to the District court of Vilnius due to received adjudgement of debt of provided services, penalties for payment delay and compensation. Total amount of claim: EUR 20.655. As at 13 November 2016 the court of first-instance partially satisfied the claim and adjudged from the Company EUR 5.492 of losses compensation and EUR 1.206 litigation expenses. As at 22 December 2016 plaintiff has appealed. As at 31 December 2016 the Company formed provision in the amount of EUR 6.698. In 2017 the Company covered losses incurred by UAB Apskaitos ir mokesčių konsultacijos and reimbursed the costs. As at 31 December 2017 this provision was fully reversed.
- As at 8 December 2016 AB Graztai submitted a claim against the Company related to recognition of the part of agreement as not valid and the restitution application. Claim is amounted to EUR 40.631. First instance court satisfied the claim. The Company appealed. The appeal court has not made decision yet. As at 31 December 2017 and 2016 provision was formed in the amount of EUR 40.631.
- As at 23 December 2016 on Upes str. approximately 30 thousand sq. meter of sewage drained away to Neris river due to an accident that occurred due to damage to pipe-lines. Pre-trial investigation was started. Preliminary damage to the environment was assessed in the amount of EUR 450 thousand, provision was not formed due to high uncertainty, related to identification of actual perpetrator and assessment of potential damage to the environment.
- 30 January 2015 the cellar of the National Cancer Institute located in Santariškių g. 1, Vilnius. In the event of an accident, the water supply networks are operated by UAB Vilniaus vandenys. 30 April 2017 Gjensidige filed a lawsuit claiming to be jointly and severally liable for UAB Vilniaus vandenys and InterRisk Vienna Insurance Group AAS EUR 114.375. The hearing was scheduled for 6 February 2018. At 31 December 2017 the company formed a provision of EUR 114.375 for this claim.
- On 19 May 2017 the Environmental Project Management Agency of the Ministry of Environment of the Republic of Lithuania informed the Company about investigations into suspected violations regarding the failure to achieve monitoring (result) indicators for 2007-2013 in the framework of projects financed by the European Union. The failure to achieve monitoring (result) indicators can correct the amount of eligible costs for projects from 5 to 20 percent, which is EUR 3.988.401 from the total funding amount. Minister of the Environment of the Republic of Lithuania passed orders No. D1-448; No. D1-497; No. D1-499 and orders no. D1-752; No. D1-739; No. D1-735 on the application of financial corrections. UAB Vilniaus vandenys appealed against the aforementioned orders to the Vilnius Regional Administrative Court. All cases are still pending. The cases provided for in the trials are postponed, after suspension of proceedings in connection with the possible conclusion of a settlement agreement. At the end of the hearing of the cases, according to the order, the amounts financed may be refunded and sources of financing redistributed, the provision for adjusting the amounts financed is not accounted for due to the uncertain possible repayment amount. Also, the possible repayment would not affect the Company's profit or loss as it would reduce the amount of the grants receivable.
- UAB Namų priežiūros centras has filed a lawsuit against UAB Vilniaus vandenys for damages, the claim amounting to EUR 6.047. 31 December 2017 the Company formed a provision of EUR 6.047 for this claim. on 15 January 2018 peace treaty was signed, on 5 February 2018 the Company covered losses of UAB Namų priežiūros centras.

(all amounts are in thousand EUR unless otherwise stated)

27. Commitments and contingencies (continue)

- In June 2017 when the water pumping station broke down in Upes str. 15 due to high mass of raindrops the sewage, sewage were released into the river Neris by emergency exhaust pipes. After an unplanned thematic inspection of Vilnius RAAD, an inspection act was drawn up to investigate and assess the circumstances of an accident. As at 31 December 2017 RAAD investigation has not been completed yet. The Company acknowledges the fact of the damage done to the environment and according to preliminary expert estimations a provision for the amount EUR 245.229 was formed as at 31 December 2017.

The Company's provisions for legal cases and other provisions are presented in the table below:

	31/12/2016	Accrued 01/01/2017 31/12/2017	Used 01/01/2017 31/12/2017	31/12/2017
Provisions for trial claims	915	121	721	315
Provisions for environmental damage	-	245	-	245
Provisions accumulated for boring liquidation	9	9	9	9
Provisions for cadaster measurement and cases registration	53	37	55	35
Total	**977**	**412**	**785**	**604**

Commitments under concluded contracts

As at 31 December 2017 the Company's commitments according to the concluded contracts which are not yet recognized in the financial statements amount to EUR 3.836 thousand. As at 31 December 2016 commitments amounted to EUR 1.628 thousand.

Other off-balance sheet commitments and uncertainties

As at 31 December 2017 and 2016 the Company has legally not registered assets (Note 11) and to the date of approval of these financial statement the Company has not received any claims from the third parties. The Company bears all the risks and rewards related to these assets.

Vilniaus vandenys

Annual report

2017

MESSAGE FROM THE MANAGEMENT

Year 2017 was the year of significant challenges, works and major changes in Vilniaus Vandenys. Through joint efforts of a strong and motivated team, we have laid solid foundation for further growth and significant changes in the Company.

We undertook to implement the Company's operating and development strategy for 2017-2019, which defines the Company's values, formulates its mission, vision, goals and strategic performance initiatives. We strive to employ them to build value-based organizational culture, improve customer service quality, ensure data security and interoperability of IT systems, attract more new customers, expand and upgrade networks, reduce their losses and ensure a reliable infrastructure for providing quality services.

We started with ourselves by improving activity process management, implementing a motivating employee performance management system and a remuneration policy, which is aimed at objectively and transparently remunerating employees for the results achieved, the value created for the organization and for customers, also encouraging and enabling them to pursue common goals.

Significant progress and leap in quality was achieved in another priority area - improving customer service quality. A customer satisfaction survey was carried out, a customer service standard was approved, also creating a modern self-service portal and taking first steps in moving customer service to the electronic environment.

We started implementing IT projects in the development of asset management and customer billing systems and improving the geographical information system (GIS), which will enable the Company to use the funds even more efficiently and to ensure the reliability of its infrastructure.

We are pleased that having increased the efficiency of operations, we managed to reduce prices of basic drinking water supply and wastewater treatment services for consumers by about a fifth, at the same time ensuring a stable income for the Company.

These successful performance results have earned us the title of the Service Sector Leader in the election of the Lithuanian Business Leaders held by Verslo Žinios.

In 2018, we will face even more challenges: we will strive to provide our customers with even better services, to attract as many new customers as possible and to implement the planned investment projects.

I have no doubt that we will implement ambitious goals and become a desirable employer, service provider and partner by 2019, as planned. Please feel free to get familiar with our performance results presented in this report for 2017 in greater detail.

Best regards,

Virgilijus Žukauskas

Acting CEO

ABOUT THE COMPANY

Vilniaus Vandenys is the largest Lithuanian water management enterprise that in engaged in drinking water supply and wastewater management for about 250 thousand customers. The Company holds a drinking water supply and wastewater management licence issued by the National Commission for Energy Control and Prices (NCC) and operates in Vilnius City Municipality as well as Vilnius, Švenčionys and Šalčininkai district municipalities. The Company has no branches or representative offices.

The Company supplies groundwater only, from 40-180 meter-deep wells. Vilniaus Vandenys supplies approximately 88 thousand cubic meters of water, collects and treats more than 114 thousand cubic meters of wastewater per day.

Considering the fact that the Company is engaged in the provision of strategically important public services, the provision of the services and environmental protection is subject to large-scope legal regulation. The Company follows requirements of ISO 9001 and ISO 14001 standards in its activities.

MAIN SERVICES

SUPPLY OF DRINKING WATER

Vilniaus Vandenys operates 34 wellfields, 275 wells that can be operated, 147 water pumping stations, 1684 km water supply pipelines, 19 water improvement plants, 509 water abstraction columns and 4837 fire hydrants.

In 2017, the Company abstracted 32.4 million m3 of drinking water (which is 0.4 million m3 more compared to 2016), including 31.6 million m3 from Vilnius city wells, 0.4 million m3 from Švenčionys district wells, 0.3 million m3 from Šalčininkai district wells and 0.2 million m3 from Vilnius district wells.

The Company supplies drinking water from deep wells only. Such water is considered top quality. However, natural water always contains dissolved impurities. High levels of iron and manganese are typical of groundwater in Vilnius and Vilnius district. Excess iron and manganese are removed by treating water in water improvement plants used to clean 87 percent of water supplied by the Company.

The Lithuanian Hygiene Norm HN24: 2017 lays down the requirements for safety and quality of drinking water. According to these requirements, and in order to ensure the quality of supplied water, the Company performs regular monitoring of the quality of drinking water and carries out tests thereof. Samples for the tests are taken from the distribution network and consumption points. Laboratory tests of the quality of drinking water are carried out in accordance with the programme supervision plan drafted each year and approved with the State Food and Veterinary Services, and considering customer needs. In 2017, a total of 8.7 thousand tests were carried out in the Company's laboratory, which is 3 percent more than in 2016. About 50 water quality indicators were tested, and the absolute majority of them fully met the Hygiene Norm requirements.

The majority of the water supply networks was built in connection with the city expansion, thus it is decades old. Due to the long term of operation, pipelines in certain parts of the city are obsolete, thus resulting in occasional water leaks or accidents. In 2017, the Company liquidated 710 water supply accidents* (compared to 1141 in 2016).

*The term "accident" used in the Company's report corresponds to the definition of an accident in water supply and sewage treatment facilities used in the Description of the Procedure for Removing Accidents and Breakdowns approved by Vilniaus Vandenys in 2017 according to the recommendation by the Lithuanian Water Suppliers Association. Accident shall mean an unforeseen event having formed as a result of a fault in water management infrastructure, technological process damage or other unforeseen technical circumstances, which may lead to disrupted service provision to the customer, pose threat to human health or life, result in another adverse environmental impact or a threat to public and private property.

In 2017, the Company renovated sections of water supply pipelines in emergency state located in collectors of Vilnius city heat networks covering 1.85 km, and 0.8 km of underground water supply networks. The Company also invested in renovation of equipment of wellfields and wells, new wells, restoration of water supply networks and wells, replacement of reinforcement and fire hydrants.

Wear and tear of the network (more than 60 percent of water supply and wastewater network is more than 30 years old) and soil movement are most frequent reasons of accidents. In previous years, the development of new networks from European Union structural funds was a priority, thus only the sections of water supply pipelines with highest accident concentration were renovated.

In 2017, the Company approved the Methodology for Rating Objects of Reconstruction of Water Supply, Wastewater Networks and Stations for identifying priority objects for reconstructing water supply and wastewater networks considering the condition and importance of objectively assessed objects. Having identified the priorities, the investment plan for 2018-2020 was drafted for renovating networks from the Company's funds.

WASTE COLLECTION AND MANAGEMENT

For the collection of wastewater and its transportation to the wastewater treatment facilities, Vilniaus Vandenys uses 1 335 km wastewater networks and collectors, including 166 km pressure lines and 183 wastewater-pumping stations. The Company operates 8 wastewater treatment plants: Vilnius city, Švenčionys, Švenčionėliai, Pabradė, Nemenčinė, Gėla, Šalčininkai and Eišiškės. The Company also accepts and manages wastewater collected by companies transporting wastewater.

The Wastewater Management Regulation and pollution integrated prevention and control permits issued to the Company regulate wastewater management. The Company's laboratory examines about 30 wastewater quality indicators.

Tests of quality of wastewater inflows and treated outflows are performed in observance of environmental monitoring programmes providing for the plans of monitoring of pollutants released with wastewater and plans of monitoring of the impact on water quality approved with the Environmental Protection Agency (setting the parameters to be tested, points, frequency of measurement and methods of measurement).

In 2017, Vilniaus Vandenys treated 41.6 million m3 of wastewater, which was 8 percent more than in 2016, including 39.13 million m3 of wastewater treated in the treatment plant of Vilnius city, accounting for 94.1 percent of the total treated wastewater amount, 1.12 million m3 - in Švenčionys district, 0.8 million m3 - in Šalčininkai district and 0.53 million m3 - in Vilnius district treatment plant.

In terms of the key examined indicators (biochemical oxygen consumption in seven days (BOD7), the total phosphorus and the total nitrogen content), high treatment efficiency levels are reached in the Vilnius wastewater treatment plant, which consistently increased in 2017 compared to 2016.

The company faces challenges over the total nitrogen concentration in treated wastewater, but the situation is under control. In 2017, the Company paid 19.1 percent less for pollution compared to 2016. In order to better protect the environment from pollution from economic activities and to maintain high quality of treated wastewater, the reconstruction of the Vilnius waste water treatment plant was started (announcing a public procurement procedure therefor).

In 2017, there were 477 accidents in wastewater networks (2 252 - in 2016). Accidents and breakdowns in wastewater networks were mainly caused by obsolescence of pipelines and blockage of pipes. A mixed wastewater drainage system is installed in Vilnius city centre, the Old Town, a part of Antakalnis and Naujamiestis where both wastewater and rainwater is collected. These wastewater networks accumulate sediment and silt causing frequent blockages. The Company's wastewater operation and accident liquidation units focus not only on the liquidation of such accidents and breakdowns but also on their prevention. In 2017, 47 points of wastewater networks with highest accident concentration were repaired (having replaced about 3 km of pipelines) and 71 km of wastewater networks were washed (cleaned) (including 1.8 wastewater collectors). The plan is to continue the routine prevention wastewater washes and to invest in renovation of wastewater networks in 2018.

PERFORMANCE AND FINANCIAL INDICATORS

SCOPES OF SERVICE PROVISION

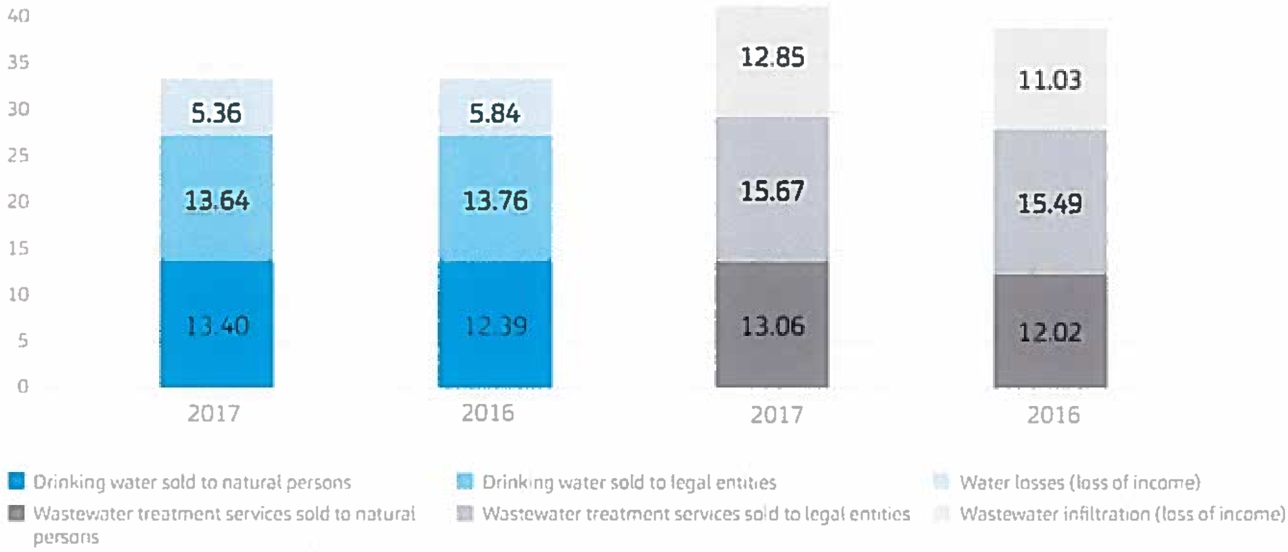
The dynamics of the volume of sales of drinking water and wastewater treatment services best reflects the changes in the Company's operating volumes that affect the income. The key performance indicators - the volume of drinking water sold and the volume of collected and treated wastewater - in the areas of activities of Vilniaus Vandenys increased by 3-4 percent in 2017 compared to 2016. Such results were determined by active work in checking readings of water meters of natural persons, strengthening customer service, informing about payments and other active actions. Forecasts of the results for 2018 reveal the expected further increase in the volume of sold drinking water and collected and treated wastewater by 3 percent.

Performance indicators	2017	2016	Change in 2016 - 2017	
			thousand m3	percent
Drinking water sales, thousand m^3	**27 043**	**26 155**	**888**	**3%**
To natural persons (consumption), thousand m^3	13 403	12 391	1 012	8%
To legal persons (subscribers), thousand m^3	13 640	13 764	-123	-1%
Wastewater treatment service sales, thousand m^3	**28 731**	**27 510**	**1 221**	**4%**
To natural persons (consumption), thousand m^3	13 059	12 023	1 036	9%
To legal persons (subscribers), thousand m^3	15 672	15 487	185	1%

In 2017, the Company abstracted 32.4 million m3 of drinking water. The differences between the amount of drinking water supplied to the pipelines and the drinking water sales occur for technical reasons (leakages and accidents), but incorrect declaration of client meter readings plays an important role as well. The Company treats more wastewater than sells wastewater treatment services mainly due to rainwater infiltration in the wastewater collection system. 41.6 million m3 of treated wastewater was accounted for in wastewater treatment plans, while only 28.7 million m3 of wastewater treatment services were sold.

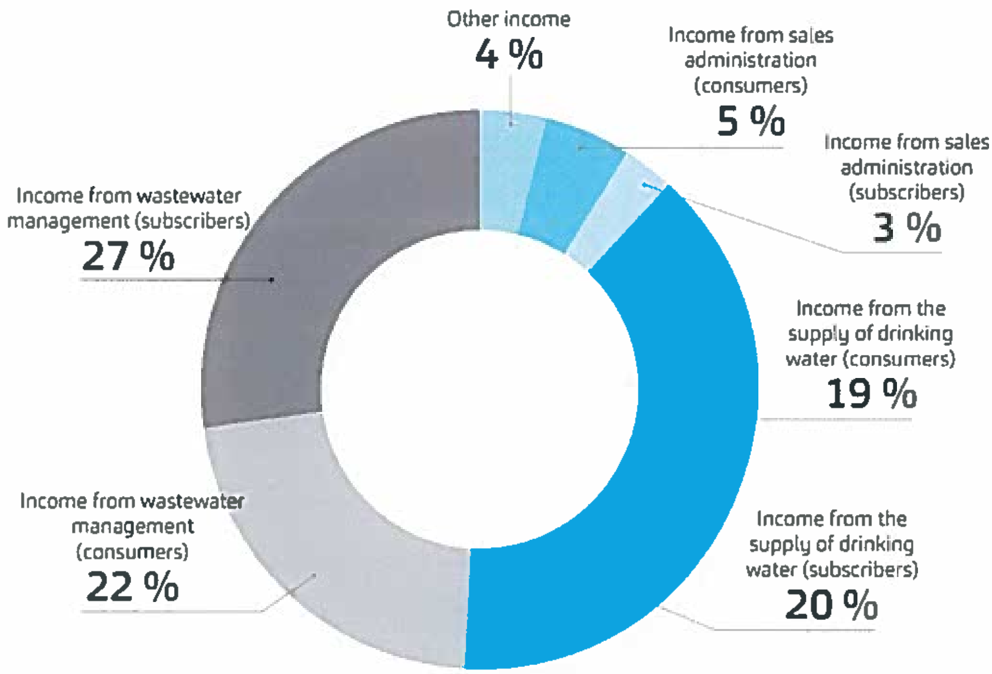
The diagram below shows the total service provision scope (in thousand m3) with respect to drinking water losses * and wastewater infiltration.

*Water losses means a difference between the volume of drinking water supplied to pipelines and the volume of drinking water sold; infiltration means a difference between the volume of water treated in treatment plants and the amount of sold wastewater treatment services.



INCOME FROM THE SALE OF SERVICES

Principal (sales) income generated by Vilniaus Vandenys comprises income earned from the provision of services of drinking water supply and wastewater treatment. The Company earned EUR 39.9 million from sold services in 2017. Compared to 2016, sales income decreased by a mere EUR 0.026 million in 2017 despite by about a fifth lower service prices that took effect in October. Active work with customers administering consumption volumes, more stringent wastewater pollution control and more services provided to customers allowed retaining steady sales income.



Sales income from business customers* accounts for about 50 percent of the Company's income, income from private customers** – for 46 percent and other income – for 4 percent. Income from the largest hot water suppliers (Vilniaus Energija / Vilniaus Šilumos Tinklai) accounts for 35 percent of income from business customers.

Sales income	2017	2016	Change in 2016-2017	
			thousand EUR	percent
SALES INCOME	**39 880**	**39 906**	**-26**	**-0,1%**
Income from sales administration (price)	**3 162**	**3 184**	**-22**	**-0,7%**
Income from the supply of drinking water, including:	**16 318**	**16 336**	**-18**	**-0,1%**
Income from private customers (consumers)	8 096	7 760	336	4,3%
Income from business customers (subscribers)	8 222	8 576	-354	-4,1%
Income from centralised wastewater management including:	**20 453**	**20 398**	**55**	**0,3%**
Income from private customers (consumers)	9 197	9 054	143	1,6%
Income from business customers (subscribers)	9 995	. 10 530	-535	-5,1%
Income from business customers (subscribers) for increased pollution	1 261	814	447	54,9%
Change in income accruals	-54	-12	-42	350%

*The term "business customer" used in the Company's annual report corresponds to the term "subscribers" used in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania.

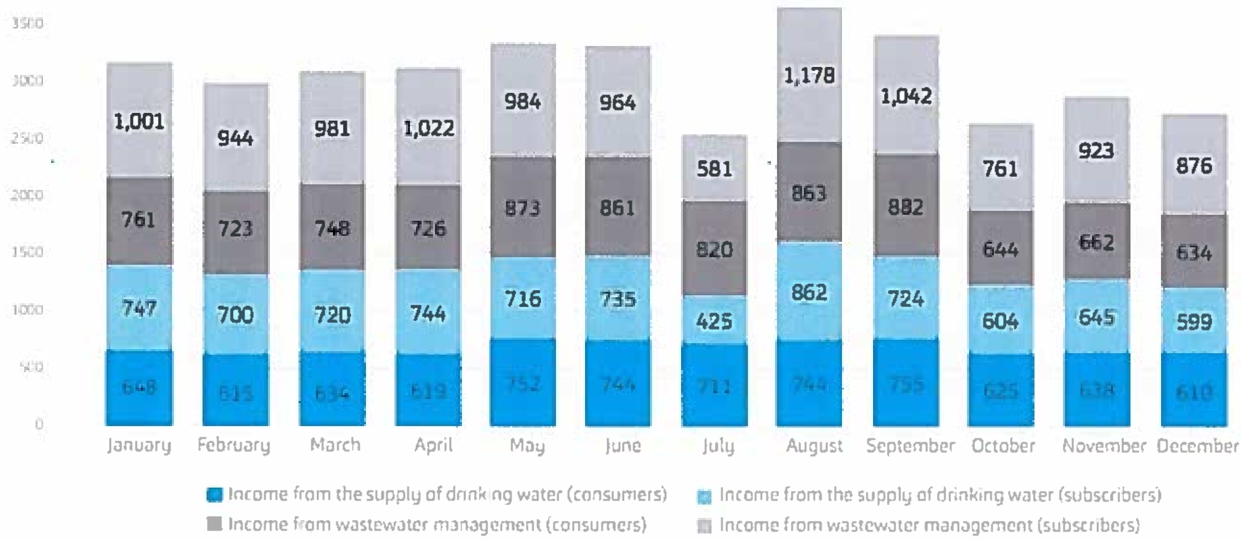
Subscriber is a natural or legal person, a branch of a foreign legal entity or another organization established in the Republic of Lithuania purchasing the services of the supply of drinking water and/or wastewater management for business needs or carrying out economic activities and having concluded a public contract on the supply of drinking water and/or wastewater management with a drinking water supplier, wastewater manager and/or surface wastewater manager or, if a contract has not been concluded, having connected in accordance with the procedure prescribed by laws his drinking water supply and/or wastewater drainage facilities, drinking water usage and/or wastewater treatment plants owned by the right of ownership or general shared ownership to the drinking water supplier and/or wastewater management infrastructure owned by the drinking water supplier and/or wastewater manager by the right of ownership or managed and/or used otherwise, or draining surface wastewater to surface wastewater management systems of managers of such wastewater.

**The term "private customers" used in the Company's annual report corresponds to the term "consumers" used in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania.

Consumer is a natural person purchasing drinking water supply and/or wastewater management services for personal, family or household needs rather than for business, who has concluded a public contract on the supply of drinking water and/or wastewater management or, if a contract has not been concluded, having connected in accordance with the procedure prescribed by laws his drinking water supply and/or wastewater drainage facilities, drinking water usage and/or wastewater treatment plants owned by the right of ownership or general shared ownership to drinking water supply and/or wastewater management infrastructure owned by the drinking water supplier and/or wastewater manager by the right of ownership or managed and/or used otherwise.

In 2017, the Company's income grew from EUR 40.4 to 41.8 million. The growth of income was mainly affected by the growth of other income from EUR 0.5 million in 2016 to EUR 1.9 million in 2017. This income included net profit of EUR 1 285 thousand from the disposal of non-current assets of the Company in Dominikonų St. in Vilnius and income from assets received free of charge from third persons, which totalled about EUR 373 000. In 2017, the income from assets received free of charge comprised the average market value of networks reconstructed from the funds of real estate builders and of newly built networks registered in the Company's name, which was determined according to statements of the central data bank of the Real Estate Register.

Income from the sale of water and wastewater in 2017 (thousand EUR)



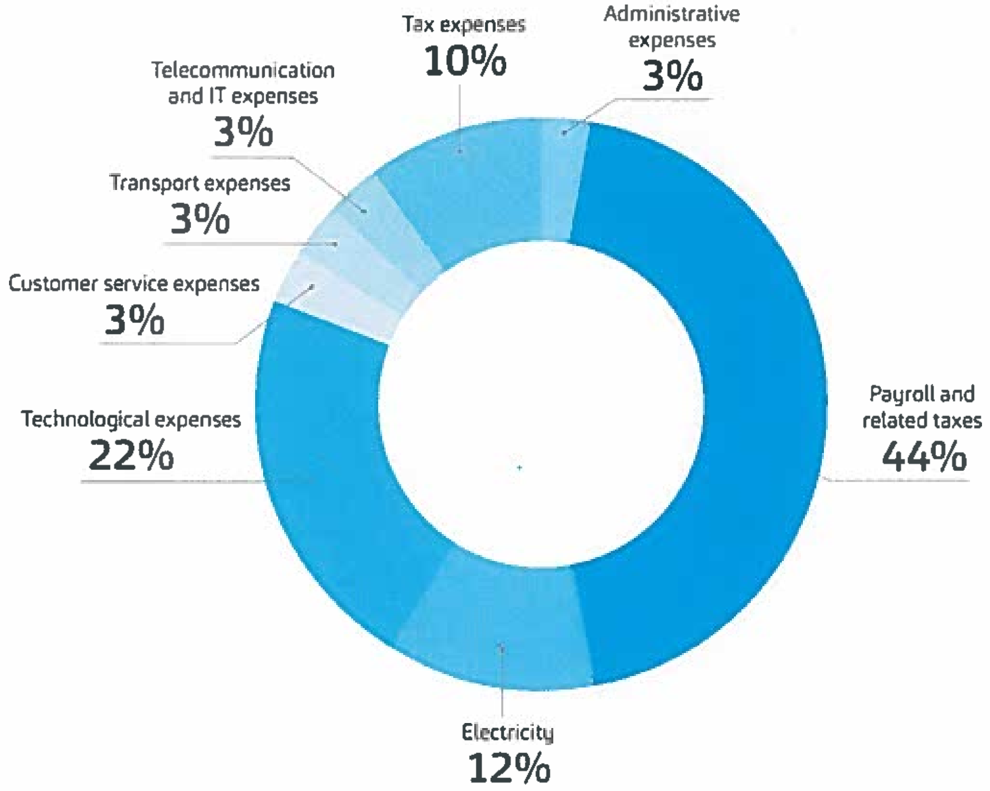
Income from different activities remained stable in 2017 compared to 2016. Income from wastewater management slightly increased (EUR 55 000), while income from drinking water supply slightly decreased (- EUR 18 000). Respectively, income from the supply of drinking water accounted for 39 percent in the income structure, income from wastewater management – for 49 percent and income from the selling fee – for 8 percent of the Company's income.

OPERATING EXPENSES

In carrying out control of operating expenses, the Company analyses a part of its operating expenses (OPEX). Taking into account the fact that this part (OPEX) is distinguished for management reporting purposes, due to different classification of expenses, the amounts of some expenses may differ from the figures disclosed in the financial statements.

OPEX means operating expenses except for depreciation and amortization, asset impairment and write-off expenses. In 2017, OPEX were EUR 24.1 and in 2016 - EUR 26.7 million.

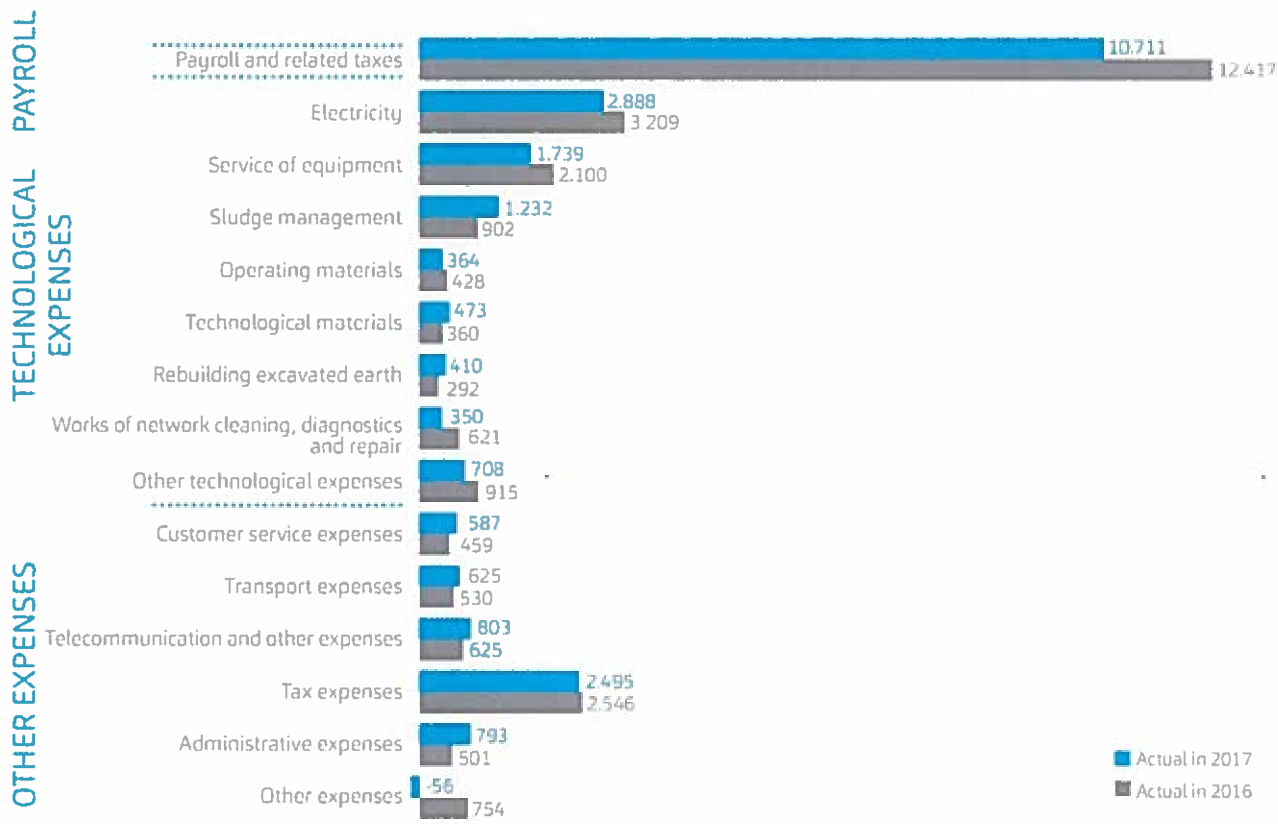
2017 operating cost structure



In 2017, payroll and related tax expenses made up the major share of OPEX accounting for 44 percent of the total OPEX. Payroll and related tax expenses totalled 10.7 million in 2017, and decreased by EUR 1.7 million compared to 2016, when they were EUR 12.4 million. Structural changes in the Company in 2016, when the number of employees was reduced and the dismissed employees were paid severance pay, contributed the most to this decrease.

In order to disclose OPEX in greater detail, technological expenses (or expenses for technological needs) were distinguished. These expenses are related to technological - production processes that take place in the Company, namely, the operation of facilities and pipelines and the management of sludge.

OPEX in 2017 (thousand EUR)



Electricity expenses are distinguished as making up the largest share of technological expenses. Electricity expenses accounted for 12 percent of OPEX in 2017. They decreased by EUR 0.3 million to 2.9 million in 2017 as a result of the reduced price of one kilowatt-hour (kWh) of the purchased electricity (38.5 MWh of electricity was purchased in 2017 and 2016). The remaining technological expenses, which included sludge composting, repairs, service of equipment, network cleaning and other technological expenses, accounted for 22 percent (or EUR 5.3 million in 2017 compared to EUR 5.6 million in 2016) in the Company's operating expenses (OPEX) of 2017. Decrease in other technological expenses was determined by more stringent control and increase of operating efficiency.

Transport expenses increased due to increased repair expenses of the aging vehicle fleet in 2017, where the average age of vehicles owned by the Company is more than 10 years.

Decrease in tax (unrelated to payroll) expenses, which account for about 10 percent of OPEX of Vilniaus Vandenys, to EUR 2.50 in 2017 from EUR 2.55 in 2016 was mainly influenced by decreased environmental pollution tax as a result of more stringent pollution concentration control. In 2017, Vilniaus Vandenys paid a total of EUR 11.3 million to the State Tax Inspectorate and EUR 3.2 million to Sodra (including payroll related taxes).

The Company's expenses increased from EUR 21.9 million in 2016 to EUR 24.6 million in 2017. The expenses in 2016 was affected by reversal of impairment of trade and other receivables (EUR 12.6 million) for recovered debts of Vilniaus Energija. Impairment of debts of Vilniaus Energija totalling EUR 4.5 million was reversed in 2017.

Expenses of depreciation and amortization of non-current assets decreased by EUR 2.5 million, to EUR 5.1 million, in 2017 compared to EUR 7.6 million in expenses of depreciation and amortization of non-current assets in 2016. Such a change was determined by reviewed and updated norms of useful life of non-current assets as from 1 January 2017.

KEY FINANCIAL INDICATORS

Key financial indicators, thousand EUR	2017	2016	Change in 2016-2017	
			thousand EUR	percent
Income statement indicators				
Total income	41 752	40 433	1 319	3%
Income from operating (sales) activities	39 880	39 906	-26	0%
Operating expenses (OPEX)	24 120	26 707	-2 587	-10%
EBITDA (1)	17 632	13 726	3 906	28%
Profit/loss before tax	18 115	20 267	-2 152	-11%
Net profit	15 810	19 933	-4 123	-21%
Indicators of assets, equity and liabilities				
Total assets	135 452	146 917	-11 465	-8%
Cash and cash equivalents	12 583	19 352	-6 769	-35%
Equity	121 993	109 714	12 279	11%
Financial debts	2 998	22 904	-19 906	-87%
Trade receivables (including impairments)	6 839	18 841	-12 002	-64%
Trade payables	2 507	1 747	760	44%
Profitability indicators				
EBITDA margin (2)	42%	34%		8 pp
Net profitability	38%	49%		-11 pp
Return on assets (ROA) (3)	11%	15%		-4 pp
Return on equity (ROE) (4)	14%	20%		-6 pp
Other financial indicators				
Net financial debts (5)	-9 585	3 552	-13 137	-370%
Equity level (6)	90%	75%		15 pp
Investment scope, from the Company's funds	3 634	2 048	1 586	77%
Investment scope, total (7)	4 605	5 163	-558	-11%
Financial debt to equity ratio (8)	2%	21%		-19 pp
Current liquidity coefficient (9)	1,96	2,31		
Critical liquidity coefficient (10)	1,87	2,27		
Normalized indicators				
Normalized EBITDA (11)	16 347	13 726	2 621	19%
Normalized profit (loss) before tax (12)	11 251	4 860	6 391	132%

1) EBITDA (profit before interest, taxes, depreciation and amortization) = profit (loss) before tax + costs of financial activities – income from financial activities – dividends received + depreciation and amortization expenses + asset impairment expenses + asset write-off expenses;
2) EBITDA margin = EBITDA / income
3) Return on assets (ROA) = net profit (loss) / average assets
4) Return on equity (ROE) = Net profit (loss) / average equity
5) Net financial debts = financial debts - cash and cash equivalents - short-term investments and term deposits - part of other non-current financial assets comprising investments in debt securities
6) Equity level = equity at the end of the period/ total assets at the end of the period
7) Investment scope, total = investment scope, from the Company's funds + received EU grants + property contributions of shareholders + assets received free of charge
8) Financial debt to equity ratio = financial debts / equity
9) Current liquidity coefficient = current assets / current liabilities
10) Critical liquidity coefficient = (current assets - inventories) / current liabilities
11) Normalized EBITDA = EBITDA - profit from the sale of the building in Dominikonų St. in 2017 (EUR 1 285 thousand).
12) Eliminated amounts:
Reversal of impairment of amounts receivable from UAB Vilniaus Energija of EUR 4 555 000 in 2017; interest and late payment interest of EUR 1 024 000; profit from the sale of the building in Dominikonų St. of EUR 1 285 000;
Reversal of impairment of amounts receivable from UAB Vilniaus Energija of EUR 13 181 000 in 2016; received interest and late payment interest of EUR 2 226 000."

Financial debts totalled EUR 22.9 million at the end of 2016 and accounted for 21 percent compared to equity, or 16 percent compared to assets. At the end of 2017, financial debts totalled a mere EUR 3 million, which accounted for 2 percent compared to equity. Such a reduction came as a result of pre-term repayment of the major part of loans in 2017, which Vilniaus Vandenys had at the end of 2016. In February of 2018, the Company signed with the Ministry of Finance of the Republic of Lithuania a new agreement on the line of credit of EUR 20 million with the maturity of more than 20 years, which will be used to implement investment programme.

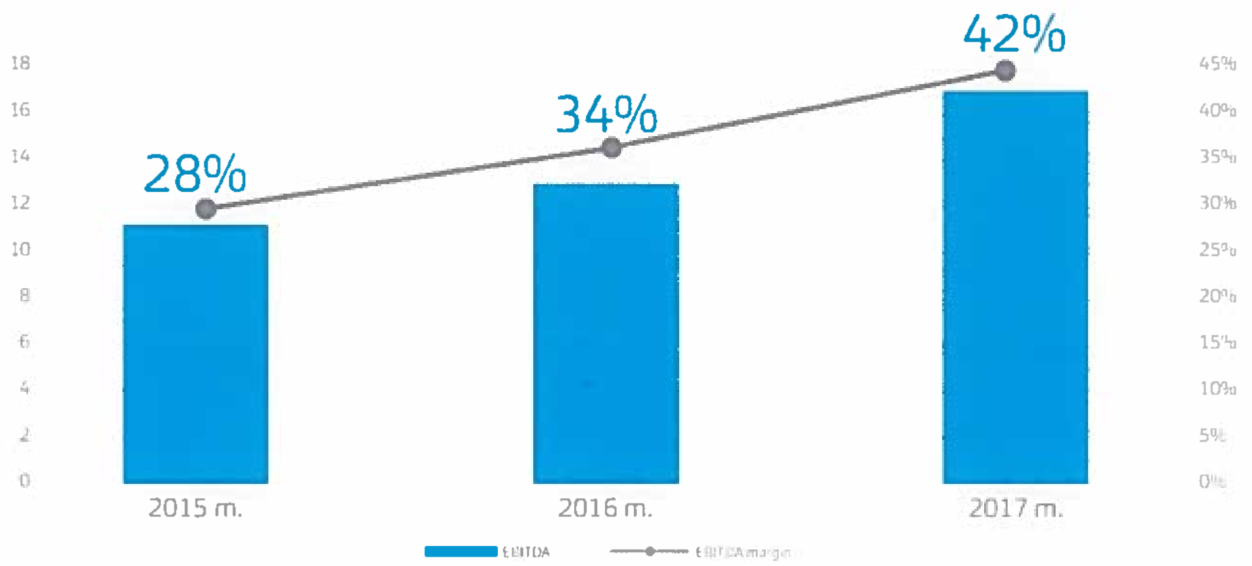
The decrease in the net profit earned resulted in respective decrease in profitability of assets and profitability of equity. It should be noted that the normalized profit* before tax increased by as many as 132% in 2017 due to reduced OPEX.

The increase in equity was determined not only by the net profit earned, but also by an increase in share capital due to the transfer of non-current tangible assets transferred by the shareholder (EUR 0.47 million). In 2017, equity increased by EUR 12.3 million to EUR 122 million and accounted for 90% of the Company's assets.

Trade payables increased from EUR 1.7 million at the end of 2016 to EUR 2.5 million at the end of 2017. The Company had no outstanding trade payables at the end of 2017. The main focus was placed on settlements and timely fulfilment of obligations, as it helped to attract more potential suppliers and provided the opportunity to negotiate the most favourable prices.

Compared to 2016, the scope of investments from own funds of the Company increased by 77 percent in 2017. The plan is to significantly increase the scope of investments in non-current assets in 2018.

Change in EBITDA (EUR million) and EBITDA margin (percent) in 2015-2017



Cost reduction, rising sales volumes as well as additional income from the sale of non-current assets increased EBITDA and EBITDA margin values in 2017. The reduction of OPEX led to EBITDA growth to EUR 17.6 million in 2017 compared to EUR 13.7 million in 2016. EBITDA margin increased from 34% to 42%, respectively.

*Normalized profit was received having eliminated the impact of profit from the sale of the buildings in Dominінkonų Street in Vilnius, interest and late payment interest from UAB Vilniaus Energija and reversal of its debt impairment.

The Company's net profit in 2017 decreased from EUR 19.9 million to EUR 15.8 million compared to 2016. The volumes of debts recovered from Vilniaus Energija wherefor impairments were previously formed had a significant impact on fluctuations in net profit. At the end of 2016, EUR 4.5 million was accounted for as impairments of doubtful debts of Vilniaus Energija in the balance sheet, but all of them were reversed in 2017. Respectively, the difference between receivables from Vilniaus Energija in 2016 and its impairment reversal was EUR 13.2 million.

Key financial indicators, EUR million	**2015**	**2016**	**2017**
Income statement indicators			
Total income	40,2	40,4	41,8
Income from operating (sales) activities	39,9	39,9	39,9
Operating expenses (OPEX)	28,9	26,7	24,1
Operating expenses (OPEX) exclusive of costs of restructuring	28,9	24,8	24,1
EBITDA	11,3	13,7	17,6
Profit (loss) before tax	-6,8	20,3	18,1
Normalized profit (loss) before tax	2,4	4,9	11,3
Net profit	-7,4	19,9	15,8
Indicators of assets, equity and liabilities			
Total assets	125,7	146,9	135,5
Cash and cash equivalents	0,4	19,4	12,6
Equity	89,1	109,7	122,0
Financial debts	25,9	22,9	3,0
Trade receivables (to impairment)	23,9	18,8	6,8
Trade payables	4,9	1,7	2,5

The normalized net profit before tax (net profit for the purpose of comparability after elimination of atypical events) was EUR 4.9 million in 2016 (eliminated difference between the impairment of receivables from Vilniaus Energija and its reversal - EUR 13.2 million, interest and late payment interest received - EUR 2.2 million). In 2017, the normalized net profit totalled EUR 11.3 million (reversal of impairment of receivables from Vilniaus Energija - EUR 4.5 million, interest and late payment interest - EUR 1 million, profit from the sale of the buildings in Dominikonų St., Vilnius - EUR 1.3 million).

Financial activity expenses amounted to EUR 0.3 million. They were incurred from the interest paid to financial institutions on loans, paid late payment interest and fines. Financial activity income from received late payment interest and interest amounted to EUR 1.3 million. The major share of this amount was related to overdue debts of Vilniaus Energija.

In 2017, Vilniaus Vandenys had not invested in term deposits or debt securities. The Company's income and expenses in 2017 were not related to other currencies, so the impact of the change in exchange rates was not incurred. The Company did not use derivative financial instruments. The Company paid out EUR 4 million in interim dividends for the results of the first four months of 2017. Further dividend policy of the Company has not yet been formulated.

STRATEGY

The Company's operating strategy for 2017-2019 was approved in the fall of 2016. It defines its values, formulates its mission, vision and strategic activity initiatives aimed at building a value-based organizational culture, improving customer service quality, ensuring data security and interoperability of IT systems, attracting more new customers, expanding networks, reducing their losses, and ensuring reliable infrastructure for the provision of quality services.

Having a clear strategy and consistently implementing it, the Company fulfilled its goals set for 2017 and achieved sustainable results.

The Company's operating expenses were 10 percent lower than planned. Performance results in 2017 were better than planned as a result higher income and lower expenses.

Employee engagement indicating the extent that employees are prepared to take extra effort in pursuit of common goals of the Company was measured for the first time in the history of the Company. 90 percent of the Company's employees took part in the measurement, and the total engagement rate was 56 percent. Having carried out the measurement, action plans to increase employee engagement were drafted.

The introduction of the employee performance management system was started in the Company in 2017. In the first year, as many as 40 percent of employees already took part in annual interviews, set their goals and purposefully pursued them.

A particular focus was placed on improving the quality of customer service, the process of administration of bills, strengthening the control of wastewater pollution and reducing water losses in 2017. In the course of the year, the process of informing customers was improved, service provision agreements were updated and debt management and collection of payments was enhanced. All these measures allowed maintaining stable sales of services, even after the reduction of prices of the main services by a fifth as from 1 October 2017. Income from sales of services of Vilniaus Vandenys totalled EUR 39.9 million in 2017 and remained stable.

Customer satisfaction with the services provided by the Company was also measured for the first time. A study carried out in accordance with international GCSI (*Global Customer Satisfaction Index)* methodology revealed that the total satisfaction index of customers of Vilniaus Vandenys is 67 points. The average of European utilities companies is 71 and that of Lithuanian companies – 68.

Customer self-service portal was updated as one of the key objectives, providing customers with modern self-service opportunities: declaring meter readings, updating contact details and monitoring their payment history on their own. This is the first step towards electronic customer service. The development of the self-service platform will continue in the future, providing customers with more opportunities.

Having enhanced the network monitoring system and approved the plan for the reduction of water losses, water losses were reduced by 9 percent in 2017 (while the goal was to reduce them by 5 percent).

In the development and installation of infrastructure management and maintenance system in the Company, descriptions of the procedure of preventive maintenance of infrastructure, namely, water and wastewater stations of water supply and wastewater networks, were drafted and approved. The descriptions of the procedures laying down the frequency and scopes of inspection and repair plans were drafted and approved in accordance with the descriptions of the procedure. The technical specification of the infrastructure management information system was prepared, and the procedure of procurement of the system and its installation services was started. The plan is to sign the installation agreement in 2018 and to have the infrastructure management information system installed in 2018 - 2019.

Vilniaus Vandenys seeks for procurement procedures held by the Company to be open and transparent, ensuring high quality of purchased materials and equipment, without restricting competition, thus the Company prepared technical specifications in 2017 and published them on the Company's website at www.vv.lt. Additional list of materials in line with technical specifications is also published online. The plan is to draft a full-scale technical development policy of the Company during 2018.

New SCADA system - a centralized system for control and management of technological objects and processes - was installed in the Company in 2017 for expeditious accident management. The network data, information on water management objects and customers digitalized and accumulated in the geographical information system allow faster detecting and locating possible points of breakdowns.

Implementation of goals of 2017

No.	Indicator	Definition	Weight, %	Goal of 2017	The fact
1.	OPEX	Operating expenses, except for depreciation and amortization, impairment and write-off expenses	20	EUR 26.8 million	24.1
2.	Normalized operating cash flow	EBITDA - earnings from Vilniaus Energija - increase in working capital (inventories, trade and other receivables and payables, except for amounts receivable from Vilniaus Energija, other current assets and current liabilities)	10	EUR 3.3 million	10.0
3.	Employee engagement	Employee engagement indicator, indicating the extent that employees are prepared to take extra effort in pursuit of common goals of the Company	20	Measured	56
4.	Customer service quality	Customer satisfaction with service quality	20	Measured	67
5.	Water losses	Difference in the volume of water supplied to the water supply network and the volume of water sold to consumers	10	-5 percent**	16.2 (-9)
6.	Implementation of employee performance management system	The system is necessary to achieve the goals of the Company, formulate organizational structure and make staff management decisions. 35 percent of the Company's employees used the system in 2017.	10	Completed**	40
7.	Development of customer self-service system	Installation of functionalities of declaring customer readings and managing customer payments in the updated self-service portal.	10	Completed**	Installed

** - planned percentage change from the calculated indicator value in 2016

*** - completion of the specified part of the project

CUSTOMER SERVICE

Focus on customer needs on all levels of the organisation is the top priority of the Company. In 2017, the Company improved main customer service areas.

In 2016, the Company approved the customer service standard and in 2017 it initiated customer service standard trainings, which were attended by all employees of the Company. Employees of contractors, who keep contact with customers of Vilniaus Vandenys, replace meters and check readings at the place of residence of customers, also received the trainings.

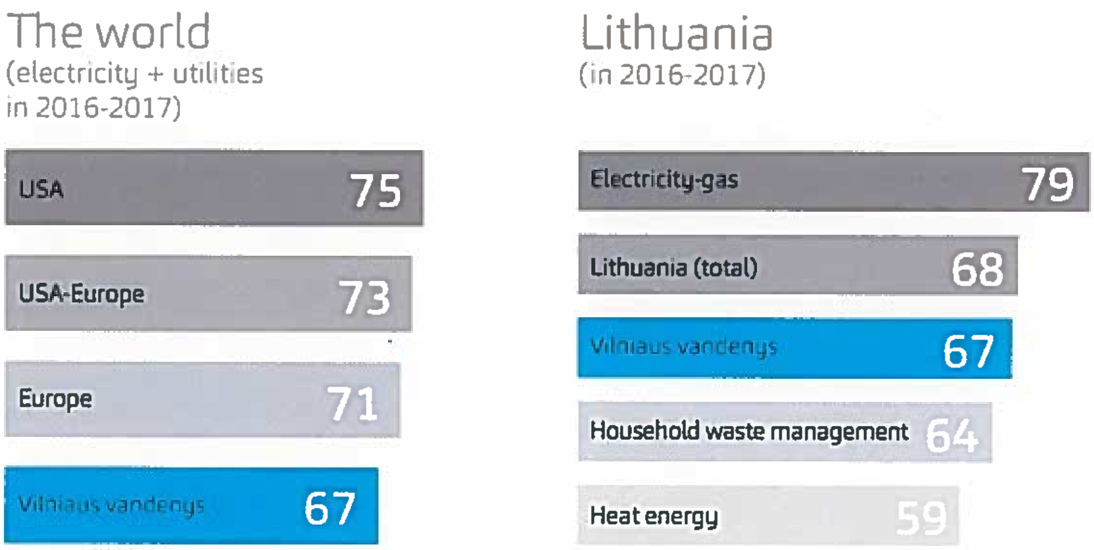
To ensure the standard, a two-tier control system was implemented in Vilniaus Vandenys. Employees are now evaluated by their direct manager and an independent evaluator. Each employee serving customers directly is evaluated at least once per quarter. 9 out of 10 employees met the evaluation criteria.

SURVEYS

The Company conducted a customer satisfaction survey for the first time. It was carried out according to the GCSI (Global Customer Satisfaction Index) methodology, which is recognized globally and perfectly suits the public sector and monopolistic markets. Almost 2 500 business and private customers were interviewed during the survey.

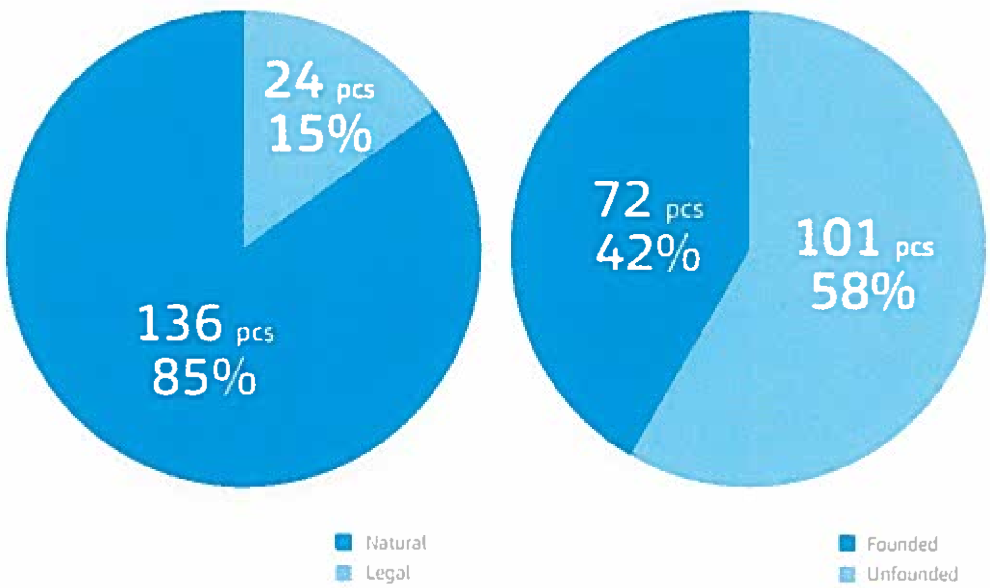
The survey results showed that the current level of customer satisfaction of Vilniaus Vandenys is slightly below the average rates of European public utility companies, but is in line with the average of the Lithuanian utilities sector. The survey allowed clearly identifying the weaknesses, having already started changing the majority of them, creating new and modern service channels (self-service), having installed the system for informing customers by SMS (in the event of accidents in water supply), which is operating smoothly now, etc. In order to ensure continuous monitoring of customer needs and assessment, the study will be conducted annually.

Comparison of GCSI (Global customer satisfaction index) norms



Since September 2017, the Company has also participated in the survey carried out by the Vilnius city municipality, which measures the rating of customer service and services of municipal companies. By actively encouraging customers to share their ratings and provide feedback (the link is published on the Company's homepage, emails and payment notices to customers), the number of respondents per week has increased 20 times over the course of four months, from 13 to 374 respondents; the service quality rating rose from 3.89 to 5.43 (by 1.54) points and the service quality improved from 3.4 to 4.99 (by 1.59) points. The rating is carried out in a 10-point scale.

This year, the Company received a total of 173 complaints regarding customer service, payments and service provision, 58% of which were unfounded complaints. For the most part, customers complained about payment or debts (31%), but the number of such complaints has consistently decreased.



CALL CENTRE

In 2017, the call centre served almost two thirds of the customer flow of Vilniaus Vandenys. The aim is to resolve as many questions as possible in one call: to provide information on the payments made, to update contact details, sign an agreement, provide information on meter readings and other questions.

E. SELF-SERVICE PORTAL

The development of a new modern self-service portal was started at the end of the year. Here customers can conveniently log in using a customer code, a mobile signature or online banking and declare their meter readings, see payment and declaration history or pay for the services provided.

The self-service portal will become even more convenient for paying bills in 2018. Signing contractual documents, projects or book the time for meeting with specialists will be possible in the portal. Customers will also be offered more convenient tools and services.

CUSTOMER SERVICE DIVISIONS

In 2017, Vilniaus Vandenys moved to a modern and convenient office building "Duetto" located at Spaudos St. 8-1, Vilnius. Here customers are welcomed in a spacious customer service division, where all the matters of concern can be settled and all questions can be answered. To manage customer flow, a modern queue management system was installed. The building can easily be accessed by public transport and own cars. There is a reserved parking lot next to the building.

Customer service divisions in regions have also been renovated - Šalčininkai customer service division recently moved to newly renovated premises. Divisions of Nemenčinė and Švenčionys will also be moved to renovated and much more convenient premises in 2018.

WEBSITE

Information for both natural and legal customers has been systemized and specified on the updated website at www.vv.lt. Information is provided in a clearer and more comprehensive manner; customers can order a relevant newsletter.

BILLS

In order to make bills as clear and informative as possible, the principle "one customer - one bill" was implemented for business customers. By the 10th of the month, customers are presented with a VAT invoice for the services provided in the previous calendar month, which includes all relevant customer billing information: the balance at the beginning of the month, information on new charges and corrections, and the balance at the end of the month. The offset of payments is a clear and uniform process, covering interest first of all and then setting off the debt starting with the oldest unpaid VAT invoice.

In cooperation with partners, private customers have been offered to conveniently and easily pay via electronic partner platforms, namely, on self-service portals "Mano gilė" or "Viena sąskaita". Here, customers can find all the relevant information: the amount payable or the overpaid amount, water meter readings used as a starting point for declaring the actual meter readings.

Bills for private customers, who do not declare their readings, are presented by calculating the average monthly consumption of those customer. They are recommended to revise their readings once per quarter, while specialists of the Company pay a visit to customers, who have not declared their readings for more than half a year.

DEBTS

The implementation of the debt management process was completed in 2017. Now customers are informed about the formed debt in 3 ways: by SMS, e-mail and letters. Cooperation with "Creditinfo" and "Intrum" was started in debt collection. All these tools allow customers to better manage their payments for services.

In 2017, the number of debtors, who owe more than 6 euros, decreased by a fourth from 16 000 to 12 000 debtors.

READINGS CONTROL

Having increased the control of declaration of meter readings, back at the end of 2016, residents of multi-apartment houses were provided with the opportunity to declare meter readings not only when paying for services at payment collection points or on the Company's self-service portal, but also by calling the short customer service line 1889.

Control of customers who do not declare their readings and of territories known for higher water losses has also been enhanced. "City Service Engineering" ("Mano Būstas") has also been providing services of taking meter readings according to a contractor agreement since May 2017.

Employees of Vilniaus Vandenys together with their contractors checked a total of 79 112 objects and captured 5.7 million m3 of water in 2017 (compared to 64 770 objects and 5.2 million m3 of water in 2016).

The number of private customers having not declared their readings in apartments for more than 12 months was reduced by 65 percent in 2017.

AGREEMENTS

The agreement signing process was updated in 2017. All newly signed agreements are digitized and uploaded in e-format in systems, and, if necessary, are quickly and easily accessible by electronic means.

SERVICE PRICE

From 1 October 2017, prices of the majority of main services of the supply of drinking water and wastewater management were reduced by about a fifth for customers in Vilnius, districts of Vilnius, Šalčininkai and Švenčionys.

The service price for private customers living in multi-apartments houses decreased from EUR 1.71 to 1.36/ m3, for those who live in private houses – from EUR 1.55 to 1.28. The price of services of drinking water and wastewater management also decreased for companies by 20 percent – from EUR 1.36 to 1.10 (exclusive of VAT) per m3.

Monthly sales price for customers living in multi-apartment houses, who have their own water meters, remained unchanged and was EUR 0.63, while the price for residents of private houses increased by 5 cents from EUR 0.68 to 0.73. Having installed meters in customer houses, which are maintained by Vilniaus Vandenys, the monthly sales price increased in multi-apartment houses by 6 cents and was EUR 1, and it grew by 8 cents to EUR 1.17 in private houses.

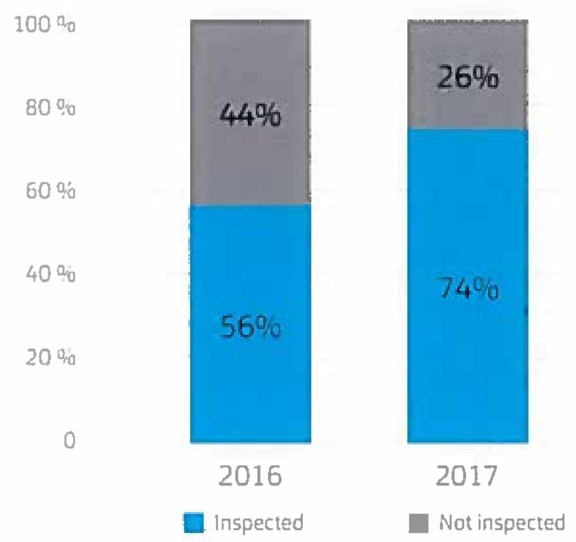
Despite an insignificant increase in sales prices, the fee for cubic meter of consumed water makes up the major share of the amount paid by customers, thus average customer bills decreased.

Average bills of customers living in multi-apartment houses decreased from EUR 6.33 to EUR 5.42. Average bills of residents of private houses decreased from EUR 13.43 to EUR 11.15. Bills for residents decreased by an average of 15 percent.

WATER METERS

The Company focused more not only on the collection of accurate water consumption data, but also on metrological inspection of drinking water meters, replacement and installation of meters.

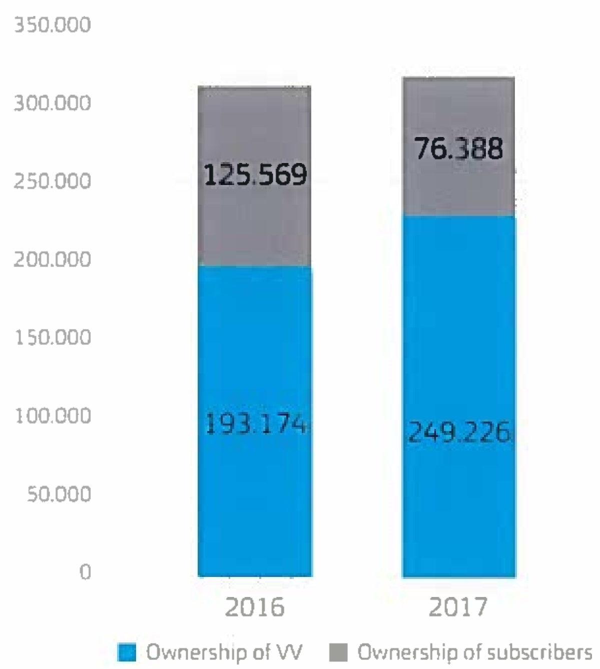
Share of inspected meters 2016-2017 m.



In 2017, the number of meters without metrological inspection was reduced from 44 percent to 26 percent. The major share of such meters – meters of residents, were not metrologically inspected. In 2018, these works will be continued, focusing more on business customers and residents of private houses.

On 31 December 2017, there were 77 percent of water meters owned by the water supplier in the territory serviced by Vilniaus Vandenys.

Distribution of WM by ownership in 2016-2017



CONNECTING NEW CUSTOMERS TO THE NETWORKS

In order to facilitate connection to networks, the process of connection of new customers to networks built using EU funds was reviewed and changed.

New agreements for these districts, providing for service provision conditions when connecting to the networks and having already become a client, were prepared, which means that after a customer signs an agreement and connects to the networks, this agreement automatically becomes an agreement on the supply of drinking water and wastewater removal, thus additionally signing no other agreement will be necessary.

When connection is financed from EU funds, a project for customers is prepared free of charge, also providing additional services mandatory for approving networks to be suitable for use (installation of a branch of a water supply network, hydraulic tests, disinfection and wash, microbiological water tests, installation of a meter unit) and geodesic photographs necessary for registering the network for free. Materials necessary for installing a water supply network branch and a water metering unit are also provided free of charge in the course of the performance of works.

A special team promptly carries out these works and, if there are no obstacles, having connected to the networks, all mandatory works are performed in a single visit, and the customer can start using the services provided by Vilniaus Vandenys.

Those customers, who are not yet able to connect to networks, i.e. in districts, where Vilniaus Vandenys is implementing the development project, have also been offered to sign agreements. That way the Company commits to start the connection process - prepare a project - immediately after completing works of construction of the networks.

Customers are "accompanied" by a customer manager throughout the process, who continuously informs them about the necessary actions to be taken and coordinates the dates for the performance of works.

New customers connected to district water supply and wastewater management networks

To water supply networks	To wastewater networks
1179	1137

Dynamics of the number of customers of the Company

Customer type	31 December 2017	31 December 2016
Private	**243.074**	**239.922**
In multi-apartment houses (settlement according to the meter)	223.442	221.145
In multi-apartment houses (settlement according to the feed-in point)	687	734
In private houses	18.945	18.043
Business	**7.495**	**7.454**

Distribution of private customers by service provision territories

Territory	31 December 2017	31 December 2016
Vilnius city	233.864	230.523
Vilnius district	2.346	2.339
Šalčininkai district	2.975	3.144
Švenčionys district	3.889	3.916

MANAGEMENT OF THE COMPANY

In accordance with the Company's Articles of Association, the management bodies of the Company are the general meeting of shareholders, the collegial supervisory body – the Supervisory Board, the collegial management body – the Board and the sole management body – the manager of the Company. Vilnius city municipality, Vilnius district municipality, Švenčionys district municipality and Šalčininkai district municipality are shareholders of the Company, who delegate their representatives to the Company's collective supervisory and management bodies.

GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the supreme management body of the Company. The general meeting of shareholders consists of representatives delegated by municipalities of Vilnius city (its share of ownership accounted for 94.89 percent on 31 December 2017), Vilnius district (1.88 percent) and Švenčionys district (1.44 percent).

The general meeting of shareholders has the exclusive right to elect members of the Supervisory Board and to revoke the Supervisory Board or its members.

SUPERVISORY BOARD OF THE COMPANY

The Company's Supervisory Board consists of 7 members elected by the general meeting of shareholders for a term of office of four years. The Supervisory Board elects the Chair of the Supervisory Board from among its members. The following is the composition of the Supervisory Board:

Auksė Kontrimienė, Chair of the Supervisory Board, a member of Vilnius City Municipality Council,
Albert Narvoiš, Deputy Director of Vilnius District Municipality Administration,
Artur Liudkovski, member of Vilnius City Municipality Council,
Linas Kvedaravičius, Deputy Mayor of Vilnius City Municipality,
Renata Cytacka, member of Vilnius City Municipality Council,
Skirmantas Tumelis, member of Vilnius City Municipality Council,
Vaidas Kukarėnas, member of Vilnius City Municipality Council.

BOARD OF THE COMPANY

The Board of the Company consists of 7 members elected by the Supervisory Board for a term of office of four years. The Board elects the Chair of the Board from among its members.

The Board which served till 8 October 2017 consisted of the following members:

Darius Nedzinskas (Chair of the Board), Gintaras Maželis, Juozas Buitkus, Arūnas Bivainis, Vylūnė Urbonienė, Dovilė Mikalajūnė, Miroslav Romanovski.

After the resignation of some Board members, a new Board of the Company started working on 9 March 2018:

Virginijus Pauža (Chair of the Board), Director of City Maintenance and Transport Department of Vilnius City Municipality;
Andrius Griškevičius, business partner at UAB Adwisery;
Dangirutis Janušas, Director of UAB Verslo Konsultacijų Spektras;
Dovilė Mikalajūnė, Deputy Director of Legal Department of Vilnius City Municipality;
Edgaras Dereškevičius, lawyer at E. Dereškevičiaus law firm;
Julius Morkūnas, Deputy Director of Vilnius City Municipality Administration;
Miroslav Romanovski, Head of Local Maintenance Department of Vilnius District Municipality.

AUDIT COMMITTEE

The audit committee of Vilniaus Vandenys was established at the meeting of the Supervisory Board of Vilniaus Vandenys held on 8 March 2018, also approving its rules of procedure.

Laura Joffe, Finance and Administration Director at BALTO print, and Vladas Puzeras, CEO and operations advisor of Provestum Group subsidiaries, were appointed independent members of the Audit Committee. Alfredas Ziberkas, Chief Specialist of Corporate Governance at Property Department of Vilnius City Municipality Administration, was appointed a dependent member.

HEAD OF THE COMPANY

The Head of the Company is the CEO appointed, removed and dismissed by the Board of the Company. Under the decision of the Board of 8 December 2015, starting from 11 January 2016, Aidas Ignatavičius held the office of the CEO till 8 October 2017. After his resignation, Virgilijus Žukauskas, Director of Production Service, was appointed Acting CEO as from 11 October 2017 by the decision of the Company's Board of 3 October 2017.

ORGANIZATIONAL STRUCTURE OF THE COMPANY

The Company operates in all geographical territories indicated in the license issued by the National Commission for Energy Control and Prices, but it does not have any independent divisions and branches.

Structural units of the Company, namely, services, departments and divisions, are directly subordinate to the CEO:

Production Unit, Director – Virgilijus Žukauskas (Acting CEO),
Customer Service Division, Director – Giedrė Blazgienė,
Finance Department, Director – Viktoras Baltuškonis,
Organizational Development Department, Director – Jolanta Diskaitė,
Operating Quality Management Department, Director – Darius Bagdonas,
Prevention Unit, Manager – Vidmantas Bruzgys,
Legal Unit, Manager – Gintaras Makšimas,
Procurement Unit, Manager – Arūnas Jurgelaitis,
Internal Audit Unit, Manager – Živilė Perednė,

Communications Department

POLICY OF OPERATIONS OF THE COMPANY

In the performance of its activities, the Company seeks to maintain transparent relations with all market participants – customers, partners, contractors and shareholders. This includes transparent organization of public procurement procedures and compliance with procedures.

In its activities, the Company follows the Code of Ethics, the Code of Anti-Corruption Principles and the Rules of Declaration of Private Interests and Management of Confidential Information. The Prevention Unit of the Company ensures and controls the compliance therewith.

Vilniaus Vandenys strives to become an extremely open and transparent company, and to be a role model for other state and municipality-owned enterprises in the field.

The priorities of the Company's quality and environmental protection policy are related to the implementation of the initiatives provided for in the Company's strategy:

- To work in an efficient and transparent manner and to improve customer service in light of their expectations;
- To expand and renovate water supply, wastewater collection and treatment infrastructure owned by the Company;
- To reduce network losses;
- To conserve natural and energy resources and reduce environmental effects.

By assuming liability for environmental impact of activities, the management of the Company commits to:

- Implement environmental protection and other legal requirements governing the Company's activities;
- Improve integrated ISO 9001:2015 and ISO 14001:2015 quality and environmental management system and to allocate the resources necessary therefor;
- Improve the management of operating processes, thus creating conditions for more effective and efficient operations;
- Create value-based organizational culture, promoting efficient and rational use of natural and energy resources.

MEMBERSHIP IN ORGANIZATIONS

The Company is a member of the Lithuanian Water Suppliers Association (LVTA).

INFORMATION ABOUT CHANGES IN THE COMPANY'S ARTICLES OF ASSOCIATION

In September 2017, share capital of the Company was increased by a property contribution of the Vilnius city municipality in the value of EUR 469 000. A respective amendment to the Articles of Association was registered with the Register of Legal Entities on 27 September 2017.

The general meeting of shareholders was convened on 4 January 2018, during which the shareholders decided to increase share capital of the Company by the property contribution of the Vilnius city municipality in the value of nearly EUR 196 000. An appropriate amendment to the Articles of Association was registered with the Register of Legal Entities on 31 January 2018, while the respective increase in share capital will be reflected in the Company's financial statements for 2018.

CHANGES IN REGULATORY ENVIRONMENT

SETTING SERVICE PRICES

The prices of drinking water supply and wastewater treatment services are set in accordance with the Methodology for Setting Prices of Drinking Water Supply and Wastewater Treatment Services approved by the NCC, and the principles of non-discrimination, cost recovery and the "polluter pays" principle. The prices of drinking water supply and wastewater treatment services are calculated on the basis of costs for separate parts of the drinking water supply and wastewater treatment activities, in accordance with approved drinking water supply and wastewater management infrastructure development plans and plans of operations of drinking water suppliers and wastewater managers. The calculation of prices takes into account the estimated necessary service provisions costs, the value of the assets used in the licensed activity, the return on investment that corresponds to the criterion of reasonableness, the necessary costs of implementation of the plan of operations and the influence thereof on price increase. Service provision efficiency indicators are set. Municipality councils approve the base prices of drinking water supply and wastewater treatment services coordinated with the NCC. Base prices are set for a three-year regulatory period and are recalculated each year. The prices equal to base prices are applied in the first year of validity of base prices. Municipality councils approve recalculated base prices of drinking water supply and wastewater treatment services coordinated with by the NCC. The NCC controls the setting of the prices of drinking water supply and wastewater treatment services set by municipality councils and applied by drinking water suppliers and wastewater managers in accordance with the Methodology for Setting Prices of Drinking Water Supply and Wastewater Treatment Services and the pricing principles laid down in the Law on Drinking Water Supply and Wastewater Treatment, and makes sure that the prices cover the necessary costs of supply of drinking water and wastewater treatment services as well as other related necessary expenses.

DECISIONS OF THE NATIONAL COMMISSION FOR ENERGY CONTROL AND PRICES

On 3 January 2017, the NCC heard a dispute between the user P.M. and UAB Vilniaus Vandenys regarding the validity of the sales price (subscriber fee) for the benefit of UAB Vilniaus Vandenys and decided in its Resolution No. O3-2 that a consumer's failure to conclude a written agreement with a water supplier shall not cancel his obligation to pay the set sales price for the provision of services each month.

On 30 June 2017, the NCC approved by its Resolution No. O3E-281 lower base prices of drinking water supply and wastewater treatment services of UAB Vilniaus Vandenys. The reduced prices were approved in Vilnius City Municipality Council on 26 July 2017, in Vilnius District Municipality Council - on 28 July 2017, in Šalčininkai District Municipality Council - on 29 August 2017 and in Švenčionys District Municipality Council - on 31 August 2017, and took effect on 1 October 2017.

On 18 January 2018, the NCC determined by its Resolution No. O3E-14 that the principle of differentiation of the price of the service of settlement meter maintenance and customer service chosen by Vilnius city, Vilnius district, Šalčininkai district and Švenčionys district violated interests of individual subscribers. This violation had to be rectified in 2 months.

NCC PUBLIC CONSULTATIONS

On 23 May 2017, the NCC prepared a draft amendment to the Methodology for Setting Prices of Drinking Water Supply, Wastewater Treatment and Surface Wastewater Management Services and presented it for public consultation. The legal act was adopted by Resolution No. O3E-443 of 17 October 2017 and took effect on 1 December 2017.

Major changes: the permissible drinking water losses in networks of multi-apartment houses forming due to meter errors occurring between installed feed-in drinking water meters of multi-apartment houses and drinking water meters in apartments shall not exceed 2% (compared to the previously permitted 10%); operators shall be subject to this change when setting new base service prices; drinking water suppliers and managers of wastewater and surface wastewater shall present to the NCC draft base and recalculated base prices not later than 5 months before the expiry of the set base or recalculated base prices; before that, this term was 4 months; when setting the salary fund, the change in the actual average salary in the upcoming reported period forecasted by the Ministry of Finance will be considered; when informing the NCC about decisions of municipalities on specific prices, drinking water suppliers and wastewater managers will have to additionally provide data on differentiated prices of the service of meter maintenance and customer service.

Draft Rules for Imposing Sanctions were presented on 17 July 2017. The legal act was adopted by Resolution No. O3E-4 of 12 January 2018.

Major changes: maximum sanction amounts were increased; a possibility to impose a sanction on energy companies, natural and legal persons defaulting on requirements of the NCC, its authorized employees, hired specialists and experts was established; the NCC is no longer required to give a time limit for rectifying a violation before imposing a sanction on an energy company.

A draft Description of the Procedure of Inspections of Regulated Activities of Energy Companies was presented on 17 July 2017. The legal act was adopted by Resolution No. O3E-5 of 12 January 2018.

Major changes: actions, which the NCC and its authorized employees may perform during inspections were listed, also specifying rights and duties of the NCC, its authorized employees, energy companies and other natural and legal persons during inspections; a clearer regulation of the inspection procedure was presented, enshrining a longer period of time for conducting an inspection - up to 9 months (compared to the current 6 months), also providing for a possibility to extend the inspection for a longer period of time – up to 6 months (currently – 3 months); a longer period of time for presenting comments to a draft deed of inspection was planned, also providing for a longer period of time for drafting a deed of inspection and listing objective circumstances for which a member of the inspection commission may refuse to sign a deed of inspection; cases when an inspection may be suspended or terminated were defined.

Draft Rules of Procedure for Examining Administrative Offense Cases in the National Commission for Energy Control and Prices were presented on 28 November 2017. The legal act was adopted on 22 February 2018 by Resolution No. O3E-51.

Major changes: the competence of NCC in examining administrative offense cases was defined, listing the cases when the Commission shall hear administrative offense cases itself and when they shall be transferred to administrative court, establishing that administrative offense cases shall be examined by the NCC in a written procedure, except for cases when a person subject to administrative liability asks to examine the case in an oral procedure; cases were listed when the NCC shall terminate examination of administrative offenses, providing for a possibility to agree with the claim regarding a resolution adopted by the NCC in an administrative offense case, to repeal the appealed resolution and to adopt a new resolution in the examined administrative offense case; a period of time for appealing NCC's resolution in an administrative offense case was enshrined.

Draft Description of the Requirements for Separating Accounting of Drinking Water Supply, Wastewater Treatment and Surface Wastewater Management Companies and Cost Allocation was presented in 28 July 2017. The legal act was not adopted.

New version of the Rules for Providing Information of Energy, Drinking Water Supply, Wastewater Treatment and Surface Wastewater Management Companies was presented on 19 September 2017. The legal act was not adopted.

Draft amendment to the Description of the Procedure for Publishing Information was presented on 27 December 2017. The legal act was not adopted.

PUBLIC PROCUREMENT

In 2017, the Company focused on promoting competition and increasing procurement efficiency when holding its public procurement procedures.

The key tasks and challenges were related to the Law on Procurement Procedures of Entities Operating in Water, Energy, Transport and Postal Services of the Republic of Lithuania which took effect on 1 July. The Company paid special attention to adapting the new law in the Company's activities, adjusted the established internal procedures, informed and advised employees and suppliers on changes and their application.

The developed processes and implemented effective procurement management system allowed preparing for the installation of a new procurement management system as from 1 January 2018. The purpose of the new procurement management system is to switch to electronic public procurement documents. This contributed to the main goal of procurement - to make procurement procedures shorter and more efficient.

The Company's training policy has also continued, focusing on building competencies of procurement initiators and contract owners. Internal procurement trainings introducing procurement innovations, court conclusions and best practices were continuously held in the Company.

EU-funded procurement procedures completed in 2017

No.	Name of procurement	Successful tenderer	Contract price in EUR excl. VAT
1	Reconstruction of the main water supply and household wastewater collector in Aukštaičių St., Vilnius, and "Reconstruction of a culvert through Vilnelė river to Paplaujos St."	UAB KRS	455.888,00
2	Renovation of water supply networks in N. Vilnia and Višinskio St.	UAB Požeminės Jungtys	194.214,88
3	Renovation of wastewater pressure lines in Vilnius	UAB Požeminės Jungtys	349.988,14
4	Construction of water supply and wastewater disposal networks in Šnipiškės neighbourhood, between Žalgirio St., Lvovo St., Linkmenų St. and Trimitų St. (the southern part) in Vilnius	UAB „KRS"	640.000,00
5	Development of wastewater networks in Naujoji Vilnia	UAB Instita	650.886,00
6	Development of water supply and wastewater networks in SB Dailė (Antakalnis)	UAB Šiaulių Plentas	283.800,00
7	Development of water supply and wastewater disposal networks in Naujininkai eldership, Apso, Dusinėnų, Katros, Trobų St. in Vilnius (Salininkai)	UAB Instita	347.485,40
8	Development of water supply and wastewater networks in Švenčionėliai	UAB Mikludava	245.922,80

EU-funded procurement procedures launched in 2017

No.	Name of procurement
1	Reconstruction of wastewater collector from Ozo St. to wastewater pumping station at Upės St. 15
2	Reconstruction of d 400 mm wastewater culvert through Neris between Goštauto St. and Žvėrynas
3	Renovation of water supply networks in Grigiškės, Salininkai and Trakų Vokė
4	Reconstruction of self-drainage wastewater networks in Vilnius
5	Construction of water supply and wastewater disposal networks in Šnipiškės between Ozo St., Žalgirio St. and Maišiagala St. (the northern part) in Vilnius
6	Construction of water supply and wastewater networks in Naujininkai eldership: Pumpurų, Alytaus, Merkinės, Tyzenhauzų, Perlojos, Varėnos, J. Bielinio, Butrimonių, Tarpkalnio, Riešutų, Jotvingių, Lenkų, Konduktorių, Panevėžio, Vaivorykštės, Alšėnų, Iešmininkų and Pabarės Streets in Vilnius
7	Development of water supply and wastewater networks in SB Aušra
8	Development of water supply and wastewater disposal networks in Plukių St., Pienių St., Šalpusnių St., Pelynų St., Žvaigždikių St., Šilagėlių St., Viksvų St., Purienų St., Vėdrynų St., Samanų St., Nakvišų St., Barsukynės St., Antakalnis eldership, Vilnius
9	Development of water supply and wastewater disposal networks in Geležinė, Raguvos, Sukilėlių, Slėnio, Ribiškių, Didžioji Streets, Rasos eldership, Vilnius
10	Development of water supply and wastewater networks in Giedros St., Kregždžių St., Vanagų St. (Antakalnis)
11	Construction of water preparation plants in Naujoji Vilnia
12	Kalnėnai water preparation plants
13	Reconstruction of wastewater treatment facilities in Vilnius wastewater treatment plant
14	Maintenance services for reconstruction and development of water and wastewater networks, VRJ
15	Maintenance services NVJ
16	Reconstruction of water supply and wastewater networks in Švenčionys and Švenčionėliai
17	Construction of water improvement plants
18	FIDIC, maintenance and administration services (Švenčionys)

Major Company-funded procurement procedures completed in 2017

No.	Name of procurement	Successful tenderer	Contract price in EUR excl. VAT
1	Works of repair and restoration of road, pavement and lawn surfaces after accidents in water supply and/or wastewater networks and repair of wells and collapse pits posing a threat of an accident	AB Eurovia Lietuva	2 100 000,00 €
2	Replacement of meters	UAB SKDR, UAB GROUTERMA, UAB SANTERMITA	1 320 000,00 €
3	Flocculants for sludge thickening and dewatering	UAB Ekotakas (1 procurement lot), R.Vanago firma Verina (2 procurement lot)	1 278 981,79 €
4	Technical service and repair of vehicles with the total mass of up to 3.5 and above 3.5 tonnes	UAB Martonas	788 000,00 €
5	Technical service of the boiler house, electricity and heat production facilities	UAB Envija ES	763 000,00 €
6	Service of maintenance and repair of technological facilities in wastewater treatment plants	UAB Axis industries	724 000,00 €
7	Wastewater and water supply pumps	UAB Eccua, UAB Vandens Siurbliai, UAB Wilo Lietuva, SIA Grundfos pumps Baltic	280 000,00 €
8	Services of maintenance of wellfields, pumping stations and production territories, mowing services	UAB 2 MP	270 000,00 €

Part of Company-funded procurement procedures started in 2017

No.	Procurement name
1	Procurement of meters
2	Reconstruction of water supply network pipes and equipment
3	Procurement of water supply dampers and check valves
4	Procurement of infrastructure operation management information system
5	Hydrodynamic sanitary car with regenerative system
6	Procurement of hydraulic modelling information system
7	Service of wash of wastewater pumping station reservoirs
8	Procurement of TV diagnostic equipment
9	Procurement of computer network hardware and software

INVESTMENT

In order to ensure availability of water supply and wastewater treatment services to residents as well as their compliance with quality, environmental and health requirements, the Company constantly invests in the development and modernization of infrastructure. More than EUR 2 million was invested in infrastructure development and modernization in 2017.

A contract on financing and administration of EU investment action programme project No. 05.3.2-APVA-R-014-01-0001 "Renovation and development of drinking water supply and wastewater treatment system in Vilnius city" was signed on 27-12-2016.
Total project funds – EUR 41 913.5 thousand, with 50 percent, or EUR 20 956.75, financing from EU funds.

Financing from EU funds for the project No. 05.3.2-APVA-R-014-01-0009 "Renovation and development of drinking water supply and wastewater management system in Švenčionys district" was allocated by order of the Minister of Environment of 14-12-2017. Project funds total EUR 1.480.9 thousand, with allocated financing from EU funds of 49.97 percent, or EUR 740.1 thousand, and funds of the project promoter (the company) and the partner (Švenčionys district municipality) (50.3 percent) – EUR 740.8 thousand.

EU-funded infrastructure development projects

Components		New networks being built, km		New residents being connected		Served residents
		Water supply networks	Wastewater networks	To new water supply networks	To new wastewater networks	
Development of water supply and wastewater networks (11 objects)	Vilnius	25,151	30,95	3.432	3.559	
Construction of water improvement equipment – 2 objects	Vilnius					22.117
Development of water supply and wastewater networks in Švenčionėliai		1,13	2,51	100	150	
Construction of water preparation facilities in Švenčionys district						3.000
Šalčininkai water preparation facilities*						6.700

*The project will be carried out if savings are achieved in project No. 05.3.2-APVA-R-014-01-0001.

EU-funded infrastructure reconstruction projects

Components		Networks being built, reconstructed, km		Residents served
		Water supply networks	Wastewater networks	
Reconstruction of water supply and wastewater networks (8 objects)	Vilnius	8,971	13,3	
Reconstruction of Vilnius wastewater treatment plant	Vilnius			532.220
Reconstruction of water supply and wastewater networks in Švenčionys and Švenčionėliai		2,3	3,308	
Reconstruction of Švenčionys wastewater treatment plant				2.468

Plan of execution of EU-funded infrastructure development projects (thousand EUR)

Development projects	2017	2018	2019	2020
In Vilnius city	9,6	6.046,9	2.339,0	-
In Švenčionys district	6,0	764,0	125,8	-
In Šalčininkai district				371,2
Total for infrastructure development projects	15,6	6.810,9	2.464,8	371,2

Plan of execution of EU-funded infrastructure reconstruction projects (thousand EUR)

Reconstruction projects	2017	2018	2019		2020
In Vilnius city	14,3	4.531,8	15.154,4		10.000,0
In Švenčionys district	4,0	515,6	500,0		2.500,0
Total for infrastructure development projects	18,8	5.047,4	15.684,4		12.500,0

Works planned in EU-funded projects

<table>
<tr><td rowspan="2">Components</td><td colspan="3">Networks being built, reconstructed, km</td><td rowspan="2">Residents served</td></tr>
<tr><td></td><td>Water supply networks</td><td>Wastewater networks</td></tr>
<tr><td>Reconstruction of water supply and wastewater networks (8 objects)</td><td rowspan="2">Vilnius</td><td>8,971</td><td>13,3</td><td></td></tr>
<tr><td>Reconstruction of Vilnius wastewater treatment plant</td><td></td><td></td><td>532.220</td></tr>
<tr><td colspan="2">Reconstruction of water supply and wastewater networks in Švenčionys and Švenčionėliai</td><td>2,3</td><td>3,308</td><td></td></tr>
<tr><td colspan="2">Reconstruction of Švenčionys wastewater treatment plant</td><td></td><td></td><td>2.468</td></tr>
</table>

Infrastructure reconstruction projects funded from own funds

Infrastructure renovation works	Strategic action plan and actual in 2017		
	SAP 2017	2017 execution (thousand EUR)	Completion %
Renovation of wellfields and wells, drilling new wells	211,2	131,3	62,2%
Works of restoration of water supply networks and wells, repair and replacement of fittings	840,6	655,8	78,0%
Works of restoration of wastewater networks and wells, repair and replacement of fittings	653,1	979,6	150,0%
Works of restoration of wastewater stations	88,2	49,9	56,6%
Development of wastewater and water station SCADA system, renovation of el. equipment	281,4	117,6	41,8%
TV diagnostic equipment	180	18,5	10,3%
Renovation of wastewater treatment and sludge management facilities	755,2	110	14,6%
Total reconstruction projects from own funds	3.010	2.062,7	68,5%

RISK AND CONTINGENCY FACTORS AND THEIR MANAGEMENT

RISK MANAGEMENT POLICY

The Company's risk management system is based on the principles of European standard EN 15975-2:2013 prepared by COSO (Committee of Sponsoring Organization of Treadway Commission), ERM (Enterprise Risk Management) and CEN (European Committee for Standardization).

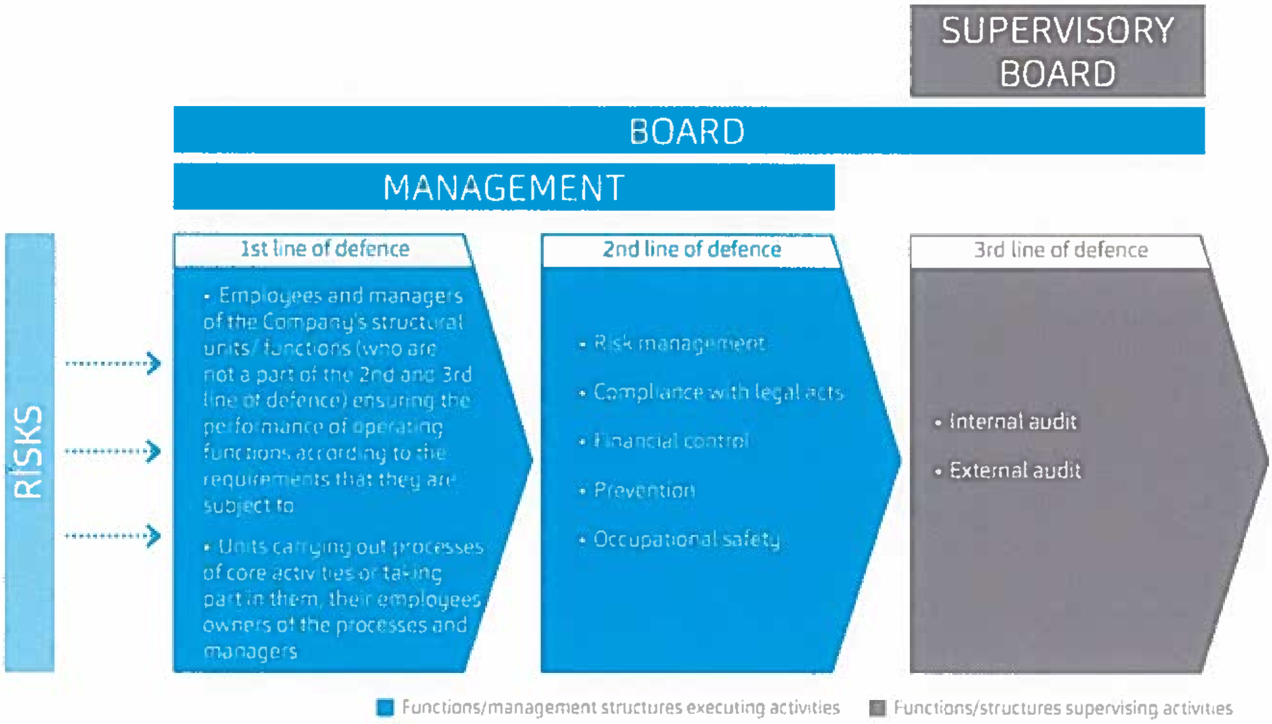
The Company's operating goals are understood broadly and include both general objectives related to the Company's strategic directions, initiatives and their implementation, as well as specific objectives related to the performance of the functions of separate divisions.

The risk in the broad sense is perceived as a negative impact on the Company's goals and achievement of its operating results, reputation and image.

RISK MANAGEMENT AND CONTROL MODEL

In the management of control of its risk, which it faces in its activities, the Company applies the principle of the "three lines of defence" determining a clear distribution of responsibilities for risk management and control between the Company's management and supervisory bodies, structural units or functions.

Risk management and control model scheme



MAIN RISK TYPES AND THEIR MANAGEMENT

The following are the main risk types and risks which the Company faces in its activities:

1. Technological (production) risks:
   1.1. discharge of wastewater into the environment;
   1.2. top (A) level accidents in wastewater networks;
   1.3. fulfilment of assumed liabilities in the implementation of EU co-funded projects.
2. Risks related to the provision of services to customers:
   2.1. non-collection of income from customers for the services provided to them;
   2.2. failure to meet metrological requirements of meters;
   2.3. late provision of the services of connection to water and wastewater networks to customers.
3. Business (operating) risks – the risk of increase of losses and/or adverse impact on reputation, which may be determined both by external environmental or internal factors:
   3.1. management of contracts with suppliers of goods and services, and contractors;
   3.2. public procurement at a price higher than the market price;
   3.3. excessive duration of public procurement procedures;
   3.4. information security risks and IT failures that can disrupt production and customer service activities;
   3.5. non-compliance with legal requirements;
   3.6. excessive pollution;
   3.7. accidents at the workplace;
   3.8. other risks important to the Company.

TECHNOLOGICAL (PRODUCTION) RISK MANAGEMENT

The risk of discharge of wastewater into the environment and risk of accidents in wastewater networks forms for the following main reasons: 1) the aging or inappropriate operation of wastewater networks and object infrastructure; 2) inappropriate actions by third parties; 3) manifestation of natural phenomena (e.g. rainfalls). The Company plans these risks in application of the following:

1) planning and implementing wastewater operation and repair works, projects of network development and reconstruction;
2) promptly eliminating accidents and failures;
3) ensuring monitoring of quality parameters of sludge forming in wastewater and wastewater management process.

In the implementation of the development of water and wastewater networks, the Company has concluded agreements with the Environmental Project Management Agency (EPMA) of the Ministry of Environment of the Republic of Lithuania regarding the implementation of projects for the development of water and wastewater networks using EU funds. In the management of this risk, the Company:

1) ensures continuous monitoring of projects for the development of networks implemented using EU and Company funds and adoption of prompt decisions related to the implementation of these projects;

2) carries out planned actions and ensures their monitoring in order to fulfil contractual obligations related to the connection of new customers to the Company's networks.

MANAGEMENT OF RISKS OF PROVISION OF SERVICES TO CUSTOMERS

In the provision of services to customers, the Company continually expands its existing customer base and strengthens and continuously improves processes of payment collection and debt management in order to improve the collection of fees for the provided services. These efforts led to the increase of the Company's revenue in 2017 by about 3.5 percent. In order to ensure the requirements of metrological inspection, the Company carries out continuous monitoring of the implementation of objectives for the replacement of water meters and their metrological inspection. In order to provide high-quality customer connection to the networks, the Company has been:

1) improving the process of connections of new customers to the Company's networks;

2) checking customer satisfaction with the quality of the services provided by the Company.

MANAGEMENT OF BUSINESS (OPERATING) RISKS

In the performance of both core activities and business support processes, the Company hires third parties - suppliers and partners - in accordance with the requirements of the Law on Public Procurement. When managing the risks associated with public procurement procedures (contract management, procurement of goods and / or services at higher than the market price, excessive duration of purchase of goods or services purchased by way of public procurement, etc.), the Company seeks to ensure the most precise planning and execution of purchased goods and services; ensures continuous monitoring of the course of the procurement process and performs analysis of market prices of goods and services purchased by the Company.

Information security risk management is based on the directions of information system (IS) security activities, performance of organizational and technical requirements defined in the IS security policy and their performance control. IS maintenance and development are carried out in accordance with IS supervision and development process requirements. The Company has an approved IS business continuity management plan for effective management of IS disruptions or incidents.

The Legal Unit is responsible for legal compliance risk management. Its representatives: a) regularly monitor the changes in legislation and submit proposals for amending legal acts and comments to draft legal acts;

b) introduce respective changes to heads of respective divisions of the Company in a timely manner; c) participate in the decision-making process of the Company's management, also in the process of preparation of internal legal acts and contracts with third parties.

The Company's laboratory attested by Environmental Protection Agency ensures the control of the quality of drinking water and compliance with inflowing and outflowing wastewater pollution standards set by external legal acts by conducting researches and identifying and implementing control of the quality parameters of drinking water supplied to customers and wastewater pollution standards.

Risks associated with accidents at work, occupational diseases, civil and fire safety, occupational safety and health of the Company's employees are managed to ensure the implementation of the requirements provided for by laws. The Company's Occupational Safety Unit: organizes professional risk assessment, issuing personal and collective protective equipment, employee training, health checks of employees, sobriety checks, and conducts regular monitoring of the implementation of requirements established by legal acts governing occupational, civil and fire safety in the units.

SHARES

On 31 December 2016, share capital of the Company consisted of 3.874.137 ordinary shares with the nominal value of EUR 28.96 per share. The Company's share capital was increased by a property contribution of the Vilnius city municipality in the value of EUR 469 000, which was registered in September 2017. On 31 December 2017, the number of shares of Vilnius city municipality for the property contribution totalled 16 189 units. The share capital of the Company was 3.890.326 ordinary shares with a nominal value of EUR 28.96 per share.

On 31 December 2017 and 31 December 2016, share capital of the Company was fully paid up. The Company has not acquired its own shares.

On 31 December 2017, the Company's shareholders were:

	31-12-2017	
	Number of held shares	Share of ownership, percent
Vilnius city municipality	3.691.509	94,89
Vilnius district municipality	73.196	1,88
Švenčionys district municipality	69.738	1,79
Šalčininkai district municipality	55.883	1,44
	3.890.326	100.00

PERSONNEL MANAGEMENT

EMPLOYEES

The basis for relationships with employees is ethical, respectful and equitable partnership-based behaviour, focus on safe working environment, professional development and career.

Year 2016 was the year of major structural changes, when the organizational structure of the Company was changed in essence, in pursuit of a clearer division of functions, more effective management of support functions and transparency. In 2017, the organizational structure remained the same, and the number of employees changed slightly.

According to data of 31 December 2017, Vilniaus Vandenys had 659 employees, of whom 42 were managers: 9 top-level and 33 - middle-level managers. One manager manages 16 employees in the Company.

Distribution of employees by function: 61 percent of the Company's employees worked in the Production Service and carried out functions related to core activities of the Company, 20 percent worked in the customer service area, and the remaining 19 percent engaged in support activities.

According to data of 31 December 2017, 36 percent of the Company's employees had a university degree and 20 percent held a vocational training degree. The average length of service of employees in the Company was 15 years in 2017, and as many as 208 employees worked in Vilniaus Vandenys 20 years or more. The Company appreciates and respects its long-time experienced employees and awards them with a medal of gratitude for the length of service in the Company (having worked in the Company 10, 20, 30 and 40 years).

In order to ensure good atmosphere, a favourable environment for raising qualifications and motivation to work, a great deal of attention is paid to various initiatives to improve working conditions for employees.

During annual evaluation reviews, employees have the opportunity to look at their activities from a slightly broader perspective, to rejoice over their achievements and analyse the reasons for failures, exchange feedback and express their expectations to their managers. Annual reviews are a part of employee performance management process, which help achieve better performance results. 40 percent of the Company's employees took part in annual reviews.

In pursuit of operating efficiency and having decided to move the Company's headquarters from the Old Town to a more convenient location in another part of the city, employees were consulted on new premises. Employees took part in a survey on a new location for the Company's headquarters, its type and organization of work in the future. The survey was aimed at collecting the most possible amounts of information on the needs and expectations of employees that they have for their future place of work.

Men make up 70 percent of employees of Vilniaus Vandenys, but the Gender Equality and Diversity Policy approved in the Company on 6 October 2017 ensures gender equality and diversity in the organization. The Company strongly opposes any discrimination based on gender, race, nationality, language, origin, social status, beliefs, convictions or attitudes, membership of a political party or association, age, sexual orientation, disability, ethnicity or religion.

ORGANIZATIONAL CULTURE

Formation of value-based organisational culture, thus also increasing emotional rewards for employees, is one of strategic objectives of the Company. Its foundation was laid back in 2016, when the vision, mission and values of the Company were approved in joint discussions between employees and management. The Company promotes

RESPONSIBILITY for own actions and the environment, OPEN communication with customers, colleagues, partners and the public, and PROACTIVITY in solving problems, finding the best and sustainable solutions.

Values and organizational culture were consistently fostered in 2017 in the implementation of measures important to employees:

- Employee Selection and Adaptation Policy
- Clear and transparent remuneration policy
- Employee performance management system
- Gender Equality and Diversity Policy
- Discussions of performance results
- Open internal communication, events
- Employee engagement survey
- Collective agreement
- Training programmes
- Ambassador programme

In order to have a motivated and engaged team, the Company's management consistently and openly communicates with employees via various channels. Employees receive information from their direct managers during meetings with management, on the internal intranet VIVA or find relevant news on the Company's bulletin boards. The Company quarterly holds events for the presentation and discussion of results of a quarter for managers of all levels, who then convey information to their employees. Cognitive events have also been organized for the Company's employees, including summer jamboree, excursions to production units, open days in the most interesting objects of the Company and days for getting to better know the Company.

To ensure a dialogue between employees and management, all employees of the Company participated in meetings with the CEO and other members of the management team. During these meetings, managers introduced financial results of 2016 and operational priorities in 2017, employees asked them questions of interest to them, also discussing relevant issues.

EMPLOYEE PERFORMANCE MANAGEMENT

Employee performance management is one of the most important methods of management and efficient governance of the Company, which helps spread the organization's goals and build a positive relationship between managers and employees, allows employees to voice their expectations and achieve better performance results at the same time.

The employee performance management system has been in place in Vilniaus Vandenys since 10 January 2017. In the first year, 40 percent of employees (270) took part in annual reviews and raised goals together with their managers. The plan is to have 70 percent of the Company's employees to take part in performance management process in 2018 and 100 percent - in 2019.

TRAINING

The Company takes care of continuous professional training of employees, holds internal and external trainings and ensures that employees have all the necessary certificates and develop competences necessary in their work.

In the beginning of 2017, all employees were presented with the annual training plan, which provides for employee training priorities based on strategic goals of the Company. A team of internal lectors held some of the trainings thus not only making the use of the budget designated for trainings more efficient, but also involving and encouraging employees to share their knowledge.

2 603* employees took part in trainings in 2017: 1 150 attended mandatory trainings, 1 149 - general trainings and 304 - professional trainings. All employees of the Company have been trained on the subject of occupational safety and health as well as fire safety.

In 2017, employees of Vilniaus Vandenys spent a total of 17 416 hours in trainings. One employee received 24.70 hours of training per year. EUR 76 900 was allocated for trainings, which is three times more than 2016.

EUR 144 is designated for trainings of one employee per year, placing a special focus on occupational safety, prevention of professional diseases and employee performance management, as planned.

108 employees participated in the programme on occupational safety, also for training the employer or employer representative on occupational safety and health-related issues, 169 employees took part in civil safety training, 171 - in fire safety trainings, and 19 - in emergency management trainings.

The programme for preparing internal lectors was continued in 2017 - 41 internal lectors were professionally trained and held trainings in various fields for their colleagues in the course of the year. The share of internal training in the overall training plan constituted 58 percent in 2017, meanwhile in 2016, internal trainings accounted for a mere 25 percent in 2016. In 2017, 7 times more employees were trained in internal trainings compared to 2016.

In order to ensure good atmosphere in the team, high priority is given to the adaptation of new colleagues. In order to involve them in the Company's life as soon as possible and provide them with all the necessary information about the functioning of the Company, the Company started holding know-the-Company days for new employees. During 2017, 3 such events took place at the Company, which were attended by 76 new employees.

The Company has consistently promoted internal career. Open public selection is announced for each vacancy, but the necessary employees are primarily searched inside the organization. Priority is given to internal candidates in competitions between external and internal candidates to fill up a vacancy.

In 2017, 37 employees of the Company climbed up the career ladder: 25 advanced vertically and 12 - horizontally.

Being open and responsible, the Company creates conditions for students of universities and vocational schools to acquire practical skills - 18 students had internships in divisions of the Company in 2017.

COLLECTIVE AGREEMENT

On 5 January 2017, collective agreement of Vilniaus Vandenys was updated after a ten-year break. The aim of the collective agreement is to ensure the right balance between rights and obligations, to specify the legal norms established by the state, to plan for more favourable conditions for employees, to promote value-based employee behaviour and to retain the best employees.

All managers of the Company, employee representatives and the Chair of the trade union took part in the consideration of the new draft agreement. Various benefits, paid days-off or annual leave days and similar benefits were planned for employees.

The collective agreement was re-examined in light of the requirements of the new Labour Code, and the new version of the collective agreement took effect on 1 January 2018.

* Here and elsewhere in the "Training" section the total number of participants is specified, i.e. some employees may have taken part in trainings more than once

OCCUPATIONAL SAFETY

In the implementation of value-based organizational culture, employees are expected to take a responsible approach to their work environment and instruments. An important emphasis is placed on occupational safety, because a safe and healthy working environment is created in compliance with these rules only.

Vilniaus Vandenys has consistently assessed the possible occupation safety risks and supported measures that promote health and well-being. The Company promotes responsible behaviour at work and observes zero tolerance for alcohol and narcotic and psychotropic substances at work. This is one of the key provisions for ensuring safe and healthy working environment.

The following measures are used in the Company for the prevention of accidents and occupational diseases:

- Assessment of professional risk of workplaces is carried out regularly.
- Employees are supplied with personal protective equipment free of charge.
- Health of employees is checked periodically in accordance with the procedure established by legal acts.
- Employees are trained and certified on safety, health and fire safety issues.
- Employees receive preventive vaccination against tick-borne encephalitis, tetanus, diphtheria and influenza. For the convenience of employees, physicians, who perform these procedures on-site, are invited to the Company.

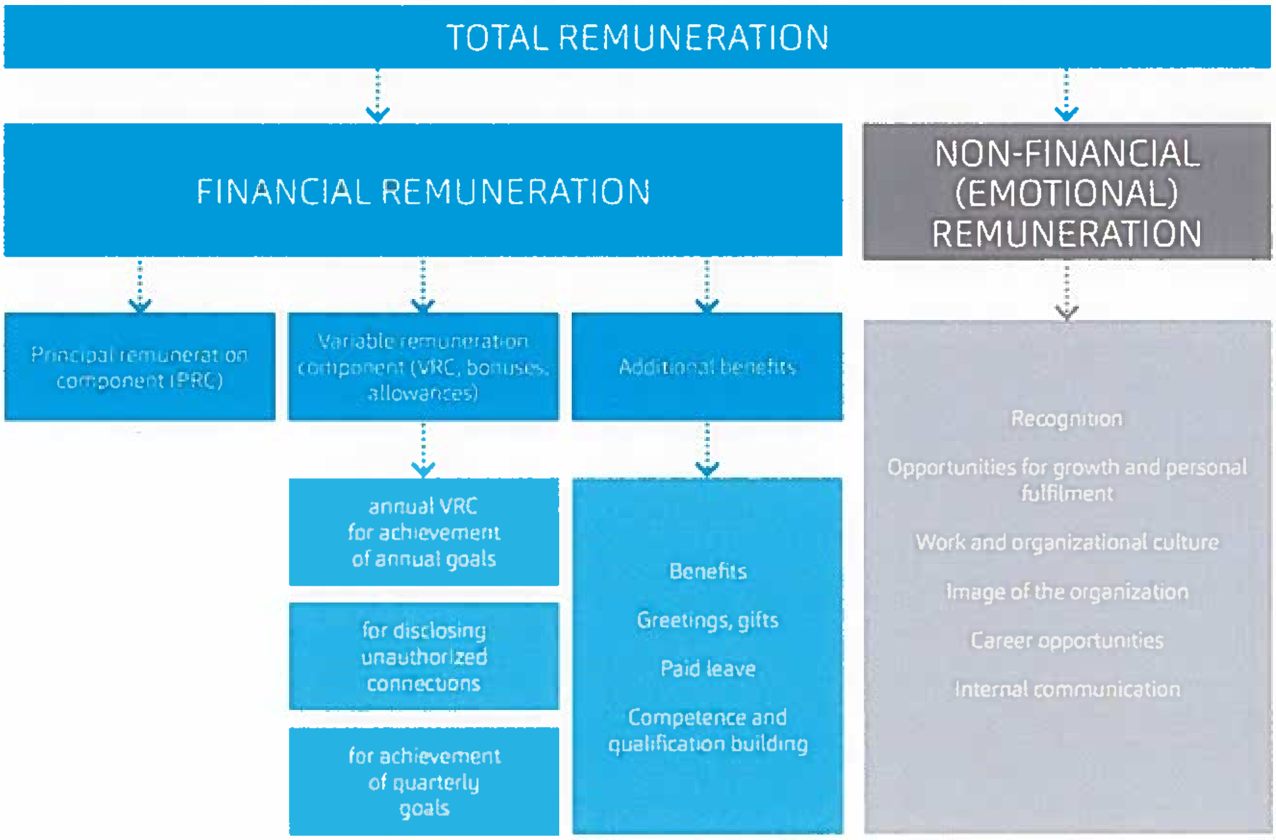
Celebrating the World Day for Safety and Health at Work, elections of teams working the safest (attended by 40 teams) were held for the first time in 2017. Production Service employees showed great interest in and support for the elections, while the winners gained experience in the area of safety at work visiting other Lithuanian manufacturing companies, who are leaders in the field.

Distribution of accidents by their consequences	**2017**			**2016**			**2015**		
	Accident at work	On the way *	Incident	Accident at work	On the way*	Incident	Accident at work	On the way*	Incident
Minor	3	1	2	1	3			8	1
Major									
Lethal									
Total:	3	1	2	1	3			8	1
Overall	6			4			9		
* On the way - accident on the way to/ from work.									

REMUNERATION SYSTEM

The Company has implemented remuneration policy aimed at providing objective and transparent remuneration to employees for the results achieved, created value to the organization and team, and at encouraging, motivating and enabling employees to pursue common goals.

The remuneration system is based on the Hay Group methodology, which ensures an objective assessment of positions according to the required competence, assesses the complexity of problems and the level of responsibility typical of a certain position. Such assessment of job positions helps to objectively, transparently and correctly remunerate the work performed by employees, ensure fairness inside the Company and a competitive and market-based remuneration.



Financial and equally important non-financial (emotional) remuneration comprises the employee's remuneration package.

Financial remuneration of each employee depends on the following key items:

- The level of job position determined according to the Company's delegated responsibility and required qualification;
- Salary paid for the specific job position level in the market, which we check by participating in the Lithuanian remuneration market research each year;
- Funds which Vilniaus Vandenys allocates for remuneration according to the salary budget approved each year;

Work results, initiative and value-based approach of employees, which we assess in the course of the performance management process of employees each year.

Financial remuneration consists of the following:

- Principal (base) remuneration component specified in the employment contract paid each month;
- Variable remuneration component set for the job position used to promote the pursuit of the Company's goals;
- Bonuses paid to employees having observed cases of unauthorized use of water and/or discharge of wastewater;
- Various social allowances, additionally paid days-off according to the approved collective agreement;
- Various trainings, financing of studies, which are aimed at professional or personal employee development.

Both the principal remuneration component (PRC) and the variable remuneration component (VRC) depend on the responsibility of a particular position, the level of independence, freedom of decision-making and exerted influence on the Company's results.

In 2017, VRC of 10 percent was set for all managers, senior specialists and specialists for the achievement of the goals set for the employee in the course of the employee performance management process (during annual reviews) paid once per year, having assessed the result of the entire year. Additional VRC was set for all managers for the achievement of the Company's business goals, but its amount depends on the manager's influence on the Company's goals and can range from 5 to 20 percent.

Employees are encouraged to pursue their individual performance goals, thus contributing to the implementation of the goals of the Company. VRC of 10 percent was paid for achieving them.

The percentage of achievement of all the individual goals of the employee must be at least 70 percent; otherwise VRC is not paid. VRC for the achievement of individual goals for managers is calculated in the same manner, however, if a manager does not achieve his individual goals (i.e., achieves less than 70 percent of his individual goals), he is not paid VRC for the achieved goals of the Company, even if the Company's goals were achieved. The amount of the VRC is set according to employee category as a percentage of the salary of the last calendar year, calculated over the period worked by the employee.

Bonuses and allowances can be paid in exceptional cases, motivating employees for their exceptional contribution in the pursuit of the Company's goals, for example, significant savings achieved, successful achievement of the strategic goal of the Company, etc.

Emotional remuneration is enhanced by fostering an organizational culture that promotes cooperation, openness, personal growth, personal fulfilment and responsibility for achieving common goals of the Company.

Average salary by employee categories

Employee category	Average salary*
Board members	940
Top management	4285
Middle management	1967
Senior specialists	1372
Specialists	970
Workers	819

Top management – the CEO and directors of units.

Middle management – heads of departments, divisions and groups.

Senior specialists – employee category consisting of highly qualified employees with excellent knowledge of their job specifics appointed to be in charge of a group of employees (specialists or workers.

Specialists – employee category consisting of employees who know their job well and have a certain profession.

Workers – category of employees who perform work assigned by others, making decisions exclusively in relation to the work that they do.

SOCIAL RESPONSIBILITY

The basis of responsible activities of Vilniaus Vandenys has been captured in the Company's mission and vision. The key responsibility of the Company is to ensure continuity and quality of services provided to customers "Pure water and clean environment for our community"). In this activity, the Company seeks to become an employer, a service provider and a partner whose cooperation would be sought by other stakeholders ("Desirable employer, service provider and partner").

Strategic directions of operation include:

focus on the customer,
operational efficiency,
transparency of activities.

Strategic directions of Vilniaus Vandenys reflect interests of the key stakeholders and the Company's responsibilities to them:

- Customers
- Employees
- The public, local community
- Partners

CUSTOMERS

The main responsibility of the Company to its customers is the assurance of continuity of service provision and improvement of quality of servicing them.

The Company has consistently been working in this direction and implementing the necessary changes. Having approved the Customer Service Standard in the Company at the end of 2016, all employees participated in related trainings and started applying it in 2017, constantly checking their knowledge in the field. Also, updated service provision agreement for customers took effect in May 2017, and a special focus was placed on new customers - in order to make their connection more efficient, teams were formed specifically for this purpose.

EMPLOYEES

The basis for relationships with employees is ethical, respectful and equitable partnership-based behaviour, focus on a safe working environment, professional development and career.

In November 2017, employee opinion and engagement survey was conducted for the first time. It was organized by the consulting company "Korn Ferry Hay Group" in accordance with international methodology. As many as 90 percent of the Company's employees completed the electronic questionnaire and expressed their opinion. This is a very high indicator for a manufacturing company, where about half of employees do not have a personal computerized workplace.

The obtained results revealed the employees' perception of Vilnius Vandenys as an employer, their expectations of management, things that help them and disturb them at work. Employees' opinion helped identify the strengths and weaknesses of the Company develop action plans based thereon, also identifying areas to be improved first of all focusing on resolving issues of concern to employees and methods for resolving them.

The survey will be repeated each year in order to find out what expectations employees have of their employer.

The Company has continued its ambassador programme, with 25 employees actively participating in the development and strengthening of value-based organizational culture, ensuring a smooth process of change within the organization, effectively communicating and sharing information. The ambassador programme promotes higher employee engagement in addressing issues that are relevant to the Company, improving working conditions, participating in various community initiatives and projects (blood donation, voluntary collective work, charity campaigns).

THE PUBLIC, COMMUNITY

Vilniaus Vandenys actively cooperates with local community representatives and interested groups.

The Company contributed to the initiative of the Vilnius city municipality and set up 18 skating rinks in residential areas of the city.

In commemoration of the World Water Day on the 22nd of March, the Company's employees visited schools where they met with schoolchildren and told them about water, how it gets to their homes and what important role it plays in everyday life.

The Company collaborated with the Drug Control Department under the Government of the Republic of Lithuania in the implementation of a European project-study aimed at identifying the extent of narcotic drug use in the major cities of the EU. Vilnius is one of the cities participating in the project, and the Company is assisting the Department in taking samples for research. Wastewater samples allow researchers to measure the extent of illegal drug use and urinary metabolites.

More than 200 employees of the Company volunteered in spring collective works in Nemenčinė (cleaning up the town park), in wellfields of Švenčionėliai, Liepkalnis and Tauras, next to the wastewater treatment plant in Titnago Street and in Vingriai springs.

One of the priorities of the Company's activities is renovation and development of infrastructure, pipelines, wastewater treatment plants and water improvement facilities. These projects will have a positive impact on the Company's customer satisfaction with the services provided. Therefore, the Company actively cooperates with communities (Šnipiškės, Žvėrynas) where it plans to carry out these projects by presenting and telling them about the course of the projects and benefits to residents.

On May 18, the Company opened the gates of the Vilnius wastewater treatment plant to anyone interested in seeing where and how EU investments have been used.

Traditionally, in May and September the Company invited residents of Vilnius to visit the historic Liepkalnis water storage facility. More than 3 000 visitors got acquainted with sources, history and the current situation of water supply in Vilnius.

In July, a meeting of representatives of Vilniaus Vandenys with Švenčionys community was held for introducing water management development plans to residents of the city.

In March and October, 54 employees of the Company joined the voluntary blood donation campaign of the National Blood Centre.

ENVIRONMENTAL PROTECTION

Activities of Vilniaus Vandenys are inseparable from nature and its resources. The Company supplies water abstracted straight from deep-water wells. Therefore, ensuring preservation of these natural resources, cleanliness and responsible use thereof is important in the long run.

Another important service is wastewater collection and treatment. After the wastewater is cleaned, water that meets strictly regulated requirements gets back into the environment – mainly into the rivers next to the wastewater treatment facilities. Therefore, a large degree of importance is attached to the used technologies and the results from this activity.

Quality and Environmental Policy, the provisions of which are binding on all employees, was approved in the Company in January 2017. It defines the key directions in the area of quality management that are closely linked to the initiatives identified in the Company's strategy.

Along with this policy, a number of processes and procedures were revised, because Vilniaus Vandenys aims to use the most advanced tools, technologies and processes in its activities, promote the rational use and management of resources and thus reduce adverse impact of its activities on the environment.

The Company operates in accordance with the requirements of the integrated quality and environmental management system complying with ISO 14001 and ISO 9001 standards, which shows that the environmental impact of the Company's activities is identified and managed, the Company's activities comply with legal and other environmental requirements, and its integrated quality management and environmental protection system ensures good service provision by controlling the activities of each unit and precisely defining its responsibilities. The quality management and environmental protection system is implemented through processes that are defined by the specifics of the work of divisions, ensuring their effective operation, monitoring and management. Each process is planned and controlled continuously in light of customer needs.

ISO certificate is a certificate from an independent organization having carried out an assessment of a third party confirming that the Company's quality management system complies with ISO standard requirements. In February 2017, the Swiss capital company "SGS Klaipėda LTD" carried out an audit of the Company and noted that a significant progress was achieved in the area of integrated management, quality and environmental protection, having implemented significant managerial changes and implemented professional and comprehensive management of risks.

A significant progress and a leap in the quality of managerial processes was captured during the year: strategic and action plans were drafted, processes were described and regulated, and job descriptions were approved.

In February, the Company's ISO Integrated Quality Management and Environmental System certificate was renewed for another three years.

In the beginning of April, Vilnius city, Vilnius district, Švenčionys and Šalčininkai district municipalities approved the Company's investment plan for 2017-2019. On this basis, the greatest share of funds will be allocated for reconstruction of the Vilnius wastewater treatment plant. Wastewater treatment plants in operation since 1986 have not been renovated comprehensively since their opening. Sludge treatment facilities of the water treatment plant, which eliminated unpleasant odours suffered by residents of Vilnius, were renovated in essence in 2012.

Water is a product used by our customers every day. It is very important for our health, household purposes and the quality of life in general. Therefore, the Company seeks to become as open as possible to the community and share the knowledge of its experts about the benefits of water.

In 2017, the Company continued the tradition of holding open days in the most interesting water management objects - Antaviliai water treatment plant, Vilnius wastewater treatment plant and Sereikiškės park wellfield, providing an opportunity to see the exhibition of water management history of Vilniaus Vandenys. Two open door days in more than a century old Liepkalnis water storage facilities were held, which were of great interest to the public and the media.

Employees of Vilniaus Vandenys take an active part in educational activities: they read lectures and hold classes on water in Vilnius kindergartens and schools, also in business enterprises. In 2017, more 20 meetings were held at the time of which the Company's employees promoted responsible and rational water consumption, told about the path of water and the specialty of a water management specialist. The purpose of the meetings is to emphasize the quality of the water supplied and to promote not only a healthier lifestyle, but also more intense consumption of tap water.

MAJOR EVENTS OF 2017

5 January 2017

New collective agreement took effect.

1 February 2017

Re-certification audit of the ISO Integrated Quality Management and Environmental Protection System was carried out. The management system was assessed in accordance with the requirements of the new ISO 9001: 2015 and ISO 14001: 2015 standards; the validity of the certificate was extended for 3 years.

1 February 2017

Average volume of consumed drinking water per capita per month (1.78 m3) changed for customers who do not have individual meters in the territory served by the Company.

1 February 2017

Implementation of employee performance management system was started. 40 percent of the Company's employees discussed their performance expectations and agreed with their direct managers on individual performance and trainings goals, the achievement of which will be evaluated in a year.

21 February 2017

Buildings of the headquarters of the Company in Vilnius were sold in a public auction. The auction was run by the international real estate consulting company "Colliers International Advisors". "Asgaard Property" purchased the buildings forming a common complex located in Dominikonų St. 9 and 11, with the total area of about 2.5 thousand square meters, for the initial price of EUR 3.9 million.

1 March 2017

Cash transactions were given up in customer service divisions, switching to paying with payments cards, which is more convenient for customers.

17 March 2017

Suppliers were invited to evaluate the minimum qualification requirements and technical requirements for object of procurement for the starting reconstruction of the Vilnius wastewater treatment plant.

27 April 2017

The Company's meeting of shareholders approved audited financial performance results for 2016 presented in the Company's annual report.

1 May 2017

Having used more than twenty different forms of drinking water supply and wastewater management agreements, the Company switched to a single format of contractual documents. New two-part agreements came into force. The general part of the agreement is the same for all customers, and the special part of the agreement signed separately with each customer provides for individual service provision conditions for each customer.

2 May 2017

The Board decided to present for the consideration of the general meeting of shareholders the question of allocating dividends for a period shorter than the financial year, namely, from 1 January to 30 April 2017, and to present the issue on the payment of dividends of EUR 4 million to the Company's shareholders.

30 May 2017

Agreement for renting office space covering 1.856 square meters was signed with UAB BH Duetto.

5 June 2017

The National Control Commission for Energy Control and Prices approved the Company's proposal to significantly reduce the prices of drinking water supply and wastewater treatment services.

3 July 2017

Water management development plans were presented during the meeting with Švenčionys community.

28 August 2017

Vilniaus Vandenys introduced an updated visual identity - a trademark symbolizing the Company's wish to become an open and modern company while retaining its reliability and care for the environment.

13 September 2017

The Company's headquarters and customer service division moved to new premises at Spaudos St. 8-1, Vilnius.

26 September 2017

The Chair of the Board of the Company Darius Nedzinskas, independent Board members Arūnas Bivainis and Juozas Buitkus, and the CEO of the Company Aidas Ignatavičius resigned.

1 October 2017

Prices of the majority of main drinking water supply and wastewater treatment services reduced by about a fifth took effect for customers in Vilnius, Vilnius district, Šalčininkai and Švenčionys.

11 October 2017

Virgilijus Žukauskas, Director of Production Service, took the post of Acting CEO of Vilniaus Vandenys.

17 October 2017

Members of the Board elected the Chair of the Board in the meeting of the Board of Vilniaus Vandenys. Director of City Maintenance and Transport Department of Vilnius City Municipality Virginijus Pauža was elected to the post.

31 October 2017

In order to make services of Vilniaus Vandenys easily accessible to customers, the Company simplified its procedure for the connection of private customers connecting to networks built using EU funds.

2 November 2017

Vilniaus Vandenys announced an "amnesty" campaign. Residents could report unauthorized access to district water supply and wastewater management networks without incurring any sanctions. They were provided with the necessary assistance from the Company's specialists, they could immediately start using services lawfully, and received one year for obtaining the necessary documents.

2 November 2017

Employee engagement survey was initiated in the Company for the first time in order to find out the percentage share of engaged employee, know their motivation level, efficiency, and to assess other staff indicators important for business results.

3 December 2017

Customer (private and business) satisfaction survey according to the international GCSI (Global Customer Satisfaction Index) methodology was carried out in the Company for the first time. The total satisfaction index of customers of Vilniaus Vandenys is 67 points, meanwhile the average of European utilities companies is 71 and that of Lithuanian companies is 68.

DETAILS AND CONTACT DATA OF THE COMPANY

Name of the Company	Private limited liability company Vilniaus Vandenys
Legal form	Private limited liability company
Date of registration	27 March 1991
Register manager	State Enterprise Centre of Registers
Company code	120545849
Registered office address	Spaudos 8-1, LT-01517, Vilnius, Lithuania
Telephone	1889
E-mail	info@vv.lt
Website	www.vv.lt

CUSTOMER SERVICE DIVISIONS OF THE COMPANY

Vilnius

Spaudos g. 8-1, Vilnius

I–V 8.00 a.m. – 6.00 p.m.

Švenčionys

Vidžių g. 7, Švenčionys

I–V 7.30 a.m. – 4.00 p.m. (lunch break 11.30 –12.00)

Šalčininkai

Lydos g. 34, Milvydų k., Šalčininkų sen., Šalčininkų r. sav.

I–V 7.30 a.m. – 4.00 p.m. (lunch break 11.30 –12.00)

Nemenčinė

Piliakalnio g. 32A, Nemenčinė, Vilniaus r. sav.

I–V 7.30 a.m. – 4.00 p.m. (lunch break 11.30 –12.00)

Customer service lines open 24/7

1889

Calls are charged based on the rates or the payment plan of your communication operator. Please note that operators charge calls to short numbers at different rates, thus we recommend checking the call price on your operator's website (Bitė, Tele2, Telia).

+370 5 266 4455

Calls are charged based on the rates or the payment plan of your communication operator. You can call this number both from Lithuania and abroad.

8 800 10880

Toll-free telephone for registering accidents.