

Vilniaus Vandenys UAB
Annual Report,
Independent Auditor's Report and
Financial Statements for the year ended
31 December 2019

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MESSAGE FROM THE CHAIRMAN OF THE BOARD

In 2019, Vilniaus Vandeny's UAB further paved the way for sustainable growth: designed the Company's first strategy for the decade (2020–2030) and detailed operational and development plan for 2020–2022. A systematic approach and refinement of goals will focus the Company on the consistent implementation of projects: the amount provided for investments in the three-year operational and development plan is 3 times higher than in 2016–2019.

The successful implementation of the ambitious 2019 targets was facilitated by a coherent, sustainable corporate governance policy. It was this year that the Company approved documentation that facilitates employees to successfully implement important projects and create value for the residents of Vilnius region in a transparent and efficient way. This includes the Code of Ethics, Responsible Business Policy, Quality and Environmental Policy, Public Procurement Policy, etc.

Vilniaus Vandeny's moves towards important and major changes in the environment, infrastructure, customer service and other areas. Reconstruction of the Vilnius Wastewater Treatment Plant is definitely among the greatest challenges for the Company. After receiving the initial purchase offers for reconstruction services in 2019 and being prepared for this project of particular importance, in 2020 we will continue the procurement procedures and will probably start work. This will be the largest environmental project in both Vilnius and the region.

Running many and varied projects at the same time requires a good, competent team. A significant change in the Company's management was the change in the Board model by transitioning to a one-tier management system. That led to the election of four new independent members to the Board, who with their knowledge and experience will strengthen the management and supervision of the Company.

I believe that a year of 2020 will be full of challenges and new victories for Vilniaus Vandeny's.

ADOMAS BUŽINSKAS

MESSAGE FROM THE CEO

Dear customers, partners, shareholders and colleagues,

I am proud to present the annual results of 2019 as it has been busy and challenging year of important projects. By maintaining sound and steady performance we implemented all the goals set by the Board and provided more services to our customers at the lowest price in the country. Shortfall in revenue by 12% (due to reduced service prices on 01/02/2019) did not stop the development: we implemented many significant investment projects, the benefit of which has already been enjoyed by our customers.

In 2019, we spent EUR 18 million for the development and modernisation of the water supply and wastewater infrastructure, and that is three times more than in 2018.

During the year, we constructed 24 km of water supply and 30 km of wastewater networks, while in 2018 construction work comprised only 6 km of water supply and wastewater networks. These developments has enabled 6,000 new customers to be connected to centralised networks. Another 14 km of the network was reconstructed, thus preventing possible accidents and losses in the network (the number of accidents decreased by 11% over the year).

The completed modernisation works of the Naujoji Vilnia wellfield has improved considerably the properties of drinking water supplied in the district.

The expanded and reconstructed Kalnėnai wellfield will meet the water needs of the inhabitants of highly populated housing estates even in the hottest summer.

For the first time in the Company's history, we cleaned 11.2 km of water supply networks in the residential quarters of the capital Naujamiestis and Žemieji Paneriai by using special foreign equipment. This has significantly improved the quality of the water supplied to customers.

The network of public drinking fountains being expanded in the city centre received excellent public feedback: 6 new drinking fountains were installed in Vilnius in 2019. We will continue to expand the network by installing at least 5 new ones every year.

Customers welcomed and appreciated our work: the GCSI (Global Customer Satisfaction Index) index rose by two points (from 70 to 72) during the year and exceeded the average of 71 companies in the Lithuanian utilities sector.

In 2020, we will continue to focus our efforts on the defined strategic directions: customers, efficiency, sustainable development and modernisation, and organizational development. We will continue to invest in the renewal and development of infrastructure, as well as further engaged in connection of new customers to the network, digitalisation of processes, and implementation of smart solutions. In response to the expectations of shareholders and the public, we will pay a lot of attention to the reinforcement of environmental initiatives (our priority is reconstruction of the Vilnius Wastewater Treatment Plant), and public education.

I believe that by promoting excellence, responsibility and cooperation in our organisation, we will create the best experience for our clients.

MARIUS ŠVAIKAUSKAS

ABOUT THE COMPANY

Vilniaus Vandenyis is the largest Lithuanian water management enterprise that is engaged in drinking water supply and wastewater management for about 261 thousand customers. The Company holds a drinking water supply and wastewater management licence issued by the National Energy Regulatory Council (NERC) and operates in Vilnius City Municipality as well as Vilnius, Švenčionys and Šalčininkai district municipalities. The Company has no branches or representative offices.

Vilniaus Vandenyis supplies groundwater only, from 40–245 meter-deep wells. The Company supplies approximately 93 thousand cubic meters of water, collects and treats more than 111 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

As at 31 December 2019, Vilniaus Vandenyis operated 34 wellfields, 297 boreholes, 154 water pumping stations, 21 water treatment (refinement) plants, 502 water extraction columns, 4,995 fire hydrants and approx. 1,730 km of water supply pipelines, of which, 24 km of new pipelines were constructed and 4.6 km reconstructed in 2019.

In 2019, the Company extracted 34 million m³ of drinking water, supplied 33.9 million m³ of water and used 1.3 m³ of water for technical purposes.

The Company supplies drinking water from deep wells only. Such water is considered to be of the best quality, however, natural water always contains dissolved impurities, which need to be removed from the water in order for the water to meet safe drinking water characteristics. 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 treatment (refinement) plants, used to clean approx. 90% of water supplied by the Company.

QUALITY OF DRINKING WATER

Safety and quality requirements for drinking water are set by the Hygiene Norm of Lithuania HN24:2017. Taking into account these requirements and seeking 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 different 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. In 2019, a total of 16,169 tests were carried out in the Company's laboratory. App. 50 water quality indicators were tested, and the absolute majority of them (98%) fully met the Hygiene Norm HN24: 2017 requirements.

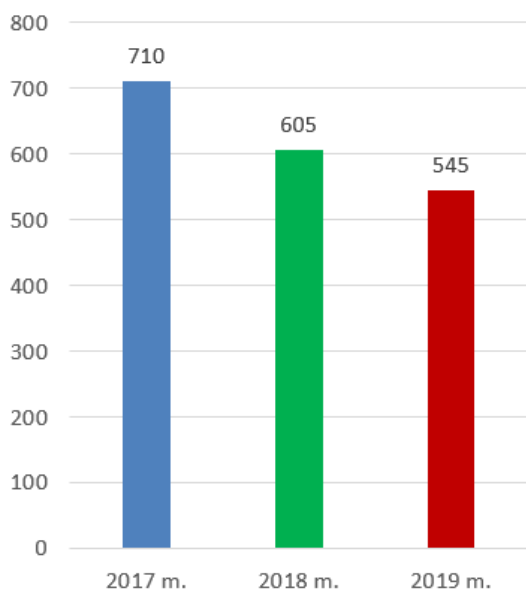
In case the laboratory determines that the values are greater than the maximum authorised values, it replicates samples of drinking water and informs the management of the Company's Water Supply Stations and Departments of Water Supply Networks so as to restore the values of drinking water indicators up to the authorised limits. When toxic, microbial indicators or parameter values are found incompatible with the threshold limits set by the Hygiene Norm of Lithuania, the laboratory informs the management of the Company's Water

Supply Stations and Departments of Water Supply Networks, directors of Production and Customer Service Divisions, head of Communication Department, municipal council, and drinking water consumers. Following notification, immediate action is taken by the responsible divisions as to restore the values of drinking water indicators up to the authorised limits. The laboratory and, in the cases provided for in the applicable legal acts, the competent authorities and consumers are notified of any accident or scheduled preventative maintenance operations in the water supply system

WATER SUPPLY CHALLENGES

The majority of the water supply networks has been constructed in the processes of city expansion, thus have been in place for decades. 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 2019, the Company responded to 545 water supply accidents.

Accidents in water supply networks



Wear and tear of the network (more than 60% 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.

Compared to 2018, the average duration of fault and accident localisation in 2019 was successfully reduced from 143 up to 132 minutes, i.e. on average the accident is localised 11 minutes faster.

In 2019, the average interruption duration per customer (SAIDI) due to accidents decreased by 17%, i.e. compared to 2018 from 21.5 to 18.3 minutes.

A water supply network segmentation project has been launched to reduce water losses and operatively identify accident sites. In 2019, 2 of the 16 water supply zones were divided into 14 subzones with flow meters being installed for water supplied therein metering purposes.

ACCIDENT AND FAILURE PREVENTION

The Company's Department of Operational Control, Divisions of Water Supply, Wastewater Stations and Networks pay great attention not only to the response to accidents and failures, but also to the prevention of networks. More frequent inspections are carried out in highly problematic sections of the network in a preventive manner based on scheduled inspection plans.

Compared to 2018, the number of scheduled inspections of water supply networks in 2019 increased by 72% (from 124 km to 213 km).

Compared to 2018, the number of scheduled inspections of water supply stations in 2019 increased by 19% (from 2,536 to 3,030 inspections).

In 2019, for the first time in history, a large-scale water supply network cleaning project was implemented, during which 11.20 km of water supply network was cleaned in the residential quarters of the capital Naujamiestis and Žemieji Paneriai using special equipment and technology. Following network cleaning, the quality of the water supplied to the customers living in these areas has greatly improved: iron and manganese deposits accumulated over many years have been removed from the pipelines.

WASTE COLLECTION AND MANAGEMENT

For the collection of wastewater and its transportation to the wastewater treatment facilities, Vilnius Vandens uses 1,380 km wastewater networks and collectors, including 177 km pressure lines and 195 wastewater-pumping stations. In 2019, 30 km of new sections of the wastewater network were constructed and 9 km were reconstructed.

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.

Wastewater management is governed by the Wastewater Management Regulation and Integrated pollution prevention and control permits, issued to the Company. The Company's laboratory examines about 30 wastewater quality indicators.

Tests of quality of wastewater inflows and treated outflows are performed in observance of the 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 2019, Vilnius Vandens treated 40.6 million m³ of wastewater, which was 0.17% more than in 2018.

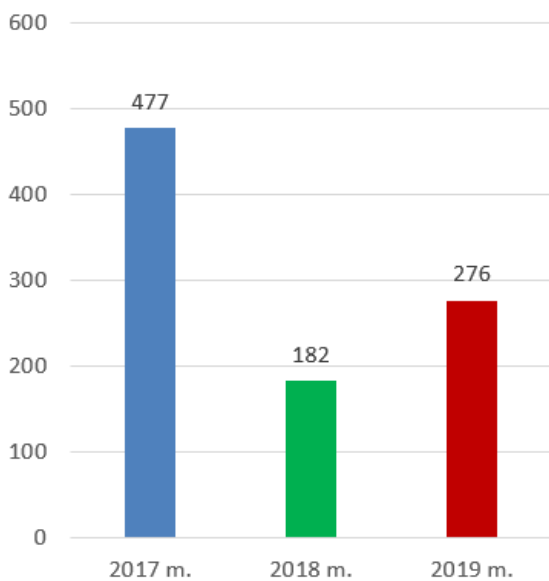
In terms of the key examined indicators (biochemical oxygen consumption in seven days (BOD7), the total phosphorus content, except for the total nitrogen content), high treatment efficiency levels are reached in the Vilnius wastewater treatment plant, which remained the same in 2019, compared to 2018.

In order to achieve a better protection for environment from pollution caused by operating activity, maintain high quality of wastewater cleaning, service tenders for reconstruction of Vilnius wastewater treatment plant and Švenčionys wastewater treatment plant were initiated in 2019.

CHALLENGES IN WASTEWATER MANAGEMENT

In 2019, there were 276 accidents in wastewater networks. Despite all preventive work, the number of accidents in wastewater networks has increased compared to 2018. The Company faces challenges in taking over an orphan, unskilfully constructed and/or improperly operated network infrastructure that requires greater investment and other kind of resources. Increased pollution caused by manufacturing facilities is also observed, and this contribute to a greater number of accidents in the wastewater network.

Accidents in wastewater networks



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 response units focus not only on the response to such accidents and breakdowns but also on their prevention.

In 2019, 112 km of wastewater network were cleaned, which was 91% more than in 2018. The number of scheduled inspections of wastewater networks also increased by 24%. During the inspections, 21,181 wells were tested, which is 39% more than in 2018.

Modern video-assisted diagnostic equipment is used to assess the condition of wastewater networks: 25 km of the Company's wastewater networks were tested in 2019 (91% more than in 2018).

In 2019, 1,047 planned inspections were performed at wastewater treatment plants (54% more than in 2018).

STRATEGY OBJECTIVES

In 2019, Vilniaus Vandenyms continued the implementation of the Company's strategic action and development plan for 2017–2019, and prepared and presented a new strategic action and development plan for 2020–2030, approved by the Board of the Company on 12 September 2019.

The new strategy was prepared through analysis of internal and external environmental drivers of the Company's activities and taking into account the provisions of the Law on State and Municipal Enterprises, the Law on Drinking Water Supply and Wastewater Management, as well as the Water Area Development Program 2017–2023 and action plan. The Vilnius City Strategic Direction Vilnius 2IN is integrated into the Strategy.

The strategy establishes the Company's mission, vision, values, sets the strategic directions for 2020–2030, defines the goals to be achieved, and describes tasks and specific measurement indicators to assess the Company's performance and the fulfilment of goals.

MISSION, VISION, VALUES

Vilniaus Vandenyms strives to be a progressive, efficiently managed leader providing quality and reliable services by fulfilling its main objectives: to ensure the provision of drinking water and wastewater management services, to maintain high quality of supplied drinking water and wastewater management in compliance with the highest environmental requirements.

The Company's mission is a pure water and clean environment for the society.

The Company's vision is to be a leader in providing high-speed, quality and reliable services.

Mission implementation and vision achievement is based on shared human and professional values: responsibility, cooperation and expertise.

Values:

Responsibility. We take responsibility for our words, actions and results. We care about nature, the state, the community, partners, customers and colleagues.

Cooperation. We all pursue common goals, we are open to suggestions and constructive critics, and we are well-meaning and ready to help. We share experience and knowledge.

Expertise. We are seeking to improve and innovate through understanding the importance of professional knowledge, practical experience and lifelong learning. We strive for each employee to gain recognition and ability to grow as a professional in their field.



MISIJA

Tyras vanduo
ir švari aplinka
mūsų bendruomenei



VIZIJA

Greitų, kokybiškų
ir patikimų paslaugų
lyderis

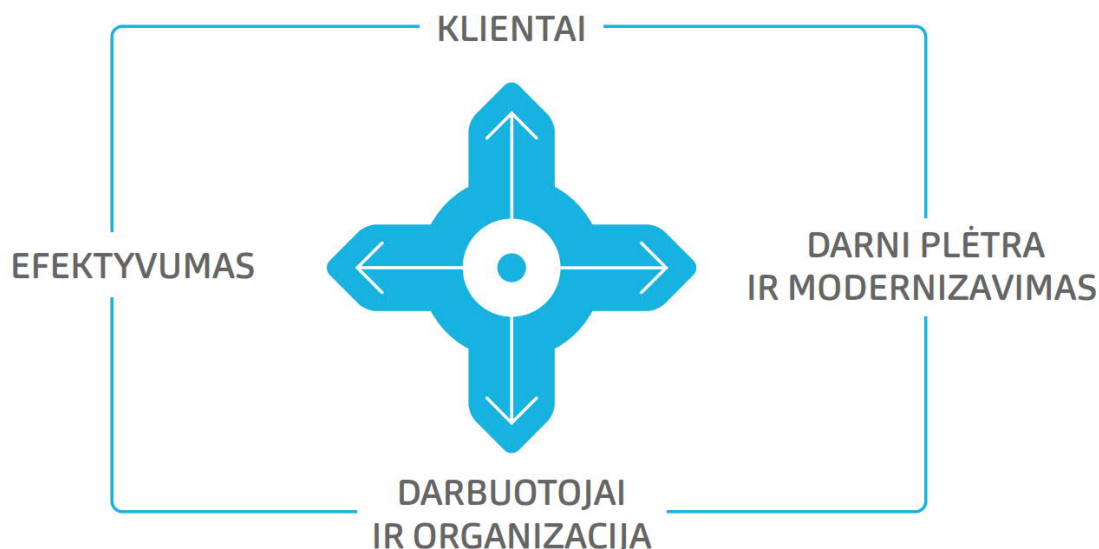


VERTYBĖS

Atsakomybė | Bendradarbiavimas | Profesionalumas

STRATEGIC DIRECTIONS, OBJECTIVES AND TASKS

In order to achieve the Company's vision, the most important **strategic directions** have been approved.



Customers. This is one of the most important strategic directions, for the implementation of which the Company will use the knowledge and expertise of employees, as well as new technologies, development and quality of existing and new services.

Performance. The Company's performance will allow to improve the quality of services provided and ensure process management, as well as to reduce operating costs, and achieve optimum resource allocation.

Sustainable development and modernisation. With a direct effect on the quality of life and activities in the community, improvement, modernisation and development of drinking water supply and wastewater treatment services are considered to be a particularly important and necessary element.

Employees/Organisation. With a view of being efficient, professional company, a leader in providing high-speed, quality and reliable services, employees are considered as one of the most important components of success. Respectful treatment, a focus on education, career opportunities, and the maintenance of a values-based organisational culture improve employee engagement and motivation.

When implementing strategic directions, **strategic objectives** are defined as the future priorities with the **tasks** set for their implementation.

Strategic direction	Strategic objectives	Tasks
Customers	To improve customer experience	To provide services through "one-stop shop"
		To develop electronic service channels
		To improve the quality of customer service
	To expand the basket of services	To connect new customers through "one-stop-shop" services
		To develop an existing basket of services
	To develop a new basket of services	
Performance	To reduce network losses	To minimise losses in the water supply network
		To install smart water metering devices

	To streamline costs	To improve efficiency of pumping stations	
		To improve efficiency of wastewater treatment plants	
		To reduce operating costs	
		To optimise indirect costs	
	To manage assets effectively	To extend device working hours	
		To prevent accidents in infrastructure facilities	
		To implement IS deployment projects	
	To improve process management	To install an automatic transported wastewater sampling system	
		To further implement the specialist work time management system	
		To improve performance of business processes	
		To manage documentation effectively	
	Sustainable development and modernisation	To upgrade infrastructure	To maintain and replace metering devices
To acquire network equipment			
To reconstruct water supply networks			
To reconstruct wastewater networks			
To reconstruct water treatment plants and wellfields			
To reconstruct wastewater treatment plants			
To reconstruct electric and automation installations			
To acquire cyber and physical security measures			
To acquire new equipment and vehicles			
To engage in sustainable infrastructure development		To develop water supply and wastewater networks	
		To register/authorise the use of wellfield areas	
		To conduct green public procurement	
To comply with environmental requirements		To improve treatment performance of wastewater treatment plants	
		To apply wastewater sludge treatment measures	
		To prevent wastewater release into the environment	
To digitalise activities with smart solutions		To implement intelligent data management	
		To implement and develop information systems	
Employees/ Organisation		To create value-based organizational culture	To implement and apply value-based competencies (required behaviours)
			To develop and implement education-training programs
			To develop the Company's image policies
		To develop competent and engaged employees	To implement a governance-based occupational activity management system

	To attract and retain competent staff	To develop a remuneration system
		To develop employee motivation system
		To create career opportunities for employees

The Company's performance is assessed against the following indicators:

Strategic direction	Indicator	Indicator size	
		2020	2030
Sustainable development and modernisation	Length of water supply networks	1,697.93 km	1,850 km
	Length of wastewater networks	1,346.24 km	1,500 km
	Number of water improvement equipment	19 units	21 unit
	Number of water extraction columns	500 units	0 units
	Number of customers	255 thousand	296 thousand
	The Company's metrologically certified metering devices installed for customers	90%	99%
Customers	One-stop customer service (Multichannel customer management with 360-degree customer view)	Not implemented	Implemented
	Smooth connection of new customers in line with the principle "one-shop-stop" (the Company provides all necessary services)	5 units	8 units
	Customer satisfaction index	70	75
	Ancillary services	12 units	28 units
	Revenue from ancillary services, % of revenue	0.5%	5%
Performance	Remote (smart) meter reading	0%	95%
	Number of ultrasonic meters	0%	95%
	Water losses in multi-dwelling-units (difference between the amount of water supplied to the network and the amount sold to customers)	15%	2%
Employees/Or ganisation.	Employee engagement	69%	75%

The operational and development plan of Vilnius Vandenyis for 2020–2022 was developed with a view to implement the strategic directions and objectives set in the strategy for 2020–2030 and taking into the account the assessment of the implementation of the strategic operational and development plan for 2017–2019. It contains a detailed draft measures and envisaged projects to achieve strategic goals and objectives, as well as the need for funds and sources of funding, discusses the deadlines and indicators needed not only to achieve strategic directions and goals, but also to maintain the Company's activity.

The operational and development plan for 2020–2022 was approved by the municipal councils of the Company's shareholders: Vilnius city, Vilnius district, Šalčininkai district and Švenčionys district.

OPERATIONAL AND FINANCIAL GOALS

With a clear strategy, expectations defined by its shareholders and consistent implementation and planning for further development, the Company fulfilled all the goals set for 2019.

No	Indicator	Definition	Weight (%)	Objective	Outcome
1.	OPEX.	Operating expenses other than depreciation and amortisation and asset amortisation and write-off expenses.	20	≤ 28.8 million EUR	27.1 million EUR
2.	CAPEX ¹	Investments in property, plant and equipment, including investments part funded through the European Union	20	≥ 18.1 million EUR	21.7 million EUR
3.	Public procurement of wastewater treatment plant reconstruction ²	Applications submitted before 31/12/2019	5	Concluded/No concluded	Concluded
4.	Customer service quality	Customer Satisfaction Index (GCSI)	15	≥ 70	72
5.	Water supply in public spaces	Public access to drinking water is provided in at least 5 public places	15	5 units	6 units
6.	Average time to connect new customers to the network ³	The indicator is calculated as the duration of the service in calendar days following the confirmation of the order	15	< 10 calendar days	< 8 calendar days
7.	Cleaning 10 km of water supply networks in Naujamiestis	10 km of water supply networks in Naujamiestis were cleaned	10	Concluded/No concluded	Concluded

¹ The goal is considered to be met if at least 75% of the annual investment plan is implemented (investment plan is adjusted: EUR 24.1 million * 75% = EUR 18.1 million).

² The goal is considered relevant if the financing of the Vilnius wastewater treatment plant reconstruction project is approved

³ Excluding orders cancelled or delayed by customers.

1. **OPEX.** Operating expenses, except for depreciation and amortisation, asset impairment and write-off expenses of 2019 were 6% lower than expected.
2. **CAPEX.** In 2019, investments in property, plant and equipment, including investments part funded through the European Union, were implemented, going beyond the targets. Planned investments amounted EUR 24,103 thousand, of which EUR 21,691 thousand were spent or 90% of total investments planned. The amount of investments set in the goals was exceeded by EUR 3,591 thousand.
3. **Public procurement of wastewater treatment plant reconstruction** 20/08/2019–06/09/2019: Market studies were carried out regarding the Vilnius Wastewater Treatment Plant reconstruction project. 25/09/2019: The project procurement documents were agreed with the Environmental Project Management Agency. 06/09/2019–25/09/2019: The scope of the project was reviewed in the light of the insights provided by potential suppliers during the consultations. The procurement of the project through public negotiations was announced in the Central Public Procurement Information System on 30/09/2019. 04/11/2019: applications from 3 suppliers were received. Until 20/11/2019: Applications submitted by suppliers were evaluated and revised. Until 23/12/2019: Suppliers were invited to submit initial tenders. Following requests from suppliers, the deadline was extended to 31/01/2020. 13/04/2020: Final offers from suppliers are expected to be submitted. 06/08/2020: Conclusion of a contract with the successful tender is expected. Thus, the intended goal to receive applications from suppliers by 31 December 2019 has been achieved.
4. **Customer service quality.** A significant improvement was recorded when evaluating the Company's customer satisfaction with service quality for a third year in a row. Based on an international GCSI (Global Customer Satisfaction Index) method, the performed investigation showed that Vilniaus Vandeny's customer satisfaction index in 2019 increased from 70 to 72 points. In 2017, this indicator was measured for the first time and the customer satisfaction index reached 67 points. In 2019, the improvement in results was recorded in both customer categories: in private and business segments, where the score increased by 2 points. Vilniaus Vandeny's exceeds both the overall Lithuanian and US-European average at national and international level. This was largely due to a series of targeted actions implemented over three years.
5. **Water supply in public spaces.** A total of 6 public drinking fountains were installed instead of planned 5 units.
6. **Average time to connect new customers to the networks of Vilniaus Vandeny's** The intended goal has been achieved: the duration of the service is 8 calendar days following confirmation of the order. This is 2 days less than the set goal.
7. **Cleaning 10 km of water supply networks in Naujamiestis.** The predetermined goal was achieved through a procurement procedure and cleaning the major water mains with modern Austrian equipment not only in Naujamiestis, but also in Žemieji Paneriai. In less than two weeks, Vilniaus Vandeny's cleaned 11.2 km of the old water mains. This is the largest maintenance work of water supply networks carried out in this decade. The positive network cleaning output will be enjoyed by two tens of thousands of customers for several years.

OPERATIONAL and FINANCIAL PERFORMANCE

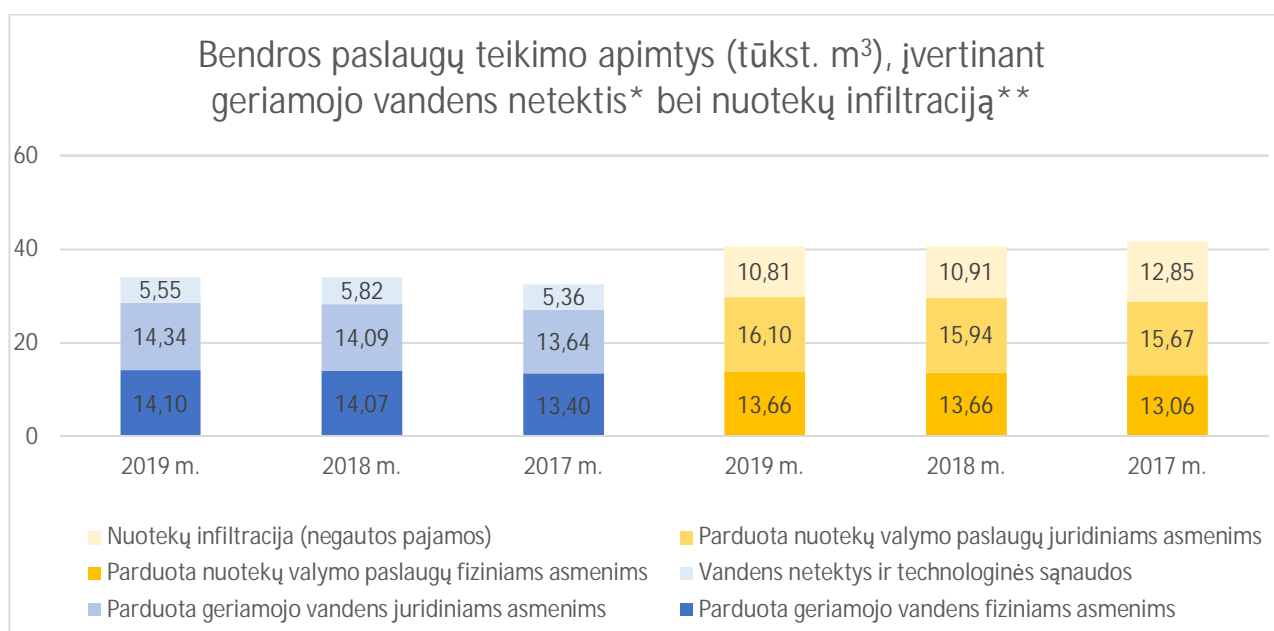
SCOPE OF SERVICE PROVISION

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 Vandeny's increased by 1% in 2019 compared to 2018. Such an outcome arise due to intensive work in connecting new customers and strengthening the control of meter readings. The increasingly visible discipline over the submission of meter readings and settlement maintained by households also has an impact.

Performance indicators, thousand m ³	2019	2018	2017	Change in 2018–2019	
				thousand m ³	%
Drinking water sales	28,436	28,160	27,043	276	1 %
To natural persons (consumption)	14,096	14,069	13,403	27	0 %
To legal persons (subscribers)	14,339	14,090	13,640	249	2 %
Wastewater treatment service sales	29,765	29,602	28,731	163	1 %
To natural persons (consumption)	13,663	13,659	13,059	3	0 %
To legal persons (subscribers)	16,103	15,943	15,672	160	1 %

In 2019, the Company extracted 34 million m³ of drinking water, supplied 33.9 million m³ of water and used 1.3 m³ of water for technical purposes. The differences between the amount of drinking water supplied to the pipelines and the drinking water sold occur due to technical reasons (leakages and accidents), but incorrect meter readings submitted by the customers 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. 40.6 million m³ of treated wastewater was accounted for in wastewater treatment plans, while only 29.8 million m³ of wastewater treatment services were sold.

The management has compiled a working group to reduce infiltration and rainwater access to wastewater network in order to reduce the difference between sold wastewater treatment services and cleaned wastewater.

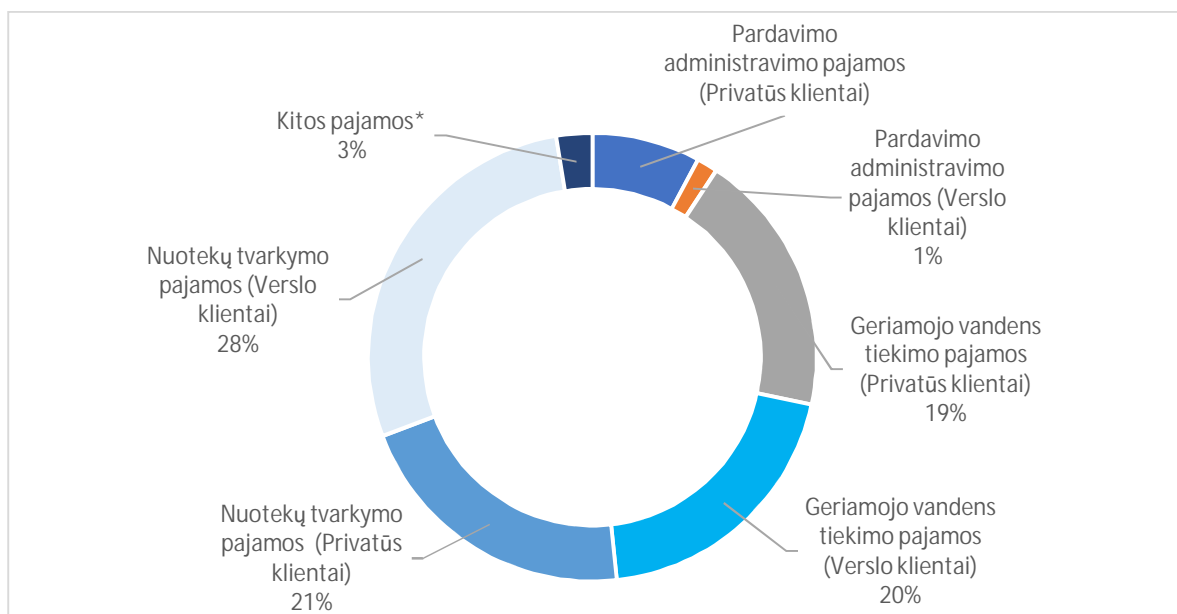


*Water losses means a difference between the volume of drinking water supplied to pipelines and the volume of drinking water sold;

**Infiltration means a difference between the volume of water treated in treatment plants and the amount of wastewater treatment services sold (thousand m³).

INCOME FROM THE SALE OF SERVICES

Principal (sales) income generated by Vilniaus Vandeny's comprises income earned from the provision of services of drinking water supply and wastewater treatment. The Company earned EUR 32.4 million from sold services in 2019. The Company's revenue in 2019 decreased by EUR 3.84 million compared to 2018. This has been influenced by the drop down in prices of services by approx. 13% since February 2019.



* Other income comprise income from unregulated activities, assets received free of charge, assets disposed, as well as rental and other income.

Sales income from business customers* accounts for about 49% of the Company's income, income from private customers** – for 48% and other income – for 3%. Income from the largest hot water supplier (Vilniaus Šilumos Tinklai) accounts for 32% of income from business customers.

Sales income, thousand EUR	2019	2018	2017	Change in 2018–2019	
				thousand EUR	%
SALES INCOME	32,390	36,227	39,880	-3,837	-11 %
Sale administration (price) income	3,085	2,832	3,162	253	9 %
Income from the supply of drinking water, including:	12,874	15,162	16,318	-2,288	-15 %
Income from private customers (consumers)	6,308	7,551	8,096	-1,244	-16 %
Income from business customers (subscribers)	6,567	7,611	8,222	-1,044	-14 %
Income from centralised wastewater management, including:	16,256	18,207	20,453	-1,950	-11 %
Income from private customers (consumers)	6,960	7,779	9,197	-819	-11 %
Income from business customers (subscribers)	7,337	8,298	9,995	-961	-12 %
Income from business customers (subscribers) for increased pollution	1,960	2,130	1,261	-171	-8 %
Change in income from supply of water and wastewater treatment accruals	174	27	-54	147	546 %

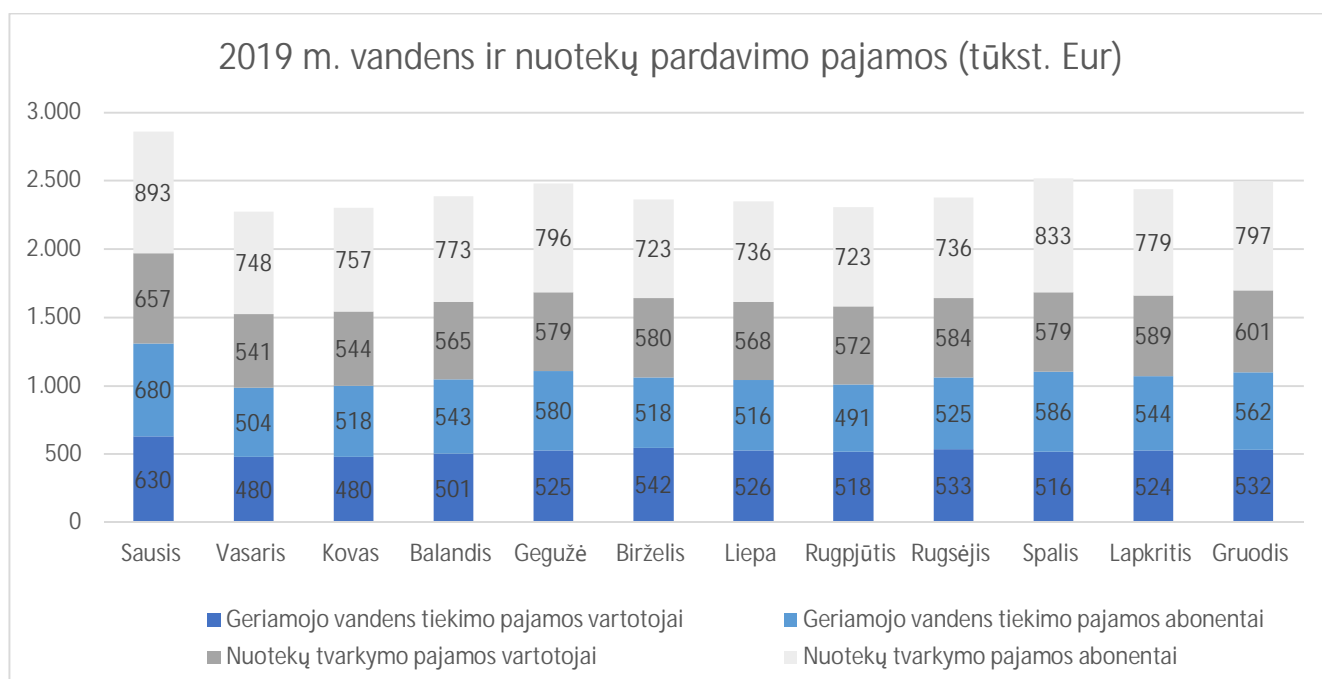
*The term "business customer" used in the Company's annual report corresponds to the term "subscribers" used in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania.

Subscriber is a natural or legal person, a branch of a foreign legal entity or another organisation 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.

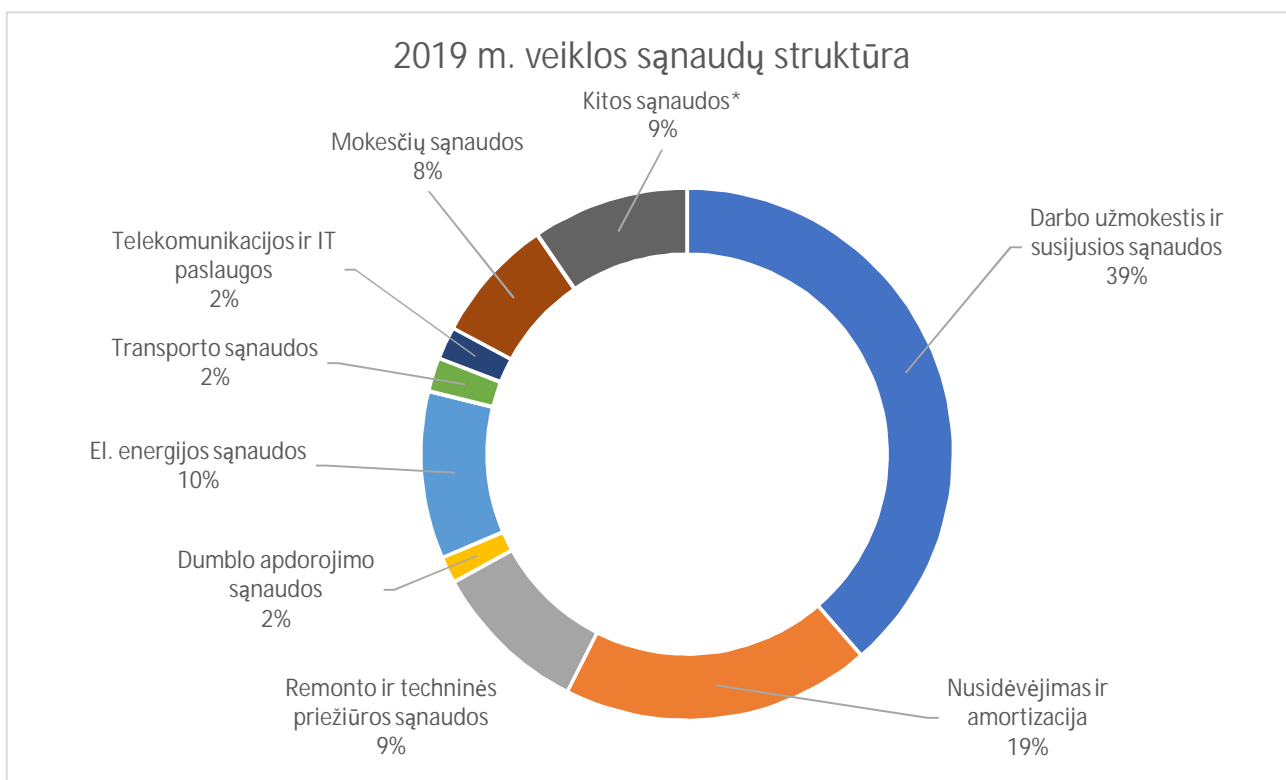
In 2019, the Company's income decreased from EUR 37 to 33.2 million (10.3%). Even though the amount of services sold increased, decreased prices contributed to a significant decline in income. Operating income also includes income earned from assets received free of charge from third parties amounting to EUR 565 thousand.



Income from different activities remained almost stable in 2019 compared to 2018. Respectively, income from the supply of drinking water accounted for 40% in the income structure, income from wastewater management – for 50% and income from the selling fee – for 10% of the Company's income.

OPERATING EXPENSES

In 2019, operating income amounted to EUR 33.5 million, whereas in 2018 – EUR 30.6 million.

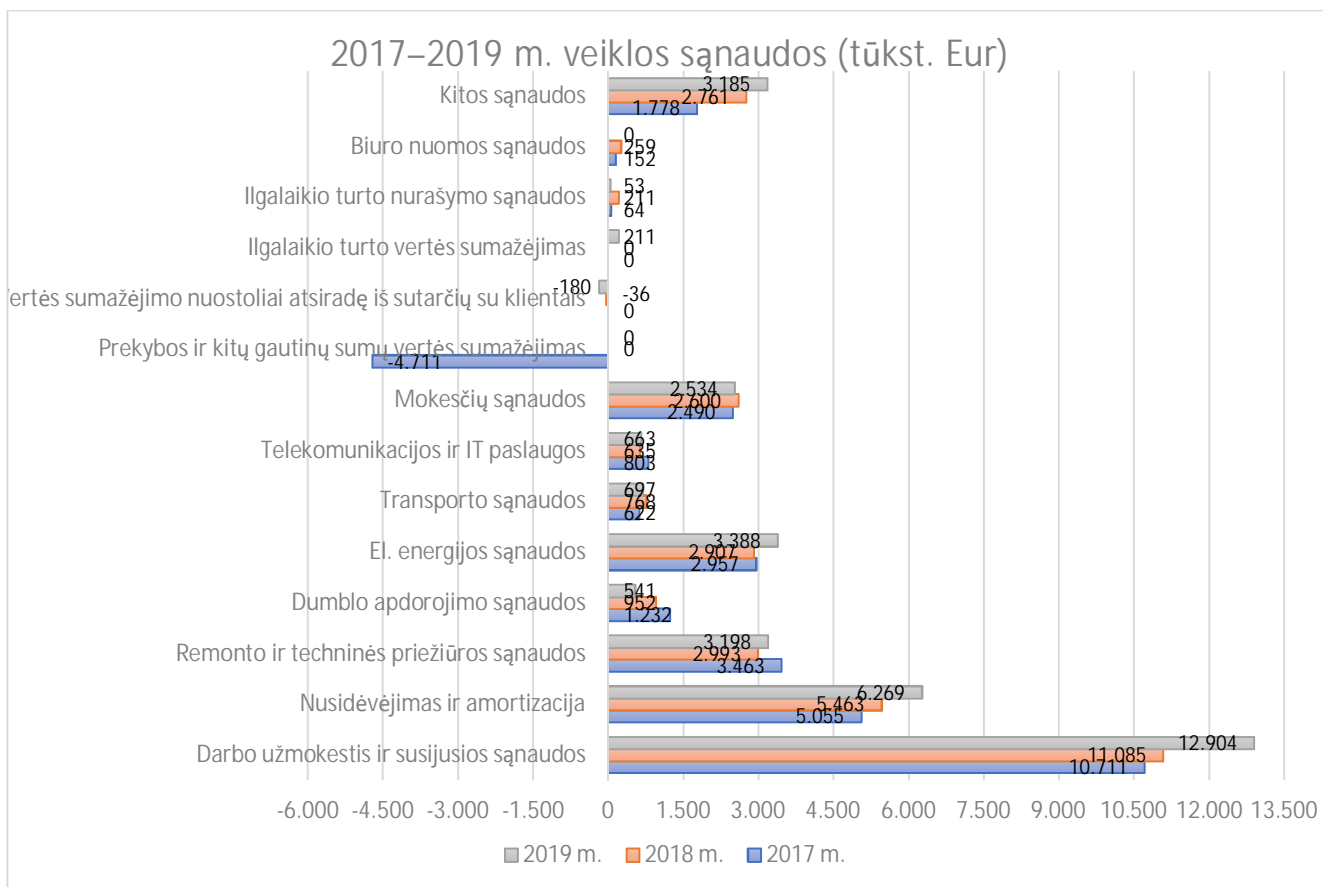


* Other costs include heating, security, garbage collection, cleaning of premises, landscaping, customer service costs, occupational safety and special clothing, promotion, advertising, insurance, compensation for damage resulting from the Company activities, office costs, legal services and other costs.

In 2019, payroll and related tax expenses made up the major share of operating expenses accounting for 39% of the total operating expenses. Payroll and related tax expenses totalled EUR 12.9 million in 2019 and increased by EUR 1.8 million, compared to 2018. This increase was dominated by the changes in the remuneration market and the number of employees.

Property, plant and equipment amortisation expenses grew by EUR 0.8 million to EUR 6.3 million in 2019 and made up 19% of the total operating expenses. Increase in expenses in 2019 was a result of a newly acquired, built and reconstructed property, plant and equipment.

Repair and maintenance costs that comprise of technical materials and consumables, network diagnostics, cleaning and repair, dug-hole restoration after accidents, equipment servicing, etc. amounted to 9% of operating expenses. They decreased by approx. EUR 0.2 million: from EUR 3.2 million in 2018 to EUR 3 million in 2019.



Electricity expenses accounted for 10% of operating expenses in 2019. They increased by approx. EUR 0.5 million: from EUR 3 million in 2018 to EUR 3.4 million in 2019. This has been influenced by decreased price of purchased electricity per kWh (in 2019, 39.3 MWh of electricity was bought, meanwhile in 2018 – 39.3 MWh),

In 2019, tax (non-payroll related) expenses, which account for about 8% of operating expenses of Vilniaus Vandenyis, decreased to EUR 2.5 million from EUR 2.6 million in 2018. The decrease was mainly due to decreased environmental pollution tax as a result of reinforced control measures on pollutant concentration. In 2019, Vilniaus Vandenyis paid a total of EUR 8.1 million of taxes to the State Tax Inspectorate and EUR 2.89 million to Sodra (including payroll related taxes).

Other expenses comprised 9% of operating expenses and in 2019 increased by approximately EUR 0.4 million. Mostly the increase of these expenses resulted from an increase of customer support related expenses, active recovery of the overdue amounts, call centre services, meter readings collection services, etc. Costs on insurance, promotion, advertising, occupational safety and special clothing, as well as costs on water for technology and own use and other costs.

Sludge treatment expenses made up 2% of the operating expenses. In 2019, these costs decreased by EUR 0.4 million or 43%. This can be explained by the decrease in composted sludge quantity due to participation in the project "NutriBiomass4Life".

Transport expenses made up 2% of the operating expenses. In 2019, they decreased by EUR 0.07 million or 9% as a result of renewal of vehicle fleet.

Telecommunication and IT service expenses made up 2% of the operating expenses. In 2019, these expenses increased by EUR 0.03 million or 4%.

KEY FINANCIAL INDICATORS

Key financial indicators, thousand EUR	2019	2018	2017	Change in 2018–2019	
				thousand EUR	%
Income statement indicators					
Total income	33,215	37,008	41,752	-3,793	-10%
Operating income (sales)	32,390	36,227	39,880	-3,837	-11%
Operating expenses (OPEX) (1)	27,056	24,898	24,120	2,158	9%
EBITDA (2)	6,159	12,110	17,632	-5,951	-49%
Profit/(loss) before tax	-245	6,446	18,115	-6,691	-104%
Net profit	-240	5,554	15,810	-5,794	-104%
Indicators of assets, equity and liabilities					
Total assets	143,420	140,427	135,452	2,993	2%
Cash and cash equivalents	4,456	17,129	12,583	-12,673	-74%
Equity	128,153	128,162	121,993	-9	0%
Financial debts	3,198	2,141	2,998	1057	49 %
Trade receivables (before impairment)	4,974	5,017	6,839	-43	-1%
Trade payables	5,111	3,124	2,507	1,987	64%
Profitability indicators					
EBITDA margin (3)	19%	33%	42%		-14pp
Net profitability	-1%	15%	38%		-13pp
Return on assets (ROA) (4)	0%	4%	11%		-4pp
Return on equity (ROE) (5)	0%	4%	14%		-4pp
Other financial indicators					
Net financial debts (6)	-1,258	-14,988	-9585	11,816	-79%
Equity level (7)	89%	91%	90%		-2pp
Investment scope, total (8)	21,415	8,093	4605	13,322	165%
Debt to equity ratio (9)	2%	2%	2%		
Current ratio (10)	0.83	2.39	1.96		
Quick ratio (11)	0.80	2.35	1.87		

(1) OPEX – operating expenses other than depreciation and amortisation, and impairment and write-offs.

(2) EBITDA (profit before interest, taxes, depreciation and amortisation) = Profit (loss) before tax + Finance expenses – Finance income – Dividend income + Depreciation and amortisation + Impairment loss + Asset write-offs;

(3) EBITDA margin = EBITDA/revenue

(4) Return on assets (ROA) = Net profit (loss)/Average assets

(5) Return on equity (ROE) = Net profit (loss)/Average equity

(6) Net financial debts = Financial debts - Cash and cash equivalents - Short-term investments and term deposits - Share of other non-current financial assets consisting of investments in debt securities

(7) Equity level = Equity at the end of the period/Total assets at the end of the period

(8) Investment scope, total = Non-current assets put into operation + Construction in progress + Prepayments, less assets received free of charge and in kind contribution made on increase of issued capital

9) Debt to equity ratio = Financial debts/Equity

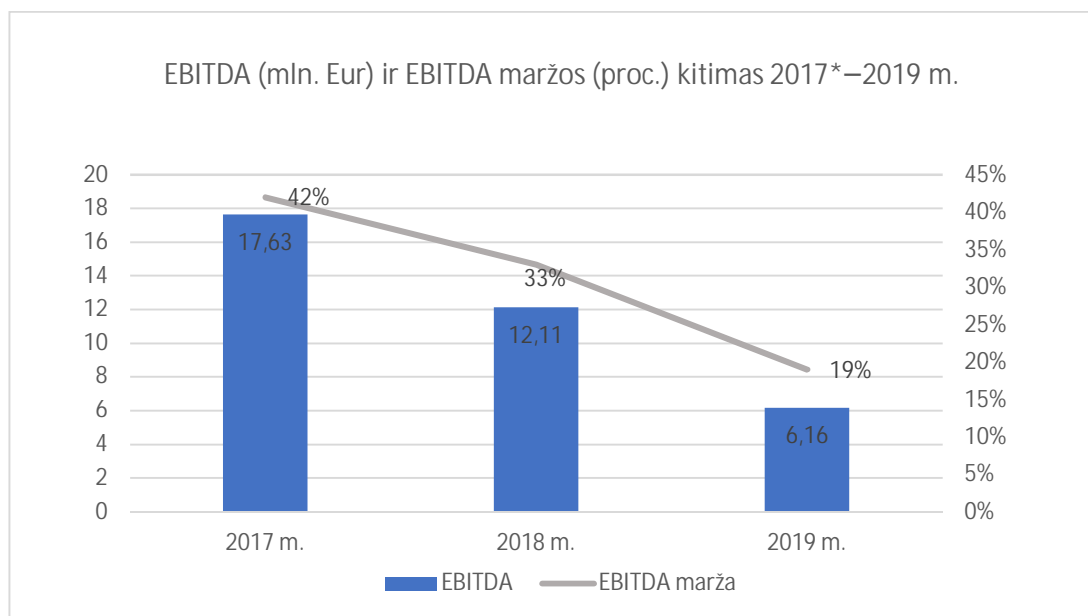
(10) Current ratio = Current assets/current liabilities

(11) Quick ratio = (Current assets - Inventories)/Current liabilities

Financial debts totalled EUR 3.1 million at the end of 2019 and accounted for 2.5% compared to equity, or 2.2% compared to assets. In December 2019, Viešųjų Investicijų Plėtros Agentūra UAB allocated EUR 5.9 million to be invested in the development of drinking water supply and wastewater collection networks in Vilnius, Švenčionėliai, Šalčininkai and Eišiškės agglomerations, whereof EUR 2.4 million is repayable assistance, and EUR 3.5 million concessional loan. The latter is granted for a term of more than 20 years.

Trade payables increased from EUR 3.1 million at the end of 2018 to EUR 5.1 million at the end of 2019. The Company had no overdue trade payables at the end of 2019. In 2019, compared to 2018, the amount of the investments made from the Company's resources increased by 165%. Investments were drifted towards the renovation of operated networks and stations, as well as wellfield areas, upgrades of sludge treatment equipment, replacement of water metering devices, etc.

The change in equity was determined by the increase of the issued capital by EUR 3.2 million due to the shareholders' in kind contributions, as well as dividends paid and net loss incurred. In 2019, equity decreased by EUR 9 thousand to EUR 128 million and accounted for 89% of the Company's assets, and this resulted in respective decrease in profitability of assets and profitability of equity.



*Normalised earnings were received having eliminated the impact of profit from the sale of the buildings in Dominikonų Street in Vilnius, interest and default interest from Vilniaus Energija UAB, and impact of impairment reversal.

Increased expenses and decreased income due to decreased prices lowered the sizes of EBITDA and EBITDA margins in 2019. Due to these reasons, in 2019, EBITDA decreased to EUR 6.16 million (compared to EUR 12.11 million in 2018) respectively EBITDA margin decreased from 33% to 19%.

In 2018, the Company's net profit was EUR 5.6 million, meanwhile in 2019, activities of the Company were loss-making with a negative net result of EUR 0.2 million. One of the critical factors is the price decrease on average by 13% that significantly decreased annual income, despite the increase in the amount of services sold.

Finance expenses amounted to EUR 0.15 million. They were incurred from the interest paid to financial institutions on loans, and default interest and fines paid. Finance income from received default interest and interest amounted to EUR 0.15 million. These income include non-performance of contractual obligations and the interest payable to Vilnius City Municipality under the agreement of the scheduled deferred payments.

In 2019, Vilniaus Vandenyis had not invested in term deposits or debt securities. The Company's income and expenses in 2019 were not related to other currencies, so the impact of the change in exchange rates was not incurred. The Company did not use derivatives.

In 2019, the Company paid to the shareholders dividends amounting to EUR 3 million for 2018. The Company's further dividend policy has not yet been defined.

CUSTOMER SERVICE

In 2019, focus on the customer needs in all organisational levels remained as the Company's priority and one of the most important strategic directions. The Company improved the main customer service areas, reduced bureaucracy burden for customers, simplified and facilitated processes and implemented smart solutions.

Special attention was paid to the quality of customer service. This helped to reduce the average customer service time and the total number of customer inquiries. Improving customer service has also had a positive effect on reducing the number of customer complaints. During 2019, number of complaints fell 43% compared to 2018.

The quality of customer service improved for both existing and new customers. The changes made in the organisational structure of the Company served as a catalyst for improving and accelerating (2 times) the process of connecting new customers. For connection of more complex objects, designers are consulted either in person or by telephone on a daily basis. In addition, the Company held a conference for designers and real estate developers in 2019 to better understand the expectations of business customers and, at the same time, to look for solutions to reduce bureaucratic burden.

In 2019, mindful of the improvement of service quality, steps were also taken to improve the services provided by the Company. Reconstruction of the Kalnėnai wellfield provided the local community with a sufficient and uninterrupted water supply. The largest cleaning work made in the last ten years to remove iron and manganese deposits in water supply networks in Naujamiestis and Žemieji Paneriai helped to improve water quality. To create positive changes for the community, 6 new public drinking fountains were installed in the city, with 3 additional installed in Vingis Park in 2018. In addition, 60 excursions, presentations and meetings were organised to educate various segments of society about the benefits and advantages of tap water and responsible wastewater treatment.

The great efforts of the Company's employees and the many projects implemented to improve the customer experience were reflected in the customer evaluations. The latest customer surveys conducted in 2019 show that the number of customers who positively reacted to the quality of the Company's services has increased. The index measured by public utilities operators that reflected this experience rose for the second year in a row this year. According to the survey, customers were most pleased with the quality of the water supplied, the reliability of the supply, the clarity of the bills and the politeness of the Company's employees.

CUSTOMER SATISFACTION SURVEY

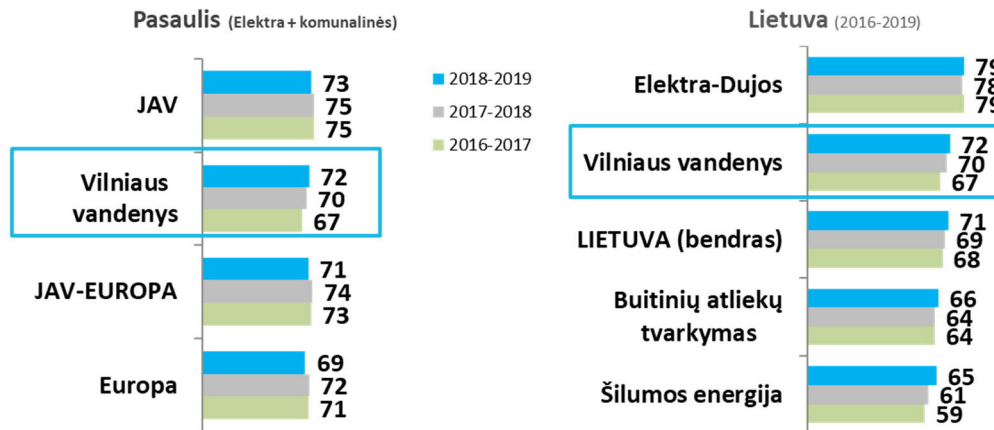
GCSI SURVEY

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

The results of the survey demonstrated a steady increase in the level of customer satisfaction. In 2019, the overall GCSI satisfaction index for private and corporate customers was 72 points out of a possible 100 (+2 points compared to 2018 and +5 points compared to 2017). The Company's rating is 1 point higher than the average rating (71) of utilities provided in Lithuania and 3 points higher than the European average (69). In 2019, business customers rated the Company even at a higher level: the index rose from 74 (2018) to 76 points.

The change indicates a decreasing number of customers encountering problems with services or maintenance, and at the same time a rapidly improving level of service and maintenance.

Pagrindinio pasitenkinimo rodiklio GCSI normų palyginimas

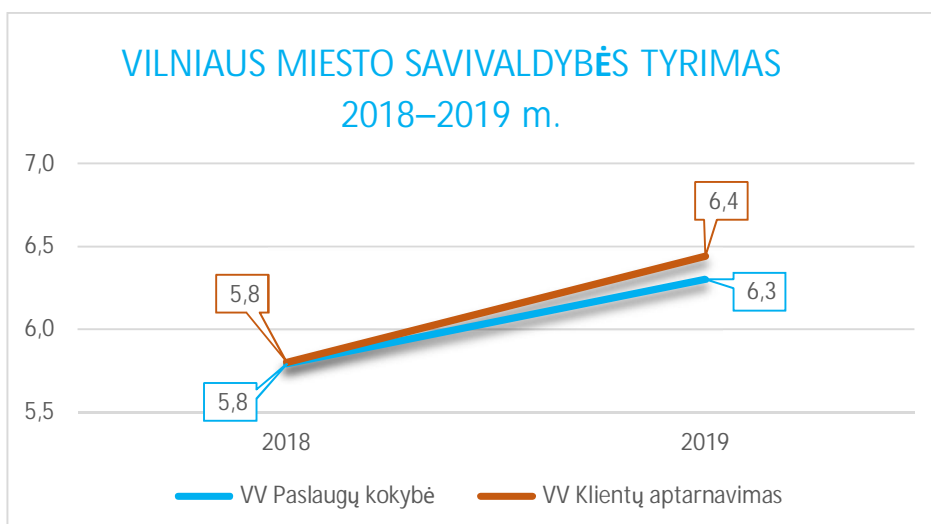


Vilniaus vandenų GCSI - klientų pasitenkinimo indeksas (skaičiuojamas nuo visų klientų)



VILNIUS CITY MUNICIPALITY SURVEY

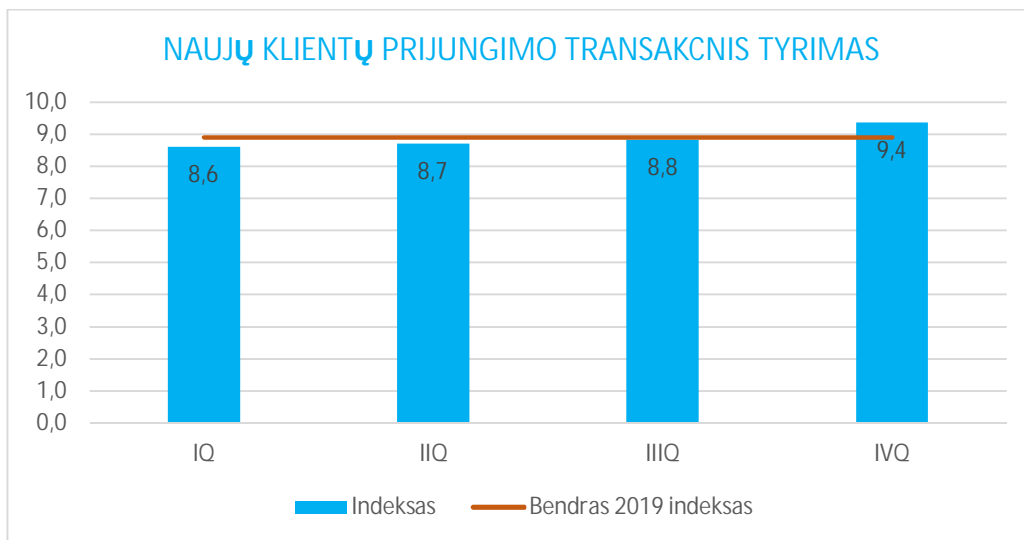
As from September 2017, the Company has also participated in the survey carried out by the Vilnius City Municipality, which measures the rating of customer service and services of municipal companies. By actively encouraging customers to share their ratings and provide feedback (the survey tool is published on the Company's homepage, emails and payment notices to customers). In 2019, the average service quality rating amounted to 6.4 points out of a possible 10 (+0.6 compared to 2018) and the service quality was 6.3 points (+0.5).



TRANSACTIONAL NEW CUSTOMER CONNECTION SURVEY

As from 2018, the Transactional New Customer Connection Survey (TNCC) was also launched to assess the stages of new customer connection. The survey indicates, here and now, all vulnerabilities the customers face for the Company to respond quickly. New customer process evaluation is carried out by telephone canvassing. The overall index reached 8.9 points out of 10 possible in 2019, and the best aspects evaluated by customers were:

- Employees of Vilniaus Vandenyis, who provided connection services, were helpful and demonstrates good manners – 9.7 points.
- The connection work carried out by the employees of Vilniaus Vandenyis at the site was well organised – 9.4 points.
- The maintenance technicians inspected and accepted the work promptly, providing all the necessary information – 9.4 points.
The employees with whom customers were associated throughout the connection process were helpful, showing a willingness to help –9.3 points.
- The terms and conditions regarding the connection were clearly defined – 9.2 points.

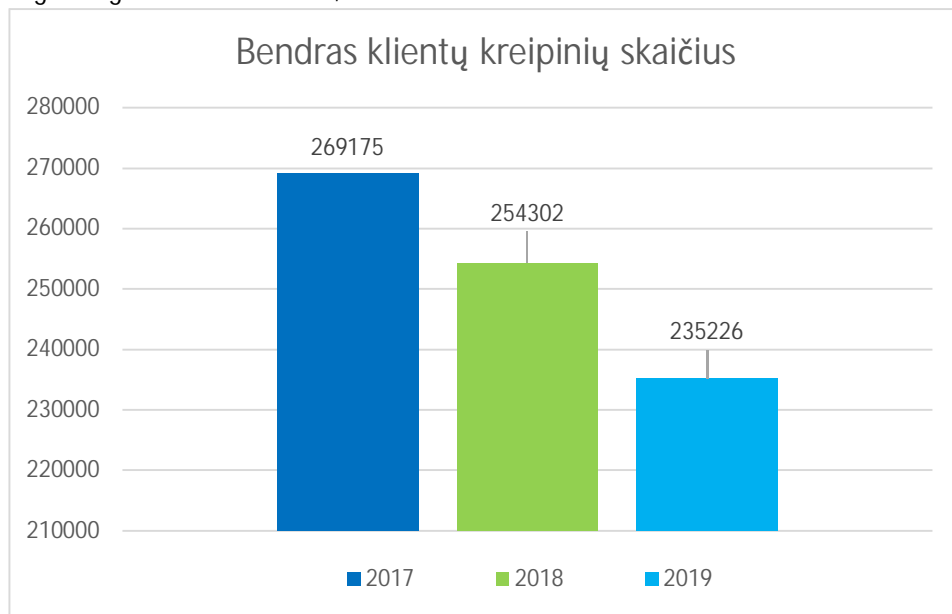


Structural changes have been made to improve the experience and assessment of new customers. A separate New Customer Connection Division has been established in the Company and the new customer connection process has been thoroughly reviewed. The team of the New Customer Connection Department, performing physical connection to the Company's network, was expanded by additional team.

All relevant information for customers about connection to centralised water supply and wastewater networks has been updated and published on the Company's website. This website was also supplemented with information for private customers on the application for connection conditions.

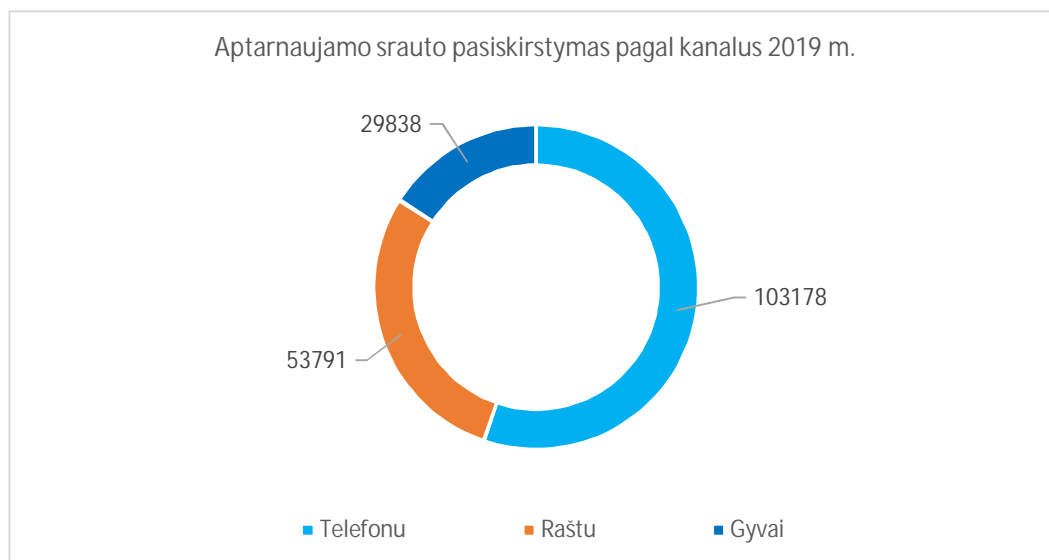
CUSTOMER APPLICATIONS

In 2019, Vilniaus Vandenys accepted 235,300 client inquiries by phone, in writing, and in customer service centres regarding various issues, and that is 8% less than in 2018 and 15% less than in 2017.



The number of inquiries decreasing due to the increasing customer awareness regarding billing system, and simplified and more convenient process of connecting new customers, as well as increasing number of inquiries processed and resolved at the first time of asking.

The analysis of the distribution of customer inquiries by channels over the last three years showed that the number of telephone calls and "live" consultations decreased sharply in 2019.



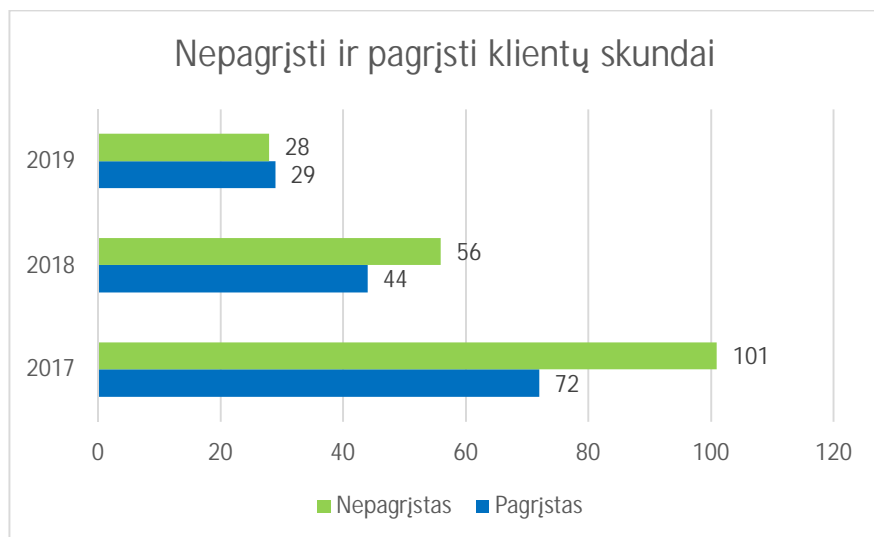
Customer information has been constantly improved to reduce the number of customer inquiries. To this end, the customer database is constantly updated, which allows customers to be more effectively informed about failures, accidents and to be provided with other relevant information. In 2019, 134,404 customer e-mail addresses and 102,379 contact telephone numbers were updated.

CUSTOMER COMPLAINTS

In 2019, the Company received 57 complaints in total. This is the lowest amount of complaints within the last 3 years and that is three-fold lower than in 2017 (173). A special the Company employees' attention to the quality of service contributed to decreased number of complaints.

Usually the customers complained about payment, debt, metering equipment installation and the quality of services provided. Having performed the evaluation of these complaints, every other complaint (55%) had no ground.

The average time taken to resolve complaints was 12 calendar days.

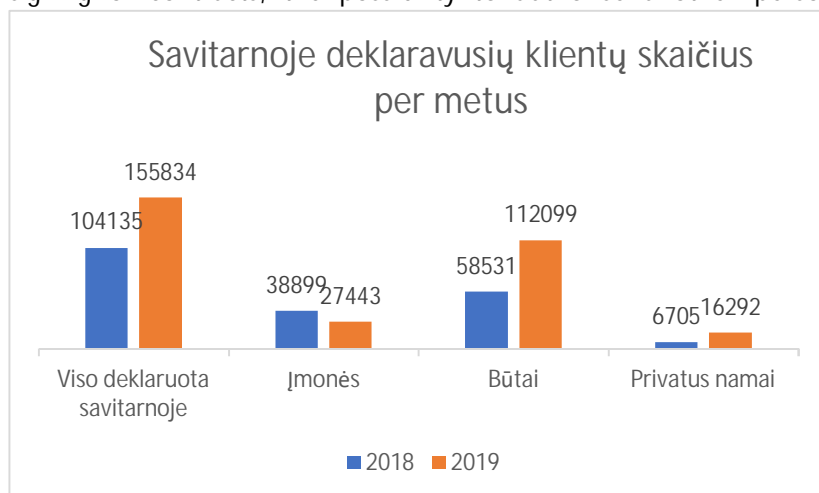


SELF-SERVICE PLATFORM

In response to customer expectations, the Company actively continued development of e-self-service channel in 2019. The needs expressed by customers for new functionalities on the self-service platform were implemented taking into account their priorities.

Customers appreciated the convenience and simplicity of the self-service platform, which is reflected by increased number of customers by 50% submitting meter readings through the self-service platform in 2019. Another 11 thousand customers updated their contact details through the self-service platform. The Company's self-service platform is used by approx. 10 thousand customers living abroad.

Ambitious platform development works are planned to be implemented in 2020. The self-service platform will be used to implement the services required by customers, such as electronic submission of documents, electronic signing of contracts, the possibility to authorise another person and even more convenient functions.



CUSTOMER SERVICE DIVISIONS

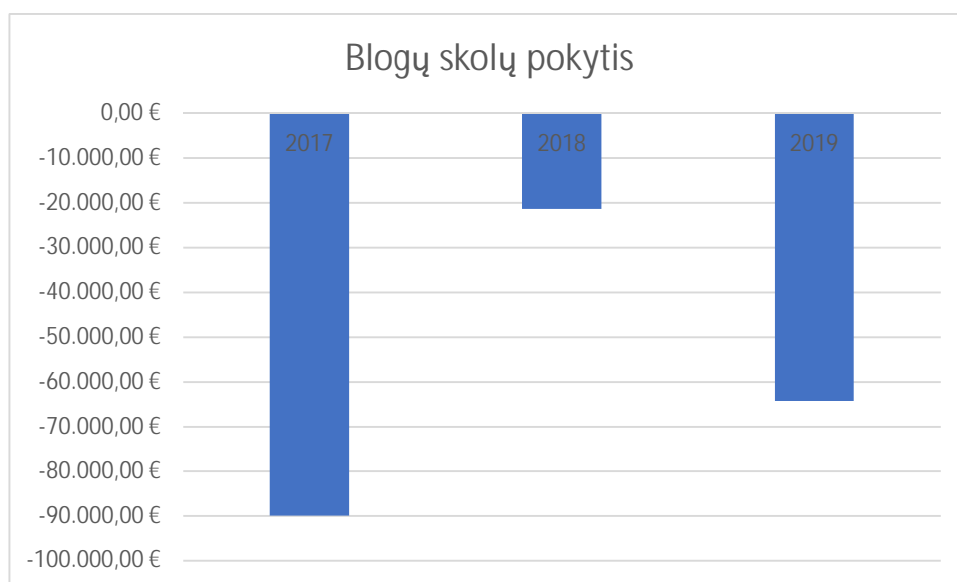
As from 2017, the main customer service branch of Vilniaus Vandenys moved to a modern office building "Duetto" located at Spaudos St. 8-1, Vilnius. This branch provides all necessary conditions to resolve matters of concern and obtain professional consultation. The building can easily be accessed by public transport (a bus stop is located near) and private cars (there is a parking for customers).

In 2019, customers who had chosen to receive services in person at the branch, were served faster and with a better quality. The average service time per customer was 11 min. 04 sec. (in 2018 – 12 min. 06 sec.), and the average time in the queue – 11 min. 17 sec. (in 2018 – 16 min. 54 sec.).

The Company also accepts its customers in the customer service departments located in the districts, which also improve their servicing conditions. In 2017, Šalčininkai customer service division moved to newly renovated premises. Divisions of Nemenčinė and Švenčionys also moved to renovated and much more convenient premises in 2018.

DEBTS

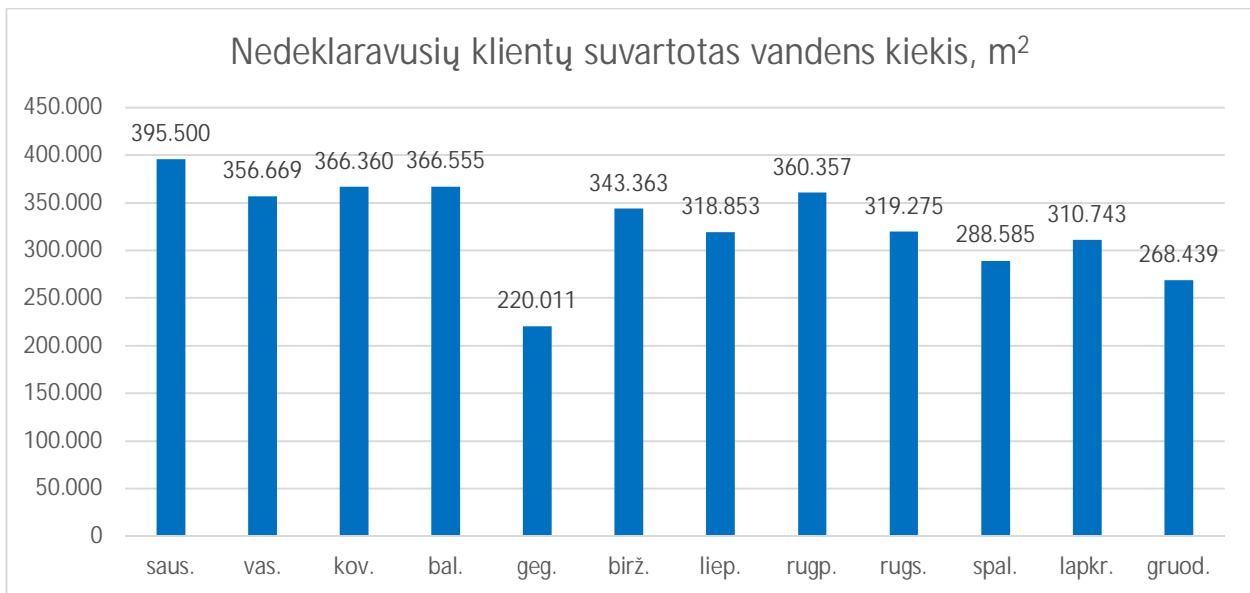
In 2019, the refined and structured debt management process of the Company allowed to continue to successfully manage customer debts. During 2019, bad debts decreased by EUR 64,282.



READINGS CONTROL

In 2019, the Company's employees together with the contractors inspected 102,584 objects and reported 1,015,111 m³ of water consumed, the meter readings of which have not been submitted.

Customers who do not submit their meter readings are billed based on average consumption. To calculate the average of the last 12 months readings submitted is used. The average number of customers who do not submit readings in 2019 was 20% of all the Company's customers. They had 2,614,625 m³ of water recalculated. The average number of customers who did not submit readings in 2018 was 22% of all the Company's customers and they had 2,602,661 m³ of water recalculated.



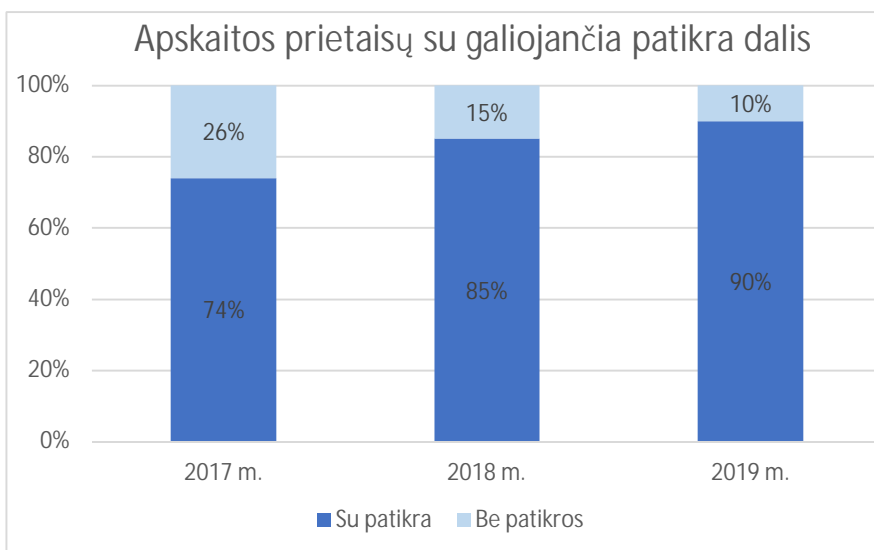
WASTEWATER CONTAMINATION CONTROL

During 2019, 1,133 samples were taken to determine the pollutants discharged into the wastewater system, of which 199 samples were received from wastewater carriers. The inspection plan included 425 stationary facilities subject to increased specific emission loads. Out of all the samples taken, 540 cases of increased individual contamination were identified, of which 453 in stationary facilities and 87 in wastewater carriers. In 2019, the Company carried out inspections in 327 stationary facilities, falling outside the scope of the Company's tax on increased specific emission loads, of which 121 were brought into scope of increased specific emission loads.

Performing the wastewater contamination control, EUR 1.96 million of income were earned in 2019 from tax on the excess specific emission loads.

WATER METERS

The Company placed a particular attention not only on the collection of accurate water consumption data, but also on metrological inspection of drinking water meters, replacement and installation of meters.





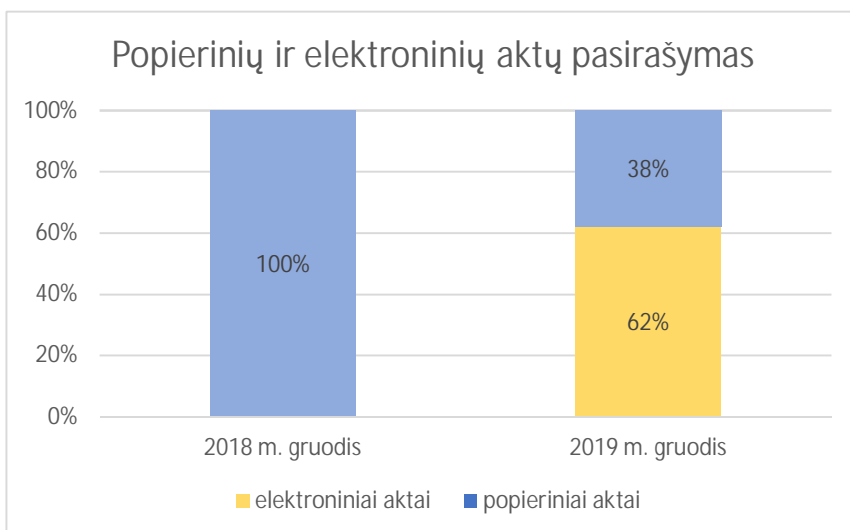
In 2019, the number of meters without metrological inspection was reduced from 15% to 10%.

As at 31 December 2019, there were 91% of water meters owned by the water supplier in the territory serviced by the Company.

INNOVATIONS

In 2019, Vilniaus Vandenyms maintained its particular focus on smart digital solutions. The Company entered into an agreement with the supplier for the installation of remote reading equipment from inlet water metering devices installed in wells and basements of multi-family homes. This will help reduce water losses, provide customers with accurate invoices for services provided, and identify metering device failures and network emergencies.

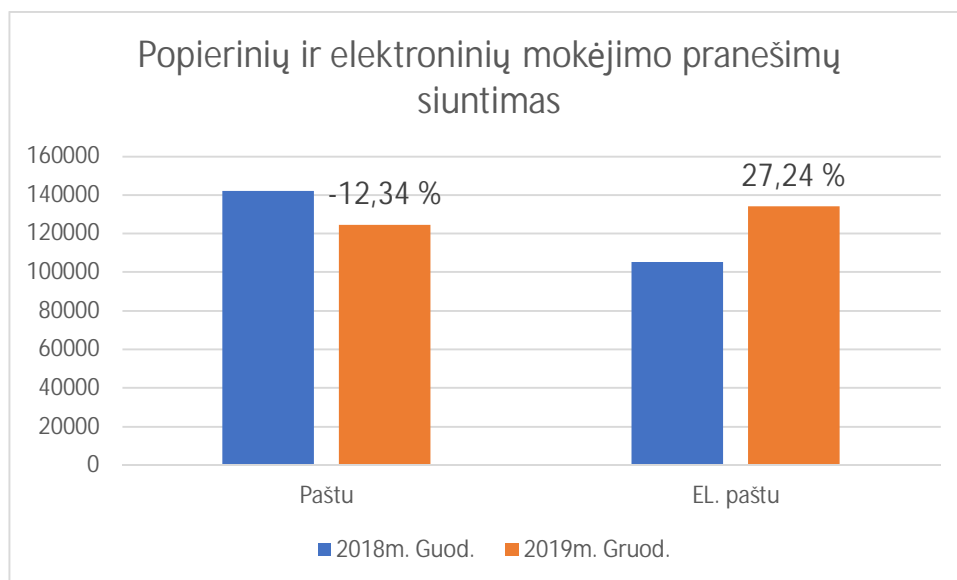
In 2019, obsolete and technically no longer supported task management system Metertask was replaced with a new system TASKER, which is used by metalworkers and meter reading operators in the daily activities to register and perform tasks at customer site. An additional metering device management module specially adapted for Vilniaus Vandenyms has been created in the TASKER system, where all the necessary information on customer metering devices is available, as well as replacement, sealing, inspections of metering devices, etc. All information on the work performed is transferred to the Company's internal database. The system TASKER is a step towards digitisation: the system generates a work completion report when an employee completes a task, which can be immediately signed by the customer on iPad or tablet, and the signed document is automatically sent to the customer by e-mail. In this way the Company moves from paper-based to digital document management.



BILLS

During 2019, 28 thousand of the Company's private customers opted to receive payment documents by email. This get access for the Company to savings of costs arising from delivering paper letters to customers by mail.

In 2019, number of payment notices sent in paper form decreased by 249,144 compared to 2018. Cost savings amounted to approx. EUR 35 thousand, thus preserving more than one tree.



SERVICE PRICE

As from 1 February 2019, customer prices lower on average by 13% on many water supply and wastewater treatment services came into effect. Following the approval by the National Energy Regulatory Council (NERC) and the Municipal Councils of the Vilnius City Municipality and Municipalities of Vilnius, Šalčininkai and Švenčionys Districts, lower service prices for customers in Vilnius city and districts of Vilnius, Šalčininkai and Švenčionys came into force.

The price of services for private customers living in multi-family homes decreased by approx. 11%, for those living in single-family homes – by approx. 13%. The prices for the Company's business customers has also decreased on average by 14%.

CONNECTING NEW CUSTOMERS TO THE NETWORKS

A New Customer Connection Department was established in 2019 to optimise the Company's activity and facilitate connection to centralised water supply and wastewater networks. Having implemented changes, a higher service quality and shorter time limits for the completion of the works ensured, i.e. a new customer physical connection time was reduced more than twice: from 19 calendar days in 2018 to 8 calendar days in 2019.

All the information relevant to the customers is uploaded to the website. The customers can gradually get acquainted with the process of connection to the centralised water supply and wastewater networks. In order to facilitate the connection process for new customers, in 2019 the transfer of the request for obtaining design requirements for connection to the electronic environment was further developed. The electronic application was posted on the Company's website in January 2020. This functionality makes it much easier for customers to provide the data they need and saves them time.

Communication with customers who can join the networks developed with the European Union assistance has also been updated. It clearly identifies the benefits of joining and the procedures to be followed to this end. The prepared information is shared through various channels, from leaflets and billboards on the streets to educational public articles. The representatives of Vilniaus Vandenyys also held meetings with communities to consult on new development projects and provide answers to questions raised by residents. In 2019, 17 such meetings with residents were held.

In cooperation with Vilnius City Municipality, projects are being implemented that contribute to the compliance with the Wastewater Management Regulation and provide residents with the opportunity to more easily connect to centralised wastewater networks.

The co-financing project to be continued in 2020 will give customers the possibility to obtain reimbursement of the part of the amount paid for wastewater outlet installation. In order to reimburse part of the amount, the customers need to submit applications to the Vilnius City Municipality, which together with the Commission established by Vilniaus Vandenyys assess them against the criteria of the selection procedure and informs the clients about the decision on funding. 34 customer applications regarding funding were received in 2019.

Another joint project is "Connection of single-family homes to the centralised wastewater collection infrastructure in Vilnius". By implementing this project, 86 objects were connected to the centralised wastewater network, selected against special project criteria. Residents who fall in group of socially vulnerable people, such as disabled persons, single pensioners, multiple children families, have access to connection services provided free of charge.

In 2019, the Company signed contracts for connection to centralised networks with 2,783 customers, of which 1,822 customers have already connected to centralised water supply and sewerage networks, and the remaining part of customers are bound by the contract to do so in the near future.

BLOCK NETWORK DEVELOPMENT FUNDED BY THE COMPANY

In order to check the development needs of water supply and wastewater treatment, the Company allocated own funds to develop block networks/mains (until now the network development was carried out using the EU or household resources). For that purpose, the procedure has been developed, based on which the populated territories are sorted, i.e. rated, so that as many customers would be connected to the centralised networks at the lowest cost.

In 2019, the second rating has been finished and 3 applications of Vilnius district communities were selected. Based on these applications, funding will be allocated to the connection of housing estates to the water supply and wastewater networks in 2020. Following the rating, the Company received external funding for additional projects. This funding will be used to implement 7 additional objects, some of which are in Vilnius city and district municipalities. The Company, funded by additional appropriations, will contribute to 2 additional objects, thus, a total of 5 objects will be implemented with the Company's own resources. In total, 26 applications were received in 2020, 23 of them complied with the requirements. Other applicants can update their applications, remove deficiencies and file in new applications in a new rating stage in 2020.

Centralised block network development will be continued to be funded by the Company.

BASKET OF SERVICES

The development of the basket of services provided by Vilniaus Vandenyis is one of the strategic directions of the Company, therefore, demanding more attention. In 2019, there was a particular emphasis on water quality. Descriptions and price lists of laboratory research services have been updated, as well as individual research packages for water quality in wells and boreholes have been approved. For the convenience of customers, a new water sampling service has been introduced, which ensures that the samples of water are collected for testing professionally and that external factors do not affect the test results. The Company actively encourages residents to test the quality of water in their boreholes or wells.

Residents are also encouraged to protect nature and use tap water, thus contributing to the environment. For this purpose, 6 drinking fountains were installed in the public spaces in 2019 and are available to all citizens, city guests and even their pets. Schools are also among those who will be supplied with drinking fountains: 5 schools have been already provided with this facility. In this way, students are introduced to the water management economy, water benefits and environmental aspects. Drinking fountains are planned to be installed in another 50 schools during 2020.

In the process of connecting new customers, many of them express a wish to be freed from the need to perform connection works themselves or to hire contractors. In order to optimise and simplify the process of connecting new customers, new services were approved, such as design service, installation of water supply inlet and wastewater outlet, preparation of a control geodesic picture. For some customers, the Company already offers the above services, which combine the entire process of a new customer connection into a one-stop-shop process. Customers have the opportunity to choose whether to order these services from Vilniaus Vandenyis or from other external suppliers. These services are planned to be provided to a larger segment of customers already in the summer of 2020.

THE DYNAMICS OF THE COMPANY'S CUSTOMERS

Customer type	31 December 2017	31 December 2018	31 December 2019	Change in 2018–2019, %
Private	243,074	247,130	252,844	2%
In multi-dwelling-units (settlement based on meter readings)	223,442	226,583	231,244	2%
In multi-dwelling-units (settlement based on the feed-in point)	687	524	391	-25%
In single-family houses	18,945	20,023	21,209	6%
Business	7,495	7,746	8,047	4%
TOTAL customers	250,569	254,876	260,891	2%

Breakdown of private customers by service areas

Territory	31 December 2017	31 December 2018	31 December 2019	Change in 2018–2019, %
Vilnius city	233,864	237,895	243,634	2%
Vilnius district	2,346	2,370	2,249	-5%
Šalčininkai district	2,975	2,968	3,031	2%
Švenčionys district	3,889	3,897	3,930	1%

CORPORATE GOVERNANCE REPORT

In 2019, the management structure of the Company changed. In accordance with the Company's Articles of Association, the management bodies of the Company until 27 September 2019 were 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. As from 27 September 2019, a resolution of the shareholders was passed to abolish the Company's Supervisory Board with all the supervisory functions to be transferred to the Board of the Company in line with Paragraph 11 of Article 34 of the Law on Companies of the Republic of Lithuania.

Vilnius City Municipality, Vilnius District Municipality, Švenčionys District Municipality and Šalčininkai District Municipality are the 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 (ownership interest – 94.3101% as at 31 December 2019), Vilnius district (2.2947%), Švenčionys district (2.0335%) and Šalčininkai district (1.3617%).

The general meeting of shareholders has the exclusive right to elect members of the subsidiary body and to revoke its members.

SUPERVISORY BOARD OF THE COMPANY until 27 September 2019

The Company's Supervisory Board consisted of 7 members elected by the General Meeting of Shareholders for a term of office of four years. The Supervisory Board elected its Chairman from 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.

2 meetings of members of the Supervisory Board of the Company were held in 2019.

As from 27 September 2019, a resolution of the shareholders was passed to abolish the Company's Supervisory Board with all the supervisory functions to be transferred to the Board of the Company in line with Paragraph 11 of Article 34 of the Law on Companies of the Republic of Lithuania.

BOARD OF THE COMPANY

The Board consists of 7 members elected by the General Meeting of Shareholders for a term of office of four years (until 27 September 2019, elected by the Supervisory Board). The Board elects its Chairman from among its members.

In 2019, the following changes in the composition of the Board took place:

- On 29 April 2019, the four-year term of the elected Board expired. The Board consisted of the following members: Julius Morkūnas, Andrius Griškevičius, Edgaras Dereškevičius, Dangirutis Janušas, Darius Leišys, Miroslav Romanovski and Edvardas Varoneckas.
- On 18 June 2019, 5 board members were elected: Adomas Bužinskas, Edvardas Varoneckas, Miroslav Romanovski, Kęstutis Karosas and Marius Švaikauskas.
- On 30 September 2019, Marius Švaikauskas resigned from the position of the Board member.
- On 6 December 2019, Kęstutis Karosas was removed from the Board with 4 independent members of the Board being elected: Rytis Ambrazevičius, Laura Joffé, Jurgita Petrauskienė, Robertas Šerėnas.
- On 6 December 2019, the General Meeting of Shareholders approved a new Board consisting of the following members: Adomas Bužinskas (chairman of the Board), Edvardas Varoneckas, Miroslav Romanovski, Jurgita Petrauskienė, Laura Joffé, Rytis Ambrazevičius and Robertas Šerėnas.

As at 31 December 2019, the Board of the Company consisted of the following members:

Adomas Bužinskas (Chairman of the Board), Deputy Director of Vilnius City Municipality Administration;
Edvardas Varoneckas, Leader of Law group of Vilnius City Municipality Administration;
Miroslav Romanovski, Head of Local Maintenance Department of Vilnius City Municipality Administration;
Jurgita Petrauskienė, practitioner of the Model of Decision Quality Management, Lean practitioner, environmental expert, member of the Lithuania Green Building Council
Laura Joffé, COO at Lithuanian Airports
Rytis Ambrazevičius, president of Baltic Institute of Corporate Governance
Robertas Šerėnas, director and partner at Leaners

In 2019, 12 Board meetings were held, the attendance of which was almost 100 percent:

Member of the Board	Beginning of term of office	End of term of office	Attendance at Board meetings in 2019
Miroslav Romanovski	25/06/2015	29/04/2019	6/6
Edgaras Dereškevičius	17/01/2018	29/04/2019	5/6
Andrius Griškevičius	17/01/2018	29/04/2019	6/6
Dangirutis Janušas	17/01/2018	29/04/2019	6/6
Julius Morkūnas	08/03/2018	29/04/2019	6/6
Darius Leišys	23/05/2018	29/04/2019	6/6
Edvardas Varoneckas	23/07/2018	29/04/2019	5/6
Kęstutis Karosas	18/06/2019	06/12/2019	4/4
Marius Švaikauskas	18/06/2019	30/09/2019	4/4
Edvardas Varoneckas	18/06/2019		6/6
Adomas Bužinskas	18/06/2019		6/6
Miroslav Romanovski	18/06/2019		6/6
Rytis Ambrazevičius	06/12/2019		2/2
Jurgita Petrauskienė	06/12/2019		2/2
Robertas Šerėnas	06/12/2019		2/2
Laura Joffé	06/12/2019		2/2

The monthly remuneration of members of the Board amounted to EUR 940 (including tax). As from 6 September 2019, a new remuneration for a member of the Board has been established at EUR 1,200 per month (before taxes).

Remuneration paid to the members of the Board during 2019 for the performance of the duties of the members of the Board was as follows:

Member of the Board*	Date of signature of the performance agreement	End of term of office	Remuneration before taxes, EUR
Edgaras Dereškevičius	05/02/2018	29/04/2019	3,715.24
Andrius Griškevičius	05/02/2018	29/04/2019	3,715.24
Dangirutis Janušas	05/02/2018	29/04/2019	3,715.24
Julius Morkūnas*	08/03/2018	29/04/2019	3,715.24
Darius Leišys*	23/05/2018	29/04/2019	3,715.24
Edvardas Varoneckas*	23/07/2018	29/04/2019	3,715.24
Kęstutis Karosas*	06/09/2019	06/12/2019	3,687.22
Edvardas Varoneckas*	06/09/2019		4,571.43
Adomas Bužinskas*	06/09/2019		4,571.43
Miroslav Romanovski*	06/09/2019		4,571.43
Rytis Ambrazevičius	06/12/2019		947.37
Jurgita Petrauskienė	06/12/2019		947.37
Robertas Šerėnas	06/12/2019		947.37
Laura Joffé	06/12/2019		947.37

* Public sector employees appointed to the Boards are not remunerated. The remuneration (before taxes) is paid to the relevant municipalities.

The functions of General Meeting of the Shareholders, the Board and the Supervising Board complies with the requirements of Law on Joint-Stock Companies of the Republic of Lithuania.

AUDIT COMMITTEE

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

At the meeting of the Supervisory Board of Vilniaus Vandenyys held on 8 March 2018, the members of the Audit Committee, who served in this position until 13 December 2019, were elected for a four-year term:

Laura Joffé, (independent member), COO at Lithuanian Airports

Valdas Puzeras (independent member), head of Retail IQ UAB, expert in performance improvement

Alfredas Ziberkas, Chief Specialist of Corporate Governance at Property Department of Vilnius City Municipality Administration, was appointed a dependent member

Following the abolition of the Supervisory Board of Vilniaus Vandenyys on 27 September 2019, the Audit Committee became subordinate to the Board of the Company.

Based on the decision of the Company's Board of 13 December 2019, the following members of the Audit Committee were elected:

Rytis Ambrazevičius (independent member of the Board), president of Baltic Institute of Corporate Governance

Laura Joffé (independent member of the Board), COO at Lithuanian Airports

Jurgita Petrauskienė (independent member of the Board), Practitioner of the Model of Decision Quality Management, the Lean Practitioner, environmental expert, member of the Lithuania Green Building Council

A member of Audit Committee was paid a monthly salary of EUR 940 (including tax) to perform their duties. As from 13 December 2019, a new remuneration for a member of the Audit Committee has been established at EUR 800 per month (before taxes).

Remuneration paid to the members of the Audit Committee during 2019 for the performance of the duties of the members of the Audit Committee was as follows:

Member of the Audit committee*	Date of signature of the performance agreement	End of term of office	Remuneration before taxes, EUR
Valdas Puzeras	08/03/2018	13/12/2019	10834.74
Albertas Ziberkas*	08/03/2018	13/12/2019	10834.74
Laura Joffé	08/03/2018	13/12/2019	10834.74
Laura Joffé	13/12/2019		421.05
Rytis Ambrazevičius	13/12/2019		421.05
Jurgita Petrauskienė	13/12/2019		421.05

* Public sector employees appointed to the Audit Committee are not remunerated. The remuneration (before taxes) is paid to the relevant municipalities.

AUDIT OF THE FINANCIAL STATEMENTS

The General Meeting of Shareholders held on 29 April 2019 approved Ernst & Young Baltic UAB as the audit company and the terms of remuneration (company code 110878442, Subačiaus st.7). A three-year contract worth EUR 96,000 (excluding VAT) has been signed.

The contract was concluded on the basis of a simplified contract notice (the contract notice published on 14 January 2019, reference No 417348). The contract entered into force upon its signing but not earlier than 31 May 2019.

The annual audit fee will amount to EUR 25,000 (excluding VAT) with additional EUR 7,000 (excluding VAT) for the inspection of the accounting system of regulated activities. The total fee for three-year audit will amount to EUR 75,000 (excluding VAT) with additional EUR 21,000 (excluding VAT) for three-year inspection of the accounting system of regulated activities. Additional costs (travel, accommodation and other related costs) are included in the total amount of EUR 96,000. Payment for 2019 and the following year shall be made by signing the deed of acceptance of services and submitting the VAT invoice – within 30 calendar days from the date of its issuance, provided that all the services specified in the technical specification are rendered and all the obligations under the contract are fulfilled. The contract is valid until 31 May 2022.

Significant change in the requirements for the performance of inspection services took place in 2019, therefore, a new public procurement was carried out in March 2020 for the inspection services of the accounting system of regulated activities for 2019–2021. The contract was awarded to the audit company, other than Ernst & Young Baltic UAB, therefore the contract signed with Ernst & Young Baltic UAB for provision of audit services will be reviewed.

HEAD OF THE COMPANY

The Head of the Company is the CEO, elected, recalled and dismissed by the Board of the Company

Based on the decision of the Company's Board, Marius Švaikauskas was elected as the Company's CEO on 20 July 2018.

ORGANISATIONAL STRUCTURE OF THE COMPANY

The Company operates in all geographical territories indicated in the licence issued by the National Energy Regulatory Council, 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.

As at 31 December 2019, the Company's management consisted of the following members:

Marius Švaikauskas, CEO

Tadas Kazlauskas, Technical Director

Saulius Savickas, Head of Production and Customer Service

Benitas Jonikas, Director of Business Planning and Finance

Egidijus Anulis, Director of Operations and Organisation Authority

Mindaugas Linkaitis, Head of Communication Department

Vidmantas Bruzgys, Manager of Prevention Unit

It must be noted that Vilniaus Vandenys is the first of the entities controlled by municipalities that expressed the will to cooperate with Governance Communication Centre (GCC) in order to improve corporate management and to be assessed based on the good management index method of the state-governed companies compiled by GCC.

OPERATING POLICY

In carrying out its activities and implementing the objectives raised by the shareholders, the Company has established the basic operating principles and rules applicable in certain areas, which are defined in the Company's policies. All together they contribute to consistent and transparent operation of the Company, targeted and operational workforce and successful implementation of projects providing benefits to its customers and wider society.

In 2019, the Company made changes to its vision, values and new strategic directions, as a result some of the Company's closely related policies thereto were reviewed and updated:

Code of Ethics

Quality and
Environmental Policy

The following policies have also been updated in line with recent public and private sector practices in the field of personal data processing and security:

Privacy policy

Personal data
processing and security
policy

Accounting Policy

Accounting Policy in the field of financial accounting:

2 new policies were approved in 2019:

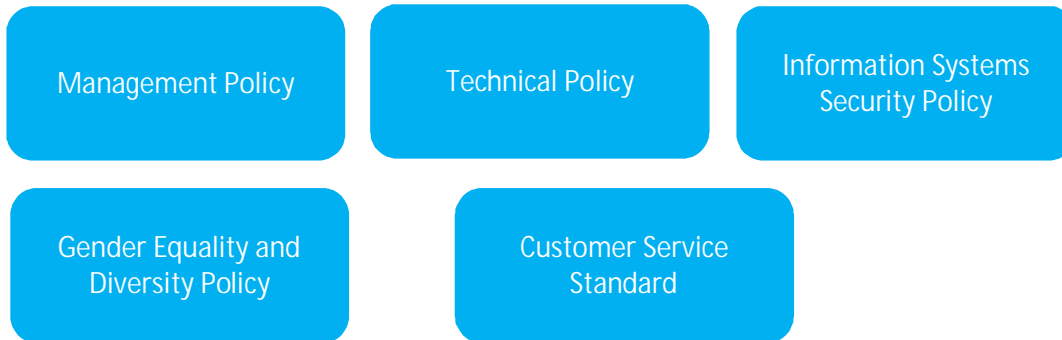
Responsible Business
Policy

Public Procurement
Policy

The Responsible Business Policy establishes the basic principles and requirements, and guidelines for ensuring compliance with the highest standards of responsible and transparent conduct.

The Public Procurement Policy helps to ensure preventive control of public procurement organised and carried out by the Company, as well as supervision provisions, implementation of the fairness and transparency principles.

Other policies applicable in the Company:



PREVENTION OF CORRUPTION IN THE COMPANY

In carrying out its activities and providing public services to the population, the Company strives for high standards of honesty, morality and transparency, and, therefore, maintains zero tolerance for any manifestations of corruption.

Performing its activity, the Company complies with the Responsible Business Policy, which was prepared and approved in 2019. This document sets out the basic principles and requirements to be followed in carrying out the activity. This creates the preconditions and conditions for the implementation of the highest standards of responsible and transparent conduct.

In 2019, the Company also made updates to its Code of Ethics. The Code outlines the norms and principles of professional ethics of employees, promotes respect for the Company's values, enables them to carry out their duties in a transparent manner and thus forms public confidence in the Company.

During 2019, a number of actions were taken that set out the Company's approach and efforts to ensure transparent and ethical conduct:

- The Description of the Procedure for Providing a Declaration of Private Interests has been approved, involving the Company's employees and their direct managers in the management of conflicts of interest.
- An assessment of the likelihood of corruption has been carried out and measures to reduce its impact have been envisaged.
- A survey of public procurement participants was conducted to assess the quality and transparency of procurement. After summarizing the results of the survey, conclusions were reached and decisions were adopted, which create preconditions for improving the Company's public procurement. There has been a targeted increase in the number of procurements through the CPB.
- An anti-corruption handbook to be applied the field of public procurement has been issued.
- An anonymous survey of the Company's employees was conducted to determine tolerance for corruption. Having analysed the results of the survey and assessed the current situation, the Company plans to implement the anti-corruption management system standard LST ISO 37001: 2017.

CHANGES IN REGULATORY ENVIRONMENT

CHANGE OF THE NAME OF NATIONAL COMMISSION FOR ENERGY CONTROL AND PRICES TO THE NATIONAL ENERGY REGULATORY COUNCIL

By the resolution No 221 of the Government of the Republic of Lithuania of 6 March 2019 "On the Consent to Reorganise the State Energy Inspectorate under the Ministry of Energy" approval was granted to reorganise the State Energy Inspectorate under the Ministry of Energy by way of merger with the National Commission for Energy Control and Prices, the name of which is the National Energy Regulatory Council (NERC) as of 1 July 2019.

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 NERC, 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 considers 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 NERC. 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 NERC. The prices not approved by the Municipality Councils are set unilaterally by the NERC.

The NERC 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.

NERC DECISIONS

On 28 November 2019, Vilnius Vandeny's UAB agreed recalculated base prices of drinking water supply and wastewater treatment services with the NERC under the decision No O3E-787. The agreed prices were approved by the Municipal Councils of Švenčionys and Vilnius District on 18 December 2019, however, these prices were not approved by the Municipal Councils of Vilnius City Municipal and Švenčionys District within the term provided for in Paragraph 13 of Article 34 of the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania, under which prices need to be approved no later than within 30 calendar days before the date of their entry into force. On 30 December 2019, the NERC unilaterally established recalculated base prices of drinking water supply and wastewater treatment services for Vilnius Vandeny's under the decision No O3E-917. The prices set came into force as from 1 February 2020.

NERC PUBLIC CONSULTATIONS

The NERC approved a new version of the Rules for the Provision of Information by Energy, Drinking Water Supply And Waste Water Treatment, Surface Water Treatment Companies under the ruling No O3E-36 of 8 February 2019 (the document was open for public consultation from 19 September 2017 until 18 October 2017, and from 26 November 2018 until 10 December 2018, and from 22 October 2019 until 6 November 2019). These rules were also amended by the NERC on 19 July 2019 under the resolution No O3E-250, on 2 September 2019 under the resolution No O3E-385 and on 20 December 2019 under the resolution No O3E-891. Principal changes: the requirements stated in the legislation were aligned with Drinking water supply and wastewater treatment service companies accounting separation and the provisions of related requirement description.

On 1 April 2019, the Methodology for Calculating Fees for the Acquisition, Installation and Operation of Drinking Water Metering Devices was approved by the NERC under the resolution No O3E-91 (the document was open for public consultation from 8 February 2019 until 10 March 2019). Principal changes: amendments to the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania No XIII-1892 LR of 20 December 2018 have been taken into account, the fee for the acquisition, installation and operation of drinking water metering devices will be approved by the municipalities under the control and supervision of the NERC, including identification of the necessary costs for the maintenance of metering devices and possibilities for differentiation of the fee paid for acquisition, installation and operation of metering devices.

The methodology came into force on 2 May 2019, and its provisions will be applied to fee drafted for the purchase, installation and operation of drinking water metering devices based on the data of 2019 and subsequent reporting periods.

The Description of the Procedure for Evaluation and Adjustment of Investments of Heat Suppliers, Independent Heat Producers, Drinking Water Suppliers and Wastewater Managers, Surface Wastewater Managers with the State Energy Regulatory Council was approved by the NERC under the resolution No O3E-93 of 1 April 2019 (the document was open for public consultation from 8 February 2019 until 10 March 2019). Principal changes: amendments to the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania No XIII-1892 LR of 20 December 2018 have been taken into account, the procedure for the evaluation and adjustment with the NERC of investments proposed, under way or completed by the drinking water suppliers and wastewater managers, surface wastewater managers, where these investments are related to regulated activities, has been settled, investment groups and volumes, as well as list of coordinated investments are regulated, the investment coordination procedure has been laid down by providing the financial and economic evaluation and the evaluation criteria in more extended way. The description of the procedure came into force on 2 May 2019 (except for the cases when the draft of base prices of drinking water supply and wastewater treatment, surface wastewater treatment services was submitted to the NERC before 2 May 2019, as well as when investments were agreed, under way or completed by the drinking water suppliers and wastewater managers, surface wastewater managers before 2 May 2019).

On 10 April 2019, the amendments to the Methodology for Setting the Prices of Drinking Water Supply and Wastewater Treatment and Surface Wastewater Treatment Services were approved by the NERC under the resolution No O3E-101 (the document was open for public consultation from 8 February 2019 until 10 March 2019). Principal changes: amendments to the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania No XIII-1892 LR of 20 December 2018 have been taken into account, amendments provide that NERC will coordinate the investments of the drinking water suppliers and wastewater managers, surface wastewater managers, the provisions related to the coordination of the price of metering device maintenance and customer servicing will be abolished (this will be governed by another methodology).

On 10 June 2019, the Description of the Procedure for Consulting Economic Entities was approved by the NERC under the resolution No O3E-179 (the document was open for public consultation from 31 May 2019 until 4 June 2019) setting out the procedure and time limits for consultations by telephone, in writing and on the spot, governing the procedure for assessing the quality of consultations, containing the NERC's obligations for misleading consultation, and providing the system of feedback between the NERC and economic operators.

On 10 June 2019, the Sanctioning Rules were approved by the NERC under the resolution No O3E-179 (the document was open for public consultation from 27 May 2019 until 31 May 2019). The document establishes that the first year of operation of an entity commence on the date of issue of the license, permit, certificate and/or after the NERC sets a state-regulated prices; provides that the entity shall not be penalised for an infringement committed during the first year of operation, unless the infringement has caused serious consequences and/or significant damage to the interests of others, the entity has continued the infringement despite NERC's order to bring the infringement to an end, repeatedly committed infringement, for which the NERC has warned the entity in the last 12 months.

The amendments to the Description of the Procedure for Evaluation and Adjustment of Investments of Heat Suppliers, Independent Heat Producers, Drinking Water Suppliers and Wastewater Managers, Surface Wastewater Managers with the State Energy Regulatory Council were approved by the NERC under the resolutions No O3E-188 of 11 June 2019 and No O3E-303 of 2 August 2020 (the document was open for public consultation from 10 May 2019 until 24 May 2019 and from 12 July 2019 until 18 July 2019); revisions were made to the calculation of the discount rate applied for the valuation of financial indicators and more detailed guidance has been provided on the time frame for coordination of investments with the NERC.

On 27 June 2019, the Out-of-Court Settlement Procedures were approved by the NERC under the resolution No O3E-226 (the document was open for public consultation from 20 May 2019 until 29 May 2019), which provide for the right to single out one or more of the claims in the request and to deal with them accordingly; clarify the subject matter of the dispute rules; clearly define the right of the consumer/entity to first contact the complainant company, when the consumer/entity considers that his/her rights have been infringed; it is no longer necessary to inform the parties to the dispute about the settlement of the dispute by written procedure.

On 27 June 2019, the Rules for Handling Consumer Complaints by the National Energy Regulatory Council were approved by the NERC under the resolution No O3E-225 (the document was open for public consultation from 20 May 2019 until 29 May 2019). The changes in the legislation are not associated with drinking water supply and wastewater treatment sector.

On 2 August 2019, amendments to the Description of the Procedure for Publicly Available Information were approved by the NERC under the resolution NO O3E-296 (public consultation took place from 22 May 2019 to 5 June 2019). Principal changes: gone are the clauses that are governed under different regulations; a clear frequency of the publicly available information has been established; the NERC will publish lists of mandatory information to be made public by sector on its website.

On 2 September 2019, the Terms and Reference on Inspection of Reports on Regulated Activities were approved by the NERC under the resolution No O3E-895 (the document was open for public consultation from 10 May 2019 until 24 May 2019). The regulations relates to the amendments of the to the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania No XIII-1629 LR of 15 November 2018: reports on regulated activities for 2019 will be audited in line with new requirements. Amendments to the Terms and Reference on Inspection of Reports on Regulated Activities were approved by the NERC under the resolution No O3E-895 of 20 December 2020, however, they are not related to the drinking water supply and wastewater sector.

On 20 December 2019, the amendments to the Description of the Accounting Separation and Related Requirements of Drinking Water Supply And Waste Water Treatment, Surface Water Treatment Companies were approved by the NERC under the resolution No O3E-893 (the document was open for public consultation from 22 October 2019 until 6 November 2019). Principal changes: the entities will be prohibited to attribute the value of non-current assets (or part thereof) acquired after the implementation of investment projects, the value of the assets, which have not been coordinated with NERC in accordance with the procedure established by legal acts, and the part of depreciation (amortisation) costs of the value of assets, which have not been coordinated with the NERC; the transport of wastewater using waste removal vehicles has to be classified as an unregulated activity along with abolishing the mandatory obligations for entities regarding the allocation of costs and additional regulation, i.e. the obligation to settle depreciation periods for furniture and office equipment, as well as the obligation for entities to submit reports on the implementation of the activity and development plan for the reporting period.

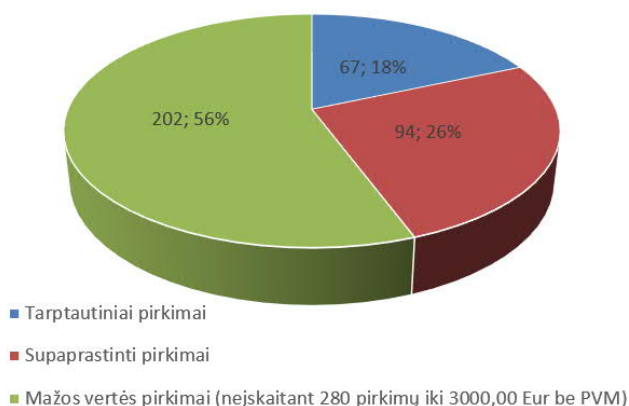
On 17 January 2020, a new version of the Methodology for Setting the Prices of Drinking Water Supply and Wastewater Treatment and Surface Wastewater Treatment Services was approved by the NERC under the resolution No O3E-28 (the document was open for public consultation from 22 October 2019 until 21 November 2019). Principal changes: cost and asset groups have been made homogeneous in line with the Description of the Accounting Separation and Related Requirements of Drinking Water Supply And Waste Water Treatment, Surface Water Treatment Companies, additional regulation has been set to determine the change in the depreciation (amortization) costs and return on investments after the entity puts the new asset, which was coordinated with the NERC, into operation, and when the use of asset units (after the asset is put into operation) is discontinued; gone is the clause regarding the calculation of the price of wastewater transportation services using waste removal vehicles – entities providing wastewater transportation services are no longer required to calculate service prices in line with the methodology approved by the NERC, as established by the amendments to the Description of the Standard Terms of the Public Contract for the Supply of Drinking Water and/or Waste Water, approved by the Government of the Republic of Lithuania in April 2019; the category of consumers purchasing drinking water and wastewater treatment services for multi-family houses has been changed by adding consumers from single-house communities. The new version of the Methodology will be applied by agreeing the base and recalculated prices of drinking water supply and wastewater treatment, and surface wastewater treatment services with the data of 2019 and subsequent reporting periods.

PUBLIC PROCUREMENT

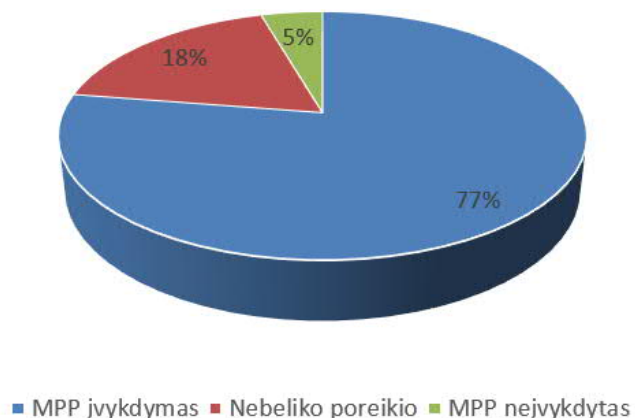
The public procurement of Vilniaus Vandenyis is organised and carried out taking into account two main areas of legal regulation: legislation on water management activities and on public procurement (Law of the Republic of Lithuania on Procurement by Contracting Authorities Operating in the Water, Energy, Transport or Postal Services Sectors, the Description of the Procedure for Conducting Low Value Procurement as approved by the Public Procurement Office, the Description of the Public Procurement Procedure and the Description of the Procedure for Conducting Low Value Procurement approved by the Company, etc.).

Vilniaus Vandenyis applies the policy of a transparent, open, efficient and competitive public procurement. In 2019, the Company made a total of 643 procurements: 482 low value procurements (of which 280 were below 3,000, excluding VAT), 94 simplified procurements, 67 international procurements, with a total estimated value of EUR 132,972,408.40, excluding VAT.

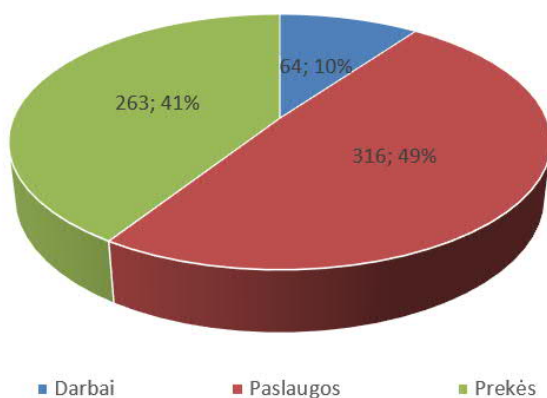
Number of procurements by procurement method in 2019 (units/%)



Execution of the Procurement Plan for 2019 (%)

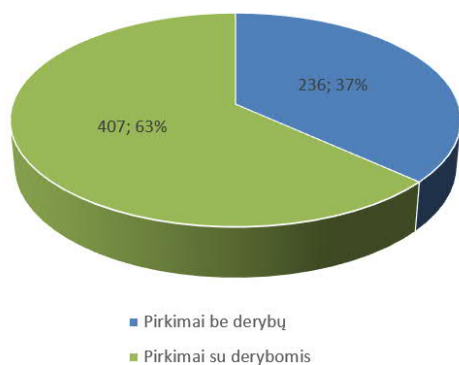


Number of procurements by the type of procurement object in 2019 (units/%)



The Company focused on market consulting and studies prior to launching procurement procedures. The procurement procedures were carried out through negotiations with suppliers. The Company paid a lot of attention to prepare clear, non-discriminating technical specifications of good quality so that as many suppliers would be interested in participating in the competitions held by the Company. These actions contributed not only to the competition promotion but also to the increase of procurement effectiveness. It must be noted that the Company has carried out more than 63% of its procurement negotiating in order to use the resources rationally.

Procurements through negotiations in 2019 (units/%)



Important (strategic) purchases, completed in 2019 by awarding public contracts, were funded by using the EU assistance and the Company's own funds.

No	Name of procurement	Successful tenderer	Contract price in EUR excl. VAT
1.	Technical surveying under the project "Provision of Drinking Water and Wastewater Treatment System Renovation and Development in Švenčionys District",	Pastatų Konstrukcijos UAB	1,650.00
2.	Task management system, system maintenance and development services	Tele2 UAB	70,000.00
3.	Audit of financial statements and inspection of the accounting system of regulated activities and inspection of the reports on regulated activities	Ernst & Young Baltic UAB	96,000.00
4.	Cleaning of wastewater networks (in Vilnius, Švenčionys and Šalčininkai district)	Ekovalis UAB	100,000.00
5.	Transportation services for staff	ATN BUS RENT UAB	121,810.50
6.	Purchase of the remote reading equipment	Navitus LT UAB	2,625,000.00
7.	E-mailing system solutions	Sender.lt UAB	50,000.00
8.	Repair, reconstruction of water supply and wastewater networks and small-scale construction work	Group of entities: Inrestas UAB and Skominta UAB (part 1 and 2) and KRS UAB (part 3)	1,500,000.00
9.	Drinking water pipeline network cleaning services	Hidora UAB	50,000.00
10.	Fuel purchase in Vilnius City Municipality	Viada LT UAB	800,000.00
11.	Implementation of Security Information and Event Management (SIEM) System	BLUE BRIDGE UAB	147,324.90

12.	Emergency response in water supply and wastewater networks	Statovita UAB	1,000,000.00
13.	Purchase of natural gas (including related services)	Lietuvos Energijos Tiekimas UAB	1,750,000.00
14.	Rehabilitation of roads, sidewalks, lawns after accidents in water supply and/or wastewater networks, and repair and restoration of wells, landslides causing emergencies	Eurovia Lietuva UAB	2,300,000.00
15.	Elektros Energijos Tiekimas	Imlitex UAB	3,038,040.00
16.	Disintegrated sludge tank cleaning service	Ekovalis UAB	260,400.00
17.	Procurement of visual communication services (economically advantageous tender)	Tarela UAB	30,000.00
18.	Power supply and dispatching equipment for water management facilities and their design and installation (SCADA"C")	Automatikos Sistemos UAB	77,180.08
19.	Transportation of stabilised wastewater sludge from Nemenčinė Wastewater Treatment Plant to Vilnius Wastewater Treatment Plant	Alveva UAB	30,600.00
20.	Control room video wall installation and adjustment	Atea UAB	41,182.00
21.	Wastewater network repair works in Pakrantės st., Nemenčinė and Vilnius district	Mikludava UAB	282,845.00
22.	Gas chromatograph, incl. accessories	Multilabo UAB	18,650.00
23.	Sales contract for the purchase of big bag containers for dried wastewater sludge	Packmak UAB	137,280.00
24.	Design and construction of water supply and wastewater networks for residential building in Vaidoto Daunio st. 40, Vilnius	Stareka UAB	37,000.00
25.	Design and construction of water supply and wastewater networks in Piliakalnio st., Nemenčinė, Nemenčinė civil parish, Vilniaus district	Inžinerinių Objektų Statyba UAB	24,498.00
26.	Transportation, spreading and incorporation of dried wastewater sludge into soil	Galzdonų plantacija UAB	958,500.00
27.	Development and implementation of Vilnius city water supply network hydraulic modelling information system	Group of entities: Sweco Lietuva UAB and VANDENSAUGA UAB	283,000.00
28.	System maintenance and development services for Navision	Alna Business Solutions UAB	107,062.00

INVESTMENTS

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 modernisation of infrastructure.

The objects to be modernized are selected in accordance with the Company's Methodology for Rating Objects of Reconstruction of Water Supply, Wastewater Networks and Stations. The development of block networks/mains is carried out in accordance with the Methodology for Ranking Infrastructure Development Objects approved by the Company's CEO.

In 2019, the total investments amounted to more than EUR 21 million, whereas investments in infrastructure development and modernisation amounted to more than EUR 18 million. The remaining amount of more than 3 million investments were drifted towards the renewal of electrical equipment, information systems and vehicle fleet.

Currently, the Company is implementing 3 projects, the agreements of which have been signed with the Environmental Project Management Agency for obtaining contribution from the EU structural funds for 2014–2020.

- 1) No 05.3.2-APVA-R-014-01-0001 "Provision of drinking water and wastewater treatment system renovation and development in Vilnius city",
- 2) No 05.3.2-APVA-R-014-01-0009 "Provision of drinking water and wastewater treatment system renovation and development in Švenčionys district",
- 3) No 05.3.2-APVA-V-013-04-0007 "Reconstruction of Švenčionys wastewater treatment plant".

A contract on financing and administration of the 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 December 2016 in accordance with Priority Axis 5 "Provision of drinking water and wastewater treatment system renovation and development" of the Operational Programme for EU Structural Funds Investments for 2014-2020. Total project funding amounted to EUR 41,913.5 thousand, of which EUR 20,956.76 was funded from EU funds.

In 2019, the description of project financing conditions of the Axis "Provision of drinking water and wastewater treatment system renovation and development" was supplemented with a new activity "Inventory of drinking water supply and wastewater treatment infrastructure", therefore, additional funding of EUR 105.25 thousand was received under the project No 05.3.2-APVA-R-014-01-0001 "Renovation and development of drinking water supply and wastewater treatment system in Vilnius city" for development and implementation of the hydraulic modelling information system. Hydraulic modelling information system will help to more efficiently analyse network capacities by ensuring efficient modes of water supply and wastewater treatment operation and optimising equipment energy efficiency indicators, as well as to reduce water losses, ensure more efficient emergency response and disconnection planning process, assess water quality at any specific network point, and implement more efficient investment planning. End of the project – 31 December 2021.

Financing from EU structural 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 December 2017. Total project funding amounted to EUR 1,480.9 thousand, of which EUR 740.1 was funded from EU funds. Švenčionys District Municipality acts as the partner of the projects. End of the project – 31 July 2021.

EU structural funds were allocated to the project No 05.3.2-APVA-V-013-04-0007 "Reconstruction of Švenčionys wastewater treatment plant" under the order of the Minister of Environment of 31 July 2019. It envisages the reconstruction of the wastewater treatment plants of Švenčionys, which serve the territory of Švenčionys city. Currently, Švenčionys Wastewater Treatment Plant is undergoing mechanical and biological wastewater treatment without the removal of nitrogen and phosphorus compounds. The aim of the project is to increase the efficiency of wastewater treatment for Švenčionys city residents by ensuring that the average annual concentrations in wastewater do not exceed the requirements specified in the Nemunas River Basin District Management Plan and environmental impact assessment made during the selection process for Reconstruction and Operation of Švenčionys Wastewater Treatment Plant in Cirkliškis village, Švenčionys District Municipality. Total project funding amounted to EUR 4,184.5 thousand, of which EUR 3,347.6 was funded from EU funds. End of the project – 30/07/2022.

Infrastructure development projects financed by EU funds (planned data are provided based on the updated project contracts)

Components	New networks planned to be constructed/new networks actually constructed, km		New residents planned to be connected/new residents actually connected*		Comments
	Water supply networks	Wastewater networks	To new water supply networks (WSN)	To new wastewater networks (WN)	
Contract No 05.3.2-APVA-R-014-01-0001 Development of water supply and wastewater networks in Vilnius city (11 objects)	25,691/20,591	30,95/26,498	3,432/667	3,560/942	The following contracts were concluded on 31/12/2019: NT – 428; VT – 303
Contract No 05.3.2-APVA-R-014-01-0001 Construction of water improvement equipment – 2 objects (Kalnėnai water preparation plants, Naujoji Vilnia water preparation plants)					Water of a better quality is expected to be supplied to 22,117 customers.
Contract No 05.3.2-APVA-R-014-01-0009 Development of water supply and wastewater networks in Švenčionėliai	1,13/1,17	5,66/2,520	100/48	287/74	The following contracts were concluded on 31/12/2019: NT – 39; VT – 25
Contract No 05.3.2-APVA-R-014-01-0009 Construction of water preparation facilities in Švenčionys district, Naujieji Zadvarninkai village					Water of a better quality is expected to be supplied to 3,000 customers. In 2019, design work took place

* The actually connected customers are calculated based on the ratio that was valid at the time of signing the project contract, i.e. based on the occupancy rate in Vilnius 2.2; Švenčionys district 1.9 (Data from the Department of Statistics for 2016).

Funding of the environmental protection investment project "Construction of SB Tabakas Domestic Wastewater Networks" was allocated in accordance with the Order No D1-519 of the Minister of Environment of the Republic of Lithuania of 9 September 2019 "On the allocation of funding to projects based on the financing axes of the use of funds of the Lithuanian Environmental Investment Fund program in 2018". Project financing and supervision agreement No LEIF S 47 (2019) was signed with the Environmental Project Management Agency. The public procurement contract (28 August 2019) for the implementation of the project was signed for a smaller amount of funds than indicated in the project application, i.e. for EUR 158.2 thousand. The total grant awarded for the project is EUR 200 thousand, but only 80% of the amount specified in the works contract will actually be available. The degree of completion of works in 2019 was 35%.

Infrastructure reconstruction projects financed by EU funds (planned data are provided based on the updated project contracts)

Components	Planned	Actual	Comments
Contract No 05.3.2-APVA-R-014-01-0001 Reconstruction of water supply and wastewater networks in Vilnius city (8 objects)	19.14 km of WSN and WWN were reconstructed	11.851 km of WSN and WWN were reconstructed	Project activities are in progress
Contract No 05.3.2-APVA-R-014-01-0001: activity "Reconstruction of Vilnius wastewater treatment plant"	The quality of wastewater treatment will be improved for 532,220 customers	Tender submission deadline: 07/02/2020	The activity will be transferred to the measure No 05.3.2 APVA V 013 and additional funding will be requesting.
Contract No 05.3.2-APVA-V-013-04-0007: activity "Reconstruction of Švenčionys wastewater treatment plant".	The quality of wastewater treatment will be improved for 2,468 customers	Procurement started in 2019	Procurement terminated in 2019 The newly announced public procurement procedures are being continued
Contract No 05.3.2-APVA-R-014-0009: activity "Provision of drinking water and wastewater treatment system renovation and development in Švenčionys district"	Development will take place instead of the planned reconstruction	Amendment to the project was signed in 2020	New activity included: Development of wastewater networks in Adutiškis st., Švenčionys

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

Development projects	2017	2018	2019	2020
In Vilnius city	9.6	967.1	7,873.7	4,417.9
In Švenčionys district	6.0	254.2	-	1,140.5
In Šalčininkai district	-	-	-	700.8
Total project funds	15.6	1,221.3	7,873.7	6,259.2

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

Reconstruction projects	2017	2018	2019	2020
In Vilnius city	14.3	1,712	4,360.1	706.0
In Švenčionys district	-	15.88	-	867.0
Total project funds	14.3	1,727.9	4,360.1	1,573.0

Infrastructure reconstruction and development projects funded from the Company's own funds

Infrastructure renovation works	Strategic action plan (SAP) and actual implementation in 2019		
	2019 SAP, thousand EUR	Implementation in 2019 (thousand EUR)	Implementation, %
Renovation of wellfield areas	176.9	142.7	80.7
Renovation of water supply networks and station	1,841.5	1,964.4	106.7
Renovation of wastewater networks and station	1,498.2	1,622.5	108.3
Renovation of wastewater treatment and sludge management facilities	1,311.5	875.0	66.7
Development (rating) of networks	1,278.0	767.0	60.0
Total project funds	6,106.1	5,371.6	87.97

In 2018, the objects selected in accordance with the Methodology for Ranking Infrastructure Development Objects were implemented in 2019. In total, the following objects were implemented: block networks of water supply and wastewater in SB Jeruzalė and in Visorių Sodų 21-oji st., water supply and wastewater networks for residential building in Daunio st. 40 and for a group of natural persons, block networks of water supply and wastewater for SB Troleibusas and SB Kūryba and block networks of water supply and wastewater in Piliakalnis st., Nemenčinė.

In 2020, own funds will continue to be invested in the development of block networks/mains by implementing infrastructure development objects selected by means of a rating in accordance with the Methodology for Ranking Infrastructure Development Objects.

In 2020, 4 water management projects are planned to be implemented, by submitting the applications for funding under the measure No 05.3.2 VIPA T 024 "Development of Wastewater Collection Networks" administered by the Viešųjų Investicijų Plėtros Agentūra, which was coordinated with the concessional loan under the measure No 05.3.2 FM F 015 "Water Management Fund" soft loan, following the 1st call for proposals on 03/04/2019. The application for the 2nd call under this measure will be prepared in 2020. There is intention to submit application for the Vilnius agglomeration project, which has been selected in accordance with the Methodology for Ranking Infrastructure Development Objects. The provisional value of this project is more than EUR 10 million.

Other essential investments: renovation of stations of wastewater, renovation of infrastructure of water supply and wastewater, renovation of vehicles (vehicles with special equipment to clean network of wastewater (hydrodynamic vehicle), multifunctional M1-class vehicles and brigade vans), new meter-reading devices with capability of data reading in distance.

RISK AND UNCERTAINTY MANAGEMENT

In 2019, special attention was paid to the Company's risk management:

- the Description of the Risk Management Procedure has entered into force, governing the procedure for risk management organisation, risk assessment and identification of management measures, and planning;
- a risk management coordinator has been appointed;
- a risk assessment working group has been set up, which held more than half a hundred meetings;
- the risks of all the Company's processes have been assessed, issues have been identified, and risk management priorities have been single out;
- a plan of risk management measures has been developed, taking into account the most likely consequences of the occurrence of the risks and the scale of the effects;
- A regular monitoring of the implementation of the plan of risk management measures is carried out, the effectiveness of risk management measures is estimated.

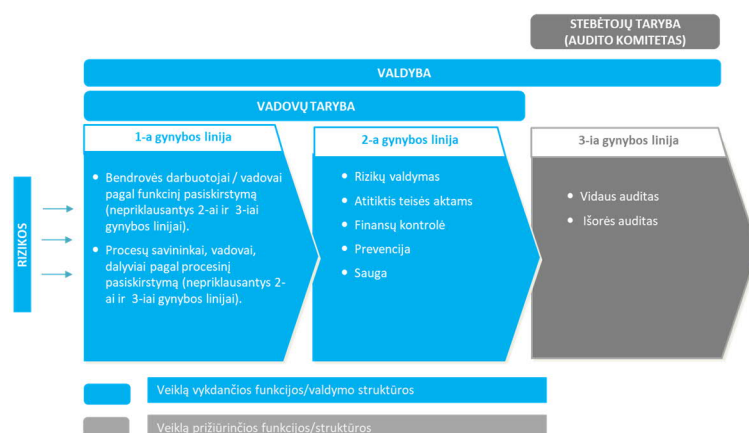
Management involvement, well-established procedures, continuous analysis of external and internal factors, a clear allocation of responsibilities, continuous communication, a regular monitoring of the risk management plan, evaluation of the effectiveness of risk management measures are key risk management actions in 2019, ensuring the Company's proper response to events that may have affected the achievement of its objectives.

RISK MANAGEMENT POLICY

The risk management system implemented in The Company is based on the principles of the standard prepared by COSO (Committee of Sponsoring Organisation of Treadway Commission), and ISO 31000 (Risk management - Principles and guidelines)

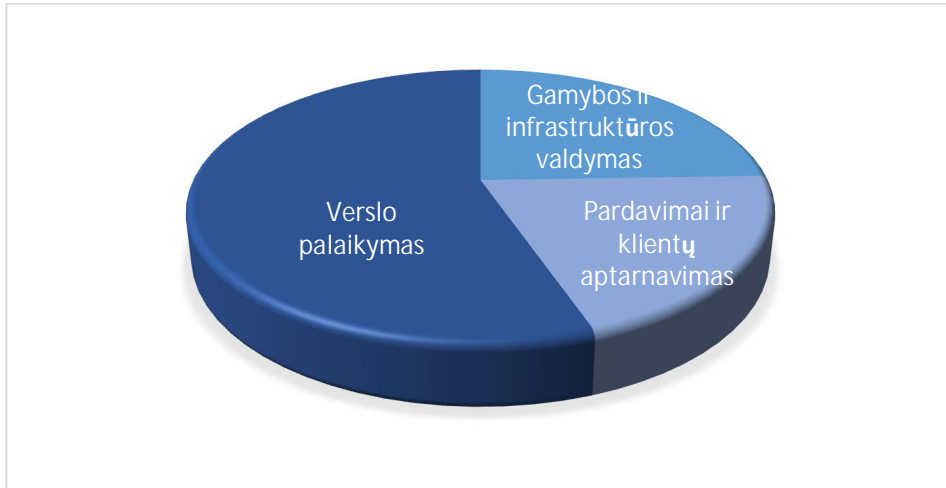
In a broad sense, risk in the Company is considered as the effect of uncertainty on the objectives, a deviation from the expected result.

The Company's risk management and control model has clearly defined risk management roles and responsibilities, including sharing of control between the Company's management and supervisory bodies, structural units or functions. These roles are grouped into "three lines of defence", i.e. three levels that are accountable to the Company's Board.



The Company's activities are divided into three main activities, which are divided into groups of processes and processes. It is in the processes that risks are identified.

Breakdown of the Company's main activities and identified risks in 2019



MANAGEMENT OF RISKS ARISING FROM PRODUCTION AND INFRASTRUCTURE MANAGEMENT ACTIVITIES

The focus is on the risk of discharge of wastewater into the environment and risk of accidents in wastewater networks, for the following main reasons:

- the ageing or inappropriate operation of wastewater networks;
- actions by third parties;
- the impact of natural phenomena on infrastructure;
- nuclear/radiation pollution from neighbouring countries.

The Company manages the risks arising from the production and infrastructure management activities by planning and implementing the development of wastewater networks, repair and reconstruction works, prompt elimination of accidents and failures, and ensuring monitoring of sludge quality parameters.

MANAGEMENT OF RISKS ARISING FROM SALES AND CUSTOMER SERVICING ACTIVITIES

Customer focus is the Company's priority, therefore, in order to meet customer expectations, ensure a smooth and fast connection process of new customers, effective prevention of water losses, wastewater control, prevention of illegal connections, accurate and true billing and collection of payments, management of debts for services provided, the Company shall take all necessary risk management measures.

MANAGEMENT OF RISKS ARISING FROM BUSINESS SUPPORT ACTIVITIES

Risks arising from business support activities may prevent the core business from functioning. The Company focuses on risks of management in public procurement, financial management, implementation and management of environmental measures, asset management and maintenance, occupational safety and health, fire safety, supply and logistics.

ENSURING PHYSICAL SECURITY

Due to the specifics of its activities and the provision of strategically important public services, the Company falls into the first category of companies essential to national security.

Attaching special importance to the field of security, the Company was the first and so far the only among the country's water management companies in 2019 to prepare and approve the Security Plan in the Government of the Republic of Lithuania. The Company currently has 380 facilities, which are divided into three levels of physical protection based on their significance to the Company's activities and potential risks: security level 3 is assigned to 4 facilities, level 2 – to 22 facilities, and level 1 – to 354 facilities.

After assessing the changed risks and the requirements of new legal acts for physical and operational protection, the Company prepared the Regulation on Physical and Operational Protection in 2019, and carried out the internal audit of the its physical security organization process.

SOCIAL RESPONSIBILITY

Vilniaus Vandenyis provides its customers with a vital service, which is crucial to the daily life of every individual: supplies drinking water and manages the generated wastewater. Therefore, the most important responsibility of the Company is to ensure the continuity and quality of services provided to customers. However, the Company believes that it is important not only to provide assurance itself, but also to choose the appropriate methods and tools for doing so.

The Company improves business processes, implements modern human resource management and applies resource-efficient technologies, materials and processes that have no negative effects on human health.

In its day-to-day operations and planning, the Company strives to take into account the economic and social expectations of all stakeholders, ensure transparent management, develop respectful and ethical relations in the market, and implement corruption prevention measures.

Strategic directions of operation include:

- Customers
- Performance
- Sustainable development and modernisation
- Employees

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

- Customers
- Shareholders
- Employees
- Society

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, as well as fast and smooth connection of new customers. In 2019, the Company focused its efforts on increasing the speed of customer service and improving the quality of service.

In order to connect to the centralised water supply and wastewater networks as many people waiting for these services as possible, the Company increased the volume of construction of new networks through its own funds, the European Union assistance and other financial funds. And to make the process of connection of new clients fast and effective, structural changes have been made in the organization: a New Customer Connection

Department dedicated to this work has been established. As a result of the implemented changes, the entire customer connection process was shortened twice, if compared to 2018.

In 2019, a special focus was placed on new customers. The Company improved the main customer service areas, reduced bureaucracy burden for customers, and simplified processes.

Last but not least, the economic interests of the Company's customers: in 2019, the prices of Vilnius Vandeny's services remained the lowest of all Lithuanian public water management service providers and one of the lowest in the European Union.

The Company's effort to improve customer service was evaluated positively in the annual customer satisfaction survey. The customer satisfaction index for the Company's services and servicing reached 72 points (+2 points compared to 2018).

SHAREHOLDERS

Vilnius City Municipality, Vilnius District Municipality, Švenčionys District Municipality and Šalčininkai District Municipality are the shareholders of the Company, with which the Company's management maintained close working relations. The Company's main responsibility to shareholders is to ensure sustainable management of the Company and long-term benefits for population in the municipalities, as well as to provide relevant and true information that allows shareholders to assess the Company's activities, prospects and make appropriate decisions. The Company's management is committed to providing effective feedback to shareholders.

It is clear that the success of projects that are important to the company and its customers depends directly on the trust of shareholders in the company and the right decisions made in a timely manner. Therefore, during the whole reporting year, regular meetings were held to discuss relevant issues, financial and non-financial activity reports were submitted on the implementation of the objectives set out in the "Shareholder Expectations Letter", as well as key projects were discussed and reported on.

Year of 2019 was particularly active as the Company prepared an Action and Development Plan for the new period (2020–2022), which was presented to shareholders for approval.

EMPLOYEES

Experienced, competent and value-driven professionals are an essential prerequisite for achieving the Company's goals and vision. The basis for relationships with employees of Vilnius Vandeny's is ethical, respectful and equitable partnership-based behaviour, focus on a safe working environment, professional development and career.

The Company's commitment to employees: a values-based sustainable organizational culture and a transparent remuneration policy to promote employee involvement and motivation in implementing the Company's strategic goals. Also ensure that employees are informed in a timely manner about projects, values, goals, activities and changes that are important to the Company.

In 2019, the Company took care of the health, safety and equal rights of employees, applied advanced performance management and remuneration systems, created suitable conditions for personal and professional development of employees, as well as opportunities for the development of general competencies. Equal rights were ensured to everyone working in the Company by Gender Equality and Diversity Policy. It seeks that the employees would not be discriminated for their gender, race, nationality, language, origin, social position, religion, beliefs or views, membership in a political party or association, age, sexual orientation, disability or ethnicity.

As every year, in 2019, a great deal of attention was paid to strengthening the team and improving working conditions in order to retain the existing and attract new competent specialists.

Taking into account the conclusions and recommendations of the 2018 employee engagement survey, a joint employee group was established in 2019, which agreed on the most important areas for improvement throughout the organization and developed action plans. The most frequently mentioned areas for improvement, focusing on topics of concern to the entire organization, were remuneration and additional benefits, quality and customer focus, training, and resources.

Employee motivation and involvement was enhanced by internal communication actions: meetings with managers, annual events, sports competitions, various social actions and initiatives, in which employees not only strengthened team spirit, but also progressed individually.

In 2019, employees made sense of themselves in the following activities:

- Participation in the Vilnius Basketball League
- Walking challenge in the corporate league WALK
- Carnival Tuesday
- Commemoration of Earth Day
- Activities on Water Day
- Spring Cleaning at the Company's facilities
- Blood donation campaigns
- Canoe trips
- Motorcycle trips
- Team participation in Vilnius marathon
- Support campaign with Food Bank "Apple Jam for Elderly"
- Take Your Pet to Work Day
- Pie Day in offices
- Assistance for SOS Gyvūnai
- Participation in the project "Children's dreams"

THE SOCIETY

Vilniaus Vandenyis is an open, cooperative and active company, the activities of which are interesting for many groups of society. The Company strives to maintain a sustainable business relationship with all of them.

In 2019, more than 7 thousand students, teachers, business entities and heads of state-governed institutions visited various objects of Vilniaus Vandenyis (watering-places, pumping stations, wastewater treatment objects, laboratories and the like) who had the possibility to participate in 60 excursions, presentations and meetings. The Company's specialists shared with the guests information about the Company's activity, presented the key processes of water extraction and preparation and wastewater treatment processes and technologies deployed.

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.

Traditionally, in May and September the Company invited residents of Vilnius to visit the historic Liepkalnis and Sireikiškės water storage facilities. More than 5 thousand visitors got acquainted with sources, history and the current situation of water supply in Vilnius. A unique performance was made by the band of saxophonist "Katarsis" in one of the Liepkalnis water storage facilities.

At the beginning of the summer, the Company installed 6 drinking fountains in the central part of the city, so that the residents and guests of the city could comfortably refill their flasks or drinking it. The new drinking fountains are conveniently located in the most visited places of Vilnius: in the Old Town, Sereikiškių Park, in the square of

Odminių Street in front of the Cathedral, as well as one fountain was installed in Konstitucijos Avenue, next to the Lithuanian Children and Youth Centre. Another 3 drinking fountains were installed in Vingis Park in 2018, and further expansion of their network is planned in the future.

At the beginning of the fall, upon completion of the expansion of the Kalnėnai wellfield, the Company's management invited representatives of the local community to a meeting at the wellfield, where they answered questions from residents and presented development plans in this part of the city. Meetings of a similar nature were organised with communities in other districts.

At the end of the year, the cleaning of the largest-scale water supply network in Naujamiestis and Žemieji Paneriai is one of the Company's commitments to the public (and customers) to provide the population with drinking water that meets all indicative quality indicators.

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

ENVIRONMENTAL PROTECTION

Activities of Vilniaus Vandenys are inseparable from nature and its resources. The Company supplies water from deep wells, which are the state property. Therefore, the Company assumes the responsibility for preservation of these natural resources, cleanliness and responsible use thereof in the long run.

Wells used for water extraction are installed and maintained in accordance with all technical and environmental requirements: their technological and structural solutions protect the subsoil and groundwater from contamination or depletion of resources, unused wells are properly preserved and marked.

Each newly constructed or renovated meter of the pipeline is not only a benefit to the Company, but also care for the environment, preserving its assets and ensuring cleanliness. The Company plans to invest in network upgrades, renovation of treatment plants and other areas in order to maximize not only the fulfilment of mandatory environmental requirements, but also much more than that. Technology is evolving, therefore, environmental challenges can be overcome much more effectively.

Every newly connected single-family home that has so far used its own local well and wastewater network or has no such services at all is also a step forward in protecting the environment. The Company allocates funds for the connection of the population to the centralized water supply and wastewater networks, ranks the projects, and identifies the areas where the services provided by the Company are most needed.

Six drinking fountains were installed in public spaces of the city also contribute to sustainability: the Company encourages residents to drink tap water using reusable containers instead of buying water bottled in disposable plastic containers.

Environmental threats also arise in the field of wastewater collection and treatment, and here the Company's efforts to protect nature are at their maximum. 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 high degree of importance is attached to the used technologies and the results from this activity.

As from 2019, the Company has been using all the dried wastewater sludge, released during wastewater treatment, to fertilize energy forests. Vilniaus Vandenys together with partners participate in circular economy project NutriBiomass4Life, which will last for three years.

Performing its activity, the Company complies with Quality and Environmental Protection Policy, which is applicable to all the employees of the Company. It defines the key directions in the area of quality management that are closely linked to the directions and initiatives identified in the Company's strategy. The Company 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 has implemented and applied an integrated quality and environmental management system that meets the requirements of ISO 9001 and ISO 14001 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. The quality management and environmental protection system is integrated into all business processes that are defined by the specifics of the work of divisions to ensure 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 organisation having carried out an assessment of a third party confirming that the Company's quality management system complies with ISO standard requirements. In 2019, the GCERT BALTIC UAB (group companies of G-CERTI operate in more than 50 countries around the world) 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.

The Company constantly monitors the fulfilment of the liabilities made under the Integrated Pollution Prevention and Control (IPPC) permission. Having recorded an incompliance with IPPC permission requirements, respective decisions are made in order to eliminate the recorded incompliance and ensuring a good quality of drinking water supply and wastewater treatments services provided to the customers.

PERSONNEL MANAGEMENT

EMPLOYEES

On 31 December 2019, the Company had 683 employees.

Distribution of employees by function:

58% of the Company's employees worked in the Production Service and carried out functions related to core activities of the Company, 27% worked in the customer service area, and the remaining 15% engaged in support activities.

Distribution of employees by employee groups:

Based on the data of 31 December 2019, the Company had 266 specialists, 82 senior specialists, 307 workers, 40 middle managers and 5 administrative managers.

Distribution of employees by education:

Based on the data of 31 December 2019, 44% of the Company's employees had a university degree and 20% held a vocational training degree.

Distribution of employees by length of service:

The average length of service of employees in the Company was 12 years in 2019. As many as 212 employees (31%) had worked for the company for 20 years or more. Vilniaus Vandenyys appreciates and respects its long-time experienced employees.

PERSONNEL MANAGEMENT POLICY

The Company's activities and performance are determined by what and how people act. The human resources management policy aims to make the Company the best choice for current and future customers, employees, business partners and the community.

Therefore, the Company constantly maintains and improves the environment conducive to the development of the organization, which:

- encourages employees to perform better;
- facilitates openness and change in the organization,
- allows to attract and train professional staff,
- allows to identify, develop and use the potential of the Company's employees.

Value-Based Organizational Culture

In September 2019, the Company's long-term business strategy for 2020–2030 was approved, and was accompanied by the review of the Company's vision, mission, strategic directions and values.

Responsibility, cooperation, professionalism, the new Company's values, have become an incentive to form a value-based model of competencies (required behaviours).

All managers of the Company were involved in the process of development of competencies based on new values.

A new competency model, covering both leadership and management competencies, was started to be integrated into the selection and employee performance management processes already at the end of 2019.

At the end of 2019, an employee performance management system was prepared for implementation, which promotes value-based behaviours and achievement of better outcomes, covering all employees of the Company.

The competency model is based on new values – responsibility, cooperation, professionalism – and includes the following:

- core competencies (applicable to all employees): customer focus, achievement of better outcomes, responsibility, communication, openness to change, collaboration, personal effectiveness.
- leadership and management competencies (applicable to all managers): strategic thinking, performance management effectiveness, employee leadership and training.

In 2019, the employee turnover rate was 13.2 percent (in 2018 – 16.8%).

The organisation supports and promotes open, business-like and productive communication by constantly using internal communication channels and ensuring communication of relevant topics:

Topic	Measures
<ul style="list-style-type: none"> • Company, strategy, activities, services, quality policy, working procedures and occupational safety requirements 	<ul style="list-style-type: none"> • Individual presentation during recruitment, newcomers' days, open days in the most interesting objects of the Company
<ul style="list-style-type: none"> • Objectives and performance feedback 	<ul style="list-style-type: none"> • Meetings, newsletters, articles on the intranet, one-on-one interviews, quarterly results presentation and discussion events
<ul style="list-style-type: none"> • Exercise requirements, performance and corrective and preventive actions 	<ul style="list-style-type: none"> • Internal trainings, meetings, newsletters through e-mail and intranet
<ul style="list-style-type: none"> • Changes in the organisation: new employees, change of responsibilities 	<ul style="list-style-type: none"> • Newsletters through e-mail and intranet
<ul style="list-style-type: none"> • Changes in company structure, governance 	<ul style="list-style-type: none"> • Meetings, newsletters through e-mail, one-on-one interviews
<ul style="list-style-type: none"> • Strengthening values, fostering team spirit 	<ul style="list-style-type: none"> • Employee events, celebrations, awards, monthly employee elections, cognitive-educational events

TRAINING

The required competencies of employees – professional, basic, leadership and management – allow the Company to achieve the highest performance results.

The development of the competencies and skills of the company's employees is a joint responsibility of the manager, the employee and the Company.

The Company supports the educational process by providing opportunities for employees to learn:

- at work (for example, appointment to lead a complex project, involvement in non-standard situations, implementation of systems, assignment to another area or higher responsibility position, etc.)
- internal and external training;
- use of various sources of information;
- independently, using distance and virtual learning tools.

Employee participation in trainings in 2019

Training area	Number of employees
Mandatory professional training	1,495
Optional professional training	644
Basic competence development	68
Leadership and managerial competence development	108
Total:	2315

* The "Training" section represents the total number of participants, i.e. some employees may have taken part in trainings more than once.

The Company's activities are based on expertise, therefore, both internal and external candidates must have the appropriate professional and general competencies, openness to continuous learning and development and, where applicable, relevant know-how.

Job postings are made internally and/or externally. If both the internal and external candidates meet the established selection criteria, preference will be given to the internal candidate.

During 2019, 60 employees moved up the internal career ladder: 33 employees changed position to take on higher level responsibilities (vertical career growth*) and 27 employees made a horizontal career move**

* Vertical career growth is a practice-based learning, development of know-how, strengthening of skills, when the employee has the opportunity to learn new operations, gain new knowledge, experience in his own or other functional units;

** Horizontal career growth is an opportunity to improve through a short-term or long-term work practice, thus hoping for greater material benefits in the future.

REMUNERATION SYSTEM

In order to be successful and sustainable, the Company must be able to continuously attract and maintain resources adequate to the needs of the business: the required number of employees and the necessary competencies. This is what allows the Company to operate efficiently, ensuring predictable, relevant and sustainable performance.

Therefore, the Company implements and maintains a remuneration system that complies with the principles of external competitiveness and internal justice, linked to the employee performance management system, which promotes the pursuit of the best performance and the development of the necessary competencies.

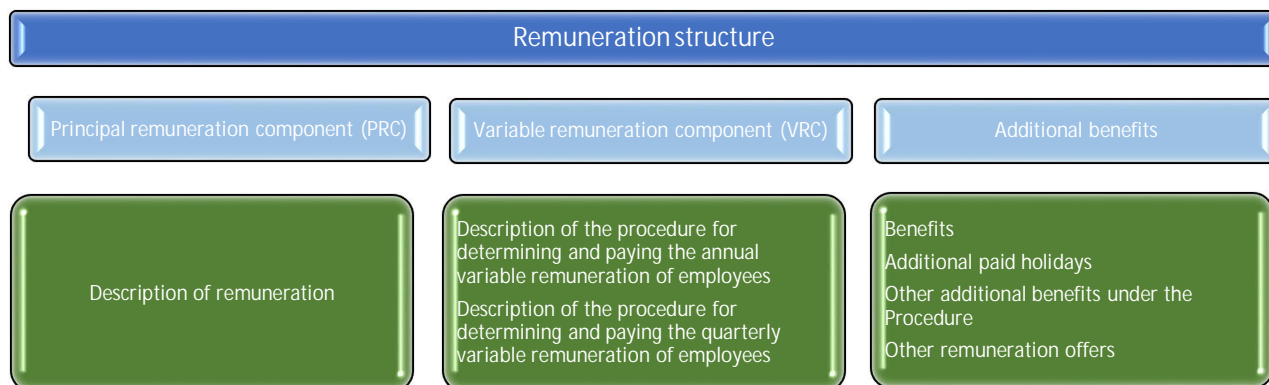
Remuneration criteria:

- The Company's remuneration budget
- market: demand and supply in the labour market
- Job level
- Employee performance

The Company applies a dual remuneration structure to the job level:

- Principal remuneration component (PRC, basic), depends on the job and competence level of the employee
- Variable remuneration component (VRC), depends on the objective performance of the employee

Remuneration package consists of the following:



Principal remuneration component (PRC) is reviewed on annual basis. The results of the PAD review depend on the financial capabilities of the Company, the individual performance of the employee, the position of the employee's remuneration within the remuneration interval of the position, and the competitiveness of the market.

Variable remuneration component (VRC) paid by the Company

Amount of PRC	% of the annual estimated remuneration		% of the quarterly estimated remuneration
	For the fulfilment of the Company's goals	For the fulfilment of individual annual goals	For the fulfilment of individual quarterly goals
Directors of Units	20	10	
The heads of departments and divisions subordinate to the CEO, the head - the chief accountant	10	10	
Mid-level managers	5	10	
(Senior) specialists		10	
Workers			10

Average monthly salary by employee categories:

Job title	Number of employees as at 31/12/2017	Average remuneration in 2017*	Number of employees as at 31/12/2018	Average remuneration in 2018*	Number of employees as at 31/12/2019	Average remuneration in 2019
Top management	3	5,523	4	5,907	5	5,775
Mid-level managers	40	2,535	38	2,863	37	3,166
Senior specialists	63	1,769	58	2,043	77	2,191
Specialists	247	1,250	254	1,335	260	1,463
Workers	310	1,056	304	1,023	310	1,168

* For the sake of comparability of data, the data on average monthly remuneration for 2017 and 2018 have been recalculated according to the new tax system, multiplied by the coefficient 1,289

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.

As from 1 January 2019, each month the CEO of the Company receives a principal remuneration component of EUR 5,414 (after the tax reform), including taxes. Additionally, the CEO receives a variable remuneration component – up to 50% of a principal remuneration component, its size of which depends on the implementation of approved annual goals of the Company and which is set for the upcoming year, having approved the financial statements for the previous reporting period.

COLLECTIVE AGREEMENT

The Collective Agreement was revised and updated in accordance with the requirements of the new Labour Code, and the new version of the Collective Agreement entered into force on 1 January 2018. The aim of this 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.

The agreement provides for various benefits, paid days-off or annual leave days and similar benefits for employees.

- Benefits. During 2019, 62 employees were granted benefits under the Collective Agreement, amounting to a total of EUR 17,900.
- Additional paid holidays. During 2019, 656 employees were granted 1,295 rest days.

LABOUR COUNCIL

Implementing the requirements of the Labour Code, the Labour Council of 11 members operates in the Company as from February 2018. In 2019, 6 meetings of the Labour Council took place to discuss issues important to employees and 3 meetings were held with the employer's representatives.

At the end of the year, the Labour Council initiated a survey among the Company's employees with the aim of obtaining understanding of how employees feel at work, how they rate their relationship with manager, how satisfied they are with work environment and workplace. The results of the survey were introduced to the Company's management and communicated to all employees.

OCCUPATIONAL SAFETY AND HEALTH

In the implementation of value-based organisational culture, each employee is expected to take a responsible approach to his/her 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.

Vilnius Vandeny's has consistently assessed the possible occupation safety risks and supported measures that promote health and well-being, invests in a fire safety management system, thus fostering a safe work environment. 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 trained and certified on safety, health and fire safety issues Occupational and occupational safety and health knowledge of employees is verified at regular intervals. Interactive Occupational Safety and Health training is provided for newly hired employees (both in administration and production department).
- Employees are supplied with personal protective equipment free of charge.
- Health of employees is checked periodically
- Employees receive preventive vaccination against tick-borne encephalitis, tetanus, diphtheria and influenza at the Company's expense. For the convenience of employees, physicians, who perform these procedures on-site, are invited to the Company.
- The employees are continuously involved in the preventive campaign "Let's be safe at work" for organization of works, compliance with occupational safety and health requirements.

Mandatory training statistics

Trainings		Number of employees who participated in training		
		2019	2018	2017
1	OHS training for new employees	95	123	68
2	Mandatory trainings/regular knowledge tests (external)	544	439	776
3	Mandatory trainings (internal)	775	788	203
4	Regular knowledge tests (internal)	81	169	108
TOTAL		1,495	1,519	1,155

A special attention is paid to the organisation of hazardous works and works in hazardous areas, and to the control of the performance of contractors providing services to Vilniaus Vandenyys. Since the volume of such work continues to grow each year, it requires a special Company's attention.

In the autumn of 2019, during the pipeline cleaning works in Vilnius Naujamiestis and Žemieji Paneriai districts, the company gained useful experience in cooperation in the field of occupational safety and health by working with employees of foreign partners.

Vilniaus Vandenyys also constantly cooperates with its partners, with whom it signs works contracts and defines the limits of mutual safety responsibilities at work.

Statistics on the deeds of mutual safety responsibilities at work

Year	Number of the deeds of the mutual safety responsibilities at work, signed with the contractors
2019	82
2018	50
2017	21

The Company investigates all incidents and accidents at work and on the way to/from work. In 2019, there were no accidents due to the fault of the employer.

Statistics of accidents

Distribution of accidents by their consequences	2019			2018			2017		
	Accident at work	On the way*	Incident	Accident at work	On the way*	Incident	Accident at work	On the way*	Incident
Minor	2	1		3	3		3	1	2
Major		1							
Lethal									
Total:	2	2		3	3		3	1	2
Overall	4			6			6		

* On the way – accident on the way to/ from work.

SHARES

On 31 December 2019, issued capital of the Company comprised of 4,103,842 ordinary shares with the nominal value of EUR 28.96 per share.

The issued capital of the Company was fully paid as at 31 December 2019. The Company did not hold its own shares.

The Company's shareholders

Shareholder	31 December 2019	
	Number of shares	Ownership interest, %
Vilnius City Municipality	3,870,339	94.3101
Vilnius District Municipality	94,170	22.947
Švenčionys District Municipality	83,450	2.0335
Šalčininkai District Municipality	55,883	1.3617
	4,103,842	100

MAJOR EVENTS OF 2019

10 January 2019

During the General Meeting of Shareholders, the Company's share capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 690,985.60. A respective change in bylaws was registered in State Enterprise Centre of Registers on 20/02/2019.

21 January 2019

Vilniaus Vandenyys has signed a three-year cooperation agreement with Sweco Lietuva, a company providing engineering, environmental and architectural services, on the development and implementation of a hydraulic modelling information system for the Vilnius city water supply network.

1 February 2019

The reduced prices of many water supply and wastewater treatment services came in effect to the customers in Vilnius and Vilnius, Šalčininkai and Švenčionys districts.

1 February 2019

Average volume of consumed drinking water per capita per month (2.47 m³) was changed for customers who do not have individual meters in the territory served by the Company.

1 February 2019

A new organisational structure has come into effect. Based on it, the main activity of the Company focused on 3 services: Production, Customer Service and Activity Planning and Financing. Also, Activity Organisation Council has been established (merging Organisation Development Department, Legal Department and Logistics and Property Supervising Department), that focuses on the functions maintaining the main activities.

25 February 2019

During the General Meeting of Shareholders, the Company's share capital was increased by the in kind contribution of the Vilnius City Municipality in the value of EUR 256,701.44. A respective change in bylaws was registered in State Enterprise Centre of Registers on 04/04/2019.

1 March 2019

Resident applications to receive funding for residential block connection to water and wastewater networks in 2020 has been started to be collected. This is the second year in a row that the Company has allocated its own funds for the implementation of network development projects.

29 April 2019

During the General Meeting of Shareholders, the Company's share capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 396,375.52. A respective change in bylaws was registered in State Enterprise Centre of Registers on 07/06/2019.

10 May 2019

Vilniaus Vandenyms announced a new EUR 32.8 million public procurement tender for the reconstruction of the Vilnius Wastewater Treatment Plant.

11 June 2019

The Extraordinary General Meeting of the Shareholders elected 7 members to the Supervisory Board of Vilniaus Vandenyms: Gediminas Švilpa, Valdas Benkunskas, Sergej Dmitrijev, Romualda Poševeckaja, Linas Kvedaravičius, Grigorijus Avinas, Albert Narvoiš.

Additionally, during the General Meeting of Shareholders, the Company's share capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 793,214.40. A respective change in bylaws was registered in State Enterprise Centre of Registers on 26/07/2019.

18 June 2019

The Supervisory Board elected its Chairman – Gediminas Švilpa and 5 members of the Board of Vilniaus Vandenyms: Adomas Bužinskas, Edvardas Varoneckas, Kęstutis Karosas, Miroslav Romanovski and Marius Švaikauskas, the CEO of the Company.

2 July 2019

The results of block network development funding application ratings. In order to use the investments as effective, the applications were evaluated and rated in compliance with the Company's Infrastructure development object rating method.

12 July 2019

At its first meeting, the Board of Vilniaus Vandenyšs elected Adam Bužinskis, Deputy Director of the Administration of Vilnius City Municipality, as its Chairman.

15 July 2019

6 drinking fountains have been installed and opened in the public spaces of Vilnius.

1 August 2019

In Vilnius Kalnėnai settlement, a new 212-meter-deep artesian water well and a 500-cubic-meter drinking water reservoir have been installed and connected to the water supply system. The new facilities must fully meet the current water consumption needs of the local population.

6 September 2019

During the General Meeting of Shareholders, the Company's share capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 575,290.40. A respective change in bylaws was registered in State Enterprise Centre of Registers on 27/09/2019.

As from 27 September 2019, a resolution of the shareholders was passed to abolish the Company's Supervisory Board with all the supervisory functions to be transferred to the Board of the Company in line with Paragraph 11 of Article 34 of the Law on Companies of the Republic of Lithuania.

12 September 2019

The Board of Vilniaus Vandenyšs approved the Company's operational strategy for 2020–2030. It establishes a new vision of the company (leader in providing high-speed, quality and reliable services), defines new values (responsibility, cooperation, professionalism) and strategic directions (customers, efficiency, sustainable development and modernisation, employees and organization).

30 September 2019

After receiving none of the tender offers and consequently terminating the previously announced tender, Vilniaus Vandenyšs re-announced EUR 32.8 million public procurement tender for the reconstruction of the Vilnius Wastewater Treatment Plant.

25 October 2019

The Municipal Council of Vilnius District approved the strategic operational and development plan of Vilniaus Vandenyšs for 2020–2022. It contains a detailed draft measures and envisaged projects to achieve strategic goals and objectives, as well as the need for funds and sources of funding, discusses the deadlines and indicators.

25 October 2019

During the General Meeting of Shareholders, the Company's share capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 518,905.28. A respective change in bylaws was registered in State Enterprise Centre of Registers on 03/12/2019.

31 October 2019

The Municipal Council of Šalčininkai District approved the strategic operational and development plan of Vilniaus Vandenyys for 2020–2022.

1 November 2019

Vilniaus Vandenyys has finished "amnesty" share. Residents could inform about a self-driven connection to centralised water and wastewater treatment networks with no imposed sanctions. They were provided with the required support of the Company's specialists and the possibility to immediately start legally use the Company's services. The required documents were arranged within a year.

26 November 2019

The largest cleaning work of water supply networks carried out in this decade in capital. 11.2 km of main water supply networks in Naujamiestis and Žemieji Paneriai were cleaned in nine days using modern Austrian equipment.

6 December 2019

The Extraordinary General Meeting of the Shareholders approved 4 new independent members of the Board of Vilniaus Vandenyys: Rytis Ambrazevičius, Laura Joffè, Jurgita Petrauskienė and Robertas Šerėnas, and removed Kęstutis Karosas, a representative of Vilnius City Municipality Administration, was removed from the Board.

Additionally, during the General Meeting of the Shareholders, the Company's share capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 144,655.20.

13 December 2019

The Board of Vilniaus Vandenyys elected the following members of the Audit Committee: Rytis Ambrazevičius, Laura Joffè, and Jurgita Petrauskienė.

18 December 2019

The Municipal Council of Vilnius City approved the strategic operational and development plan of Vilniaus Vandenyys for 2020–2022. It contains a detailed draft measures and envisaged projects to achieve strategic goals and objectives, as well as the need for funds and sources of funding, discusses the deadlines and indicators.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

January 2020

Four financing agreements were signed in accordance with Priority Axis 5 "Environment, sustainable use of natural resources and adaptation to climate change" of the Operational Programme for EU Structural Funds Investments for 2014-2020, measure No 05.3.2-VIPA-T-024 "Improvement of the wastewater treatment networks". The total amount of investments under the agreements signed is EUR 5,906 thousand. The amount of loans granted by VIPA for the implementation of the measure is EUR 3,543 thousand. Loans are granted with fixed annual interest rate of 2%, the loan maturity term is 240 months following the date of entry into force of the loan agreements.

1 February 2020

New prices of many water supply and wastewater treatment services came in effect to the customers in Vilnius and Vilnius, Šalčininkai and Švenčionys districts.

1 February 2020

Average volume of consumed drinking water per capita per month (2.32 m³) was changed for customers who do not have individual meters in the territory served by the Company.

21 January 2020

The Company's issued capital was increased by in kind contribution of the Vilnius CITY MUNICIPALITY in the value of EUR 144,655.20.

3 March 2020

Following the declaration of an emergency situation in Lithuania due to the threat of the spread of the coronavirus, the Company prepared and approved a plan for the prevention of coronavirus infection (COVID-19). In accordance with this plan and the Government's recommendations, the Company ensures all the necessary hygiene conditions, promotes, within its capabilities, teleworking, and keeps employees informed about the changing situation regarding the coronavirus.

13 March 2020

Due to the threat of the spread of coronavirus, to avoid close contact between people and to protect the health of customers, employees and their relatives, the Company announced that from 16 March 2020 is closing all Customer Service Departments and customers will be served only remotely: by phone and e-mail.

16 March 2020

Following the introduction of quarantine in the country and in order to alleviate the financial burden on the population due to inconveniences caused by the quarantine, the Company announced the possibility of deferring payments for services provided to customers who will be financially affected by COVID-19 quarantine (loss of work, unpaid leave, non-culpable absence from work and inability to engage in self-employment and will, therefore, not receive income)*.

The Company has performed an assessment of the impact of the corona virus outbreak on the Company's operations and financial statements and considers that COVID-19 will have a limited impact on the Company's operations, because the Company provides vitally important services, the prices of which are set by the regulator and the consumption of which is not particularly sensitive to changes in the economy. Although the Company plans to provide customers with the default interest-free and a longer period for invoice payment, as a result of which the actual payment deadlines may be extended, however, taking into account the relatively small share of costs consisting of fees for services provided by the Company in the cost structure of natural and legal persons, the Company does not anticipate a significant increase in uncollectible amounts. In addition, the Company has overdrafts signed but not yet withdrawn to finance planned investments in property, plant and equipment and has launched negotiations with financial institutions on new financing agreements to meet working capital needs, if additional financing proves necessary to cover current liabilities of the Company based on time frame for settlement provided for in the agreements.

DETAILS AND CONTACT DATA OF THE COMPANY

Company name	Private limited liability company Vilniaus Vandenyys
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 st. 8-1, LT-01517, Vilnius, Lithuania
Telephone	1889
E-mail	Info@vv.lt
Website:	www.vv.lt

CUSTOMER SERVICE DIVISIONS

Vilnius

Spaudos st. 8-1, Vilnius

I–IV 8.00 a.m. – 5.30 p.m.

V 8.00 a.m. – 5.00 p.m.

Švenčionys

Vidžių st. 7, Švenčionys

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

Šalčininkai

Lydos st. 34, Milvydų village, Šalčininkų civil parish, Šalčininkų District Municipality

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

Nemenčinė

Gaukštonių st. 3, Gaukštonių village, Vilnius District Municipality

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

Customer service lines open 24/7

1889

Calls are charged based on the rates or the payment plan of the communication operator. It must be noted that operators charge calls to short numbers at different rates, thus its is recommend to check the call price on the operator's website (Bitė, Tele2, Telia).

+370 5 266 4455

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

8 800 10880

Toll-free telephone for registering accidents.

Vilniaus Vandenys UAB

Independent Auditor's Report and
Financial Statements for the Year
Ended on 31 December 2019

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Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

To UAB Vilniaus Vandenys

17 April 2020

Ernst & Young Baltic UAB has performed the audit of the financial statements of UAB Vilniaus Vandenys (hereinafter the Company) for the year ended 31 December 2019, prepared by the management in the Lithuanian language. In this letter we have included a translation of our opinion from the original, which was prepared in the Lithuanian language.

All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

“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 2019, 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 present fairly, in all material respects, the financial position of the Company as at 31 December 2019 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 Code of Ethics for Professional Accountants (including International Independence Standards) (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

1. Impairment assessment of property, plant and equipment

Property, plant and equipment amounts to EUR 128.617 thousand in the statement of financial position of the Company as at 31 December 2019. As disclosed in Note 3.23 to the financial statements, the Company performed an annual impairment test of these assets as at 31 December 2019 based on the value in use estimation. Based on the outcome of this impairment test, the Company has not recognized an impairment charge.

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 89% of the total assets of the Company as at 31 December 2019.

2. Impairment assessment of trade accounts receivable

As at 31 December 2019 the Company had current trade accounts receivable balance amounting to EUR 3.744 thousand reported in the statement of financial position, part of which was overdue as disclosed in Note 12 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, recent historical payment patterns as well as forward looking information. This matter is significant to our audit due to materiality of the amounts as these receivables constitute over 39% of the total current assets of the Company in the statement of financial position as at 31 December 2019 and high level of management judgment involved in impairment allowance calculation.

3 Contingent liabilities and provisions relating to legal matters

As it is disclosed in 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.

How the matter was addressed in the audit

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 3.23 about the assumptions used in the impairment test and the outcome of the test.

Among other procedures, we reviewed the management's assumptions used in the impairment assessment of trade accounts receivable, including the historical default rate information used, by agreeing on a sample basis information used by the management with the supporting evidence.

We also considered forward-looking information used in impairment estimation by comparing the management's estimate with the publicly available reputable sources of information (e.g. Bank of Lithuania).

Additionally, we tested the correctness of aging of the receivables data by obtaining sale documents for a selected sample and comparing that with the information included in the ageing report. In addition, we reviewed clerical accuracy of the calculation of impairment recorded for the customer groups based on their ageing.

Furthermore, we have reviewed the adequacy of the disclosure in the financial statements on this matter (Note 12).

Among other procedures, our audit procedures included discussions with the management and the Company's internal legal counsel of the basis underlying the management's assessment of the potential outcome of the claims and litigations. We also obtained letter from the external legal counsel 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 reviewed the adequacy of the disclosure in the financial statements on this matter (Note 27).

Other Information

Other information consists of the information included in the 2019 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.

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.



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 the 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 4 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 current audit engagement period, we have not provided any other services except for the audit and translation of the financial statements and the audit of the regulated activity report for the year ended 31 December 2018 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

27 March 2020"

Jonas Akelis
Partner

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Revenue			
Revenue from contracts with customers	4	33,113	36,982
Other income	4	102	26
Total revenue:		33,215	37,008
Salaries and related expenses	5	(12,904)	(11,085)
Depreciation and amortisation	10.11	(6,269)	(5,463)
Repair and maintenance expenses	6	(3,198)	(2,993)
Sludge treatment expenses		(542)	(952)
Electricity expenses		(3,388)	(2,907)
Transportation expenses		(697)	(768)
Telecommunication and IT services		(663)	(635)
Tax expenses (excl. Income tax)		(2,534)	(2,600)
Reversal of impairment losses from contracts with customers	12	181	36
Impairment of property, plant and equipment	10	(211)	-
Non-current assets write-off expenses		(53)	(211)
Office rent expenses		-	(259)
Other expenses	7	(3,185)	(2,761)
Total expenses:		(33,463)	(30,598)
Operating profit (loss)		(248)	6,410
Finance income	8	149	155
Finance costs	8	(146)	(119)
Net financial result		3	36
Profit (loss) before tax		(245)	6,446
Income tax benefit (expenses)	9	5	(892)
NET PROFIT (LOSS)		(240)	5,554
Other comprehensive income (expenses)			
Items that will be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
Other comprehensive income (expenses), net of tax		-	-
TOTAL COMPREHENSIVE INCOME (EXPENSES)		(240)	5,554

The accompanying notes on pages 12 to 43 are an integral part of these financial statements.
 These financial statements were approved and signed on 27 March 2020.

 Marius Švaikauskas
 General Director

 Zina Chmieliauskienė
 Head of the Accounting
 department

STATEMENT OF FINANCIAL POSITION

	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment	10	128,617	114,320
Intangible assets	11	769	549
Right-of-use assets	11	1,889	-
Non-current portion of trade and other receivables	12	2,271	2,733
Total non-current assets		133,546	117,602
Current assets			
Inventories		386	411
Trade and other receivables	12	3,744	3,607
Prepaid income tax		40	343
Prepayments and deferred expenses	13	460	690
Contract assets – accrued revenue	14	470	295
Cash and cash equivalents	15	4,456	17,129
Total current assets		9,556	22,475
Assets held-for-sale		318	350
TOTAL ASSETS		143,420	140,427
EQUITY AND LIABILITIES			
Equity			
Issued capital	16	118,847	115,616
Legal reserves	17	1,054	777
Retained earnings (deficit)		8,252	11,769
Total equity		128,153	128,162
Non-current liabilities			
Loans	18	427	1,284
Lease liabilities	19	1,688	-
Deferred tax liabilities	9	488	493
Employee benefits		225	271
Grants		61	198
Other non-current liabilities		412	482
Total non-current liabilities		3,301	2,728
Current liabilities			
Loans	18	857	857
Current portion of lease liabilities	19	226	-
Trade and other payables	20	5,111	3,124
Contract liabilities – advances received		688	798
Provisions	27	842	765
Other current liabilities	21	4,242	3,993
Total current liabilities		11,966	9,537
TOTAL EQUITY AND LIABILITIES		143,420	140,427

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 Marius Švaikauskas
 General Director

 Žina Chmieliauskienė
 Head of the Accounting
 department

STATEMENT OF CHANGES IN EQUITY

	Notes	Issued capital	Legal reserve	Retained earnings (deficit)	Total equity
Balance as at 31 December 2017		112,664	426	8,903	121,993
Difference arising from transition to IFRS 9		-	-	(337)	(337)
Balance as at 1 January 2018		112,664	426	8,566	121,656
Comprehensive income					
Net profit		-	-	5,554	5,554
Total comprehensive income		-	-	5,554	5,554
Increase in issued share capital by in-kind contributions		2,952	-	-	2,952
Transfer to reserves		-	351	(351)	-
Dividends approved		-	-	(2,000)	(2,000)
Balance as at 31 December 2018		115,616	777	11,769	128,162
Balance as at 31 December 2018		115,616	777	11,769	128,162
Comprehensive income					
Net profit/(loss)		-	-	(240)	(240)
Total comprehensive income		-	-	(240)	(240)
Increase in issued share capital by in-kind contribution	16	3,231	-	-	3,231
Transfer to reserves	17	-	277	(277)	-
Dividends approved	16	-	-	(3,000)	(3,000)
Balance as at 31 December 2019		118,847	1,054	8,252	128,153

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 These financial statements were approved and signed on 27 March 2020.

 Marius Švaikauskas
 General Director

 Zina Chmieliauskienė
 Head of the Accounting
 department

STATEMENT OF CASH FLOWS

	Note	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Cash flows from/(used in) operating activities			
Net profit/(loss)		(240)	5,554
Adjustments to non-cash items:			
Current year income tax expenses	9	-	931
Depreciation and amortisation	10, 11	10,395	9,792
Change in deferred income tax (Amortization) of grants	9 10	(5) (4,126)	(39) (4,329)
(Gain)/loss on disposal/write off of property, plant and equipment and assets held for sale		(3)	195
Change in impairment of property, plant and equipment		211	-
Change in impairment arising from contracts with customers	12	(181)	(36)
Change in allowance for inventories		1	32
Change in provisions		145	111
Interest expenses	8	120	116
Financial income recognised in the statement of profit or loss and other comprehensive income	8	(123)	(152)
		<u>6,194</u>	<u>12,175</u>
Working capital adjustment:			
Decrease/(increase) in inventories, prepayments, deferred expenses and accrued income		41	(59)
(Increase)/decrease in trade and other receivables	12	847	4,681
Increase/(decrease) in trade and other payables		(951)	(86)
Income tax paid		(40)	(2,667)
		<u>6,091</u>	<u>14,044</u>
Net cash flows from/(used in) operating activities			
Cash flows from/(used in) investing activities			
(Purchase) of property, plant and equipment and intangible assets		(19,213)	(7,795)
Proceeds from disposal of property, plant and equipment and assets held for sale		89	9
Interest received		14	192
		<u>(19,110)</u>	<u>(7,594)</u>
Net cash flows from/(used in) investing activities			
Cash flows from/(used in) financing activities			
(Repayment) of loans		(857)	(857)
Repayment of lease liabilities		(177)	-
Payment of interest and similar expenses		(123)	(120)
Grants received		4,452	1,048
Penalties and default interest received		76	28
Dividends (paid)		(3,000)	(2,000)
Penalties and default interest (paid)		(25)	(3)
		<u>346</u>	<u>(1,904)</u>
Net cash flows from/(used in) financing activities			
Net (decrease) increase in cash flows		(12,673)	4,546
Cash and cash equivalents at the beginning of the year	15	<u>17,129</u>	<u>12,583</u>
Cash and cash equivalents at the end of the year	15	<u>4,456</u>	<u>17,129</u>

The accompanying notes on pages 12 to 43 are an integral part of these financial statements.
 These financial statements were approved and signed on 27 March 2020.

 Marius Švaikauskas
 General Director

 Zina Chmieliauskienė
 Head of the Accounting
 department

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND OTHER NOTES

1. General

Vilniaus Vandenyys UAB (hereinafter "the Company") was registered on 27 March 1991, the company code is 120545849. The registered office address is Spaudos st. 8-1, LT-01517, Vilnius, Lithuania.

The principal activities of the Company are the supply of water and wastewater treatment services. Vilniaus Vandenyys, 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 2019, the number of private customers of the Company was 252.8 thousand (as at 31 December 2018 – 247.1 thousand), legal entities amounted to 8.0 thousand (as at 31 December 2018 – 7.7 thousand). Private customers and legal entities are treated as defined in the Methodology for Calculating Water Supply and Wastewater Management Prices. Based on the unaudited data for 2019, the Company supplied approximately 93 thousand m³ water per day and collected 109 thousand m³, and treated approximately 111 thousand m³ waste water per day. The mission of the Company is a pure water and clean environment for the society. The main focus areas of the Company are customer orientation, effective performance, sustainable development and modernisation.

As at 31 December 2019 and 2018, the shareholders of the Company were:

	31/12/2019		31/12/2018	
	Number of shares held	Ownership interest, %	Number of shares held	Ownership interest, %
Vilnius City Municipality	3,870,339	94.31	3,772,442	94.49
Vilnius District Municipality	94,170	2.30	80,483	2.02
Švenčionys District Municipality	83,450	2.03	83,450	2.09
Šalčininkai District Municipality	55,883	1.36	55,883	1.40
	4,103,842	100.00	3,992,258	100.00

During 2019, the Company's issued capital was increased by in kind contributions from Vilnius City Municipality in the amount of EUR 2,835 and Vilnius District Municipality in the amount of EUR 396 thousand (Note 16).

In 2018, the Company's issued capital was increased by in kind contributions from Vilnius City Municipality in the amount of EUR 2,344 thousand, Vilnius District Municipality – EUR 211 thousand and Švenčionys District Municipality – EUR 397 thousand (Note 16).

As at 31 December 2019, the number of employees of the Company was 683 (as at 31 December 2018 – 656), an average list number of employees during 2019 was 671 (2018 - 648).

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 right to approve the annual financial statements or not to approve the annual financial statements and 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

Compared to the previous financial year, the accounting policies adopted are consistent with those of the previous financial year, except for the following new/amended IFRSs which have been adopted by the Company as from 1 January 2019:

- IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

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. The implementation of this interpretation did not have significant impact on the Company.

- IFRS 9: Prepayment features with negative compensation (Amendment)

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 did not have any impact on the Company.

2. Application of New and Amended International Financial Reporting Standards (continued)

- IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

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. The implementation of these amendments did not have any impact on the Company.

- IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

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. The implementation of these amendments did not have any impact on the Company.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The implementation of these improvements did not have significant impact on the Company.

- 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.

- IFRS 16 Leases:

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessor will continue to classify leases as either operating or finance leases using similar principles as in IFRS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company has adopted IFRS 16 using the modified retrospective approach of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the right-of-use assets equal to the lease liabilities and comparative information is not restated. The impact of this standard on the statement of financial position as at 1 January 2019 presented in the table below:

	31/12/2018	IFRS 16	01/01/2019
ASSETS			
Non-current assets			
Right-of-use assets	-	2,133	2,133
EQUITY AND LIABILITIES			
Non-current liabilities			
Lease liabilities	-	1,913	1,913
Current liabilities			
Current portion of lease liabilities	-	220	220

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	2,440
Weighted average incremental borrowing rate as at 1 January 2019	2.13%
Discounted operating lease commitments as at 1 January 2019	2,229
Less (practical expedients applied):	
Commitments relating to short-term leases	(68)
Commitments relating to leases of low-value assets	(28)
Lease liability as at 1 January 2019	2,133

Upon application of IFRS 16, the Company reviewed lease contracts previously classified as operating leases.

Based on assessment of the Management, the collectors used by the Company on the basis of collector lease agreement for indefinite term do not meet the criteria for identifiable assets set out in IFRS 16, therefore, adjustments to the collector lease related to IFRS 16 were not accounted for in the financial statements as at 31 December 2019 and collector rental expenses continue to be recognized in the statement of profit or loss and other comprehensive income (Note 7).

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:

- 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 (Amendments)

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 Company has not yet evaluated the impact of the implementation of these amendments.

- Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. These Amendments have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of these amendments.

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The Company has not yet evaluated the impact of the implementation of these amendments.

- Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary relief, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Company has not yet evaluated the impact of the implementation of these amendments.

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of these amendments.

The Company expects to apply the standards and interpretations described above from the date of their entry into force if they are approved for use in 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), unless stated otherwise.

3.3.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. By selecting the acquisition cost method, property, plant and equipment is recorded in accounting at cost and reported in the financial statements at acquisition cost less accumulated depreciation and accumulated impairment loss.

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

The acquisition cost of property, plant and equipment received (donated) free of charge comprises the value of the asset confirmed in the contract of gift or other similar document, which may not exceed the fair value, and the costs related to the acquisition and preparation for use. The value of networks reconstructed, newly built and registered on behalf of the Company at the expense of real estate builders, when these networks are reconstructed/constructed after obtaining the Company's consent to relocate/dismantle old networks owned by the Company and issuing new terms for connection, is determined based the real estate registry central database.

Assets received from shareholders free of charge and not transferred as in kind contribution are accounted as a grant related to an asset in the statement of financial position.

The acquisition value includes the cost of replacing a part of property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Replaced parts of property, plant and equipment 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.

When property is retired or otherwise disposed of, the cost and related accumulated depreciation are derecognised and any related gain or loss is included in the statement of profit (loss) and other comprehensive income. Gain or loss on disposal of property, plant and equipment is calculated on the basis of the income received less the carrying amount of the assets 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
Plant and equipment	5–15	years
Vehicles	6–15	years
Other property, plant and equipment	5–8	years

The useful lives of assets are reviewed at each financial year-end and adjusted prospectively if appropriate.

Construction in progress is transferred to appropriate categories of property, plant and equipment when it is completed and ready for its intended use.

3. Accounting Policies (continued)

3.4. Intangible assets

Software and acquired rights

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

Other intangible assets

Intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment loss, if it is probable that future economic benefits that are attributable to the asset will flow to the Company. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3 to 4 years.

Gain or loss on disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in the statement of profit or loss and other comprehensive income when the asset is disposed.

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

3.5. 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, and right-of-use assets to determine whether there is any indication that those assets may be impaired. 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 purpose of impairment testing, assets are grouped together into the smallest group of assets for which there are separately identifiable cash flows (cash-generating units).

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

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

3.6. Financial instruments: initial and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.6.1. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (PL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. These assets, except for trade receivables that do not have a significant financing component, are initially measured by the Company at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. Trade receivables that do not have a significant financing component are measured at the transaction price identified under IFRS 15.

3. Accounting Policies (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This measurement is referred to as the SPPI test and is performed at a financial instrument level.

The Company's financial asset management model indicates how the Company manages its financial assets to generate cash flows. The business model determines whether cash flows will be generated by collecting contractual cash flows, by selling this financial asset or by using both options.

A regular way purchases or sales of financial assets are accounted for at trade date, i.e., the date that the Company commits to purchase or sell the financial asset.

Subsequent measurement

After initial recognition, the Company measures a financial asset at:

- Amortised cost (debt instruments);
- Fair value through OCI with recycling of cumulative gains and losses upon derecognition into profit or loss (debt instruments). The Company did not have such items as at 31 December 2019 and 2018;
- Fair value through OCI with no recycling of cumulative gains and losses upon derecognition into profit or loss (equity instruments). As at 2019 and 31 December 2018, the Company did not have such financial instruments;
- Fair value through profit or loss. The Company did not have such items as at 31 December 2019 and 2018.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortized cost, if the two conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method, less impairment loss. Gain or loss is recognised in the statement of comprehensive income when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade, other current and non-current receivables, loans granted and contract assets.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the financial asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

(a) the Company has transferred substantially all the risks and rewards of the asset, or

(b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement with a third party, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When the Company neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In this case, the Company also recognizes the associated liability. The transferred asset and associated liability are measured based on the rights and obligations retained by the Company.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower amount of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay (the amount of the guarantee).

Impairment of financial assets

Other disclosures related to impairment of financial assets are also presented in the following Notes:

- Disclosures on significant assessments and used assumptions are disclosed in Note 3.23;
- Trade receivables, including contract assets, are disclosed in Notes 12 and 14.

3. Accounting Policies (continued)

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECLs). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, the impairment loss is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECLs).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises an impairment loss based on lifetime ECLs at each reporting date. The Company builds the expected loss rate matrix which is based on historical credit loss analysis and adjusted to reflect future factors specific to borrowers and the economic environment.

The Company considers a financial asset in default when indications exist that the debtors or a group of debtors are 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. A financial asset is derecognised when there is no reasonable expectation to recover contractual cash flows.

3.6.2. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans received and other payables. All financial liabilities are recognised initially at fair value and, in the case of loans received and other payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans received, including bank overdrafts and lease liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities classified as measured at fair value through profit or loss on initial recognition.

Financial liabilities are classified as held for trading if they are incurred principally for the purpose of repurchasing them in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gain or loss arising from financial liabilities held for trade is recognised in the statements of profit or loss and other comprehensive income. As at 31 December 2019 and 2018, the Company did not attribute any financial liabilities to liabilities measured at fair value through profit or loss.

Loans received and other payables

This category is the most relevant to the Company. After initial recognition, loans and other payables, including lease liabilities, are subsequently measured at amortised cost using the EIR method. Gain and loss is recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

For more information please refer to Notes 18, 19 and 20.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the respective balances is recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, i.e. to realise the assets and settle the liabilities simultaneously.

3. Accounting Policies (continued)

3.7. Inventories

Inventories are valued at the lower of cost or net realizable value. Net realisable 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. Unrealisable inventories are fully written-off.

The 100% allowance is established based on the list of inventories no longer suitable for use prepared during the inventory counting process. In addition, the allowance for slow moving inventories was established at the end of reporting period on 31 December: 100% allowance for items that have not been consumed for more than 2 years and 80% allowance items that have not been consumed for less than 2 years, starting from the end of the reporting year.

3.8. Assets held-for-sale

Non-current assets are 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. Such investments mature in less than three months and are subject to 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. Lease

The Company as lessee

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. Right-of-use assets are subject to the same methods of useful life identification and useful life that apply to the Company's property, plant and equipment (Note 3.3).

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 3.5 "Impairment of non-financial assets".

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

3. Accounting Policies (continued)

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the estimates of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

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 the statement of profit or 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 recognized as an expense on a straight-line basis over the lease term.

The Company is a lessor

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

3.11. Grants

Grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached 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 grants related to assets. Grants related to assets reduce cost of acquisition associated tangible assets and recognised as income (respectively reducing related expenses – depreciation of property plant and equipment) in the periods and in the proportions, which correspond the Company assets' 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 grants related to income 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 an associated receiver of support, the Company participated in a project funded by the European Union "Nutrient Recycling Circular Economy Model for Large Cities – Water Treatment Sludge and Ashes to Biomass to Bio-Energy" (NutriBiomass4LIFE). During the project period (2018–2022), received funds are accounted for as grants related to income.

3.12. Employee benefits

Social security contributions

The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. Defined contribution plan is 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 employees all benefits related to their work in the current and previous periods. The social security contributions are recognised as an expense on an accrual basis and are included within remuneration expenses. As from 1 January 2019, the Company pays social security contributions at a rate amounting to 1.77%.

3. Accounting Policies (continued)

Accrued employee benefit obligations

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. Any gain or loss appearing as a result of curtailment and/or settlement is recognised in the statement of profit or loss and other comprehensive income as incurred. The past service costs are recognised in the statement of profit or 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. The obligation is recognised in the statement of financial position in non-current payables and liabilities and current payables and liabilities, and reflects the present value of these benefits on the 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 recognised in other comprehensive income.

3.13. Contingencies

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

A contingent asset is not recognised in the financial statements.

3.14. Provisions

Provision is 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, considering 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.

3.15. 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 or 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 2019 and 31 December 2018 was 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 derivatives. As from 1 January 2014, tax loss carry forward that is deducted cannot exceed 70% of the taxable profit of the current financial 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 loss from disposal of securities and/or derivatives 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. As at 31 December 2019 and 2018, the Company did not have any tax losses carried forward.

Deferred tax

Deferred income tax is recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax liabilities are recognised for all temporary differences, whereas deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Such deferred assets and liabilities are not recognised 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.

3. Accounting Policies (continued)

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

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the Company to realise these assets up to an amount that is likely to reduce taxable profit in the future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax assets and deferred income tax liabilities reflects the tax consequences that 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.

Current and deferred tax for the period

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.

3.16. Revenue recognition

Revenue from contracts with customers

The principal activities of the Company are the supply of water and wastewater treatment services.

Revenue from contracts with customers is recognised when control of the services or goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services or goods. The Company controls goods or services before it transfers them to the customer, therefore, the Company acts as a principal.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.23.

The Company provides its services that are either sold separately (only water supply or wastewater services) or bundled together. Contracts for bundled services are comprised of several performance obligations because the promises to transfer different services are capable of being distinct and separately identifiable. Accordingly, the Company allocates the transaction price based on the relative stand-alone selling prices of the separate services (including selling (fixed subscription) price).

The Company recognises revenue from water supply and waste water management services over time, using a delivery method (used cubic meters by the customer) to measure provision of the services, because the customer simultaneously receives and consumes the benefits provided by the Company. Other incidental revenue from the sale of buildings, plant, equipment or inventory is recognised at a point in time, generally upon delivery of the items sold.

Assets received free of charge from third parties are recognised at cost determined in accordance with the real estate registry central database and accounted for as a revenue at a point in time in the statement of profit or loss and other comprehensive income in the period, when the asset has been received, because the performance obligation is satisfied when customer is connected to the network.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). The Company typically provides maintenance services for general repairs of defects as required by law. These assurance-type warranties are accounted for under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. As of 31 December 2019 and 2018, the Company did not provide any warranties that would comply with IAS 37. No other promises in the contracts exists that could be treated as a separate performance obligation.

In determining the transaction price, the Company considers the effects of variable consideration. Accrued revenue is recognised as contract asset based on variable units of output used by the consumer. In order to fully account for the Company's income for services provided, at the end of reporting period on 31 December, income for the last month of the reporting year that was received for providing water and/or wastewater management and maintenance services is accrued, but the meter readings for these services have not been submitted by customers and, therefore, these services are unbilled.

In addition, the management considers the effect of other matters to the revenue recognition such as the existence of significant financing components, non-cash consideration, and consideration payable to the customer. None of these are present in the Company's contracts with the costumers.

Transaction price allocated to the remaining performance obligation is not disclosed because the Company has the right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date.

3. Accounting Policies (continued)

Contract assets – accrued revenue

A contract asset is the right to consideration in exchange for goods or services transferred to the customer.

If the Company performs services or transfers goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional (please refer to the description of accrued revenue above).

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets, Note 3.6.

Contract liabilities: prepayments received

A contract liability is the obligation to transfer goods or services to a customer for which the Company has already received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the Company performs under the contract.

Cost of obtaining and fulfilling contracts

The costs incurred by the Company that meets capitalization criteria are within the scope of the accounting rules for property, plant and equipment. The Company did not incur such expenses as of 31 December 2019 and 2018. Other costs are expensed as incurred because these costs are not expected to be recovered.

3.17. 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 substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

3.18. Foreign currencies

The presentation and functional currency is the euro (EUR). All transactions had functional currency other than euro translated into euro at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Gains or losses arising on exchange are included in the statement of profit or loss and other comprehensive income for the period. Exchange gains and losses from the translation of monetary assets or liabilities into euros are recognized in the statement of profit or loss and other comprehensive income

Exchange gains and losses are recognised in the statement of profit or loss and other comprehensive income in the period in which they arise.

3.19. 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 the reporting company;
- has a significant influence on the reporting company; or
- is one of the key management personnel of the 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 venture of the other company (or an associate or joint venture of the other member of the group, of which another company is a member).
- Both companies are joint ventures of a third party.
- One party is a joint venture of a 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. Accounting Policies (continued)

3.20. Fair Value Measurement

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 Group 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 determines 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.

3.21. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable by the entity or the counterparty in the normal course of business and in the event of default, insolvency or bankruptcy.

3.22. Regulated activity

Profitability of the Company's regulated services is regulated by the National Energy Regulatory Council under the approved Methodology for Calculating Water Supply and Wastewater Management Prices (hereinafter "the Pricing methodology"). Prices valid in 2019 were determined in accordance with the Pricing methodology effective at that date, based on which the prices were included to 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. Having regard to the efficiency coefficient, amount of services sold, completed investments, electricity, heat, prices of technological materials, tax tariffs and changes in salaries, actual return of investments and other factors beyond the Company's control, base prices were recalculated in 2019 in accordance with the applicable Pricing methodology and will come into force on 1 February 2020.

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

3.23. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management of the Company to make judgements, 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.

3. Accounting Policies (continued)

Useful life of property, plant and equipment

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.

Revenue from Contracts with Customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- Identifying performance obligations in a bundled sale of different services

The Company provides water supply and waste water management services that are either sold separately or bundled together. The Company determined that both the water supply and waste water management are capable of being distinct. These services are not highly interdependent or highly interrelated, because the Company would be able to provide waste water management if the customer declined water supply and vice versa. Consequently, the Company allocated a portion of the transaction price (including selling (fixed subscription) price) to the different services based on relative stand-alone selling prices.

- Determining the timing of operational obligations for water supply and wastewater management services

The Company recognises revenue from water supply and waste water management services over time, using a delivery method (used cubic meters by the customer) to measure provision of the services, because the customer simultaneously receives and consumes the benefits provided by the Company. The consumption made by the customer can be reliably measured by the Company. In order to fully account for the Company's income for services provided, at the end of reporting period on 31 December, income for the last month of the reporting year that was received for providing water and/or wastewater management and maintenance services is accrued, but the meter readings for these services have not been submitted by customers and, therefore, these services are unbilled.

Accounted revenue based on average consumption

The Company provides services to existing customers uninterruptedly, regardless of whether they submit meter 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 customers that do not submit meter readings for the ongoing month is calculated on the basis of water and/or wastewater volumes calculated in previous reporting periods.

Impairment allowance for trade receivables

The Company uses a provision matrix to calculate the expected credit loss (ECL) for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by the type of customer).

The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (GDP and unemployment rate) are expected to deteriorate/slow down, which can lead to an increased number of defaults, the historical default rates are adjusted to reflect forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are reviewed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant judgement and estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The information about the ECLs on the Company's trade receivables is disclosed in Note 12.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 22. The Company does not hold collateral from customers as security to mitigate credit risk.

For the purpose of the estimation of doubtful amounts receivable, private customers' (PC) and legal entities' (LE) debts are grouped by overdue period. The expected credit loss rates used to calculate the ECLs as at 31 December 2019 and 2018 are provided below:

3. Accounting Policies (continued)

Overdue period	Expected credit loss rates PC, %	Expected credit loss rates LE, %
Less than 1 month	6.00%	0.50%
1–2 months	12.00%	3.00%
2–3 months	19.00%	8.00%
3–4 months	28.00%	28.00%
4–5 months	37.00%	37.00%
5–6 months	45.00%	45.00%
6–7 months	53.00%	52.00%
7–8 months	61.00%	60.00%
8–9 months	70.00%	68.00%
9–10 months	77.00%	80.00%
10–11 months	84.00%	91.00%
More than 11 months	86.00%	100.00%

For some customers of the Company, an individual assessment of impairment of receivables can be performed based on the decision of the Company's management. In 2019 and 2018, an individual impairment assessment had not been performed.

Impairment of property, plant and equipment

The Company makes an assessment, at least annually, whether there are any indications that the carrying amount of property, plant and equipment has been impaired. 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, 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 2019 and 2018.

Below are presented the key assumptions applied by the management for the budget and long-term planning, and, respectively, the impairment assessment as at 31 December 2019:

- Weighted average cost of capital (WACC) discount rate (pre-tax) of 9.15% was applied in the impairment evaluation model (7.19% as at 31 December 2018).
- Average market-based WACC used by the management is higher than the one approved by the National Energy Regulatory Council. Management believes that in the long-term (starting from the year 2025), 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 (3.57%) and converge to the market level.
- As at 31 December 2019 and 2018, cash flows occurring after 5 years were forecasted by using a growth rate of 1.5%.
- During the period of 2020–2024, capital investments to property, plant and equipment will consist of EUR 72,214 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 2019 and 2018:

- The increase in the WACC discount rate (pre-tax) in 2020 and onwards by 1.16 percentage point would result in an impairment in the amount of EUR 7 thousand;
- Additional annual investment in non-current assets amounting to EUR 3,220 thousand in 2020 and onwards would result in an impairment in the amount of EUR 37 thousand.

3.24. Events after the Reporting Period

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

4. Revenue

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Water supply	12,943	15,175
Wastewater treatment	16,151	17,963
Selling fee	3,085	2,832
Drainage	211	257
Income from assets received from third parties free of charge	565	621
Income from commercial work and services	158	134
Net gain on disposal of non-current assets	55	9
Income from sale of inventory	41	15
Other income	6	2
Total:	33,215	37,008

In 2019, the Company attributed income from water supply, wastewater treatment services, selling fee, drainage, assets received free of charge and commercial work and services to revenue from contracts with customers, the total amount of which was EUR 33,113 thousand (in 2018 – EUR 36,982 thousand). In 2019, income from other activity comprised income from disposal of assets, sale of inventories and other income, the total amount of which was EUR 102 thousand (in 2018 – EUR 26 thousand).

In 2019, revenue amounting to EUR 255 thousand was recognised that was included in contract liabilities, i.e. advances received as at 31 December 2018. In 2018, revenue amounting to EUR 242 thousand was recognised that was included in contract liabilities, i.e. advances received as at 31 December 2017.

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

Income from assets received free of charge in 2019 and 2018 is comprised of the average market value of networks reconstructed, newly built and registered on behalf of the Company funded by real estate developers. The average market value is based on the statements of real estate register central database.

5. Payroll and Related Expenses

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Payroll	12,403	8,336
Change in vacation reserve	146	140
Social security contributions	220	2,558
Change in accrued liabilities to employees	135	51
Total:	12,904	11,085

6. Repair and Maintenance Expenses

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Technological materials	910	884
Maintenance materials expenses	465	423
Digging recovery	455	403
Equipment servicing	391	481
System cleaning	330	278
System diagnostics and repair works	286	200
Repair of tools and equipment	36	18
Construction repairs	250	216
Laboratory services (monitoring)	42	50
Topo geodesic photos and legal registration	33	40
Total:	3,198	2,993

7. Other expenses

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Customer service expenses	880	851
Cleaning of premises	217	249
Heating	188	223
Rent of collectors	172	173
Work safety and special clothes	165	55
Insurance	131	87
Garbage collection	105	103
Promotion and commerce	78	39
Doubtful debts write-off	54	30
Security services	49	48
Audit	35	51
Trainings	48	36
Consultations	10	2
Household-economic expenses	18	21
Office administration expenses	20	16
Representation expenses	15	6
Change in allowance on inventories	1	32
Other expenses	999	739
Total:	3,185	2,761

*Other costs consisted of the following:

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Water expenses for technology and own use	158	60
Certificate of Centre of registers and cadastral cases	130	78
New customer connection expenses	112	96
Provisions for claims	77	161
Legal services	74	99
Provision for pensions	68	-
Events to employees	48	43
Other	332	202

8. Finance Income and Finance Expenses

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Finance income		
Interest income	53	116
Penalties and default interest received	96	39
Total:	149	155
Finance expenses		
Interest (expenses)	(120)	(116)
Penalties and default interest (paid)	(26)	(3)
Total:	(146)	(119)
Finance income/(costs), net	3	36

In 2019, interest from Municipal administration of the city Vilnius amounted to EUR 38 thousand, in 2018 – EUR 102 thousand.

9. Income Tax

In 2019 and 2018 income tax expenses (benefit) were as follows:

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Income tax expense		
Current income tax	-	931
Deferred income tax (benefit) expenses	(5)	(39)
Income tax expenses recorded in the statement of profit or loss and other comprehensive income	(5)	892

Change in deferred tax asset and liabilities during 2019 and 2018:

	01/01/2018	Income tax (expenses) benefit accounted through profit (loss)	31/12/2018	Income tax (expenses) benefit accounted through profit (loss)	31/12/2019
Accrual for vacation reserve	101	21	122	21	143
Allowance for accounts receivable	167	45	212	(27)	185
Employee Benefits	134	8	142	30	172
Allowance for inventories	2	5	7	-	7
Provisions accrued for boreholes liquidation	1	(1)	-	7	7
Provisions for cadastral measurement and cases registration	5	(1)	4	-	4
Provisions for compensation of losses	-	-	-	11	11
Deferred tax assets	410	77	487	42	529

	01/01/2018	Income tax (expenses) benefit accounted through profit (loss)	31/12/2018	Income tax (expenses) benefit accounted through profit (loss)	31/12/2019
Financial and tax differences for investment incentive using II method until 2002	(842)	26	(816)	25	(791)
Differences of property, plant and equipment financial and tax depreciation	(100)	(64)	(164)	(62)	(226)
Deferred income tax liability	(942)	(38)	(980)	(37)	(1,017)
Deferred tax, net	(532)	39	(493)	5	(488)

9. Income Tax (continued)

Presented in the statement of financial position as follows:

	31/12/2019	31/12/2018
Deferred tax assets	-	-
Deferred income tax liability	(488)	(493)

As at 31 December 2019, the deferred tax asset is recognised in the statement of financial position to the extent that the Company's management expects it to be realised in the near future based on taxable profit forecasts.

On 31 December 2019, the Company had unused tax credits in the amount of EUR 3,468 thousand related to the investments in property, plant and equipment made in 2019 and eligible to use to reduce the taxable profit for 2020–2023, however, the Company's management decided not to recognise the related EUR 520 thousand deferred income tax assets, whereas in the light of the taxable profit forecasts there was insufficient evidence that the Company would be able to use these assets to reduce taxable profit in the future.

Income tax expense disclosed in the statement of profit or loss and other comprehensive income relating to the result of the year may be reconciled to income tax expense that would arise using an enacted income tax rate of 15% applicable to profit before income tax:

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Profit (loss) before tax	(245)	6,446
Income tax expenses calculated at statutory tax rate	(37)	967
Non-taxable income	(106)	(103)
Expenses not deductible for income tax	175	167
Tax incentives for investments	(37)	(95)
Income tax expenses recorded in the statement of profit or loss and other comprehensive income	(5)	892

10. Property, Plant and Equipment and Right-of-Use Asset

	Buildings	Structures	Transmission devices	Plant and equipment	Vehicles	Other property, plant and equipment	Construction-in-progress	Prepayments	Total	Right-of-use assets
Acquisition cost										
Balance as at 1 January 2018	32,563	45,938	144,479	29,032	4,856	8,883	252	172	266,175	-
Acquisitions	25	15	3,558	745	149	408	5,397	57	10,354	-
Disposals and write-offs	-	(53)	(349)	(702)	(366)	(270)	(4)	-	(1,744)	-
Reclassifications from CIP	67	388	1,271	405	-	767	(2,785)	(113)	-	-
Reclassifications between groups of property, plant and equipment	-	(2)	-	2	-	-	-	-	-	-
Reclassified to assets held for sale	(575)	(99)	-	-	-	-	-	-	(674)	-
Balance as at 31 December 2018	32,080	46,187	148,959	29,482	4,639	9,788	2,860	116	274,111	-
Lease recognition under IFRS 16										
Balance as at 1 January 2019	-	-	-	-	-	-	-	-	-	2,133
Acquisitions	40	55	3,701	1,362	725	542	13,856	101	20,382	-
Disposals and write-offs	-	(379)	(489)	(268)	(707)	(353)	(20)	-	(2,216)	-
Reclassifications from CIP	84	339	4,303	1,169	839	856	(7,373)	(217)	-	-
Impairment of assets	(39)	(168)	(4)	-	-	-	-	-	(211)	-
Balance as at 31 December 2019	32,165	46,034	156,470	31,745	5,496	10,833	9,323	-	292,066	2,133
Accumulated depreciation										
Balance as at 1 January 2018	11,663	29,173	81,501	24,264	3,551	6,202	-	-	156,354	-
Depreciation for the year	456	776	2,102	958	284	776	-	-	5,352	-
Disposals and write-offs	-	(54)	(205)	(698)	(366)	(268)	-	-	(1,591)	-
Reclassifications between groups of property, plant and equipment	-	(1)	-	1	-	-	-	-	-	-
Reclassified to assets held for sale	(260)	(64)	-	-	-	-	-	-	(324)	-
Balance as at 31 December 2018	11,859	29,830	83,398	24,525	3,469	6,710	-	-	159,791	-
Balance as at 1 January 2019	11,859	29,830	83,398	24,525	3,469	6,710	-	-	159,791	-
Depreciation for the year	561	792	2,295	846	352	936	-	-	5,782	244
Disposals and write-offs	-	(354)	(456)	(260)	(704)	(350)	-	-	(2,124)	-
Balance as at 31 December 2019	12,420	30,268	85,237	25,111	3,117	7,296	-	-	163,449	244
Net book value as at 31 December 2018	20,221	16,357	65,561	4,957	1,170	3,078	2,860	116	114,320	-
Net book value as at 31 December 2019	19,745	15,766	71,233	6,634	2,379	3,537	9,323	-	128,617	1,889

10. Property, Plant and Equipment and Right-of-Use Asset (continued)

As at 31 December 2019, property, plant and equipment cost was reduced by received grants, related to the assets, which cost was EUR 133,930 thousand (as at 31 December 2018 – EUR 130,032 thousand), and net book value of such assets was EUR 95,700 thousand (as at 31 December 2018 – EUR 95,648 thousand).

The grants consist of financing received from Structural Funds of the European Union for the development of infrastructure and assets received free of charge from Vilnius city municipality. In 2019, the asset-related grants received from the EU amounted to EUR 4,367 thousand (in 2018 – EUR 850 thousand). In 2019, the shareholders did not transfer any assets free of charge, whereas assets received free of charge from Vilnius City Municipality in 2018 amounted to EUR 425 thousand.

In 2019, grants amortisation expenses were EUR 4,126 thousand (in 2018 – EUR 4,329 thousand).

In 2019, the amount of assets received from third parties free of charge, accounted for as income and in the statement of profit or loss and other comprehensive income amounted to EUR 565 thousand (in 2018 – EUR 621 thousand).

As at 31 December 2019, property, plant and equipment of the Company with net book value* of EUR 36,597 thousand (EUR 7,801 thousand as at 31 December 2018) was pledged to banks as a collateral for the loans (Note 18).

As at 31 December 2019, the Company's property, plant and equipment with an acquisition cost* of EUR 60,168 thousand was fully depreciated (as at 31 December 2018 – EUR 61,146 thousand), but still in use.

As at 31 December 2019, the Company's property, plant and equipment with net book value* of EUR 318 thousand (as at 31 December 2018 – EUR 564 thousand) was identified as not used in Company's activity. As at 31 December 2019, part of this property, plant and equipment with the book value* of EUR 318 thousand (as at 31 December 2018 – EUR 350 thousand) was transferred to assets held for sale. In 2019, three auctions were announced, during which the assets with net book value of EUR 32 thousand were sold for EUR 41 thousand (excl. VAT). As at 31 December 2019, the impairment, which was equal to the net book value of this asset EUR 211 thousand, was recognised for unused assets that have not been transferred to assets held for sale (as 31 December 2018 no impairment was recognised).

During the year 2019 and 2018, the Company did not have any borrowing cost, which would meet capitalisation criteria.

As at 31 December 2019 and 2018, the Company's property, plant and equipment with inventory performed, but legally not registered, as well as property, plant and equipment with inventory not performed and legally not registered was as follows:

	PPE with inventory procedures performed, but legally not registered		PPE with inventory procedures not performed and legally not registered	
	Book value*, thousand	Amount of PPE cards	Book value*, thousand	Amount of PPE cards
Net book value as at 31 December 2018	9,185	578	9,440	321
Net book value as at 31 December 2019	6,870	482	6,254	239

Applications for the award of the title by way of limitation have been submitted to the courts for 365 units of property, plant and equipment with inventory performed, but legally not registered, the residual value of which as at 31 December 2019 was EUR 4,114 thousand. Once the court judgement is issued on the said property, plant and equipment, it will be registered in the Real Property Register of the State Enterprise Center of Registers.

These assets are accounted for in the Company's property, plant and equipment accounts as the Company bears significant risks and rewards related to the respective assets.

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

Right-of-use assets

As at 1 January 2019, a long-term office lease agreement concluded in 2017 was recognised in the right of use asset, where the lease period is assessed under the assumption that the Company would exercise the option to extend the 5-year lease agreement for an additional 5 years.

10. Property, Plant and Equipment and Right-of-Use Asset (continued)

New projects

Currently, the Company is implementing 3 projects, the agreements of which have been signed with the Environmental Project Management Agency for obtaining contribution from the EU structural funds for 2014–2020.

“Provision of drinking water and wastewater treatment system renovation and development in Vilnius city”, total project funding amounted to EUR 41,913.5 thousand, of which EU funds amounted to EUR 20,956.76 thousand, and the end of the project – 31 December 2021.

“Provision of drinking water and wastewater treatment system renovation and development in Švenčionys city”, total project funding amounted to EUR 1,480.9 thousand, of which EU funds amounted to EUR 740.1 thousand, and the end of the project – 31 July 2021. Švenčionys District Municipality is the partner of the project.

“Reconstruction of Švenčionys wastewater treatment plant”, total project funding amounted to EUR 4,184.5 thousand, of which EU funds amounted to EUR 3,347.6 thousand, and the end of the project – 30 July 2022.

An agreement on the financing and supervision of investment projects financed by the Lithuanian Environmental Investment Fund Program was signed in October 2019. Funding in the amount of EUR 200 thousand is allocated for the investment project “Construction of Household Wastewater Networks SB Tabakas”.

11. Intangible Assets

	Software	Projects in progress	Total
Balance as at 1 January 2018	1,270	55	1,325
Acquisitions	199	262	461
Reclassifications from projects in progress	262	(262)	-
Write-offs (-)	(286)	(55)	(341)
Balance as at 31 December 2018	1,445	-	1,445
Balance as at 1 January 2019	1,445	-	1,445
Acquisitions	183	280	463
Reclassifications from projects in progress	280	(280)	-
Write-offs (-)	(24)	-	(24)
Balance as at 31 December 2019	1,884	-	1,884
Accumulated amortisation			
Balance as at 1 January 2018	1,071	-	1,071
Amortisation charge for the year	111	-	111
Write-offs (-)	(286)	-	(286)
Balance as at 31 December 2018	896	-	896
Balance as at 1 January 2019	896	-	896
Amortisation charge for the year	243	-	243
Write-offs (-)	(24)	-	(24)
Balance as at 31 December 2019	1,115	-	1,115
Net book value as at 31 December 2018	549	-	549
Net book value as at 31 December 2019	769	-	769

As at 31 December 2019, a part of the Company's intangible assets with the acquisition value of EUR 371 thousand were fully amortised (as at 31 December 2018 – EUR 765 thousand), but still in use.

12. Trade and Other Receivables

	31/12/2019	31/12/2018
Non-current portion of trade and other receivables		
Trade receivables	2,233	2,733
Non-current portion interest receivables	38	-
Total:	2,271	2,733

12. Trade and Other Receivables (continued)

As at 31 December 2019, the receivable amount from Vilnius city municipality under a trilateral agreement for transfer of requirement rights and offsetting between the Company, Vilniaus Energija UAB and Vilnius City Municipality Administration amounted to EUR 2,233 thousand (as at 31 December 2018 – EUR 2,733 thousand). In July 2019, a new agreement for repayment schedule has been signed with Vilnius City Municipality Administration, according to which EUR 500 thousand was repaid in August 2019, and the remaining payments are planned in instalments starting from 31 March 2021, ending 31 December 2021. Under this agreement, the total amount of interest receivable until 31 December 2021 amounts to EUR 95 thousand, accrued interest income for the period until 31 December 2019 amounts to EUR 38 thousand.

	31/12/2019	31/12/2018
Current trade and other receivables		
Trade receivables	4,974	5,017
Other receivables	2	3
	4,976	5,020
Less: allowance for doubtful trade receivables	(1,232)	(1,413)
Total:	3,744	3,607

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

Trade receivable impairment is calculated from the first month.

Change of allowance for impairment losses from contracts with customers in 2019 was as follows:

	31/12/2019
Balance at the beginning of the year	1,413
Impairment for the year	7
Impairment reversal	(136)
Write-off to bad debts	(52)
Balance at the year-end	1,232

Change of allowance for impairment losses from contracts with customers in 2018 was as follows:

	31/12/2018
Balance as at 31 December 2017	1,112
Difference arising from adoption of IFRS 9	337
Balance as at 1 January 2018	1,449
Impairment for the year	7
Impairment reversal	(14)
Write-off to bad debts	(29)
Balance at the year-end	1,413

Under the requirements of IFRS 9, the Company recognised an additional impairment for trade receivables amounting to EUR 337 thousand and decreased its retained earnings by this amount as at 1 January 2018.

12. Trade and Other Receivables (continued)

The ageing analysis of trade receivables of the Company as at 31 December 2019 was as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	31-90 days	91 – 180 days	181- 365 days	More than 365 days	
Vilnius City Municipality	2,262	-	-	-	-	-	2,262
Natural persons	1,221	180	99	50	33	160	1,743
Other legal entities	1,732	128	76	24	7	3	1,970
Total	5,215	308	175	74	40	163	5,975

The ageing analysis of trade receivables of the Company as at 31 December 2018 was as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	31-90 days	91 – 180 days	181- 365 days	More than 365 days	
Vilnius City Municipality	2,793	4	-	-	-	-	2,797
Natural persons	968	137	110	60	40	140	1,455
Other legal entities	1,890	120	42	26	8	(1)	2,085
Total	5,651	261	152	86	48	139	6,337

13. Prepayments and deferred expenses

	31/12/2019	31/12/2018
Prepayments	3	8
Deferred expenses	457	682
	460	690

14. Contract assets: Accrued income

	31/12/2019	31/12/2018
Accrued income	470	295
	470	295

In order to fully account for the Company's income for services provided income for the last month of the reporting year for water and/or wastewater management and maintenance services provided to legal persons (where the meter readings for these services have not been submitted and, therefore, these services are unbilled) was accrued for the first time as at 31 December 2019. Accrued income for legal entities amounts to EUR 233 thousand, whereas accrual of income for natural persons decreased by EUR 58 thousand.

15. Cash and Cash Equivalents

	31/12/2019	31/12/2018
Cash at bank	4,387	17,036
Cash in transit	69	93
	4,456	17,129

In 2019, funds and future income in the bank account and future inflows to bank accounts were not pledged.

16. Issued Capital

During 2019, the Company's issued capital was increased by in kind contributions from Vilnius City Municipality in the amount of EUR 2,835 and Vilnius District Municipality in the amount of EUR 396 thousand. As at 31 December 2019, the number of shares for in kind contribution from Vilnius City Municipality comprised 97,897 units, Vilnius District Municipality – 13,687 units. As at 31 December 2019, the Company's issued capital amounted to EUR 118,847 thousand and divided into 4,103,842 shares with the par value of EUR 28.96 each.

In 2018, the Company's issued capital was increased by shareholder's in kind contributions with the total amount of EUR 2,952 thousand as follows: in kind contributions from Vilnius City Municipality in the amount of EUR 2,344 thousand and Vilnius District Municipality in the amount of EUR 211 thousand, in kind contributions from Švenčionys District Municipality in the amount of EUR 397 thousand. In 2018, Vilnius City Municipality in kind contribution comprised of 80,933, Vilnius District Municipality in kind contribution comprised of 7,287 and Švenčionys District Municipality in kind contribution comprised of 13,712 shares. As at 31 December 2018, the Company's issued capital amounted to EUR 115,616 thousand and divided into 3,992,258 shares with the par value of EUR 28.96 each.

The issued capital of the Company was fully paid as at 31 December 2019 and 2018. The Company did not hold its own shares.

On 29 April 2019, the General Meeting of the Shareholders passed a ruling to allocate EUR 3 million of dividends to shareholders for 2018 (EUR 0.7453 dividends per share). On 30 April 2018, the General Meeting of the Shareholders passed a ruling to allocate EUR 2 million of dividends to shareholders for the period May – December 2017 (EUR 0.5141 dividends per share).

17. Reserves

Legal reserves

The legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. In 2019, when distributing net profit of 2018, EUR 277 thousand was attributed to legal reserve. As at 31 December 2019, the legal reserve amounted to EUR 1,054 thousand. In 2018, distributing net profit of 8 months of 2017, EUR 351 thousand has been attributed to legal reserve. As at 31 December 2018, the legal reserve amounted to EUR 777 thousand.

18. Loans

	31/12/2019	31/12/2018
Long-term loans		
Long-term loans	427	1,284
	<u>427</u>	<u>1,284</u>
Current loans		
Current portion of non-current loans	857	857
Total:	<u>1,284</u>	<u>2,141</u>

Non-current and current borrowings of the Company include:

Lender	Average interest rate, %	Currency of the loan	Total amount of the loan	Repayment date	31/12/2019	31/12/2018
Ministry of Finance of the Republic of Lithuania	4.29	Euro	12,000	01/06/2021	1,284	2,141
			Less: current portion		(857)	(857)
			Long-term loans, net of current portion		<u>427</u>	<u>1,284</u>

The terms of repayment of long-term and short-term loans are as follows:

	31/12/2020	31/12/2019
Within the first year	857	857
From one to five years	427	1,284
Total:	<u>1,284</u>	<u>2,141</u>

18. Loans (continued)

To secure the fulfilment of financial liabilities to the creditor, the Company's property, plant and equipment with the balance of EUR 36,597 thousand as at 31 December 2019 has been pledged (as at 31 December 2018 – EUR 7,801) (Note 10).

In 2018, the Company has signed an agreement with the Ministry of Finance of the Republic of Lithuania, that entitles the Ministry of Finance of the Republic of Lithuania to provide an EUR 19,400 thousand loan to fund an investment project „Provision of drinking water and wastewater treatment system renovation and development in Vilnius city“. In 2019 and 2018, a request to the Ministry of Finance of the Republic of Lithuania to pay the loan or a portion of the loan was not submitted.

19. Lease Liabilities

The Company accounted for lease liabilities, consisting of liabilities under a long-term office lease agreement with Duetto UAB, under IFRS 16 starting from 1 January 2019 using the modified retrospective approach. Lease liabilities are equal to the present value of the future lease payments discounted at a borrowing rate of 2.13%.

	31/12/2019	01/01/2019	IFRS 16	31/12/2018
Non-current liabilities				
Lease liabilities	1,688	1,913	1,913	-
	1,688	1,913	1,913	-
Current liabilities				
Current portion of lease liabilities	226	220	220	-
Total:	1,914	2,133	2,133	-

The maturity analysis of lease liabilities is disclosed in Note 22.

The Company applies the lease recognition exemptions for short-term leases of vehicles and leases of low-value items (with a value of 2,000 euro or less). Costs incurred under collector lease agreement are also recognised in profit or loss because they do not meet the criteria for identifiable assets set out in IFRS 16.

The following are the amounts recognized in profit or loss:

	01/01/2019
	31/12/2019
Depreciation expense of right-of-use assets	244
Lease liability interest expenses	43
Expenses relating to short-term leases (included in other expenses in profit or loss)	32
Expenses relating to leases of low-value assets (included in other expenses in profit or loss)	19
Rent of collectors (Note 7)	172
Total amount recognized in profit or loss	510

20. Trade and Other Payables

	31/12/2019	31/12/2018
Trade payables for services	937	932
Trade payables for repairs	57	70
Trade payables for constructions in progress and reconstruction	1,237	385
Trade payables for contractual works in EU-funded projects	2,327	963
Trade payables for non-current assets	436	431
Trade payables for inventories	117	343
Total	5,111	3,124

21. Other Current Liabilities

	31/12/2019	31/12/2018
Taxes payable	1,293	1,404
Vacation pay accrual	956	810
Accrued variable component of remuneration	808	673
Current portion of accrued pension liabilities	113	-
Taxes, salaries and social security	228	289
Accrued expenses	112	223
Other liabilities	732	594
Total	4,242	3,993

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 credit, liquidity and interest rate. 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 2019 and 2018, 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.

In 2019 and 2018, the Company did not use derivatives to manage annual interest rate risk.

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 2019 were 0.83 and 0.80, respectively (2.39 and 2.35 as at 31 December 2018).

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 2019, the cash flow from operating activities was EUR 5,522 thousand (in 2018, EUR 13,619 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.

Taking into account that effective service tariffs increased on 1 February 2020, 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 approval date of these financial statements.

The tables below summarise the maturity profile of the Company's financial liabilities as at 31 December 2019 and 2018 based on contractual undiscounted payments.

	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years	In total
Interest bearing loans	-	-	902	437	-	1,339
Lease liabilities	-	66	198	1,068	745	2,077
Trade and other payables	142	4,969	-	-	-	5,111
Other liabilities	-	31	692	533	-	1,256
Balance as at 31 December 2019	142	5,066	1,792	2,038	745	9,783

22. Financial Risk Management Objectives and Policies (continued)

	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years	In total
Interest bearing loans	-	-	891	1,424	-	2,315
Trade and other payables	10	3,114	-	-	-	3,124
Other liabilities	-	22	716	561	-	1,299
Balance as at 31 December 2018	10	3,136	1,607	1,985	-	6,738

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 2019 and 2018, 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 fair value of the Company's financial assets and financial liabilities approximates their carrying amounts as at 31 December 2019 and 2018 (Level 3).

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

The following methods and assumptions are used to determine the fair value of each class of financial assets and liabilities:

- The carrying amount of current trade amounts receivable, current trade accounts payable and short-term borrowings approximates fair value due to their short maturities (Level 3).
- The fair value of long-term 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 long-term borrowings with variable and fixed interest rates approximates their carrying amounts (3 level).

Categories of financial instruments:

	31/12/2019	31/12/2018
Financial assets		
Cash and cash equivalents	4,456	17,129
Non-current receivables, trade and other receivables	5,977	6,340
Financial liabilities		
Carried at amortised cost	8,309	5,265

22. Financial Risk Management Objectives and Policies (continued)

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 the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. 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 of capital management during the year ended 31 December 2019 and 2018.

The Company is obliged to keep its shareholders' equity ratio not less than 50% of its authorised 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%:

	31/12/2019	31/12/2018
Company's assets	143,420	140,432
Contract liabilities: advances received	(688)	(798)
	142,732	139,634
Equity	127,870	128,168
Capital concentration ratio	89.59%	91.79%

23. Related Party Transactions

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 2019 and related year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Receivables from related parties	Accounts payable to other related parties
Shareholders	424	7	2,261	-
Entities controlled by shareholders	5,940	460	626	62
Total	6,364	467	2,887	62

As at 31 December 2019, the receivable from Vilnius City Municipality amounted to EUR 2,261 thousand. Sales to Vilniaus Šilumos Tinklai AB in 2019 amounted to EUR 5,123 thousand.

The Company's transactions with related parties in 2018 and related year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Receivables from related parties	Accounts payable to other related parties
Shareholders	493	2	2,795	1
Entities controlled by shareholders	6,855	499	700	10
Total	7,348	501	3,495	11

As at 31 December 2018, the receivable from Vilnius City Municipality amounted to EUR 2,795 thousand. Sales to Vilniaus Šilumos Tinklai AB in 2018 amounted to EUR 5,838 thousand.

Services to shareholders and to entities controlled by shareholders are provided at market prices.

24. Remuneration of the Management and Other Payments

As at 31 December 2019, the Company's management comprised 5 people, as at 31 December 2018 – 4 people.

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Key management remuneration	371	225
Social security	7	70
Total	378	295

During 2019, the Company's management received payment in amount of EUR 13.77 thousand for car rental (in 2018 – EUR 12.13 thousand).

25. Non-Cash Transactions

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Property, plant and equipment received from shareholders as capital contribution	3,231	2,952
Non-current assets from shareholders received free of charge	-	425
Non-current assets received from third parties free of charge	565	621

26. Events after the Reporting Period

Subsequent information about legal procedures is presented in Note 27.

Increase in issued capital

The Company's issued capital was increased by in kind contribution from Vilnius City Municipality in the amount of EUR 145 thousand and was registered in January 2020.

Financing agreements signed

In January 2020, four financing agreements were signed in accordance with Priority Axis 5 "Environment, sustainable use of natural resources and adaptation to climate change" of the Operational Programme for EU Structural Funds Investments for 2014-2020, measure No 05.3.2-VIPA-T-024 "Improvement of the wastewater treatment networks". The total amount of investments under the agreements signed is EUR 5,906 thousand. The amount of loans granted by VIPA for the implementation of the measure is EUR 3,543 thousand. Loans are granted with fixed annual interest rate of 2%, the loan maturity term is 240 months following the date of entry into force of the loan agreements.

COVID-19 pandemic

The Company has performed an assessment of the impact of the COVID-19 virus outbreak on the Company's operations and financial statements and considers that COVID-19 will have a limited impact on the Company's operations, because the Company provides vitally important services, the prices of which are set by the regulator and the consumption of which is not particularly sensitive to changes in the economy. Although the Company plans to provide customers with the default interest-free and a longer period for invoice payment, as a result of which the actual payment deadlines may be extended, however, taking into account the relatively small share of costs consisting of fees for services provided by the Company in the cost structure of natural and legal persons, the Company does not anticipate a significant increase in uncollectible amounts. In addition, the Company has loan agreements signed but funds not yet withdrawn to finance planned investments in property, plant and equipment and has launched negotiations with financial institutions on new financing arrangements to meet working capital needs, if additional financing proves necessary to cover current liabilities of the Company based on time frame for settlement provided for in the agreements.

27. Off-balance sheet liabilities and contingencies

Litigations

The Company has received claims from the following persons:

- Vilnius Regional court is hearing the plaintiff's AS Merko Ehitus branch claim for settlement of additional expenses and extension deadlines for completion, illegal set-off and usage of a bank guarantee. The amount of the claim is EUR 60,200 for additional work performed and EUR 93,491 as incurred losses of the plaintiff. On 9 January 2018, the Court has ruled to perform an examination of the case. The Court hearing on 8 February 2019 has been postponed. On 7 June 2019, the Vilnius Regional Court dismissed the claim. On 5 July 2019, the branch AS Merko Ehitus filed an appeal with the request to cancel the ruling of the court of the first instance. The court hearing has not yet been appointed. As at 31 December 2019 and 2018, the Company has formed a provision of EUR 153,691 for this claim.
- On 30 January 2015, due to the breakage of iron plumbing tube the basement premises of National Cancer Institute, located at Santariškių st. 1, Vilnius, were flooded. At the place of the accident, the water supply network is maintained by Vilniaus Vandeny's UAB. On 30 April 2017, Gjensidige has filed a claim that demanded jointly and severally award EUR 114,375 from Vilniaus Vandeny's UAB and InterRisk Vienna Insurance Group AAS. On 13 June 2017, a revised claim has been filed with the total amount for Vilniaus Vandeny's UAB to pay EUR 45,430. The Court of first instance partly upheld the claim and awarded EUR 27,477 thousand from Vilniaus Vandeny's UAB. The Company appealed the claim. On 21 January 2020, the Court of Appeal, by order of 7 November 2018, decided to vary the contested decision of Vilnius Regional Court regarding the defendant's Vilniaus Vandeny's UAB: to award the plaintiff Gjensidige AB a claim of EUR 12,430.29 from the defendant Vilniaus Vandeny's UAB. As at 31 December 2018, the Company has formed a provision of EUR 27,477 for this claim. The previously recognised provision related to this court case remains unadjusted as at 31 December 2019, because the Company intends to appeal the court decision in cassation.
- On 19 May 2017, the Environmental Project Management Agency under the Ministry of Environment of the Republic of Lithuania has informed the Company about undertaken investigations into alleged infringements of the incompliance with monitoring (result) rates during the period from 2007 to 2013 while performing projects funded by the European Union. The incompliance with monitoring (result) can modify the amounts of expenses suitable for funding from 5 to 20% of the funded amount. In September 2017, the Minister of the Environment of the Republic of Lithuania has issued the following orders: No D1-448; No D1-497; No D1-499 and the orders No D1-752; No D1-739; No D1-735 on application of financial corrections. Vilniaus Vandeny's UAB appealed the orders to Vilnius Regional Administrative Court on 2 October 2017. The Court of first instance did not uphold the Company's appeal, therefore, appeals have been filed to the Supreme Administrative Court of Lithuania on 9 July 2018. Currently, the case in the Supreme Administrative Court of Lithuania is pending until another case has been decided, which may establish case law in this category of cases. In the event of a negative outcome, the funded amount of EUR 4,021,761 would be repaid based on the agreements and funding resources will be redistributed, the provision for the modification of funded amounts is not formed. A possible return of funding should not have any impact on the Company's profit or losses as it's the amount of grants that would be reduced.
- In June 2017, due to high precipitation, wastewater pumping station located at Upės st. 15 has broken down and the wastewater has flooded to Neris River. Vilnius Region Environmental Protection Department (VREPD) has performed an unplanned periodical inspection in order to examine and evaluate the circumstances of the incident and an inspection act has been documented. Based on preliminary expert calculations, the damage amounted to EUR 245,229. On 16 May 2018, VREPD has filed a claim to the Company that contained a damage to the environment in the amount of EUR 454,194, calculated under the order No. 471 of the Minister of the Environment of the Republic of Lithuania signed on 9 September 2002 "Method for calculating the environmental damage award". On 26 June 2018, the Company responded to VREPD. The Company disagrees with VREPD evaluation of the accident and believes that the weather conditions agreed with the natural disaster, i.e. heavy rain that directly caused the leakage to Neris River through the emergency pipe. Even though UAB Vilniaus Vandeny's does not agree with the received claim, it is probable that the damage caused to the environment will have to be compensated. As at 31 December 2017, a provision of EUR 245,229 to repay the damage has been formed. In 2018, the Company additionally formed a provision of EUR 208,895 for the claim of VREPD. There is no formal response to the claim filed by the VREPD to date. As at 31 December 2019 and 2018 provision formed by the Company for this claim amounted to EUR 454,194.
- On 21 November 2018, Envija ES UAB filed a claim for a unilateral offset to be announced as invalid and for the debt to be extended. The amount of the claim is EUR 59,688. As at 31 December 2019 and 2018, the Company has formed a provision of EUR 59,688 for this claim. During the court hearing that occurred on 4 February 2020, the court has ruled to award the plaintiff EUR 17,823, however, the Company disagrees with the court judgement and will appeal against it. The plaintiffs also is filing an appeal, therefore, the amount of the provision has not changed.
- There is a civil case in the Vilnius City District Court based on the plaintiffs J. Ž. and A. Ž. action negatoria against the defendant Vilniaus Vandeny's UAB regarding freeing up the land plot by dismantling the cold water supply pipeline and the faecal sewer lines and by clearing up the land plot. The plaintiffs also request to award financial damage of EUR 196 in and EUR 1,500 in respect of non-financial damage. The dispute has lasted for about 5 years, but Vilniaus Vandeny's UAB became the defendant only in November 2019. Three hearings were scheduled in this case in February 2020. The claim relates to the removal of an existing network, however, the plaintiffs could claim not only the removal of the networks, but also compensation for the impairment of the land (restriction on use), therefore, a provision of EUR 74,439 has been formed as at 31 December 2019, calculated as the maximum possible compensation equal to the amount of network removal.

27. Off-balance sheet liabilities and Contingencies (continued)

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

	31/12/2018	Accrued 01/01/2019 31/12/2019	Used 01/01/2019 31/12/2019	31/12/2019
Provisions for trial claims	282	75	41	316
Provisions for environmental damage	454	1	-	455
Provisions accrued for boreholes liquidation	-	45	-	45
Provisions for cadastral measurement and cases registration	29	7	10	26
Total	765	128	51	842

Commitments under concluded contracts

As at 31 December 2019, the Company's commitments, assumed under the concluded contracts at the reporting date, which are not yet recognised in the financial statements, amounted to EUR 11,678 thousand. As at 31 December 2018, commitments amounted to EUR 24,814 thousand.

Other off-balance sheet commitments and uncertainties

As at 31 December 2019 and 2018, the Company has legally unregistered assets (Note 10) and to the date of approval of these financial statements the Company has not received any claims from the third parties. The Company bears all the risks and rewards related to these assets.