UAB Vilniaus vandenys

Independent Auditor's Report,
Annual Report and
Financial Statements for the year
ended 31 December 2016

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Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UAB Vilniaus vandenys

Opinion

We have audited the financial statements of UAB Vilniaus vandenys (the Company), which comprise the statement of financial position as at 31 December 2016, 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 2016 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). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information Included in the Company's Annual Report

Other information consists of the information included in the Company's 2016 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with 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.

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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

Jonas Akelis
Auditor's licence
No. 000003

24 March 2017

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(all amounts are in thousand EUR unless otherwise stated)

STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME

	Note	01/01/2016 31/12/2016	01/01/2015 31/12/2015 (restated, Note 28)
Revenue			
Sales income	4	39,906	39,860
Other income	5	527	322
Total revenue for the year:		**40,433**	**40,182**
Payroll and other related expenses	6	(12,417)	(11,851)
Depreciation and amortization	11,12	(7,607)	(7,462)
Repair and technical maintenance expenses	7	(4,099)	(5,110)
Sludge treatment expenses		(902)	(1,548)
Electrical energy expenses		(3,299)	(3,902)
Transportation expenses		(455)	(588)
Telecommunication and IT services		(673)	(826)
Tax expenses		(2,540)	(2,149)
Trade and other accounts receivable allowance	13	12,552	(9,345)
Non-current assets write-off expenses		(109)	(180)
Other expenses	8	(2,366)	(3,506)
Total expenses for the year:		**(21,915)**	**(46,467)**
Operating profit (loss)		**18,518**	**(6,285)**
Financial income	9	2,315	266
Financial expenses	9	(566)	(749)
Net financial result		**1,749**	**(483)**
Profit (loss) before tax		**20,267**	**(6,768)**
Income tax (expenses) benefit	10	(334)	(593)
Profit (loss) for the year		**19,933**	**(7,361)**
Other comprehensive income, net of income tax			
Items that to be reclassified subsequently to profit or loss		-	-
Items that not to be reclassified subsequently to profit or loss		-	-
Other comprehensive income for the year, net of tax		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**19,933**	**(7,361)**

The notes on pages 6 to 41 are an integral part of these financial statements,
These financial statements were approved and signed on 23 March 2017.

Aidas Ignatavičius General Director	Martynas Repečka Chief Financial Officer	Zina Chmieliauskienė Accounting department manager

(all amounts are in thousand EUR unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Note	31/12/2016	31/12/2015 (restated, 28 note)
ASSETS			
Non-current assets			
Property, plant and equipment	11	110,711	118,112
Intangible assets	12	23	130
Deferred tax asset	10	179	-
Financial assets		-	25
Total non-current assets		110,913	118,267
Current assets			
Inventories		532	667
Trade and other receivables	13	13,044	5,848
Prepayments, deferred expenses and accrued income	14	442	451
Other current assets		19	43
Cash and cash equivalents	15	19,352	445
Total current assets		33,389	7,454
Non-current assets held for sale		2,615	-
TOTAL ASSETS		**146,917**	**125,721**
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	16	112,195	111,561
Legal reserve	17	116	116
Accumulated losses		(2,597)	(22,530)
Total equity		109,714	89,147
Non-current liabilities			
Borrowings and financial lease obligations	18	21,183	13,669
Deferred tax liabilities	10	-	441
Non-current employee benefits		309	636
Other non-current liabilities		102	322
Total non-current liabilities		21,594	15,068
Current liabilities			
Borrowings and financial lease obligations	18	1,721	12,244
Trade and other payables	20	1,747	4,862
Advances received		6,999	1,111
Provisions	27	977	483
Income tax payable	10	879	177
Other current liabilities	21	3,286	2,629
Total current liabilities		15,609	21,506
TOTAL EQUITY AND LIABILITIES		**146,917**	**125,721**

The notes on pages 6 to 41 are an integral part of these financial statements,

These financial statements were approved and signed on 23 March 2017.

Aidas Ignatavičius	Martynas Repečka	Zina Chmieliauskienė
General Director	Chief Financial Officer	Accounting department manager

(all amounts are in thousand EUR unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Legal reserve	Retained earnings (deficit)	Total equity
Balance as at 1 January 2015		**111,569**	**116**	**(15,498)**	**96,187**
Effect of accounting policy changes and correction of error on accumulated losses	**28**	-	-	329	329
Balance as at 1 January 2015 (restated)		**111,569**	**116**	**(15,169)**	**96,516**
Comprehensive income (loss)					
(Loss) for the year	**28**	-	-	(7,361)	(7,361)
Total comprehensive income for the year		**-**	**-**	**(7,361)**	**(7,361)**
Share capital value adjustment due to conversion to euro		(8)	-	-	(8)
Balance as at 31 December 2015		**111,561**	**116**	**(22,530)**	**89,147**
Balance as at 1 January 2016		**111,561**	**116**	**(22,530)**	**89,147**
Comprehensive income					
Profit for the year		-	-	19,933	19,933
Total comprehensive income for the year		-	-	19,933	19,933
Increase in share capital	**16**	634	-	-	634
Balance as at 31 December 2016		**112,195**	**116**	**(2,597)**	**109,714**

The notes on pages 6 to 41 are an integral part of these financial statements,

These financial statements were approved and signed on 23 March 2017:

Aidas Ignatavičius	Martynas Repečka	Zina Chmieliauskienė
General Director	Chief Financial Officer	Accounting department manager

(all amounts are in thousand EUR unless otherwise stated)

STATEMENT OF CASH FLOWS

	Note	31/12/2016	31/12/2015 (restated, 28 note)
Cash flows from (to) operating activities			
Net profit (loss)		19,932	(7,361)
Adjustments for:			
Income tax expenses	10	954	186
Depreciation and amortisation	11,12	15,135	14,694
Change in deferred income tax	10	(620)	407
Depreciation of grants	11	(7,527)	(7,232)
Result from property, plant and equipment disposals and write-offs		109	230
Change in allowance of financial assets		25	-
Change in allowance of doubtful receivables	13	(12,577)	9,345
Change in allowance of inventories		45	111
Change in provisions		166	639
Interest expenses	9	566	711
Financial income recognised in the statement of profit (loss) and other comprehensive income	9	(2,315)	(229)
		13,892	11,501
Changes in working capital:			
Decrease in inventories		311	70
(Increase) decrease in trade and other receivables	13	5,380	(2,894)
Increase (decrease) in trade and other payables		4,385	(3,006)
Income tax paid		(251)	-
Net cash from operating activities		**23,717**	**5,671**
Cash flows from (to) investing activities			
(Acquisition) of property, plant and equipment		(4,799)	(11,880)
Proceeds from sale of non-current assets		-	30
Loans (recovery)		24	-
Interest received		1,111	178
Net cash from (to) investing activities		**(3,663)**	**(11,672)**
			-
Cash flows from (to) financing activities			-
Proceeds from loans		10,000	5,792
(Repayment) of loans and financial lease		(13,701)	(6,255)
Interest and similar expenses (paid)		(590)	(714)
Received grants		1,940	7,020
Received late payments and penalties		1,203	80
(Paid) late payment fines and penalties		-	(30)
Net cash from (to) financing activities		**(1,148)**	**5,893**
Net increase (decrease) in cash and cash equivalents		**18,906**	**(108)**
			-
Cash and cash equivalents at the beginning of the year		**445**	**553**
Cash and cash equivalents at the end of the year		**19,352**	**445**

The notes on pages 6 to 41 are an integral part of these financial statements,

These financial statements were approved and signed on 23 March 2017.

Aidas Ignatavičius	Martynas Repečka	Zina Chmieliauskienė
General Director	Chief Financial Officer	Accounting department manager

(all amounts are in thousand EUR unless otherwise stated)

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

1. General information

Vilniaus Vandenys, UAB (hereinafter "the Company") was registered in the Republic of Lithuania on 27 March 1991, the Company's code is 120545849, the address of its registered office is Dominikonų str. 11, LT-01517, Vilnius, Lithuania.

The principal activities of the Company are the supply of water and wastewater treatment services. The Company 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 2016, the number of private customers of the Company was 239.9 thousand (as at 31 December 2015 – 235.7 thousand), juridical entities – 7.5 thousand (in year 2015 – 7.2 thousand). Private customers and juridical entities are treated as specified in Drinking-water supply and waste treatment law and price set methodology. The Company supplies 87 thousand m3 water per day and collects 103 thousand m3 and treats approximately 105 thousand m3 waste water per day. The main goals of the Company are clear water and clean environment for society. The main activities of the Company – orientation to the client, efficiency of activity and transparency.

As at 31 December 2016 and 2015 the shareholders of the Company were:

	31/12/2016		31/12/2015	
	Number of shares held	Percentage (%)	Number of shares held	Percentage (%)
Vilnius city municipality	3,675,320	94.87	3,675,320	95.41
Vilnius district municipality	73,196	1.89	51,304	1.33
Švenčionių district municipality	69,738	1.80	69,738	1.81
Šalčininkų district municipality	55,883	1.44	55,883	1.45
	3,874,137	**100.00**	**3,852,245**	**100.00**

In September 2016, the Company's share capital was increased by Vilnius district municipality contribution, valued EUR 634 thousand (Note 16).

As at 31 December 2016 the number of employees of the Company was 620 (as at 31 December 2015 – 924).

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

2. Application of new and specified International Financial Reporting Standards

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2016:

- **Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative***
  The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. The implementation of these amendments did not have any impact on the financial position or performance of the Company.

- **Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization***
  The amendment is effective for annual periods beginning on or after 1 January 2016 and provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of these amendments did not have any impact on the financial position or performance of the Company as it did not use revenue-based depreciation or amortization method.

- **Amendments to IAS 19 *Employee Benefits***
  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not have any plans that fall within the scope of this amendment.

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

- **Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations***
The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

- The IASB has issued the **Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements:
  - IFRS 2 *Share-based Payment*;
  - IFRS 3 *Business Combinations*;
  - IFRS 8 *Operating Segments*;
  - IFRS 13 *Fair value Measurement;*
  - IAS 16 *Property, Plant and Equipment*;
  - IAS 24 *Related Party Disclosures;*
  - IAS 38 *Intangible Assets.*

- The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements:
  - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
  - IFRS 7 *Financial Instruments: Disclosures*;
  - IAS 19 *Employee Benefits*;
  - IAS 34 *Interim Financial Reporting.*

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 yet effective:

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Company has not yet evaluated the impact of the implementation of this standard.

IFRS 15 *Revenue from Contracts with Customers* *(*effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company has not yet evaluated the impact of the implementation of this standard.

IFRS 15: *Revenue from Contracts with Customers (Clarifications)* (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Company has not yet evaluated the impact of the implementation of this standard.

IFRS 16 *Leases* *(*effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Company has not yet evaluated the impact of the implementation of this standard.

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

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Company but may result in changes in disclosures.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Company has not yet evaluated the impact of the implementation of this standard.

IFRS 2: *Classification and Measurement of Share based Payment Transactions (Amendments)* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The implementation of these amendments will not have any impact on the financial position or performance of the Company.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (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 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 recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The implementation of these amendments will not have any impact on the financial position or performance of the Company.

Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Company has not yet evaluated the impact of the implementation of this standard.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Company has not yet evaluated the impact of the implementation of this standard.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this standard.

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

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

The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

3. Accounting policy

3.1. Statement of compliance

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

3.2. Basis of preparation

These financial statements have been prepared on a historical cost basis.
Financial statements are presented in euros and all values are rounded to the nearest thousand (000 euros).

Property, plant and equipment

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

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

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

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

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

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

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

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

3. Accounting policy (continued)

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

Construction in progress is stated at cost. This includes the cost of construction and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and are available for their intended use.

3.3. Intangible assets

Software

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

Other intangibles

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

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

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

3.4. Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

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

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

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

3.5. Financial assets

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

3. Accounting policy (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition accounted at fair value. The Company did not have any investments into financial assets at fair value through profit or loss during the years ended 31 December 2016 and 2015.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities. After initial measurement held to maturity investments are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in statement of profit (loss) and other comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process. The Company did not have any held-to-maturity investments during the years ended 31 December 2016 and 2015.

Loans and receivables

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

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

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

Available-for-sale financial instruments

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

Available-for-sale financial assets are initially recognized at fair value plus acquisition costs and subsequently revalued at fair value. Unrealized gains and losses arising from changes in fair value are recognized as other comprehensive income, except for impairment losses and foreign exchange result. When the financial asset is derecognised, the total accumulated revaluation result is transferred from other comprehensive income to profit (loss) in profit (loss) and other comprehensive income statement. The Company did not have any available for sale investments during the years ended 31 December 2016 and 2015.

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

3.6. Impairment of financial assets

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

Assets carried at amortised cost

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

3. Accounting policy (continued)

that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

3.7. Inventories

Inventories are valued at the lower of cost or net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. Unrealizable inventories are fully written-off.
During inventory count process all not liquid inventories are identified and allowance is formed for it. If the Commission of inventory count states that such stock is no longer fit for use, 100% allowance is formed.

3.8. Non-current assets for resale

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

3.9. Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank account as well as deposits in bank with original term of three months or less.

3.10. Financial liabilities

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

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

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on liabilities held for trading are recognised in statement of profit (loss) and other comprehensive income. The Company has not designated any financial liabilities as at fair value through profit or loss during the years ended 31 December 2016 and 2015.

<u>Other financial liabilities</u>

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

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

3. Accounting policy (continued)

3.11. Leases

The Company as a lessee

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

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

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

The Company as a lessor

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

3.12. Grants

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

Grants received in the form of non-current assets or intended for the purchase, construction or other acquisition of non-current assets are considered as asset-related grants. Grants related to assets reduce cost of acquisition associated tangible assets and recognized as income (respectively reducing related expenses – depreciation of tangible assets) in the periods and in the proportions, which corresponds the Company's useful life.

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

3.13. Employee benefits

Social security expenses

The Company pays social security contributions to the state Social Security Fund (hereinafter - Fund) on behalf of its employees based on the defined contribution plan in accordance with local legal requirements. Defined contribution plan - a plan under which the Company pays fixed contributions to the Fund and have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay to employees all benefits related to their work in the current and previous periods. Social security contributions are recognized as an expense on an accrual basis and included in payroll expenses. Since 01 January 2014 the Company pays the social security contribution at rate amounting to 31.17%.

Non-current employee benefits

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

The above mentioned employee benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognized in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognized in the statement of profit (loss) and other comprehensive income as incurred.

Current liabilities to employees are not discounted.

3.14. Contingencies

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

A contingent asset is not recognised in the financial statements.

3. Accounting policy (continued)

3.15. Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

3.16. Income tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit (loss) and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period. The standard income tax rate in Lithuania for the Company in the year ended 31 December 2016 and 31 December 2015 is 15%.

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

Deferred tax

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

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

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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. Accounting policy (continued)

3.17. Revenue recognition

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

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

- Revenue is recognised when the service has been provided to the customer;
- Revenue from sales of goods are recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Late payment interest income from overdue receivables is recognised upon receipt;
- Interest revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.18. Borrowing costs

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

3.19. Foreign currencies

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

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

3.20. Related parties

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

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

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

3. Accounting policy (continued)

3.21. Fair value evaluation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

3.22. Offsetting

Financial assets and liabilities are offset and the net amount is shown in the balance sheet when it is eligible to set off the recognized amounts and when there is an intention to settle the net amount or to realize assets and liabilities simultaneously. Such right does not depend on future events and is legally implemented by the entity and all counterparties both in normal operating conditions as well as the default, insolvency or bankruptcy.

3.23. Regulated activity

The Company's profitability of regulated services is regulated by the State Prices and Energy Control Commission by approved methodology for drinking water supply and waste water services pricing. In 2016 valid prices were set based on valid version of Price setting Methodology, according to which required costs and normative profit were included in the price. 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. Due to the fact that during coordination of the price, valid version of Price seetting Methodology did not provide for recalculation determined by non-compliance of normative profit rate, the Company's actual profit may deviate from the regulated level. The Company does not recognize assets and liabilities of the regulated activity, which purpose would be to equalize current year profit till regulated level, if this difference will be recovered / returned through the provision of services in the future.

3.24. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management of the Company to make judgments, estimates and assumptions that affects the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The significant areas of estimation used in the preparation of these financial statements are discussed below.

(all amounts are in thousand EUR unless otherwise stated)

3. Accounting policy (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.

Accrued income

In order to fully account for revenue for provided services as at 31 December the Company has accrued income for last month of the financial year, for which water supply/ wastewater treatment services were provided to consumers, though they will pay for these services during January of the next financial year. Accrual of income for December of the financial year is estimated for accounting purposes for the first time in 2016. The comparative information is restated as well for the previous reporting year 2015 (Note 28).

Impairment loss of accounts receivable

The Company makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered.

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

Limitation	Allowance, %
Less than 3 months	0%
4-6 months	50%
More than 7 months	100%

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

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

Limitation	Allowance, %
Less than 5 months	0%
6-11 months	50%
More than 12 months	80%

For amounts due less than 5 months allowance is not formed due to the fact that it is a period during which it is most likely to recover the debt. For debts due from 6 till 11 months the Company is carrying out services termination actions and judicial processes. For debts due more than 12 months legal proceeding are completed and the Company is starting to work with bailiffs.

By separate decision of the Company's management an individual assessment of the impairment of the debt may be applied for individual customers. Debt of Vilniaus Energija UAB is assessed individually. As at 31 December 2016 for amount receivable from Vilniaus Energija UAB which was already past due, less subsequent payments received in January, 2017 and evaluation a tripartite agreement on Subrogation and offsetting among Vilnius city municipality, Vilniaus energija UAB and the Company signed as at 29 December 2016 (Note 23), 100% allowance is formed as based on the Company's management assessment there exists a high probability that this amount may not be recovered. Since 30 March 2017 heat and hot water supply activities in Vilnius city will be transferred from Vilniaus energija UAB to Vilnius silumos tinklai AB.

Changes of profit (loss) and other comprehensive income statement

After the adoption of a new accounting policy wording in 2016, changed the profit (loss) and other comprehensive income statement structure. Costs are provided by nature and types.

Deferred tax assets

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

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

3. Accounting policy (continued)

Impairment of property, plant and equipment

The Company makes an assessment, at least annually, whether there are any indications of impairment of property, plant and equipment, and construction in progress. If that is the case, the Company makes an impairment test. The recoverable amount of cash-generating units is determined based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the forecast for the next five years and steady growth of terminal value, 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 2016 and 2015.

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

- An 8.09% (6.66% as at 31 December 2015) WACC discount rate (pre-tax) is applied in the impairment evaluation model;
- Average WACC of the market used by the management is higher than the one approved by the State Price and Energy Commission. Management believes that in the long-term, starting from the year 2021, 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 (5.49%) and get converge to the market level.
- As at 31 December 2016 management applied 1.5% annual growth rate for forecasting cash flows of further periods than 5 years.

3.25. Subsequent events

Subsequent events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material (Note 26).

(all amounts are in thousand EUR unless otherwise stated)

4. Sales income

	01/01/2016 31/12/2016	01/01/2015 31/12/2015 restated
Services rendered (water supply, wastewater treatment)	36,408	36,500
Selling fee	3,183	3,026
Drainage	315	334
Total	**39,906**	**39,860**

100% of the Company's income was earned in the Republic of Lithuania. Income of the year 2015 was restated due to evaluation of 2015 December income accrual (Note 28).

5. Other income

	01/01/2016 31/12/2016	01/01/2015 31/12/2015 restated
Income for commercial work and services	163	188
Realization of guarantees and deposits received	-	78
Gain (loss) from sales of property, plant and equipment, net	-	22
Gain from sales of inventories, net	1	8
Income due to assets received from third parties	359	-
Other income	4	26
Total	**527**	**322**

6. Payroll and other related expenses

	01/01//2016 31/12/2016	01/01/2015 31/12/2015
Payroll	9,390	9,015
Change of vacation reserve	(76)	(12)
Social security expenses	2,913	2,838
Guarantee fund taxes	18	18
Change in accrued liabilities to employees	172	(8)
Total	**12,417**	**11,851**

7. Repairs and technical maintenance expenses

	01/01/2016 31/12/2016	01/01/2015 31/12/2015
Technological materials	360	138
Exploitation materials expenses	492	822
System diagnostics and repair works	216	436
System cleaning	396	392
Digging recovery	291	449
Equipment maintenance	2,110	2,427
Repair of tools and equipment	49	107
Laboratory services (monitoring)	37	42
Topo geodesic photos and legal registration	148	297
Total	**4,099**	**5,110**

(all amounts are in thousand EUR unless otherwise stated)

8. Other expenses

	01/01/2016 31/12/2016	01/01/2015 31/12/2015
Customer service expenses	428	401
Heating	284	277
Rent of collectors	174	174
Insurance	136	131
Work safety and special clothes	100	181
Office administration expenses	95	23
Sewage removal	74	62
Premises cleaning	67	82
Security	68	70
Allowance of inventories	45	111
Audit	42	31
Trainings	26	25
Promotion and commerce	29	41
Household-economic expenses	25	44
Representative expenses	22	3
Taxes of associational memberships	6	6
Doubtful debts write-off	1	502
Other expenses	744	1,342
Total:	**2,366**	**3,506**

9. Financial income and expenses

	01/01/2016 31/12/2016	01/01/2015 31/12/2015
Financial income		
Interest income	1,111	178
Received late payments and penalties	1,204	80
Other financial income	-	8
Total	**2,315**	**266**
Financial expenses		
Interest (expenses)	(567)	(711)
(Paid) late payments and penalties	1	(38)
Total	**(566)**	**(749)**
Financial activities net result	**1,749**	**(483)**

Increase in financial income was influenced by late payments and penalties paid by Vilniaus Energija, UAB – EUR 2,226 thousand.

(all amounts are in thousand EUR unless otherwise stated)

10. Income tax expenses (benefit)

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

	01/01/2016 31/12/2016	01/01/2015 31/12/2015 restated
Profit (loss) before income tax	20,267	(6,768)
Income tax expenses (benefit) calculated at statutory tax rate	3,040	(1,015)
Expenses not deductible for income tax	229	2,100
Non-taxable income	(182)	(7)
Tax incentive	(93)	(15)
Previously unrecognised tax loss utilisation	(216)	(470)
Change in allowance of deferred income tax asset	(2,444)	-
Income tax expenses (benefit) recorded in statement of profit (loss) and other comprehensive income	**334**	**593**

Income tax expenses (benefit) are as follows:

	01/01/2016 31/12/2016	01/01/2015 31/12/2015 restated
Income tax expenses		
Current income tax	954	186
Deferred income tax expenses (benefit)	(620)	407
Income tax expenses (benefit) recorded in statement of comprehensive income	**334**	**593**

Change in deferred tax asset during 2016 and 2015:

	Balance as at 1 January 2015	Income tax (expenses) benefit accounted in profit (loss)	Balance as at 31 December 2015	Income tax (expenses) benefit accounted in profit (loss)	Balance as at 31 December 2016
Accumulated tax losses	687	(471)	216	(216)	-
Accrual for vacation reserve	82	(1)	81	(11)	70
Allowance for accounts receivable	1,355	1,401	2,756	(1,886)	870
Allowance for financial assets	-	-	-	4	4
Non-current employee benefits	71	24	95	26	121
Allowance for inventories	-	17	17	6	23
Provisions accrued for boreholes liquidation	-	1	1	-	1
Provisions for cadastral measurement and cases recording	-	-	-	8	8
Investment incentive for tangible assets	(924)	27	(897)	28	(869)
Income accrual	(43)	(7)	(50)	1	(49)
Total	1,228	991	2,219	(2,040)	179
Less: valuation allowance	(1,262)	(1,398)	(2,660)	2,660	-
Deferred tax, net	**(34)**	**(407)**	**(441)**	**620**	**179**

As at 31 December 2016 the deferred tax asset is recognized in the statement of financial position to the extent that the Company's management believes that it will be realized in the near future, based on taxable profit.

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

(all amounts are in thousand EUR unless otherwise stated)

11. Property, plant and equipment

	Buildings	Structures	Transmission devices	Machinery and equipment	Vehicles	Other assets	Construction in progress	Prepayments	Total
Cost									
Balance as at 1 January 2015	**37,223**	**48,365**	**111,699**	**43,159**	**5,053**	**1,183**	**13,683**	**1,380**	**261,745**
Acquisitions	10	31	4	1,403	93	361	3,247	832	5,981
Disposals and write-offs (-)	-	(15)	(105)	(458)	(671)	(92)	(201)	(1,817)	(3,359)
Reclassification from CIP	641	1,344	8,399	3,215	-	104	(13,703)	-	-
Reclassifications from one tangibles assets group to another*	(1,856)	(3,819)	20,114	(18,941)	-	6,265	(1,763)	-	-
Balance as at 31 December 2015 (restated)	**36,018**	**45,906**	**140,111**	**28,378**	**4,475**	**7,821**	**1,263**	**395**	**264,367**
Acquisitions	11	24	948	426	479	400	648	99	3,035
Disposals and write-offs (-)	-	-	(177)	(118)	-	(301)	(37)	-	(633)
Reclassifications	6	89	1,530	89	-	167	(1,387)	(494)	-
Reclassification to inventories	-	-	-	-	-	-	(210)	-	(210)
Reclassification to assets held for resale	(3,476)	-	(4)	-	-	-	-	-	(3,480)
Balance as at 31 December 2016	**32,559**	**46,019**	**142,408**	**28,775**	**4,954**	**8,087**	**277**	**-**	**263,079**
Accumulated depreciation									
Balance as at 1 January 2015	**10,953**	**25,875**	**74,712**	**24,350**	**3,335**	**919**	**-**	**-**	**140,144**
Charge for the year	556	1,391	2,653	2,065	288	441	-	-	7,394
Disposals and write-offs (-)	-	(13)	(49)	(458)	(671)	(92)	-	-	(1,283)
Reclassifications from one tangibles assets group to another*	1	3	3	(5,854)		5,847			-
Balance as at 31 December 2015 (restated)	**11,510**	**27,256**	**77,319**	**20,103**	**2,952**	**7,115**	**-**	**-**	**146,255**
Charge for the year	559	1,365	2,603	1,994	312	661	-	-	7,494
Disposals and write-offs (-)	-	-	(99)	(116)	-	(301)	-	-	(516)
Reclassification to assets held for resale	(861)	-	(4)	-	-	-	-	-	(865)
Balance as at 31 December 2016	**11,208**	**28,621**	**79,819**	**21,981**	**3,264**	**7,475**	**-**	**-**	**152,368**
Net book value as at 31 December 2015	**24,508**	**18,650**	**62,792**	**8,275**	**1,523**	**706**	**1,263**	**395**	**118,112**
Net book value as at 31 December 2016	**21,351**	**17,398**	**62,589**	**6,794**	**1,690**	**612**	**277**	**-**	**110,711**

11. Property, plant and equipment (continued)

*While transferring analytical accounting of grants to the new data base, grants assignment to appropriate non-current assets group was reviewed and revised, influence of reclassification among groups presented in non-currents assets movement table (Note 28).

As at 31 December 2016 property, plant and equipment cost was reduced by received grants, related to the assets, of which cost was EUR 128,619 thousand (2015 year – EUR 126,679 thousand), and net book value of such assets - EUR 103,097 thousand (EUR 108,685 thousand as at 31 December 2015).

For the year 2016 depreciation charge of grants is EUR 7,527 thousand (as at 31 December 2015 – EUR 7,232 thousand).

As at 31 December 2016 property, plant and equipment of the Company with net book value** of EUR 12,034 thousand (EUR 11,742 thousand as at 31 December 2015) was pledged to banks as a collateral for the loans (Note 18).

Property, plant and equipment of the Company with an acquisition cost** of EUR 64,460 thousand were fully depreciated as at 31 December 2016 (as at 31 December 2015 – EUR 58,569 thousand) but were still in use.

As at 31 December 2016 property, plant and equipment of the Company with net book value** of EUR 285 thousand during inventory counting was recognised as inappropriate to use and will not be used in Company's activity.

During the year 2016 and 2015 the Company did not include borrowing cost into the cost of property, plant and equipment as the Company did not have assets, which would meet capitalization criteria.

As at 31 December 2016 the Company has 1,176 items of property, plant and equipment with the carrying amount** of EUR 16,075 thousand, which is inventoried, though not registered legally (as at 31 December 2015 – 1,287 items with the carrying amount** of EUR 19,240 thousand). Also the Company has 516 items pf property, plant and equipment with the carrying amount** of EUR 19,262 thousand, for which neither inventory count, nor legal registration is performed (as at 31 December 2015 – 502 items with the carrying amount** of EUR 19,288 thousand). Such property, plant and equipment is accounted for in accounts of tangible assets as the Company has all the material risks and rewards related to it.
** - all total values are shown before offsetting with grants received.

New projects

In December 2016 the new project "Drinking-water supply and waste treatment system renovation and development in Vilnius City" agreement was signed (financed by EU structure funds). 22 objects will be accomplished until the end of the year 2020, general project value – EUR 41,914 thousand.

(all amounts are in thousand EUR unless otherwise stated)

12. Intangible assets

	Software
Balance as at 1 January 2015	1,508
Acquisitions	121
Disposals and write-offs (-)	(280)
Balance as at 31 December 2015	**1,349**
Acquisitions	6
Disposals and write-offs (-)	(35)
Balance as at 31 December 2016	**1,320**
Accumulated amortisation	
Balance as at 1 January 2015	**1,431**
Charge for the year	68
Disposals and write-offs (-)	(280)
Balance as at 31 December 2015	**1,219**
Charge for the year	113
Disposals and write-offs (-)	(35)
Balance as at 31 December 2016	**1,297**
Net book value as at 31 December 2015	**130**
Net book value as at 31 December 2016	**23**

As at 31 December 2016 part of the non-current intangible assets of the Company with the acquisition value of EUR 1,215 thousand was fully amortised (EUR 1,149 thousand as at 31 December 2015), but was still in use.

13. Trade and other receivables

	31/12/2016	31/12/2015
Trade receivables	18,841	23,936
Grant receivables	-	283
Other receivables	1	4
	18,842	24,223
Less: allowance for doubtful receivables	(5,798)	(18,375)
Total	**13,044**	**5,848**

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

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

As at 31 December 2016 receivable amount from Vilniaus energija UAB was EUR 14,163 thousand (as at 31 December 2015 – EUR 19,567 thousand). The Company's management implemented individual evaluation of the debt of Vilniaus Energija UAB and recognised allowance in the amount of EUR 4,555 thousand as at 31 December 2016 (as at 31 December 2015 – EUR 17,736 thousand).

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

	31/12/2016	31/12/2015
Opening balance	**18,375**	**9,030**
Charge for the year	684	9,378
Reversal*	(13,260)	(20)
VAT write-off	-	(1)
Bad debts write-off	(1)	(12)
Closing balance	**5,798**	**18,375**

*During the year 2016 based on court decision Vilniaus Energija UAB repaid debt in the amount of EUR 10,828 thousand, for which allowance was formed.

13.Trade and other receivables (continued)

(all amounts are in thousand EUR unless otherwise stated)

In 2016 and 2015 the change of account receivables allowance is presented in the statement of profit (loss) and other comprehensive income in separate line.

The ageing analysis of trade receivables of the Company as at 31 December 2016 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	
Vilniaus energija, UAB	7,348	628	1,249	179	204	-	9,608
Vilnius city municipality	740	12	-	-	-	-	752
Natural persons	441	1	363	183	138	229	1,355
Other legal entities	1,046	95	120	50	12	5	1,328
Total	**9,575**	**736**	**1,732**	**412**	**354**	**234**	**13,043**

The ageing analysis of trade receivables of the Company as at 31 December 2015 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	
Vilniaus energija UAB	1,662	169	-	-	-	-	1,831
Vilnius city municipality	63	64	120	125	219	-	591
Natural persons	614	242	248	132	269	449	1,954
Other legal entities	870	125	67	29	10	-	1,101
Total	**3,209**	**600**	**435**	**286**	**498**	**449**	**5,477**

14. Prepayments, deferred expenses and accrued income

	31/12/2016	31/12/2015 restated
Deferred expenses	116	115
Accrued income	322	333
Prepayments received	4	3
Total	442	451

(all amounts are in thousand EUR unless otherwise stated)

15. Cash and cash equivalents

	31/12/2016	31/12/2015
Cash at bank	19,013	280
Cash in transit	338	164
Cash on hand	1	1
Total	19,352	445

As at 31 December 2016 and 2015 the Company's all cash at banks and future inflows are pledged to the banks, except for the accounts, which are used for direct transfers of European Union targeted support.

16. Share capital

As at 31 December 2015 the share capital of the Company was comprised of 3,852,245 ordinary shares with par value of EUR 28,96 each. The Company's share capital was increased by Vilnius district municipality property contribution in value of EUR 634 thousand as at 19 September 2016. As at 31 December 2016 Vilnius district municipality shares number for property contribution comprised 21,892 units, the Company's share capital comprised 3,874,137 ordinary shares with par value of EUR 28, 95.

The share capital of the Company was fully paid as at 31 December 2016 and 2015. The Company did not hold its own shares.

17. Reserves

Legal reserve

A Legal reserve is a compulsory reserve 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 share capital. As at December 2016 and 2015 the compulsory reserve was EUR 116 thousand and was not fully formed as the Company incurred the losses in previous periods. It is planned to appoint EUR 997 thousand to legal reserve while distributing net profit in 2017.

(all amounts are in thousand EUR unless otherwise stated)

18. Borrowings and financial lease obligations

	31/12/2016	31/12/2015
Non-current borrowings and financial lease obligations		
Non-current borrowings	21,183	12,891
Obligations under finance leases (Note 19)	-	778
	21,183	13,669
Current borrowings and financial lease obligations		
Current portion of non-current borrowings	1,708	1,708
Current borrowings	-	10,137
Obligations under finance leases (Note 19)	13	399
	1,721	12,244
Total	**22,904**	**25,913**

Non-current and current borrowings of the Company include:

Lender	Average interest rate, %	Original currency	Principal amount in original currency	Maturity date	31/12/2016	31/12/2015
North Investment Bank	1.34	Euro	10,300	13/09/2026	6,759	7,434
Finance Ministry of Republic of Lithuania	4.29	Euro	12,000	01/06/2021	3,855	4,713
Finance Ministry of Republic of Lithuania	3.94	Euro	2,453	15/03/2029	2,277	2,453
AB DNB bank	3.10	Euro	4,344	28/11/2016	-	4,344
AB DNB bank	2.03	Euro	5,792	27/08/2016	-	5,792
OP Corporate bank plc branch of Lithuania	1.05	Euro	10,000	31/12/2022	10,000	-
				Total borrowings	**22,891**	**24,736**
				Less: current portion	(1,708)	(11,845)
Non-current borrowings, net of current portion					**21,183**	**12,891**

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

	31/12/2016	31/12/2015
Within one year	1,708	11,845
From one to five years	17,253	8,111
After five years	3,930	4,780
Total	**22,891**	**24,736**

As at 31 December 2016 The Company's property, plant and equipment with the carrying value of EUR 12,034 thousand was pledged to banks as a collateral for the loan (as at 31 December 2015 – EUR 11,742 thousand) (Note 11).

As at 6 May 2016 the Company signed loan agreement with OP Corporate Bank pls branch of Lithuania for amount of EUR 10,000 thousand with the maturity date 31 December 2022. The loan is committed to refinance current loans and for other general needs of the Company. Particular loan was used to refinance current loan payable to AB DNB bank. As at 6 May 2016 the Company also signed overdraft agreement for 2 years with OP Corporate Bank plc branch of Lithuania, the overdraft amount is EUR 10,000 thousand and the maturity date is 6 May 2018. As at 31 December 2016 the overdraft was not used.

19. Finance lease obligations

In year 2016 the Company redeemed vehicles under the finance lease contracts before the anticipated deadline. As at 31 December 2016 the Company's leased assets comprised the computers and its' technology. Financial lease agreement expires in 2017. As at 31 December 2015 the assets leased by the Company under the finance lease contracts consisted of computers and vehicles, the distribution of the net book value of the assets acquired under finance lease is as follows:

(all amounts are in thousand EUR unless otherwise stated)

	31/12/2016	31/12/2015
Computers	13	45
Vehicles	-	1,132
Total	**13**	**1,177**

The finance lease agreements are denominated in Euro.

Future minimal lease payments under the above mentioned finance lease contracts as at 31 December 2016 and 31 December 2015 are as follows:

	31/12/2016	31/12/2015
Within one year	13	451
From one to five years	-	827
Total finance lease obligations	**13**	**1,278**
Interests	-	(101)
Present value of finance lease obligations	**13**	**1,177**
Finance lease obligations are accounted for as:		
- current	13	399
- non-current	-	778

20. Trade and other payables

	31/12/2016	31/12/2015
Trade payables for services	1,470	2,584
Trade payables for repairs and reconstruction	109	1,452
Trade payables /funded projects/	-	365
Trade payables for inventories and non-current assets	168	461
Total	**1,747**	**4,862**

21. Other current liabilities

	31/12/2016	31/12/2015 restated
Taxes payable	1,627	1,270
Accrual for vacation reserve	464	541
Accrued current liabilities to employees	500	-
Taxes, salaries and social security expenses	240	310
Accrued expenses	191	307
Other liabilities	264	201
Total	**3,286**	**2,629**

Other payables are non-interest bearing.

Due to the approval of the new Accounting policy version, pension reserve liability was transferred to non-current liabilities, accordingly restating liabilities of year 2015 retrospectively (Note 28).
Received deposits in order to determine implementation of long-term agreements were reclassified to other non-current liabilities (Note 28).

22. Financial risk management objectives and policies

The Company's principal financial liabilities comprise bank loans, finance leases 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.

(all amounts are in thousand EUR unless otherwise stated)

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

Interest rate risk
Part of the Company's borrowings are with variable interest rates, therefore the Company faces an interest rate risk. In 2016 and 2015 the Company has not entered into any interest rate swap agreements to manage variable rate risk.

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

		31/12/2016		31/12/2015
	Increase/ decrease in %	Effect on profit before tax	Increase/ decrease in %	Effect on profit before tax
EUR	0.50	84	0.50	77
EUR	(0.10)	(17)	(0.10)	(15)

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 2016 were 2.31 and 2.27, respectively (0.35 and 0.32 as at 31 December 2015).

The management reviews the Company's liquidity risks annually as part of the planning process and on ad hoc basis. 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. The report considers projected cash flows from operations and allows for the management to effectively plan cash injection if needed.

For 2016 the cash flow from operating activities was EUR 23,717 thousand (in 2015 – EUR 5,671 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.

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

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December 2016 and 2015 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowing	-	667	1,465	18,380	4,191	24,703
Finance lease	-	7	6	-	-	13
Trade payables and others	299	1,448	-	-	-	1,747
Other liabilities		34	421	102	-	557
Balance as at 31 December 2016	**299**	**2,156**	**1,892**	**18,482**	**4,191**	**27,020**
Interest bearing borrowing	-	658	11,781	9,213	5,131	26,783
Finance lease	-	179	239	860	-	1,278
Trade payables and others	2,488	2,374	-	-	-	4,862
Other liabilities	-	82	427	322	-	831
Balance as at 31 December 2015	**2,488**	**3,293**	**12,447**	**10,395**	**5,131**	**33,754**

(all amounts are in thousand EUR unless otherwise stated)

22. Financial risk management objectives and policies (continued)

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

Main part of credit risk consists of the risk of not recovering the debt from Vilniaus energija, UAB; for part of these receivables allowance is formed. Credit risk was partly reduced by signed tripartite agreement dated 29 December 2016, which became effective in February 2017, on subrogation and offsetting between Vilnius city municipality, Vilniaus energija UAB and the Company for amount of EUR 5,647 thousand. Other 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 has at least A - by Fitch Ratings agency (or other equivalent rating agency) long-term debt credit rating.
As at 31 December 2016 and 2015 the Company did not invest available funds into instruments of cash and securities market (terminated deposits, bonds, government securities).

Fair value of financial instruments

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

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

The book value of the financial assets and financial liabilities of the Company as at 31 December 2016 and 2015 is approximate to their fair value (3 level).

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

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

Categories of financial instruments:

	31/12/2016	31/12/2015
Financial assets		
Cash and cash equivalents	19,352	445
Non-current receivables, trade and other receivables	13,044	5,873
Financial liabilities		
Carried at amortized cost	24,651	30,775

Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2016 and 2015.

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

(all amounts are in thousand EUR unless otherwise stated)

22. Financial risk management objectives and policies (continued)

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 not to be lower than 40%:

	31/12/2016	31/12/2015
Total assets	146,917	125,722
Advances received	(6,999)	(1,111)
	139,918	124,611
Equity	**109,714**	**89,147**
Capital concentration ratio	78.41%	71.54%

23. Related party transactions

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

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

	Sales to related parties	Purchases from related parties	Trade receivables from related parties	Trade and other payables to related parties
Shareholders	640	635	756	5,647
Entities controlled by shareholders	771	128	64	50
Total	**1,411**	**763**	**820**	**5,697**

Under a tripartite agreement between the Company, Vilniaus Energija UAB and Vilnius city municipality, in December 2016 the Vilnius city municipality paid EUR 5,647 thousand (accounted for as advances received), which in accordance with the tripartite agreement were offset against Vilniaus Energija UAB debt in February 2017, after the execution of obligations stated in the agreement.

The Company's transactions with related parties in 2015 and related year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Trade receivables from related parties	Trade and other payables to related parties
Shareholders	745	-	696	-
Entities controlled by shareholders	602	13	68	8
Total	**1,347**	**13**	**764**	**8**

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

As at 31 December 2016 the Company has got 2 guarantees from Vilnius city municipality in the amount EUR 9,036 thousand (EUR 9,887 thousand as at 31 December 2015) to secure obligations of the loan agreements. Maturities of the guarantees are 14 September 2026 and 15 May 2029.

(all amounts are in thousand EUR unless otherwise stated)

24. Remuneration of the management and other payments

As at 31 December 2016 the Company's management team comprised 4 people (as at 31 December 2015 – 8 people).

	01/01/2016 31/12/2016	01/01/2015 31/12/2015
Key management remuneration	172	265
Social security	53	83
Total	**225**	**348**

During the year 2016 for Company's management was paid EUR 6 thousand for vehicles lease.
During the year 2015 the management of the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

25. Non-cash transactions

	31/12/2016	31/12/2015
Acquisition of property, plant and equipment under finance lease agreement	-	91
Property, plant and equipment received from the shareholders	634	-
Non-current assets received from third parties	358	-

26. Subsequent events

Subsequent information about trial procedures is presented in Note 27.

Real estate disposal

As at 21 February 2017 during procurement tender the administration building on Dominikonai Street was sold. As at 31 December 2016 it was accounted for as non-current assets held for resale. In procurement tender of Vilnius city municipality the building was acquired by 'Asgaard Property' for EUR 3,9 mln.
Central office and customer services department of the Company is established in general complex of the buildings on Dominikonu str. 9 and 11. Total area of sold building is approximately 2.5 thousand sq. metres.

Offsetting based on a tripartite agreement

In February 2017 offsetting of EUR 5,647 thousand with Vilniaus energija, UAB debt was implemented according to the tripartite agreement among the Company, Vilniaus Energija UAB and Vilnius city municipality.

Loans repayment

In February 2017 the Company's management, based on financial position, generated inflows and estimated tax rates in current market, made a decision to fully return loans payable to the Finance Ministry of the Lithuanian Republic and Nordic Investment bank in March 2017 before actual deadline. As at 13 March 2017 the loan payable to Finance Ministry was fully repaid – EUR 2,277 thousand, as at 9 March 2017 the loan payable to Nordic investment bank was repaid in the amount of EUR 6,421 thousand.

27. Commitments and contingencies

Litigations

The Company has submitted claims to the following persons:

- In 2015 and 2016 the court was proceeding 6 cases against Vilniaus energija UAB due to debt for drinking-water, supplied for preparation of hot water adjudgement:

Debt "Method I" for the period up to 31 December 2014. Total claim amount – EUR 8,300 thousand (debt – EUR 7,517,358; penalties for late payments – EUR 466,398; interests – EUR 130,905 and 6% procedural interest for the amount adjudged in a period since civil claim proceeding day (14 December 2015) up to the full implementation of the court decision; EUR 1,416 – litigation expenses). As at 27 January 2016 based on the court decision the claim was completely satisfied. As at 25 February 2016 defendant Vilniaus energija UAB has appealed. The Appellate court upheld the first-instance court decision. The court decision was fully implemented as at 2 November 2016 in the amount of EUR 8,871,073.

Debt "Method II" for period up to 31 December 2014. Total claim amount – EUR 3,759,242. As at 29 November 2016 the Appellate court upheld the first-instance decision. The court decision was fully implemented as at 20 December 2016 in amount of EUR 4,199,470.

Total debt for "Method I and II" supplied drinking-water for preparation of hot water for the period from 1 January 2015 up to 31 March 2015. Total claim amount – EUR 2,169,505. As at 1 March 2016 based on court decision claim was completely satisfied.
As at 30 March 2016 defendant Vilniaus energija UAB has appealed. As at 10 November 2016 the Appellate court upheld the first-instance court decision. As at 10 January 2017 based on court decision claim was completely satisfied in amount of EUR 2,351,906.

As at 20 July 2016 the Company submitted 3 claims against Vilniaus energija UAB with the amount – EUR 3,237,547. The first-instance court satisfied claims, though defendant Vilniaus energija UAB has appealed and the case is further proceeded in the Appellate court of Lithuania.

- In 2017 the Company has initiated 3 cases against Vilniaus energja UAB due to debt for drinking-water supplied for preparation of hot water adjudgement:

The claim amount – EUR 2,335,239, the Case No. e2-3750-803/2017. The claim was submitted as at 14 March 2017.
The claim amount – EUR 564,278, the Case No. e2-3787-262/2017. The claim was submitted as at 17 March 2017.
The claim amount – EUR 763,900, the Case No. e2-3788-803/2017. The claim was submitted as at 17 March 2017.

Persons, who have submitted claims against the Company:
- The District court of the Vilnius has examined civil case based on the claim of AB-F VITI against defendant Ministry of Environment, Environmental Project management Agency of Lithuanian Republic and the Company due to claim (dated 21 November 2014) No. (29-2-7)-APVA-1928 to repay EUR 263,385 – the recognition of bank guarantee pay-out illegal and unreasonably received amounts and losses adjudgement. The total AB-F VITI claim amount: AB-F 'VITI' requests to adjudge illegally paid guarantee amount of EUR 263,385 and EUR 34,863 losses. As at 25 January 2016 the claim of AB-F 'VITI' was upheld partly, adjudging from the Ministry of Environment, Environmental Project Management Agency in favour of AB-F VITI amount of EUR 263,385, 5% annual interest from adjudged amount from the day of civil claim proceeding (as at 8 December 2014) up to complete implementation of court decision and the amount EUR 2,844 for stamp-duty. The amount of losses EUR 34,863 was not adjudged.
  As at 24 February 2016 the Company (defendant) has appealed. As at 27 October 2016 the Appellate court of Lithuania has made a decision in civil case under the claim of AB-F VITI against defendants the Ministry of Environment, Environmental Project Management Agency and the Company due to claim No. (29-2-7)-APVA-1928 (as at 12 November 2014) to pay the amount of EUR 263,385 (LT 909,415) of recognition illegal of bank guarantee pay-out. The requirements of claimants were rejected. The claimant submitted the cassation complaint and it was accepted for hearing. As at 31 December 2016 and 31 December 2015 the Company has formed the provision in the amount of EUR 263,285.
- In the District court of Vilnius the claim of plaintiff AS Merko Ehitus is proceeding due to payment for additional expenses and extension of expiry date, illegally accounted and used bank guarantee. The amount of claim: EUR 60,200 for implemented additional works and EUR 93,491 as a suffered losses by plaintiff. As at 31 December 2016 the Company has formed the provision in the amount of EUR 153,691.
- In the District court of Vilnius the case was proceeding, related to claim of the plaintiff, which is going bankrupt Vilnista UAB, to adjudge illegally accounted prepayments and compensate losses. Total claim amount: EUR 451,208 of compensation of losses. As at 30 November 2016 the court dismissed claim of plaintiff and made a decision in favour of the Company. As at 2 January 2017 the appeal was received. As at 31 December 2016 the Company formed the provision in the amount of EUR 451,208.
- In the District court of Vilnius the case due to the water-supply and sewage-network buyout is proceeding. Total claim amount: EUR 143,246. The plaintiff: Monika Petreikyte the defendants: Vilnius city municipality. The third party: the Company. The trial date: 6 February 2016 (till trial date the court appointed for parties to negotiate Peace agreement), as at 31 December 2016 and 2015 the provision was not formed.
- In the District court of Vilnius district court cases are proceeding where Dalia Uzusiene, Jonas Uzusienis and others submitted claim. The defendants: Gabijos Investicijos UAB, Vilnius city municipality and the Company (c.b.2-39-727/2016, 2-476-466/2016) due to damage compensation (claim amount was not set) or due to determination of remuneration easement (claim amount was not set). As at 31 December 2016 and 31 December 2015 the provision was not formed.
- As at 5 July 2016 Apskaitos ir mokesciu konsultacijos UAB made a claim to the Dstrict court of Vilnius due to received adjudgement of debt of provided services, penalties for payment delay and compensation. Total amount of claim: EUR 20,655. As at 13 November 2016 the court of first-instance partially satisfied the claim and adjudged from the Company EUR 5,492 of losses compensation and EUR 1,206 litigation expenses. As at 22 December 2016 plaintiff has appealed. As at 31 December 2016 the Company formed provision in the amount of EUR 6,698.

(all amounts are in thousand EUR unless otherwise stated)

27. Commitments and contingencies (continued)

- As at 8 December 2016 AB Graztai submitted a claim against the Company related to recognition of the part of agreement as not valid and the restitution application. Claim is amounted to EUR 40,631. Court has not made decision yet. As at 31 December 2016 provision was formed in the amount of EUR 40,631.
- As at 23 December 2016 on Upes str. approximately 30 thousand sq. metre of sewage drained away to Neris river due to an accident that occurred due to damage to pipe-lines. Pre-trial investigation was started. Preliminary damage to the environment was assessed in the amount of EUR 450 thousand, provision was not formed due to high uncertainty, related to identification of actual perpetrator and assessment of potential damage to the environment.

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

	31/12/2015	Accrued 01/01/2016 31/12/2016	Used 01/01/2016 31/12/2016	31/12/2016
Provisions for trial claims	416	652	153	915
Provisions accumulated for boring liquidation	8	9	8	9
Provisions for cadastre measurement and cases registration	59	31	37	53
Total	**483**	**692**	**198**	**977**

Contracts obligations

As at 31 December 2016 the Company's commitments made under the concluded contracts but unrecorded in the financial statements amounted to EUR 1,628 thousand, as at 31 December 2015 commitments amount was EUR 4,788 thousand.

Other off-balance sheet commitments and contingencies

As at 31 December 2016 and 2015 the Company has legally not registered assets (Note 11) and to the date of approval of these financial statement the Company has not received any claims from third parties. The Company has all the benefits and risks related to these assets.

28. Change of accounting policy and correction of error

When the new Accounting policy version was approved in the year 2016, the Company approved the new forms of financial statements. The statement of financial position was complemented: in part of assets non-current assets for resale was separated, in part of current assets the prepayments, deferred expenses and accrued income were separated, in part of non-current liabilities non-current employee benefits were separated under the Collective Agreement, in part of current liabilities the payable corporate income tax and provisions were separated.

The profit (loss) and other comprehensive income statement was prepared based on nature and type of expenses.

In order to fully account for revenue for provided services as at 31 December the Company has accrued income for last month's of financial year, for which water supply/ wastewater treatment services were provided to consumers, though they will pay for these services during January of next financial year. Accrual of income for December of financial year is estimated for accounting purposes for the first time in 2016. The comparative information is restated as well for the previous reporting year 2015. As at 1 January 2015 revenue accrual restated in the amount of EUR 289 thousand, deferred income tax liabilities for accrued revenue – EUR 43.3 thousand. (Note 28.1). Amounts were restated in the statement of financial position in prepayments, deferred expenses and accrued revenue captions. The change of accrued revenue in the amount of EUR 44 thousand was restated in the profit (loss) and other comprehensive income statement of the year 2015 (Notes 28.4 and 28.5). Respectively, the deferred income tax liability for the year 2015 was restated in the amount of EUR 6.6 thousand (Note 28.6).

As at 31 December 2015 the caption of other current assets was restated by transferring the prepayments, deferred expenses and accrued income in amount of EUR 119 thousand to separate captions in the statement of financial position (Note 28.5 and 28.13).

(all amounts are in thousand EUR unless otherwise stated)

28. Change of accounting policy and correction of error (continued)

After the change of defined benefit obligation methodology, it was respectively recalculated for prior periods. Restated amount of the year 2015 is EUR 164 thousand (Note 28.11), deferred income as asset was restated in the amount of EUR 24.6 thousand (Note 28.6). In the statement of financial position pension liabilities were transferred from other current liabilities to non-current employee benefits, which as at 31 December 2015 amounted to EUR 636 thousand (Note 28.7). Also from other current liabilities the deposits received for long-term agreement implementation were transferred to non-current liabilities in the amount of EUR 322 thousand (Note 28.8).

As at 31 December 2015 the caption of other current liabilities was restated into separate captions in the statement of financial position by transferring provisions in the amount of EUR 483 thousand (Note 28.9) and corporate income tax payable in the amount of EUR 177 thousand (Note 28.10).

Result of other income of the year 2015 was off-set in profit (loss) and other comprehensive income statement.
Based on the new Accounting policy other income amounting to EUR 322 thousand was transferred to Other Income caption in profit (loss) and other comprehensive income statement (Note 28.12) reducing other expenses amount (Note 28.11).

Due to the errors in accounting for the income for provided services to customers in different data bases it was decided to specify income amount of previous periods, restating captions of Trade and other receivables and Accumulated losses as at 1 January 2015, the restated amount – EUR 84 thousand (Notes 28.2 and 28.3).

Effect of correction of errors and changes in accounting policies on the Company's financial statements is presented below:

STATEMENT OF FINANCIAL POSITION

	Note	01/01/2015	Correction	01/01/2015 restated
ASSETS				
Non-current assets				
Deferred tax asset		10	(10)	-
Total non-current assets		124,854	(10)	124,844
Current assets				
Trade and other receivables	**28.3**	9,229	84	9,313
Prepayments, deferred expenses and accrued income	**28.1**	-	289	289
Total current assets		10,867	373	11,240
TOTAL ASSETS		**135,721**	**363**	**136,084**
EQUITY AND LIABILITIES				
Capital and reserves				
Accumulated losses	**28.2**	(15,498)	329	(15,169)
Total equity		96,187	329	96,516
Non-current liabilities				
Deferred tax liabilities	**28.1**	-	34	34
Total non-current liabilities		15,660	34	15,694
TOTAL EQUITY AND LIABILITIES		**135,721**	**363**	**136,084**

(all amounts are in thousand EUR unless otherwise stated)

28. Change of accounting policy and correction of error (continued)

	Note	31/12/2015	Correction	31/12/2015 restated
ASSETS				
Current assets				
Prepayments, deferred expenses and accrued income	**28.5**	289	162	451
Other current assets	**28.13**	162	(119)	43
Total current assets		7,411	43	7,454
TOTAL ASSETS		**125,678**	**43**	**125,721**
EQUITY AND LIABILITIES				
Capital and reserves				
Accumulated losses		(22,428)	(102)	(22,530)
Total equity		89,249	(102)	89,147
Non-current liabilities				
Deferred tax liabilities	**28.6**	459	(18)	441
Payments to employees	**28.7**	-	636	636
Other non-current assets	**28.8**	-	322	322
Total non-current assets		14,128	940	15,068
Current liabilities				
Provisions	**28.9**	-	483	483
Income tax payable	**28.10**	-	177	177
Other current liabilities		4,084	(1,455)	2,629
Total current liabilities		22,301	(795)	21,506
TOTAL EQUITY AND LIABILITIES		**125,678**	**43**	**125,721**

28. Change of accounting policy and correction of error (continued)

STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME

(all amounts are in thousand EUR unless otherwise stated)

	Note	01/01/2015 31/12/2015	Correction	01/01/2015 31/12/2015 restated
Revenue				
Sales income	**28.4**	39,816	44	39,860
Other income	**28.12**	-	322	322
Total revenue:		**39,816**	**366**	**40,182**
Other expenses	**28.11**	(3,020)	(486)	(3,506)
Total expenses:		**(45,981)**	**(486)**	**(46,467)**
Gross profit (loss)		**(6,165)**	**(120)**	**(6,285)**
Profit (loss) before tax		**(6,648)**	**(120)**	**(6,768)**
Income tax (expenses) benefit	**28.6**	(611)	18	(593)
Profit (loss) for the year		**(7,259)**	**(102)**	**(7,361)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(7,259)**	**(102)**	**(7,361)**

STATEMENT OF CASH FLOWS

	Note	31/12/2015	Correction	31/12/2015 restated
Cash flows from (to) operating activities				
Profit (loss) for the year		(7,259)	(102)	(7,361)
Adjustments for:				
Change in deferred income tax	**28.6**	425	(18)	407
Change in provisions		-	639	639
Movements in working capital:				-
(Increase) in trade and other receivables		(2,851)	(43)	(2,894)
(Decrease) in trade and other payables		(2,530)	(476)	(3,006)

28. Change of accounting policy and correction of error (continued)

Non-current tangibles assets

	Buildings	Structures	Transmission devices	Machinery and equipment	Vehicles	Other assets	Construction in progress	Prepayments	Total
Cost									
Balance as at 31 December 2015	37,874	49,725	119,997	38,924	4,475	9,951	3,026	395	264,367
Restated	(1,856)	(3,819)	20,114	(10,546)	-	(2,130)	(1,763)	-	-
Balance as at 31 December 2015 (restated)	36,018	45,906	140,111	28,378	4,475	7,821	1,263	395	264,367
Accumulated depreciation									
Balance as at 31 December 2015	11,509	27,253	77,316	20,909	2,952	6,316	-	-	146,255
Restated	1	3	3	(806)	-	799	-	-	-
Balance as at 31 December 2015 (restated)	11,510	27,256	77,319	20,103	2,952	7,115	-	-	146,255

VILNIAUS VANDENYS

2016 ANNUAL REPORT

CONTENTS

MESSAGE FROM THE MANAGEMENT

The year 2016 will certainly be remembered at Vilniaus Vandenys as a period of significant changes. The necessity for change was determined by low reputation of the Company among the customers and the public, negative financial results, obvious lagging behind the other service enterprises and ageing infrastructure, the renewal and development of which required significant investments.

The new management team that took over the reins of the Company in spring 2016 successfully implemented structural changes, which resulted in a material increase of productivity, the first steps were made towards ensuring financial transparency and better customer service. Moreover, the Company regained financial stability, together with the auditors it reviewed and approved the financial statements.

In the autumn of 2016, the strategy of the Company was approved. During discussions with the employees, the essential values of the Company were defined, the mission, vision and strategic operation initiatives were formulated that aimed at creating organisational culture based on values, attracting more new customers, expanding networks, reducing losses in the network and ensuring reliable infrastructure for the provision of high quality services.

One of the top priorities in our work is transparency. We seek to improve management standards and increase our accountability to the community. We have made the first steps in making the Company's operations more effective. However, we have a lot more work ahead of us until 2019 where we expect to become a desirable employer, service provider and partner. I invite you to get acquainted with our performance results in this Annual Report 2016.

Sincerely,

Aidas Ignatavičius
Managing Director

ABOUT THE COMPANY

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

The Company supplies only groundwater from deep wells of 40-180 meters. Vilniaus Vandenys supply approximately 87 thousand cubic meters of water, collect, and treat more than 105 thousand cubic meters of wastewater per day. Water pipelines are 1667 km and wastewater pipelines are 1313 km long.

In 2016, the Company's strategy was approved with the formulated mission, vision, values and operating objectives for three years. Three main strategic operational directions were chosen: focus on the customer, operating efficiency and operating transparency.

PHILOSOPHY OF OPERATIONS

VISION

Subject to the expectations of the stakeholders and historical experience, the Company's vision is to become a desirable employer, service provider and partner.

MISSION

The Company's mission is to ensure supply of fresh water for the consumers and clean environment for the community in all the locations where it operates.

VALUES

The basic values are OPENNESS in the communication with the customers, colleagues and the community, RESPONSIBILITY for the assumed obligations, service quality and the managed infrastructure as well as PROACTVITY in offering and implementing innovations, searching for more effective operating opportunities.

VISION

Desirable employer, service provider and partner

MISSION

Fresh water and clean environment for our community

DIRECTIONS OF OPERATIONS

Focus on customer
Operating efficiency
Operating transparency

STRATEGIC INITIATIVES

Formation of value-based organisational culture
Improvement of customer service quality
Attracting new customers and expansion of the network
Ensuring infrastructure reliability and product quality
Reduction of losses in the network

OPENNESS | **RESPONSIBILITY** | **PROACTIVITY**

SUPPLY OF DRINKING WATER

Vilniaus Vandenys operates 34 wellfields, 171 pumping stations, 1667 km plumbing tubes, 17 units of water improvement equipment, 511 water abstraction columns, 4811 fire hydrants.

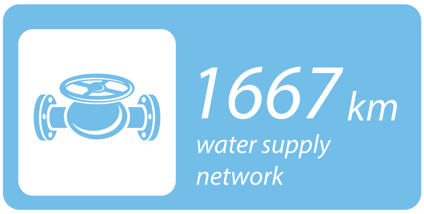
In 2016, the Company abstracted 32 million m^3 of drinking water including 31.1 million m^3 from Vilnius city wells, 0,4 million m^3 from Švenčionys district wells, 0.3 million m^3 from Šalčininkai district wells and 0.2 million m^3 from Vilnius district wells.

The Company supplies drinking water only from deep wells – such water is considered as highest quality. However, natural water always has dissolved impurities. High iron content is characteristic of Vilnius groundwater.

In order to ensure that high quality drinking water reaches the customers, water improvement equipment is used. Excess iron is removed by aerating water (i.e. oxygenating) ad using filters with granite rubble. Customers are only supplied with water filtered this way.

87 thousand m^3 water supplied per day

The Company performs regular monitoring of drinking water quality. In accordance with the procedure for programming supervision of publicly supplied drinking water, samples for these examinations are taken from the distribution network and consumption locations.

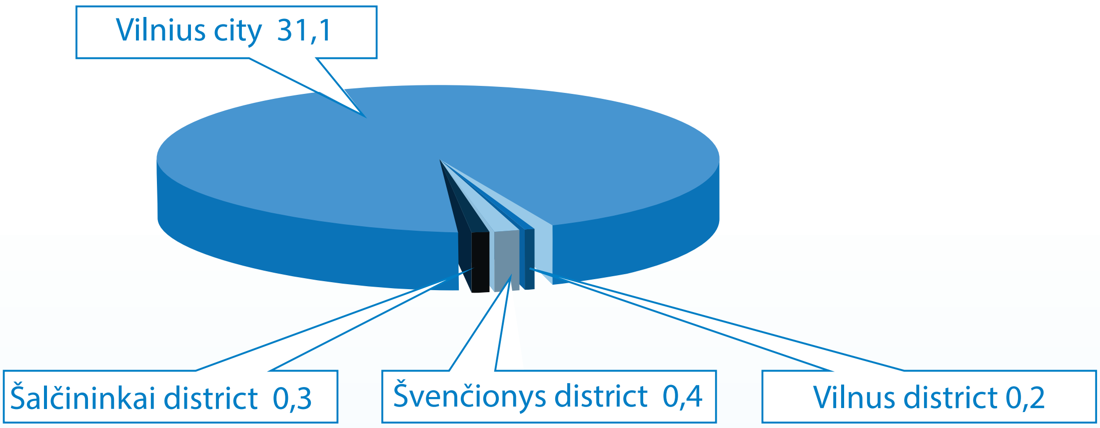


The majority of the water supply networks was built in connection with the city expansion, thus it is decades old. Due to the long term of operation, pipelines in certain parts of the city are obsolete, thus resulting in occasional water leaks or breakdowns.

In 2016, the Company liquidated 1,141 water supply accidents most frequently caused by network obsolescence, pressure fluctuations, movement of soil. The accident rate was also determined by insufficient investment into water supply network renovations. When utilizing resources of the European Union structural funds, priority was given to the development of new networks; therefore, only separate accident black spots and threatening pipeline sections were reconstructed.

In 2017, the Company plans to renovate more networks.

DISTRIBUTION OF ABSTRACTED WATER QUANTITY BY TERRITORIES IN 2016 (million m^3)



WASTE COLLECTION AND MANAGEMENT

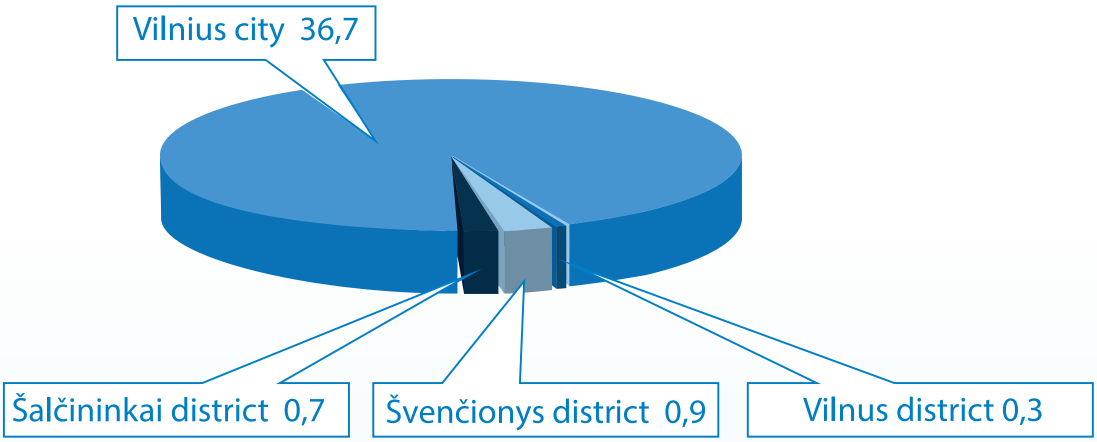
For the collection of wastewater and its transportation to the wastewater treatment facilities, Vilniaus Vandenys uses 1,313 km wastewater networks and collectors including 166 km pressure lines and 183 wastewater-pumping stations. The Company operates 8 wastewater treatment plants: Vilnius city, Švenčionys, Švenčionėliai, Pabradė, Nemenčinė, Gėla, Šalčininkai, Eišiškės.

The Company also accepts and manages wastewater collected by private wastewater transporters from the residents.

During 2016, the Company treated 38.5 million m^3 of wastewater including 36.7 million m^3 in Vilnius city, 0.9 million m^3 in Švenčionys district, 0.7 million m^3 in Šalčininkai district and 0.3 million m^3 in Vilnius district wastewater treatment facilities.

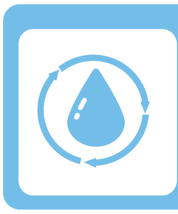
Control of wastewater inflows and outflows is performed by the Company's laboratory certified by the Environmental Protection Agency. In 2016, for the purpose of regulating the technological process, the laboratory examined 2,740 samples and based on the monitoring plan – 430 samples.

DISTRIBUTION OF THE QUANTITY OF WASTEWATER TREATED BY THE COMPANY BY TERRITORIES IN 2016 (million m^3)



In 2016, the number of accidents in wastewater networks amounted to 2,252. Breakdowns in the wastewater networks were mainly caused by pipeline obsolescence and blockage of pipes. A mixed wastewater drainage system is installed in Vilnius city centre, the Old Town, 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 emergency service unit pays a lot of attention not only to the liquidation of such accidents and breakdowns but also to their prevention.

Infiltration and exfiltration takes place in the network. Infiltration increases the amount of wastewater repumped and fed to the treatment facilities along with the operating costs.

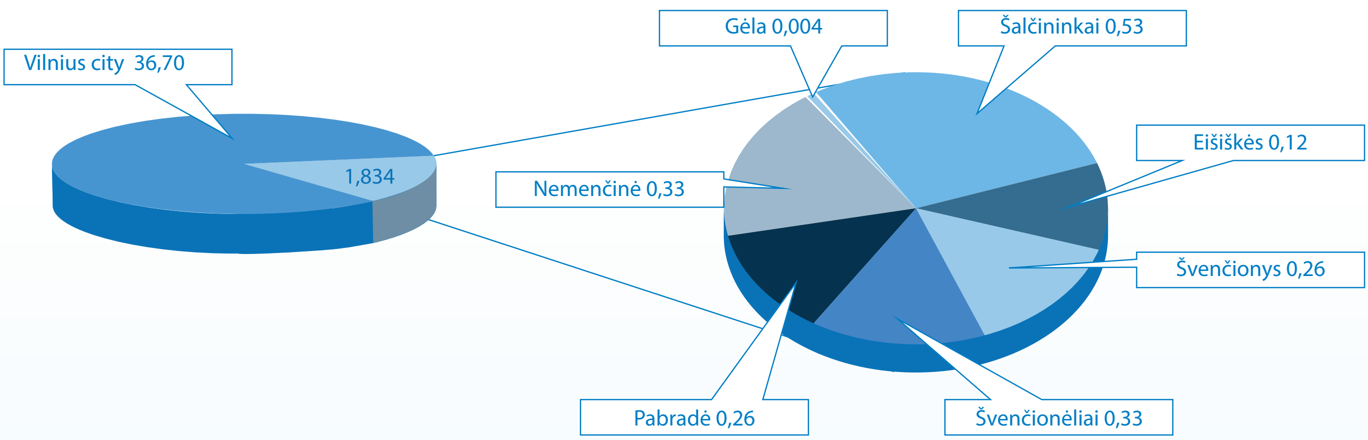


105 thousand m³ wastewater treated per day

Infiltration increases depending on the precipitation, especially during heavy rain periods when rainwater gets into wastewater networks through the wastewater well hatches on the streets or in other places.

In 2017, the Company plans to allocate more attention to the network renovation thus reducing not only operating costs but also potential damage for the environment and to make operations of the emergency service unit more efficient.

DISTRIBUTION OF THE QUANTITY OF TREATED WASTEWATER BY THE TREATMENT FACILITIES IN 2016 (million m³)



CUSTOMER SERVICE

In order to meet the customer needs, the customer service department in Vilnius (Dominikonų g. 11) was reorganised. An entrance for disabled persons was constructed, working hours were extended – the specialists work on business days from 9:00 to 18:00. Besides the short telephone number 1889 was introduced to serve customers 24 hours a day, 7 days a week. For the customer convenience, there is also a free line 8 800 10880 to report water supply and wastewater network breakdowns 24 hours a day. The Company’s website (www.vv.lt) was also updated.

The time for the preparation of responses to the customers was reduced as part of the improvement of remote customer service. Instead of the 30-day term, responses to natural persons are now provided within 14 days. Responses to legal entities take 30 days.

Analysis of customer enquiries in 2016 shows that 43 percent of all customer calls were related to payment and debt issues. Therefore, based on the customer requests, the payment notices sent to both the natural persons and legal entities were revised and adjusted. As a result of the implemented debt management process, the customers are additionally contacted by SMS, e-mail and ordinary mail to inform about the incurred debt.

In 2016, the customers were offered the possibility to use electronic invoices. At the yearend, the number of e-invoice requests exceeded 2 thousand. In addition, one more channel for electronic settlement was presented (self-service website Gilė).

In 2016, 19 percent of customer calls were related to the issues of declaring water meter readings. Starting from November, residents of multi-family buildings were provided with a possibility to declare meter readings not only when paying for services at the contribution collection points or the Company's self-service website (such possibility is available to those who have ordered e-invoices), but also by calling the customer service line 1889.

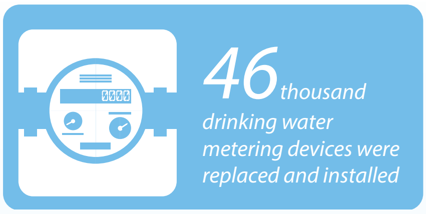
The Company paid considerable attention to not only the collection of accurate data on the consumed water quantities, but also to ensuring metrological inspection of drinking water metering devices, their timely replacement and installation.

The Company was actively urging its customers to install meters. In the beginning of 2016, there were 8,904 customers without meters. During the year, more than 15 percent of them installed meters. In 2016, the Company repaired and performed metrological inspection of 3,499 meters. In total 45,986 meters were installed during 2016.

In order to improve customer service quality, the Customer Service Standard was approved on 30 November 2016, customer opinion survey was initiated and service of residents in districts was centralized.

In connection with the expansion of infrastructure networks and aiming to ensure smooth connection of new customers to the centralized water supply and wastewater treatment system, in 2016 the Company started organizing meetings and providing advice to the residents of newly formed residential areas. The Company started to review and change the processes for the customer connection to the networks, which will bring benefits to the customers already in 2017.

Overview of the customer number statistics of 2016 shows that compared to 2015, the number of customers was growing. The number of private customers increased by 2 percent (the number of such clients in detached houses increased by 5 percent), and the number of business customers grew by 4 percent .



Dynamics of the new customer connection to the centralized water supply and wastewater treatment system

Number of addresses	2016		2015	
	Wastewater network	Water supply network	Wastewater network	Water supply network
	629	345	418	284

Dynamics of the number of the Company's customers

Customer type	31 December 2016	31 December 2015
Natural* persons	**239.922**	**235.734**
Multi-family buildings (settlement according to the meter)	221.145	217.691
Multi-family buildings (settlement according to the feed-in point)	734	884
Detached houses	18.043	17.159
Legal entities**	**7.454**	**7.183**

Distribution of clients (natural persons) by the service provision territories*

Territory	31 December 2016	31 December 2015
Vilnius city	230.523	226.264
Vilnius district	2.339	2.319
Šalčininkai district	3.144	3.244
Švenčionys district	3.916	3.907

The term "natural persons" used in the Annual Report of the Company corresponds to the term "consumers" used in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania.
Consumer means a natural person that purchases water and/or waste water management facilities to satisfy his personal, family and household needs and not for commercial purposes under a drinking water supply and/or wastewater management agreement or, if no written agreement has been concluded, the supply of drinking water and/or provision of waste water management facilities where the subscriber's (consumer's) facilities for the use of drinking water, the necessary communications for the supply of drinking water and/or waste water disposal facilities have been connected to the drinking water supply and/or waste water management infrastructure that is operated by the water supplier.
The term "legal entities" used in the Annual Report of the Company corresponds to the term "subscribers" used in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania.
Subscriber means a natural or legal person also a representative office or subsidiary of a foreign legal person registered in the Republic of Lithuania who has entered into a water supply agreement with a water supplier regarding the purchase and sale of drinking water and/or provision of waste water management facilities or has connected his facilities for the use of drinking water, the necessary communications for the supply of drinking water and/or waste water management facilities to the drinking water supply and/or waste water management infrastructure that is operated by the water supplier.

MANAGEMENT OF THE COMPANY

In accordance with the Company's by-laws, the management bodies of the Company are the General Meeting of Shareholders, the collegial oversight body – the Supervisory Board, the collegial management body – the Board and the sole management body – the Head of the Company

The latest amendment to the Company's by-laws was made and the new wording was registered with the Register of Legal Entities on 19 September 2016. The share capital of the Company is EUR 112,195,007.52. It is divided into 3,874,137 ordinary registered shares, 3,675,320 (94.8681%) of which is held by Vilnius City Municipality, 73,196 (1.8893%) by Vilniaus District Municipality, 55,883 (1.4425%) by Šalčininkai District Municipality, and 69,738 (1.8001%) by Švenčionys District Municipality. The par value of one share is EUR 28.96.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme management body of the Company. The General Meeting of Shareholders consisted of Vilnius City, Vilnius District, Švenčionys District and Šalčininkai District municipalities.

Under the decision of 1 April 2016 of the General Meeting of Shareholders, the share capital of the Company was increased by the tangible assets transferred by Vilnius District Municipality with the value of EUR 634,004.58 with an additional issue of 21,892 ordinary registered shares with the nominal value of EUR 28.96 each.

SUPERVISORY BOARD OF THE COMPANY

The Company's Supervisory Board consists of 7 members elected by the General Meeting of Shareholders for a term of 4 years. Out of its members, the Supervisory Board elects the Chairperson of the Supervisory Board.

In 2015, the General Meeting of Shareholders approved the composition of the Supervisory Board: the Chairperson of the Supervisory Board – Auksė Kontrimienė, Supervisory Board members: Adomas Bužinskas, Linas Kvedaravičius, Aušra Maldeikienė, Vidmantas Martikonis, Albert Narvoiš, Vidas Urbonavičius.

In 2016, the composition of the Supervisory Board changed. The Supervisory Board member Aušra Maldeikienė got elected to the Seimas of the Republic of Lithuania; therefore, on 3 November 2016 she presented a letter that, pursuant to paragraph 11 of Article 31 if the Law on Companies, she resigns from the Supervisory Board of UAB Vilniaus Vandenys before term. On 23 November 2016, Vilnius City Municipality Council adopted a decision amending the decision No 1-10 of Vilnius City Municipality Council of 29 April 2015 on the approval of the composition of supervisory councils of public and private limited companies under Vilnius City Municipality control where it was resolved to replace the appointed member Aušra Maldeikienė by Liutauras Stoškus.

Pursuant to Paragraph 2 Article 37 of the by-laws of UAB Vilniaus Vandenys, (registered on 19 September 2016), the General Meeting of Shareholders has an exclusive right <...> to elect Supervisory Board members, remove the Supervisory Board or its members, thus the General Meeting of Shareholders took a decision to elect Liutauras Stoškus as member of the Supervisory Board.

THE BOARD OF THE COMPANY

The Board of the Company consists of 7 members elected by the Supervisory Board for a term of 4 years. Out of its members, the Board elects the Chairperson of the Board.

In 2016, the Board consisted of the members approved by the Supervisory Board in 2015: Chairperson of the Board – Darius Nedzinskas, Board members: Arūnas Bivainis, Juozas Buitkus, Gintaras Maželis, Dovilė Mikalajūnė, Miroslav Romanovski, Vylūnė Urbonienė.

HEAD OF THE COMPANY

The Head of the Company is the Managing Director appointed, removed and dismissed by the Board of the Company. Under the decision of the Board of 8 December 2015, starting from 11 January 2016, Aidas Ignatavičius was appointed as Managing Director.

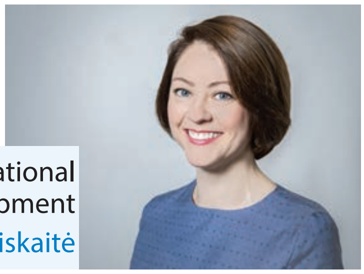
MAMAGEMENT TEAM

Managing Director
Aidas Ignatavičius

Head of Production
Virgilijus Žukauskas

Head of Customer Service
Giedrė Blazgienė

Head of Finance
Martynas Repečka



Head of Organizational Development
Jolanta Diskaitė

Head of Operating Quality
Valė Samanavičiūtė Abromavičienė

Head of Procurement
Arūnas Jurgelaitis

Head of Communications
Antanas Bubnelis

Head of Legal
Gintaras Makšimas

Head of Prevention
Vidmantas Bruzgys

Head of Internal Audit
Živilė Perednė

ORGANIZING INTERNAL OPERATIONS

PROPERTY MANAGEMENT

The administration units of Vilniaus Vandenys are situated and operate in 10 buildings of administrative type, the total area of which is approximately 12 thousand m2. The administrative buildings are located in Vilnius city, Vilnius, Švenčionys and Šalčininkai districts. Production activities takes place in 350 buildings and structures of various purpose with the total area of approximately 64 thousand m2. Buildings of this type are located in Vilnius city, Vilnius, Švenčionys and Šalčininkai districts.

The Company operated and maintains 209 land plots with the total area of 541 hectares. The land plots are situated in Vilnius city, Vilnius, Švenčionys and Šalčininkai districts. Wellfields with wells, wellfield stations, pumping stations, underground reserve water reservoirs, wastewater treatment facilities, wastewater re-pumping stations, wastewater pumping stations, transformer stations, administrative and production buildings are located on the land plots.

In 2016, the Company performed an analysis of all the buildings and structures used in its operations, which revealed that a part of the structures is not used efficiently. In order to optimize the use of the buildings owned, the procedures of sale of the headquarters (a complex of buildings on Dominikonų g. 9 and 11, Vilnius) by auction started in 2016 and steps were taken to make the immovable property use more efficient.

As at 31 December 2016, the Company had 213 vehicles: cars, tractors, excavators, front loaders, etc.

During 2016, the Company acquired 13 new vehicles: 6 cars, 3 special purpose trucks, 2 excavator loaders and 2 tractors.

Due to structural changes at the Company, the management model of the vehicles was changed, which enabled more effective use of the vehicles owned and reduction of the fuel consumption. Compared to 2015, the fuel consumption dropped by 24 percent in 2016

24 %
less fuel used

In order to make the operations more efficient, car repair at the Company was discontinued in 2016; this activity was transferred to external partners engaged in car repair services.

It enables faster and more transparent car maintenance and repair with higher quality.

All the Company employees have computer accounts; there are 300 workstations. The Company uses 40 IT systems and their modules. Major part of the IT services – IT system maintenance and development, infrastructure and IT safety monitoring – is provided by external partners to ensure quality and effective utilization of the available internal.

In 2016, the operating plan of the IT division was approved with the focus on updating the customer service and accounting, self-service systems, development of data analytics instruments, upgrading IT infrastructure and at the level of Company's cyber-security.

INTERNAL AUDIT AND PUBLIC PROCUREMENT

In June 2016, a new unit was formed in the Company – the Internal Audit Division. Pursuant to the generally accepted professional practice standards for internal audit and the ethical code, the internal auditors performed planned and unplanned internal audit engagements and provided recommendations and advice that contributed to the compliance of the company's operations with the internal and external regulatory requirements, increase in the efficiency of processes and internal control system.

In the second half of 2016, internal audit focused on the issues of customer debt management and procurement contract control in order to identify areas for improvement and provide recommendations that were followed when updating the processes.

Moreover, monitoring of the implementation of internal and external audit recommendations started, management was provided with regular information about potential deviations the planned deadlines.

Internal Audit Division in cooperation with the Public Procurement Division reviewed and improved the control process of implementing the procurement contracts.

In 2016, a review of the Company's contracts was carried out, and the contracts were amended with the majority of the suppliers due to agreement on more favourable terms. The prices of purchased goods and services were reduced by approximately 20%. For instance, the fee for sludge treatment at Vilnius city wastewater facilities was reduced by 15%.

Statistics of the supplier participation in public procurement shows that proactivity in encouraging competition and attention to the participation of small and medium businesses in public procurement produced a visible result.

In order to ensure transparency and efficiency of operations, the following measures were implemented in 2016:

- In order to encourage competition among suppliers, the prices of acquired gods, services and works were reduced by increasing the purchasing power and combining procurements of the same nature.
- Steps were taken to make public procurement organization more efficient.
- Increased transparency of public procurement ensured maximum transfer of procurement procedures to CVP IS, organisation and training of the employees participating in the procurement process.

RISK MANAGEMENT

Since the Company is engaged in the provision of public services of strategic importance, the service provision and environmental protection is subject to extensive legal regulation. In its operations the Company implements the requirements of ISO 9001 and ISO 14001 standards. In 2016, based on Failure. Mode and Effects Analysis (FMEA), the Company's risk analysis was carried out. Risks like water supply and wastewater network accidents, emission of insufficiently treated wastewater, delays in providing certain services to the customers, intentional and criminal acts (e.g. contamination of water), accidents at work, etc. were identified. Plans were prepared for the prevention and management of the key risks.

In addition, analysis was made of the Company's external and internal environment characteristics, external stakeholders, their needs and expectations were assessed. The following stakeholders were identified:

- Customers (natural persons and legal entities)
- Suppliers
- Shareholders
- Financial institutions
- Local communities
- Regulatory institutions:
  - Environmental Protection Agency
  - State Hygiene Inspectorate
  - National Control Commission for Prices and Energy
  - State Tax Inspectorate
  - State Consumer Rights Protection Authority
  - State Language Inspectorate
  - State Labour Inspectorate
  - Fire and Rescue Department
  - Other

In 2016, the Company focused on the formation of the new organizational management structure, purification of functions, increasing efficiency of operations and cost reduction. In order to manage and control the costs properly, in the middle of 2016, the Company started to apply budget planning and budget fulfilment monitoring. Individual cost groups were attributed to certain responsible units that had to justify costs by planning and monitoring the planned and actual data compliance.

Budget fulfilment is controlled by the Finance Department. Every month, when preparing management reports, the Finance Department compares planned and actual income and expense data, which enables to monitor and control costs.

Pursuant to the methodology for the pricing of services of drinking water supply and wastewater management and surface wastewater management approved by the National Control Commission for Prices and Energy, the main activities of the Company are classified into water supply (water abstraction, preparation and delivery) and wastewater management (wastewater collection, treatment and sludge management). The Company operates in Vilnius City Municipality, Vilnius District, Švenčionys and Šalčininkai District municipalities.

At the end of 2016, the Company started the process of reconciling new basic prices: Vilnius City, Vilnius District, Švenčionys and Šalčininkai District municipalities were sent the Strategic Operations and Development plan for 2017–2019, the Board of the Company approved the basic prices' reconciliation draft, which was submitted to the National Control Commission for Prices and Energy at the beginning of 2017.

In accordance with the new basic prices' reconciliation draft, the service price for customers (natural persons) in multi-family buildings should drop by 10 percent to EUR 1.54 (including VAT) per m^3, for residents of detached houses – 8 percent to EUR 1.43 (including VAT) per m^3, water supply and wastewater treatment service price for enterprises should decrease by 10 percent to EUR 1.23 (ex. PVM) per m^3. The new prices are expected to come into effect on 1 July 2017. Because of the planned reduced tariffs, the Company's income is expected to decrease.

STATISTICAL PERFORMANCE INDICATORS

The dynamics in the scope of sold drinking water and wastewater treatment services is the best reflection of the changes in the Company's scope of operations that influence the income. The table below presents the amount of sold services based on the quantities declared by the customers.

The key performance indicators of Vilniaus Vandenys activities remained constant in 2016 – the quantity of sold drinking water and collected and treated wastewater hardly changed compared to 2015. The stability was determined by the fact that drinking water is a necessity, and there were no factors that would cause changes in the consumption of drinking water.

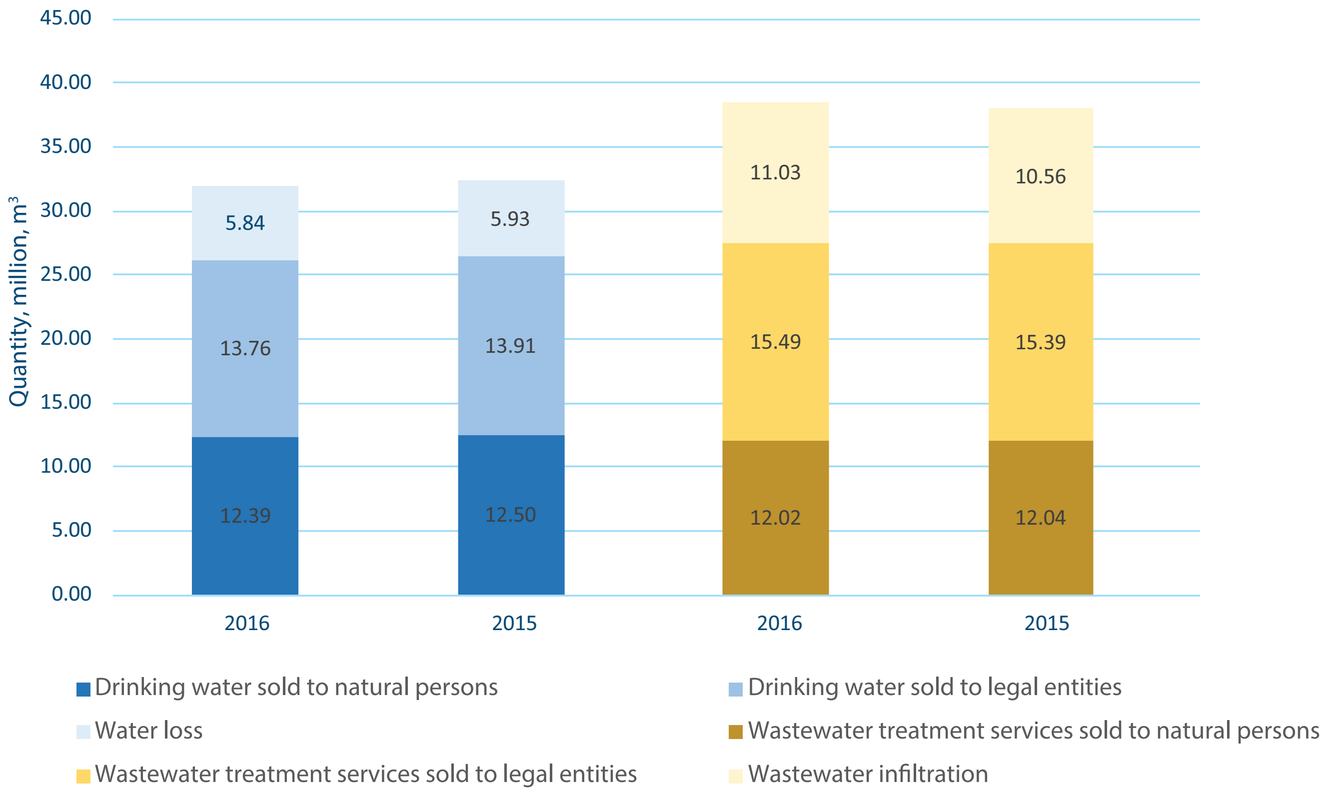
No significant changes are expected in the forecast of sold water and collected and treated wastewater quantities in 2017 either.

Performance indicators	2016	2015	Change	
			thousand m^3	percentage
Drinking water sales, thousand m^3	26.155	26.407	-252	-1%
To natural persons	12.391	12.501	-110	-1%
To legal entities	13.764	13.907	-143	-1%
Wastewater treatment service sales, thousand m^3	27.510	27.434	76	0%
To natural persons	12.023	12.044	-21	0%
To legal entities	15.487	15.390	97	1%

During 2016, the Company abstracted 32.0 million m3 of drinking water. Due to rainwater infiltration in the wastewater collection system, the Company treats more wastewater than sells wastewater treatment services. In addition, differences are formed between the drinking water supplied to the pipelines and the quantity of sold drinking water.

These quantity differences occur due to leakage and incorrect declaration of client meter readings. The diagram below shows the total service provision scope with respect to drinking water losses and wastewater infiltration.

SERVICE PROVISION SCOPE IN 2016 AND 2015 (million m^3)



INCOME

In 2016, the Company's income reached EUR 40.2 million. Compared to 2015, the growth amounted to EUR 251 thousand. Sales increased by EUR 46 thousand and other income by EUR 205 thousand in 2016. Growth in other income was determined by income from property received free of charge in the amount of EUR 359 thousand. In 2016, income from property received free of charge consists of the average market value of networks reconstructed, newly built and registered on behalf of the Company by contractors.

the main income (sales) of the Company consist of income generated from supply of drinking water supply and wastewater management services.

In 2016, the Company earned EUR 39.9 million from sold services. Compared to 2015, the volume of sales increased by EUR 46 thousand; however, the change in sales, without considering the change in income accruals, was income increase by EUR 102 thousand. The change in income in 2016 is immaterial, since the service prices remained the same, and increase in the number of clients was insignificant.

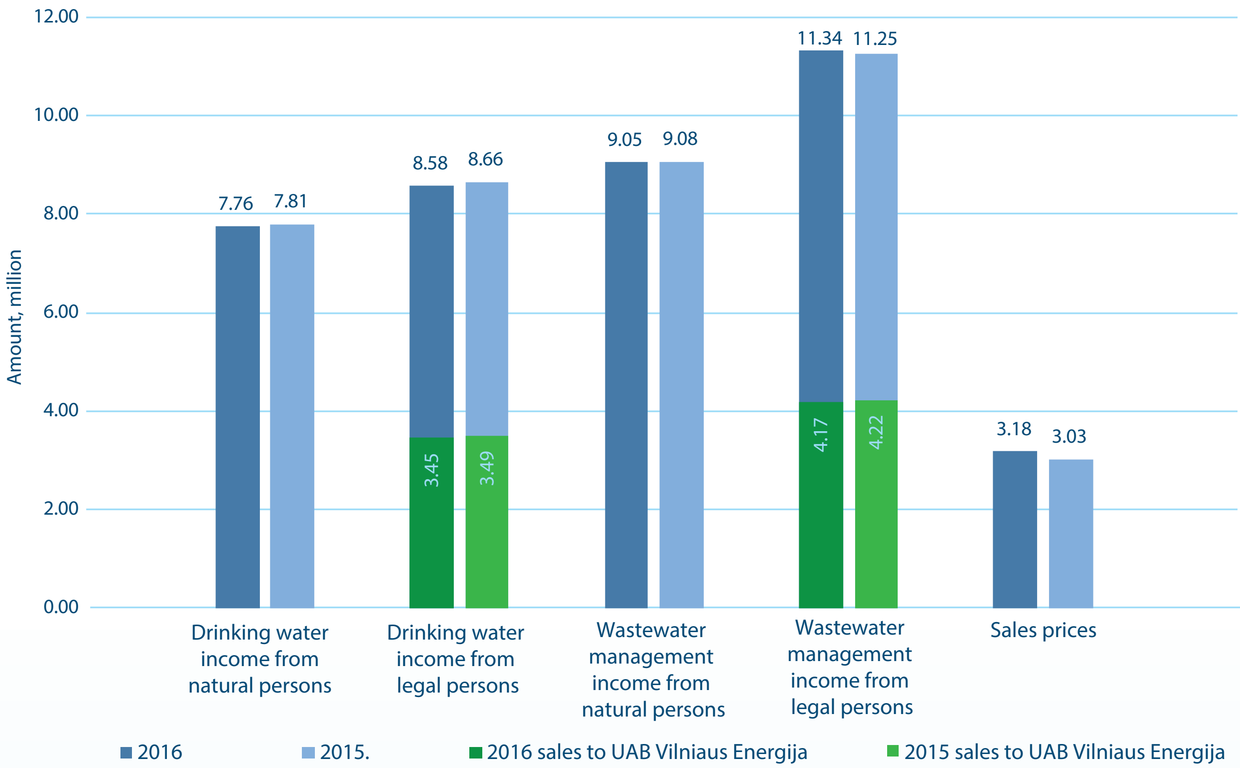
Income	2016	2015	Change	
			EUR thousand	percentage
SALES	39.906	39.860	46	0,1%
Income from sales administration (process)	3.184	3.026	158	5,2%
Income from supply of drinking water including:	16.336	16.468	-132	-0,8%
Income from natural persons	7.760	7.806	-46	-0,6%
Income from legal persons	8.576	8.662	-86	-1,0%
Income from centralised wastewater management including:	20.398	20.322	76	0,4%
Income from natural persons	9.054	9.076	-22	-0,2%
Income from legal persons	10.530	10.446	84	0,8%
Income from specific and increased pollution	814	800	14	1,7%
Change in income accruals *	-12	44	-56	-127,3%

* Natural persons declare data of services used in the current month; legal entities declare and pay for them in the next month. Pursuant to the International Accounting Standards, income from services provided to natural persons in December are accrued. The accrued income is not attributed to individual income groups. At the end of 2105, income was accrued for the first time.

Compared to 2015, income from different activities remained stable in 2016. Analysis of the overall structure of income from individual customer groups shows that in 2016 the larger part of income was income from legal entities including income from UAB Vilniaus Energija for water used in hot water preparation.

As to the income structure, the majority of income, i.e. 53 percent were received from legal entities, and 47 percent form natural persons.

SALES IN 2016 AND 2015 (EUR million)



EXPENSES

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

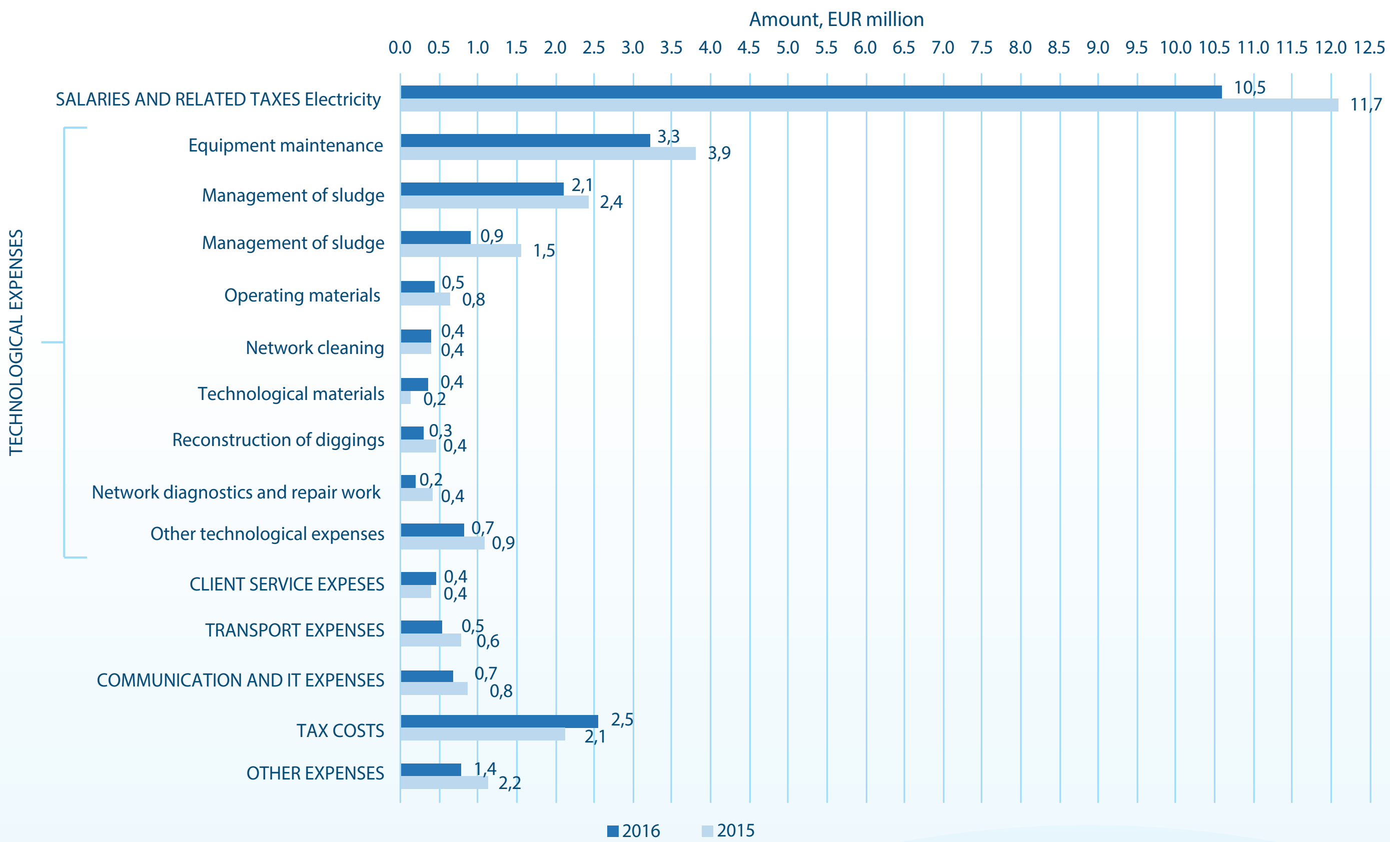
OPEX = operating expenses except for depreciation and amortization, asset impairment and write-off expenses. In 2016, OPEX amounted to EUR 26.7 million, in 2015 - to EUR 28.9 million.

Wages and salaries and related taxes amounted to EUR 12.4 million in 2016; the increase compared to 2015, where they amounted to EUR 11.7 million, was EUR 0.7 million. The increase was mostly caused by the structural changes in the Company, as the number of employees was reduced and the dismissed employees received severance pay. The costs of structural changes approximate EUR 2 million. Without taking account of their effect, in 2016, the wages and salaries and related taxes decreased by EUR 1.2 million to EUR 10.5 million compared to 2015 where they amounted to EUR 11.7 million.

In order to disclose OPEX in detail, technological expenses are identified (or expenses for technological needs), which are related to the technological-industrial processes taking place in the Company: operation of equipment and pipelines, processing of sludge.

During 2016, electricity costs dropped by EUR 0.6 million to EUR 3.3 million due to the reduced price of the purchased 1 kilowatt-hour (kWh) of electricity and optimization of the technological processes (in 2015, 42 thousand MWh of electricity was purchased, whereas in 2016, the amount of purchased electricity dropped to 38 thousand MWh due to the increased amount of electricity produced within the Company).

SPECIFICATION OF OPEX IN 2016 (EUR million)



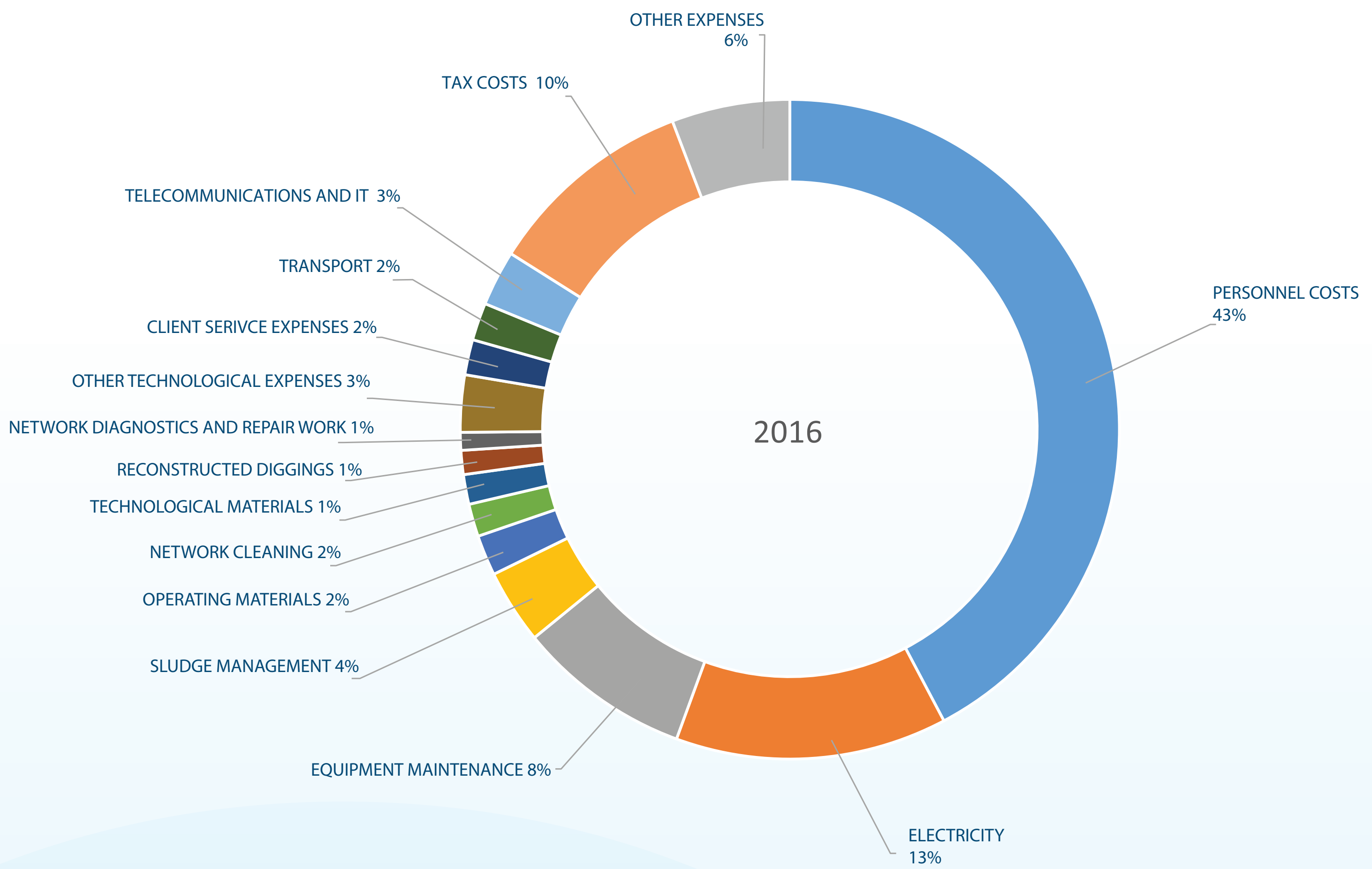
Sludge processing expenses include sludge composting expenses; they decreased to EUR 0.9 million, while in 2015 they amounted to EUR 1.5 million. The main reasons were reduced sludge composting rates, increased amount of dried sludge. Decrease in other technological expenses was caused by stricter cost control, re-negotiated purchase prices an increase in operating efficiency. On 2016, thechnological expenses dropped from EUR 10.9 million to EUR 8.7 million compared to 2015 or almost 20 percent.

In 2016, transport expenses decreased due to the stricter fuel consumption control.

Increase in the tax costs (not related to employment relations) from EUR 2.1 million to EUR 2.5 million was mostly determined by the higher pollution tax due to higher pollutant concentration in the inflowing wastewater and higher tax on natural resources due to increase in its rate. During 2016, Vilniaus Vandenys paid (transferred) a total of EUR 9.9 million in taxes to the State tax Inspectorate and EUR 3.9 million to the State Social Insurance Fund (Sodra) (including taxes related to employment relations).

In 2016, the Company's expenses decreased from EUR 46.5 million to EUR 21.9 million. The decrease was mainly caused by reversal of impairment of trade and other receivables (EUR 12.6 million) due to recovered debts of UAB Vilniaus Energija compared to the formed impairment of EUR 9.3 million in 2015. Depreciation and amortisation expenses of non-current assets changed insignificantly; during 2016, they increased by EUR 145 thousand and reached EUR 7.6 million.

OPEX STRUCTURE IN 2016 (percentage)



EBITDA AND NET PROFIT

Decrease in expenses had an effect on EBITDA and EBITDA margin. Due to the lower expenses in 2016, EBITDA increased to EUR 13.7 million compared to EUR 11.3 million in 2015; accordingly, EBITDA margin increased from 28 to 34 percent.

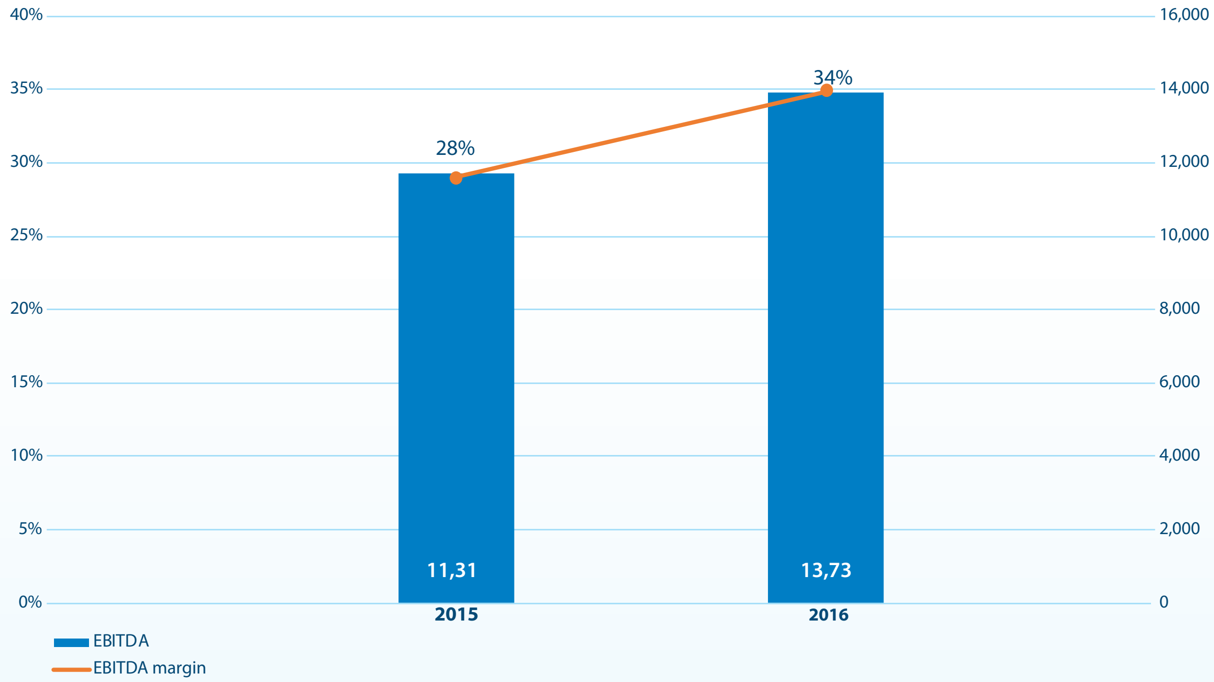
After the loss-making year 2015, the year 2016 were profitable, and the Company's net profit peaked to EUR 19.9 million compared to the loss of EUR 7.4 million in 2015. Net profit growth was mostly the result of debts recovered from UAB Vilniaus Energija, which had impairment formed earlier for them. At the end of 2015, the balance sheet contained EUR 18.4 million in impairment of doubtful debts, whereas at the end of 2016 it was EUR 5.8 million. The effect of impairment of doubtful debts on net profit in 2016 amounted to EUR 12.6 million.

Net profit before taxation, after elimination of impairment of receivables from UAB Vilniaus Energija and its reversal, received interest and penalties was EUR 1.8 million in 2015 and EUR 4.5 million in 2016 (in 2016 the difference between the impairment of receivables from UAB Vilniaus Energija and its reversal amounted to EUR 13.2 million, received interest and penalties to EUR 2.2 million; in 2015 impairment amounted to EUR 9.2 million; no interest o penalties were received).

Income from financial operations amounted to EUR 2.3 million, the majority of which was exacted interest and penalties for the debt of UAB Vilniaus Energija. In 2016, the Company had no investments in term deposits or debt securities. Expenses from financial operations amounted to EUR 0.6 million, they were incurred from interest paid to financial institutions for loans financial lease contracts. The Company's income and expenses were not related to other currencies in 2016; therefore, no currency exchange gain/loss was incurred. In 2016, the Company did not use any derivatives.

The Company does not plan to pay out dividends to the shareholders for 2016, since accrued loss was accounted for at the year-end.

VARIATION IN EBITDA (EUR million) AND EBITDA MARGIN (percentage) IN 2015-2016



EBITDA (earnings before interest, taxes, depreciation and amortization) = profit/loss before taxation + costs of financial operations – income from financial operations – received dividends + depreciation and amortization expenses + asset impairment + asset write-down expenses.

EBITDA margin = EBITDA / income

ANALYSIS OF FINANCIAL INDICATORS

Key financial indicators, EUR thousand	2016	2015	Change	
			EUR thousand	percentage
Income statement indicators				
Total income	40.433	40.182	251	1%
Income from operating (sales) activities	39.906	39.860	46	0%
Operating expenses (OPEX)	26.707	28.868	-2.161	-7%
EBITDA (1)	13.726	11.314	2.412	21%
Profit/loss before taxation	20.267	-6.768	27.035	-399%
Net profit	19.933	-7.361	27.294	-371%
Indicators of assets, equity and liabilities				
Total assets	146.917	125.721	21.196	17%
Cash and cash equivalents	19.352	445	18.907	4249%
Equity	109.714	89.147	20.567	23%
Financial liabilities	22.904	25.913	-3.009	-12%
Trade receivables (including impairment)	18.841	23.852	-5.012	-21%
Trade payables	1.747	4.862	-3.116	-64%
Profitability indicators				
EBITDA margin (2)	34%	28%		6 pp
Net profitability	49%	-18%		68 pp
Return on assets (ROA) (3)	15%	-6%		20 pp
Return on equity (ROE) (4)	20%	-8%		28 pp
Other financial indicators				
Financial liabilities, net (5)	3.552	25.468	-21.916	-86%
Equity level (6)	75%	71%		4 pp
Investment scope (excluding grants)	2.040	5.980	-3.940	-66%
Total investment scope	4.520	13.000	-8.480	-65%

1) EBITDA (earnings before interest, taxes, depreciation and amortization) = profit/loss before taxation + costs of financial operations – income from financial operations – received dividends + depreciation and amortization expenses + asset impairment + asset write-down expenses;
2) EBITDA margin = EBITDA / Income;
3) Return on assets (ROA) = Net profit/loss / Average assets;
4) Return on equity (ROE) = Net profit/loss / Average equity;
5) Financial liabilities, net = Financial liabilities – Cash and cash equivalents – Short-term investments and term deposits – Part of other financial assets comprising investments in debt securities;
6) Equity level = equity at the end of the period/total assets at the end of the period.

During 2016, the Company's assets grew by EUR 21.2 million or 17 percent. Asset growth was mainly caused by the amount of cash increased by EUR 18.9 million within 2016. As a result, net financial liabilities decreased significantly.

It should be noted that in order to optimize the borrowing costs, in 2016, the Company fully covered the liabilities according to all previously completed financial lease agreements, which had an impact on the reduction of financial liabilities. At the end of 2016, the financial liabilities amounted to EUR 22.9 million and constituted 21 percent compared to equity or 16 percent compared to assets. Non-current financial liabilities constitutes 92 percent of all financial liabilities.

In 2017, Vilniaus Vandenys plans to make early repayment of the major part of loans from financial institutions it had as at the end of 2016 and to enter into a new credit agreement for a period of at least 20 years for the implementation of an investment programme.

The net profit earned had a positive effect on the asset profitability and equity profitability indicators. Increase in equity was determined not only by the generated net profit, but also by the increase of share capital due to property, plant and equipment transferred by the shareholder (EUR 0.63 million). During 2016, equity grew by EUR 20.6 million to EUR 109.7 million and constituted 75 percent of the Company's assets. Nevertheless, at the end of 2016, the loss of the Company accrued over the prior periods still equalled EUR 2.6 million. Taking into account the operating forecasts, at the end of 2017, the loss accrued in the Company's balance sheet should be replaced with profit.

It should be noted that trade payables dropped from EUR 4.9 million in 2015 to EUR 1.7 million at the end of 2016. At the end of 2016, the Company had no outstanding trade payables. A lot of attention is paid to timely settlement and fulfilment of obligations, because it helps to attract more potential suppliers and provides for a possibility to negotiate the most favourable price.

Compared to 2015, fewer investment projects were implemented during 2016. One of the reasons was lack of funds due to the accumulated debt of UAB Vilniaus Energija.

INVESTMENTS PARTLY COVERED FROM EU FUNDS

In order to ensure availability of water supply and wastewater management services to the residents and their compliance with the set quality, environmental and health care requirements, each year the Company invests into infrastructure development and modernization.

Using own and European Union structural fund resources, in 2016 the Company completed infrastructure development and network renovation work in Šnipiškės, Baltupiai, Antakalnis districts. Possibility to connect to the new water supply networks was provided for 264 customers and to the wastewater network – for 445 customers.

During 2016, work was performed in accordance with the water supply and wastewater treatment infrastructure development in Vilnius city design and construction agreements pursuant to the European Union funds investment action program project No 05.3.2-APVA-V-013-01-0016

- On 8 January 2016, water supply and wastewater network development project work was completed in Šnipiškės, Vilnius. In connection with the implementation of the design and construction agreement, 0.069 km of water supply networks and 2.439 km of wastewater networks were built. Possibility to connect to the water supply networks was provided for 8 users and to the water supply networks – for 123 users.
- On 15 September 2016, the wastewater network development project work was completed in Baltupiai district. In connection with the implementation of the design and construction agreement, 1.599 km of wastewater networks and a wastewater pumping station was built.

- 52 consumers got the possibility to connect to the wastewater network.
- On 31 October 2016, water supply and wastewater network development project work was completed in the garden communities of Antakalnis district.
- In connection with the implementation of the design and construction agreement, 7.171 km of water supply networks and 18.251 km of wastewater networks were built, 3 wastewater-pumping stations and 2 water-lifting stations were constructed. 184 consumers got the possibility to connect to the water supply network, and 370 consumers – to the wastewater networks.

Moreover, in 2016, the Company started implementation of the European Union fund investment action program project No 5.3.2-APVA-R-014-01-0001 "Drinking water supply and wastewater management system renovation and development in Vilnius city":

- On 17 May 2016 the project "Goštauto g. – Upės g. wastewater corridor section: sag pipe over the river Neris Goštauto g. – Upės g. – wastewater-pumping station (Upės g. 15) Vilnius city reconstruction was completed, 759 meters of wastewater networks were built.

Summary of construction works performed with own funding and funding from other sources

No	Object	Total project value (EUR thousand)	Of which, EU funding (EUR thousand)	Value of works performed during 2016 (EUR	End of work
1.	Components of the project "Water supply and wastewater management infrastructure development in Vilnius city":				
1.1.	Water supply and wastewater network development in Šnipiškės, Vilnius	365,9	328,2	1,6	2016-01-08
1.2.	Wastewater network development in Baltupiai residential district	249,5	216,9	99,2	2016-09-15
1.3.	Water supply and wastewater network development in garden community territories of Antakalnis residential district	2.674,6	2.481,5	1.612,8	2016-10-31
	Total	**3.290,0**	**3.026,6**	**1.713,6**	
2.	Components of the project "Drinking water supply and wastewater management system renovation and development in Vilnius city":				
2.1.	Goštauto g. – Upės g. wastewater collection section: sag pipe over the river Neris Goštauto g. – Upės g. – wastewater pumping station (Upės g. 15) of Vilnius, city	1.265,7	632,8	437,0	2016-05-17
	Total	**1.265,7**	**632,8**	**437,0**	

ORGANISATIONAL CULTURE

One of the strategic objectives of the Company is to create a value based organizational culture. Its fundament was laid down in 2016 when the Company's vision, mission and values originated in the management and employee discussions and were approved. The clear objective and direction gave the employees motivation and trust, whereas the values reminded them of simple but very important behaviour patterns at work that are encouraged by the Company.

The Company values RESPONSIBILITY for ones actions and environment, OPENNESS in the communication with the customers, colleagues, partners and community, and PROACTIVITY in resolving problems and looking for the best solutions.

In order to ensure good atmosphere in the team, high priority is given to the adaptation of new colleagues. For the purpose of their quick involvement into the Company life and provision of all the required information about operation priorities, the Company started to organize know-the-Company days for the new and other employees. During 2016, there such events took place at the Company and 120 employees were participants.

In order to ensure effective communication between the management and the employees, an internal communication channel was introduced in 2016 – intranet VIVA.
It ensures dissemination of information about the most important events, enables the employees to get involved and express their opinion, and helps to make the work more efficient.

For instance, at the end of 2016, the Company replaced paper requests for vacation and business trips with automated completion of forms on the intranet by personnel.

In 2016, the Company started to organize cognitive and entertainment events: quarterly employee meetings with the management to discuss the results and agree on the priorities for the coming period, the summer jamboree, excursions to industrial units, open days in the most interesting object of the Company.

In 2016, Vilniaus Vandenys started the ambassador program attended by 20 proactive employees of the Company who expressed their willingness to take part in the adoption of important decisions in the Company and initiating dialogue between the management and the employees. The aim of this program is to strengthen value based organizational culture, ensures smooth process of changes in the Company, facilitate effective communication and information sharing.

STRUCTURAL CHANGES

In 2016, the Company implemented many significant structural changes. At the beginning of the year a new management team was formed form the professionals in the areas of infrastructure, energy, telecommunications, finance and others.

The positions of deputies of managers at various levels and chief specialists were eliminated. The simplified structure of the Company that came into effect on 1 June 2016 has already started to create value for the shareholders and clients and helps adapt to the market needs in a more flexible manner.

Due to the implementation of structural changes in the Company, the number of positions was reduced from 945 to 745, and 28 positions of managers and deputy managers were eliminated starting from 1 June.

Compared to 2015, the number of employees was reduced by 21 percent in a responsible way without causing any risk for the operating activities of the Company.

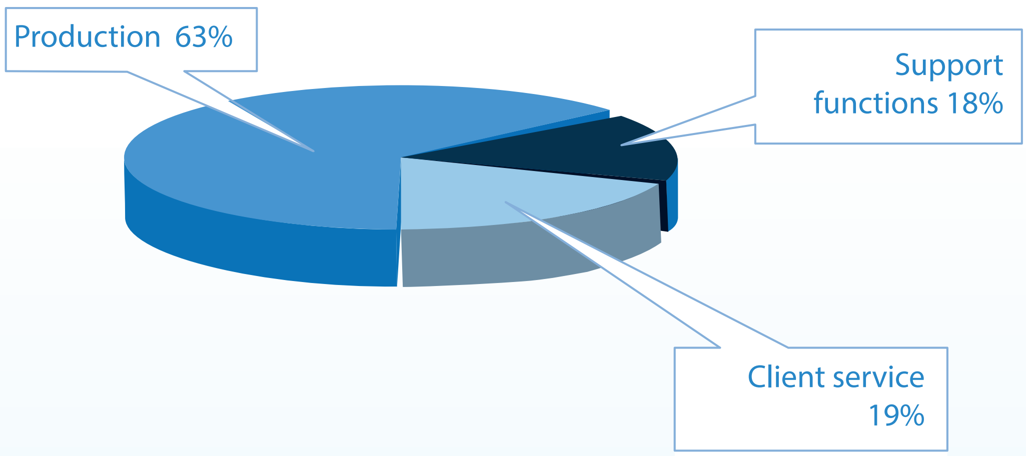
The Company's organizational structure was updated with the following objectives:

- More clear distribution of functions and elimination of overlapping functions
  Units that performed the same or related functions were joined (two water supply divisions were joined into one; dispatcher management is concentrated in one unit).
- More efficient management of supporting functions
  A part of the functions, like security, cleaning of premises, was entrusted to the external partners.
- Transparency
  New units of Prevention and Internal Audit were established.

The Company has specialists with long-term experience. In 2016, the average period of service of the employees was 15 years. As at 31 December 2016, 42 percent of employees had university education and 18 percent – vocational. The Company employs three doctors of science who are experts in their field and share their knowledge with the colleagues and the public.

As at 31 December 2016, 63 percent of people were employees in the Production unit and performed functions related to the operating activities of the Company, 19 percent were engaged in the customer service area and the remaining 18 percent worked in the support units.

EMPLOYEE DISTRIBUTION BY ACTIVITIES



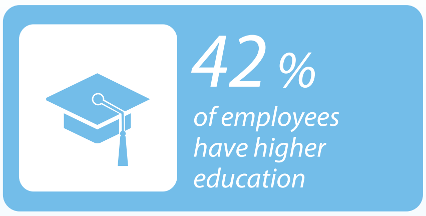
TRAINING OF EMPLOYEES

Vilniaus Vandenys aims at becoming an attractive employer that helps to develop, appreciates competent, and motivated employees. The objective of becoming a desirable employer is also expressed in the Company's vision, which was approved by the management team after discussions with the employees.

The Company takes care of continuous professional training of employees and ensures that the employees should have all the required certificates, improve the competences required for work; thus, it organizes internal and external trainings. In 2016, the Company organized 66 general trainings with the participation of 479 employees. Almost EUR 26 thousand were allocated for training.

Particular attention is paid to developing employee competencies, ensuring safe working conditions, developing environment that helps to feel well. Therefore, in 2017, three times higher budget is estimated for training. Occupational safety and prevention of professional diseases are given special attention.

In 2016, the Company formed and trained a team of internal instructors who have conducted and will conduct training for the colleagues on various occupational safety, employee activity and expectation management topics. Internal training constituted 25 percent of the total training plan. In 2017, it is planned to acquire a larger team of instructors, gain more experience and train 7 times more employees.



CAREER

Vilniaus Vandenys fosters consistent internal career. Vacancies are announces openly and publicly, they are available for anyone; however, search for the required employees starts internally. If there are external and internal candidates with the same competencies willing to fill the positions, priority is given to the internal candidates. During 2016, in connection with structural changes, 171 employees of the Company had career advancement – 111 employees were promoted (vertical career) and 60 changed their position (horizontal career).

As an open and responsible employer, the Company provides a possibility to acquire practical skills for the students of universities and colleges. During 2016, 13 students had internship at various units of the Company; a few were subsequently employed. In 2017, the Company plans to have more interns.

REMUNERATION SYSTEM

The Company implements remuneration policy that aims at provide objective and transparent payment to the employees for properly performed work, achieved results and demonstrated competencies. The objective of fair remuneration is also to encourage, motivate and enable the employees to strive to achieve common goals.

In 2016, all positions at the Company were evaluated based on the applicable education requirements, complexity of the issues resolved and the scope of responsibility. The purpose of the employee position evaluation was to establish a competitive salary in line with the market situation, thus offering objective, transparent and fair remuneration to the employees for the work performed.

In the third quarter of 2016, for the first time, the Company participated in the remuneration market survey, and in the future plans to update its data regularly and compare them to the situation prevailing on the market. Based on the survey results, the position "map" of the Company was prepared.

COLLECTIVE AGREEMENT

In the middle of 2016, the Company initiated amendment to the collective agreement. The collective agreement that was in force since 23 December 1997 was no longer relevant and several of its provisions contradicted the effective Labour Code of the Republic of Lithuania.

All the managers of the Company, employee representatives and the chairperson of the trade union were present at the discussion of the new draft collective agreement. The new wording of the collective agreement was approved and came into force on 5 January 2017. The employees were provided various benefits, paid public holidays, vacations, etc.

Average monthly allocated (estimated) employee wages and salaries, gross (EUR)

	4th quarter of 2016
Top management	3992
Middle management	1766
Senior specialists	1228
Specialists	889
Workers	749

Top management – the general manager 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 job they perform.

Note. Data of the 4th quarter is provided because due to the change in the Company's structure, some of the positions were eliminated, the scope of responsibilities changed; therefore, comparison with 2015 would not be accurate. Starting from 11 January 2016, gross salary of the Company's general manager is EUR 5,500.

OCCUPATIONAL SAFETY

Vilniaus Vandenys perform consistent assessment of potential occupational safety risks, support instruments that promote health and wellbeing. The Company encourages responsible behaviour at work and has zero alcohol, drug and psychotropic material tolerance at work.

This is one of the basic rules that ensures safe and healthy working environment and determines decrease in the number of accidents at work.

The Company applies the following instruments for the prevention of accidents at work and occupational diseases:

- Regular assessment of the professional risk of workstations;
- Free personal protection equipment for the employees;
- Regular statutory health checks;
- Training and certification of employees on safety, health and fire safety issues;
- Employees get preventive vaccination against tick-borne encephalitis, tetanus, diphtheria and influenza.

Statistics of accidents at work

Accidents* by consequences	2016		2015		2014		2013	
	accident at work	other accident	accident at work	other accident	accident at work	other accident	accident at work	other accident
Incidents				1	2			
Minor	1	3		8	6	1	5	7
Major							1	
Lethal							1	
Total	**1**	**3**		**9**	**8**	**1**	**7**	**7**

* Accident – accident on the way from/to work
In 2016, there was one minor accident at work, which was not related to production activities.

SUSTAINABLE ACTIVITIES

As the Company formulated its vision, mission and main directions for its operations in 2016, it was also decided on sustainable operation priorities in line with the strategy that would ensure long-term successful performance.

Subject to an assessment of the stakeholder interests, specifics of the services provided, strategy and historical experience, the Company identified three sustainable operation priorities: care for the environment where it operates (environmental responsibility), responsibility to the customers and the community (social responsibility) and operating and financial transparency (economic responsibility).

Vilniaus Vandenys understands sustainable activities as various initiatives that complement the statutory requirements being implemented. In the long term, these activities will enable the Company to implement its business objectives faster, thus creating value for the customers, employees and shareholders.

As the Company decided on its key sustainable operation priorities in 2016, it continued the previous and commenced new initiatives. In 2017, it plans to select the methodology for achieving the objectives that will enable self-assessment of the progress and share the respective information with the main stakeholders.

CARE OF OUR ENVIROMENT

The activities of Vilniaus Vandenys is inseparable from nature and is resources. The Company provides water abstracted straight from deep-water wells. Therefore, in the long term, it is important to ensure preservation of these natural resources, its cleanliness and responsible consumption.

RESPONSIBILITY TO THE CUSTOMERS, COMMUNITY AND EMPLOYEES

Water is the product our customers use daily; it has significant impact on health, households and the quality of life in general. Therefore, the Company seeks to become as open to the public as possible and to share the knowledge of experts it employs about the benefits of water.

> "Pure water and clean environment for our community."

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

In its operations, Vilniaus Vandenys seeks to use the most advanced instruments, technologies and processes, to promote rational use and management of resources, thus reducing impact on the environment. Since 2003, the Company has implemented the quality management and environmental protection system compliant with the requirements of ISO 14001 and ISO 9001 standards. It shows that the impact of the Company's operations on the environment is identified and controlled; the operations meet legal and other environmental regulations, whereas the integrated management and environmental protection system ensures effective provision of services with control of operations and definition of the responsibilities at each unit. Quality management and environmental protection system is implemented using processes set under the principle of unit specifics, ensuring their effective operation, monitoring and management. Each process is planned and controlled with respect to the customer needs.

In 2016, the employees of Vilniaus Vandenys conducted lectures for the schoolchildren and employees of other companies in order to promote responsible, rational and sustainable water consumption. The purpose of the meetings was to stress the quality of supplied water and promote not only healthier lifestyle, but also higher consumption of tap water.

One of the top priorities of the Company is renovation and development of the infrastructure, e.g. pipelines, wastewater treatment and water improvement facilities. These projects will have a positive impact on the satisfaction of the Company's customers with the offered services. Therefore, Vilniaus Vandenys started more active communication with the communities where it plans to implement these projects by presenting and telling about the process and its impact on the services provided to the customers.

The Company also intends to focus on increasing the customer satisfaction – it will invest in the online self-service system, service quality and speed and will implement other projects increasing customer satisfaction with the services. They are presented in detail in other sections of this report.

Organisational culture is one of the key factors that determine successful development of the Company. In order to ensure good atmosphere, favourable environment and foster qualifications and motivation to work, significant attention was given to various initiatives to improve working conditions for the employees. In 2016, the first summer jamboree for all the employees was organized to foster the new values, a party for the employees' children took place at Christmas, and other events were organized.

The start of the ambassador program meant more involvement of the employees in the resolution of relevant issues for the Company, improvement of the working conditions and participation in various public initiatives and projects. In autumn 2016, the employees willingly donated the required things and food to homeless animals, got involved in the blood donation event.

OPERATIONAL AND FINANCIAL TRANSPARENCY

Vilniaus Vandenys aim at becoming a trully open and transparent company and one of the role models in the area for other state and municipality controlled enterprises.

In the past, the Company did not manage to avoid various suspicions and allegations for non-transparent activities including the public procurement area. Therefore, the new management team took measures and procedures to increase transparency in public procurement, enhance competition among the suppliers, thus increasing productivity.

In 2016, the auditors reviewed and approved the Company's financial statements for the last two years. The first steps were taken to ensure financial transparency.

The Company continues the tradition of organizing open door days in the most interesting water management facilities – Antaviliai wellfield, Vilnius wastewater treatment facility, Sereikiškių Park wellfield to provide the possibility to see Vilniaus Vandenys' water management history. The open door day at the 100-year-old Liepkalnis water repository turned out to be especially popular among the public and media.

MAIN EVENTS OF 2016

11 January 2016	Aidas Ignatavičius became general manager.
1 April 2016	By the decision of the General Meeting of Shareholders, the share capital of the Company was increased with the tangible assets transferred by Vilnius District Municipality at the value of EUR 634,004.58 by an additional issue of 21,892 ordinary registered shares with the nominal value of EUR 28.96 each.
1 June 2016	The new Company's management structure came into effect; starting from 1 June 2016, the maximum number of 745 positions at the Company was approved.
14 June 2016	The short customer service number 1889 operating 24 hours was launched. For the convenience of the customers, the customer service unit (on Dominikonų g. 11, Vilnius) was reorganized. Entrance for the disabled was constructed, the customer service hours were extended – it is open from 9:00 to 18:00 on business days.
14 June 2016	Clients of SEB bank got the possibility to pay for the services using e-invoices. Starting from 20 September 2016, this possibility was provided to the clients of all banks.
1 August 2016	Internal communication channel was launched – intranet VIVA. The intranet has facilitated not only information dissemination, but also approval and administration of internal documents.

8 September 2016	An emergency line 8 800 10880 for the customers to report water supply and wastewater network breakdowns 24 hours a day was launched.
30 September 2016	For the first time the public and the employees had an open door day at the 100-year-old Liepkalnis water repository.
23 November 2016	Vilnius City Municipality Council passed a resolution where it decided to replace the appointed member of the Company's Supervisory Board Aušra Maldeikienė with Liutauras Stoškus.
30 November 2016	Customer service standard was approved. Its purpose is to form a solid customer service standard throughout the Company and, with its help, to convert customer service positive customer experience.
19 December 2016	The Company addressed Vilnius City Municipality regarding proper legitimation of the wellfield land plots held by the Company.
20 December 2016	Auction regulations were approved and the initial selling price of the administration premises (at Dominikonų g. 9 and 11, Vilnius) owned by the Company was set at EUR 3.9 million.
20 December 2016	The budget of Vilniaus Vandenys, the Company's objectives for 2017, the strategic operational and development plan (with the final list of projects financed from the EU structural funds in 2016–2020) and the draft basic price list were approved.
23 December 2016	Due to an accident on Upės street the main wastewater pipes were damaged and approx. 30 thousand m3 of wastewater leaked to the river Neris. A preliminary investigation was initiated for damage to the environment.
27 December 2016	An agreement was signed with the Environmental Project Management Agency under the Ministry of Environment of the Republic of Lithuania for funding the drinking water and wastewater management system renovation and development projects in Vilnius city in 2014–2020.
28 December 2016	A "map" of positions at the Company was approved.
29 December 2016	An agreement was signed regarding transfer of claims and offsetting between Vilnius City Municipality, UAB Vilniaus Energija and UAB Vilniaus Vandenys, according to which UAB Vilniaus Vandenys transferred its claims with regard to UAB Vilniaus Energija to Vilnius City Municipality for EUR 5,646,805.70, which Vilnius City Municipality undertook to transfer by 31 December 2016. The amount was transferred and set off.

OTHER SIGNIGNIFICANT COURT JUDGMENT IN THE CASE AGAINST UAB VILNIAUS ENERGIJA

13 October 2016	The Court of Appeal of Lithuania issued an order and maintained Vilnius District Court judgement of 27 January 2016, which adjudged the debt of EUR 7,517,358.05 penalties of EUR 466,397.62, interest of EUR 130,904.58, 6 percent of procedural interest and litigation costs.
10 November 2016	The Court of Appeal of Lithuania issued an order and maintained Vilnius District Court judgement of 1 March 2016, which adjudged the debt of EUR 2,124,789.44, penalties of EUR 27,890.05, 6 percent of procedural interest and litigation costs.
29 November 2016	The Court of Appeal of Lithuania issued an order and maintained Vilnius District Court judgement of 18 April 2016, which adjudged the debt of EUR 3,311,159.31, penalties of EUR 247,461.61, interest of EUR 284,129.23, 6 percent of procedural interest and litigation costs.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING YEAR 2016

5 January 2017	The new collective agreement came into force.
1 February 2017	Re-certification audit of ISO integrated quality management and environmental protection system took place. The management system was assessed under the requirements of the new standards ISO 9001:2015 and ISO 14001:2015, the validity of the certificate was extended for 3 years.
1 February 2017 For	the customers who do not have individual meters, the average drinking water quantity per resident per month changed on the territory served by Vilniaus Vandenys (1.78 m^3).
1 February 2017	Implementation of the employee performance management system started. 36% of the Company's employees discussed expectations regarding the activities and agreed with the direct managers on the individual performance and development objectives, the achievement of which will be assessed in a year.
21 February 2017	Headquarter buildings of the of Vilniaus Vandenys in Vilnius were sold in a public auction. The auction was conducted by the international real estate consulting company Colliers International Advisors. The building complex located at Dominikonų g. 9 and 11 with the total area of about 2.5 thousand m^2 was acquired by Asgaard Property for the starting price of EUR 3.9 million.
1 March 2017	Cash operations are no longer performed at the customer service division, a more convenient method of payment with payment cards is used instead.

THE COMPANY'S STRATEGIC INITIATIVES FOR 2017

Q1	• Implementation of the employee performance management system
Q2	• Implementation of the customer segmentation model • Implementation of the customer service standard (personnel training) • Development of a loss reduction methodology • Preparation of a planned work organization and client information procedure
Q3	• Development and implementation of infrastructure renovation methodology • Update of the website www.vv.lt
Q4	• Development and implementation of internal communication system • Implementation of customer service quality measuring system • Formation of a service portfolio • Development and implementation of the network takeover system • Development and implementation of the new customer attraction system • Development of infrastructure preventive maintenance system • Customer data integration in different IT systems • Update of revenue accounting principles

DETAILS AND CONTACT DATA OF THE COMPANY

Name of the Company	Private limited company Vilniaus Vandenys
Legal form	Private limited company
Registration date	27 March 1991
Register manager	State enterprise Centre of Registers
Company code	120545849
Registered address	Dominikonų g. 11, LT-01517, Vilnius, Lithuania
Telephone	1889
Fax	(370 5) 261 3906
E-mail address	info@vv.lt
Website address	www.vv.lt

Customer service divisions

Vilnius
Dominikonų St. 11, LT-01517 Vilnius
I–V 9:00–18:00

Švenčionys
Vidžių St. 7, Švenčionys
I–V 7:30–16:00 (lunch break 11:30–12:00)

Šalčininkai
Lydos St. 34, Milvydų k., Šalčininkų sen., Šalčininkų r.
I–V 7:30–16:00 (lunch break 11:30–12:00)

Nemenčinė
Piliakalnio St. 32a, Nemenčinė
I–V 7:30–16:00 (lunch break 11:30–12:00)

Customer service lines open 24/7

1889
Calls are charged based on the rates of the communication operator or on the payment plan. Please note that operators charge calls to short numbers at different rates; therefore, we recommend checking the price of your call on the operator's website.

+370 5 266 4455
Calls are charged based on the rates of the communication operator or on the payment plan. You can call this number both from Lithuania and from abroad.

8 800 10880
Free telephone number for accident registration.