

Vilniaus vandenys UAB
Annual Report,
Independent Auditor's Report and
Financial Statements for the year ended
31 December 2020

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MESSAGE FROM THE CHAIRMAN OF THE BOARD

In 2020, Vilniaus vandenys faced challenges that not all companies would withstand: plastic waste dumped into wastewater networks, the decision of the environmental authorities to impose a million fine on the Company for wastewater contamination, the loss of three team members, and ensuring smooth operation during a pandemic.

However, these challenges received a decisive response from the Company: successful efforts in halting the contamination and detecting the real polluters, the beginning of cooperation with scientists, looking for future water treatment solutions, strengthening the occupational safety system and determination bit-by-bit to implement value changes in the Company.

Experiences and lessons gained last year laid a solid foundation for the Company's future.

The Company has refined and chosen clear strategic directions. Sustainable activities, efficient management of the customer experience, sustainable development and innovation, caring organization and involved employees are the Company's commitments, translated into clear goals and measurable indicators to assess the Company's progress.

Last year, Vilniaus vandenys officially started the reconstruction of Vilnius city wastewater treatment plant, the largest wastewater treatment plant in the country. It is a strategic project of national significance, which aims not only to increase the quality of wastewater treatment services for the city, but also to ensure the delivery of the Green Deal set by the European Commission.

Last year, the Company's list of priorities also included digitization projects that improve the user experience. Vilniaus vandenys was the first company in the region to start implementing a unified smart water supply network: connected more than 5.6 thousand of inlet cold-water meters installed in buildings to the Internet network and remotely tracks their readings. Such decision helps the Company to eliminate manual and prone to risk reading of meter data in wells, to detect and handle emergencies in water supply networks faster, to reduce water losses and to use natural resources more responsibly.

The Company offered innovative environmentally friendly solutions to the city of Vilnius and its people. The Company installed drinking fountains in the busiest areas of the city, green areas and schools. This not only promotes a healthy lifestyle for city dwellers, and encourages to refrain from plastic use, but also reduces the overall CO₂ emissions in Vilnius.

The Company has implemented good governance practices in all its activities. One of the more significant solutions was a change in the subordination of the internal audit team by placing it under the Board, and thereby ensuring more transparent corporate governance and accountability. Many of the Company's governance documents were reviewed and updated: from the Rules of Procedure of the Board and the Audit Committee to the policies applicable to various activities.

When drawing new horizons in water management, the contribution of the whole team – its focus, its expertise, its values – is crucial. Therefore, the Company's most significant goals for this year relate not only to environmental protection, but also to strengthening organisational culture and searching for internal effectiveness.

I have no doubt that 2021 will be a year of internal growth and new victories for Vilniaus vandenys.

ADOMAS BUŽINSKAS

MESSAGE FROM THE CEO

Dear customers, partners, shareholders and colleagues,

2020 has been a year of challenges, valuable lessons and change for the Company. This has hardened and strengthened our Company, laying the foundations for determined decisions in the future. Looking at last year's goals and how successful we were in achieving them, we can on the whole be satisfied.

Last year we worked purposefully and successfully – we achieved and exceeded the planned EBITDA.

Although some of the planned investment projects had to be paused due to COVID-19 and the quarantine which was declared twice last year, we nevertheless launched a record investment plan of EUR109 million last year. During 2020 we expanded our network and increased its availability: we constructed 25.3 km of wastewater and 24.8 km of water supply networks, connected 6,418 new customers to the centralised water supply and wastewater system, installed smart water meter reading equipment and started reconstruction of the largest wastewater treatment plant in Lithuania.

Last year, we decisively drew up new guidelines in the field of environmental protection. We launched development of environmentally-friendly infrastructure, accelerated the use of renewable energy sources in our activities, green energy production, and use of future technologies in water management, such as installation of sludge and fats collection and recycling, tertiary wastewater treatment technologies.

We have consistently improved customer experience, by providing all network installation and connection to centralized water supply and wastewater network services through "one-stop shop" system, developing and expanding information systems and electronic service channels. The customer satisfaction index GCSI reached 76 points, well ahead of the average index in both the Lithuanian utilities sector and Europe and the US.

The employee engagement rate achieved in 2020 is also encouraging. It reached 68% and was higher than the Lithuanian and European averages. This shows the Company's purposeful efforts to shape and maintain an organization culture which is based on values, engages employees in important decision process and promotes shared value creation.

We have tightened the control of wastewater discharged by companies: we have determined to inspect all the wastewater coming to our network phase-by-phase and to find all the routes through which it flows to our treatment plants and identify the real polluters. To fight polluters, we also engaged the society: we encouraged to promptly communicate to our Company's professionals any deliberate or accidental pollution.

No one has to die at work. This was our starting point when thinking what we can do differently from what we have done so far to ensure the safety of workers. In 2020, we reviewed the safety measures available, the flows of investment in safety at work, reassessed each risk step-by-step, made close examination of the specifics of hazardous works and the preparedness of our employees and partners (contractors) to carry-out these works.

Despite the challenges, we also implemented many other meaningful projects last year: we installed even more drinking fountains for the city and its people, we put our joint efforts to reduce plastic consumption and CO₂, in cooperation with the fishermen, we were searching for sources of pollution, moreover, we ran a marathon, we were swimming in icy River Vilnelė and we were speaking openly about difficult experiences.

In this year of 2021 we associate far-reaching plans and ambitions with the work started: we need to ensure that the reconstruction of Vilnius City Wastewater Treatment Plant will proceed smoothly and that we will succeed in implementing the investment plan, we need to live up to our commitments to the environment, employees, society, and to further implement the sustainability projects we have started.

MARIUS ŠVAIKAUSKAS

ABOUT THE COMPANY

Vilniaus vandenys is the largest Lithuanian water management enterprise that is engaged in drinking water supply and wastewater treatment for 267 thousand customers. The Company holds a drinking water supply and wastewater management licence issued by the National Energy Regulatory Council (NERC) and operates in Vilnius City Municipality as well as Vilnius, Švenčionys and Šalčininkai district municipalities. The Company has no branches or representative offices.

Vilniaus vandenys supplies groundwater only, from 40–245 meter-deep wells. The Company supplies approximately 89 thousand cubic meters of water and treats more than 107 thousand cubic meters of wastewater per day.

Considering the fact that the Company is engaged in the provision of strategically important public services, the provision of the services and environmental protection is subject to large-scope legal regulation.

The Company has implemented and applied an integrated quality and environmental management system that meets the requirements of ISO 9001 and ISO 14001 standards, which shows that the environmental impact of the Company's activities is identified and managed, the Company's activities comply with legal and other environmental requirements. The quality management and environmental protection system is integrated into all business processes that are defined by the specifics of the work of divisions to ensure their effective operation, monitoring and management. Each process is planned and controlled continuously in light of customer needs.

MAIN SERVICES

SUPPLY OF DRINKING WATER

As at 31 December 2020, Vilniaus vandenys operated 36 wellfields, 280 boreholes, 153 water pumping stations, 20 water treatment (refinement) plants, 467 water extraction columns, 5,203 fire hydrants and approx. 1,719.4 km of water supply pipelines, of which, 24.8 km of new pipelines were constructed and 8 km reconstructed in 2020.

In 2020, the Company extracted 32.7 million m³ of drinking water, supplied 32.6 million m³ of water and used 1.3 m³ of water for technical purposes.

The Company is proud to be developing the first smart water supply system in the Baltic States, which allows for faster detection and emergency response, smarter network management, reduced water losses and more responsible use of natural resources, ensuring greater safety of employees. In 2020, the smart water supply project won the award "Smart Solution of the Year". It involves the installation of digital metering devices with remote scanning to help reduce water losses, provide customers with accurate invoices for services provided, and identify metering device failures and network emergencies. In the future, the Company envisages the acquisition of modern ultrasonic meters, which will replace conventional devices by 2030.

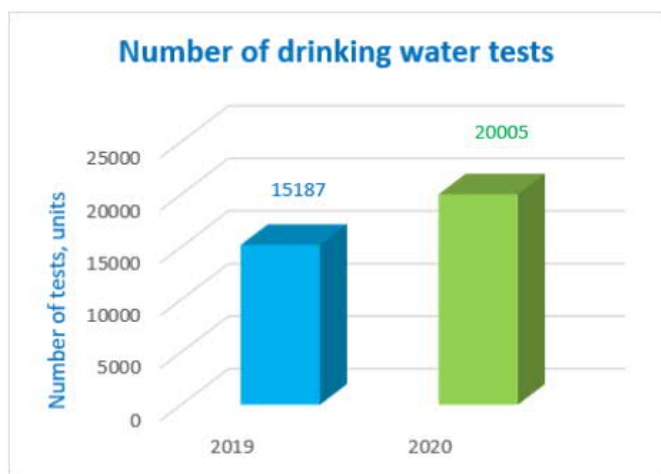
The Company supplies drinking water from deep wells only. Such water is considered to be of the best quality, however, natural water always contains dissolved impurities, which need to be removed from the water in order for the water to meet safe drinking water qualitative characteristics. High levels of iron and manganese are typical of groundwater in Vilnius City and Vilnius District. Excess iron and manganese are removed by treating water in water treatment (improvement plants), used to clean approx. 90% of water supplied by the Company.

QUALITY OF DRINKING WATER

Publicly supplied drinking water in Vilnius city and Vilnius District is clean and of high quality, the tap water is safe and healthy, because it is supplied from underground wells, where the water is protected from external chemical and microbiological pollution. In addition, the groundwater, not many countries in the world can enjoy the same abundant resources of which, is saturated with various minerals useful to the human body, such as calcium, magnesium, sodium, potassium, etc. Lithuanian groundwater is a national treasure that confers an advantage.

Safety and quality requirements for drinking water are set by the Hygiene Norm of Lithuania HN24:2017. Taking into account these requirements and seeking to ensure the quality of supplied water, the Company performs regular monitoring of the quality of drinking water and carries out tests thereof.

Samples for the tests are taken from the distribution network and different consumption points: education, public catering, and medical institutions. Laboratory tests of the quality of drinking water are carried out in accordance with the programme supervision plan drafted each year and approved with the State Food and Veterinary Services. In 2020, a total of 20,005 tests were carried out in the Company's laboratory and that is 32% more than in 2019. The increase in the number of studies was driven by commercial research studies (6001 vs 4882) and technological research studies performed at the initiative of the Company which are needed to ensure the supply of quality water after pipeline washing, accidents, disinfection and other technological processes.



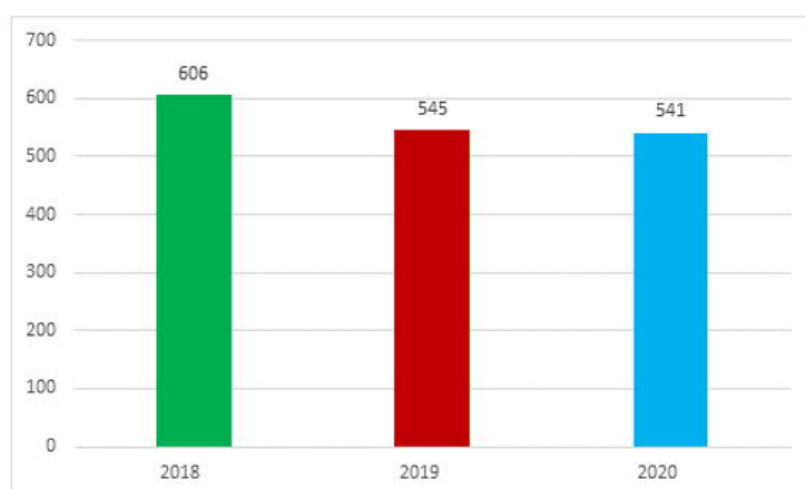
In 2020, 43 water quality indicators were tested in each area of the wellfield. In nine of the 36 wellfields, an increase in concentration of indicators such as iron and manganese was observed, which does not meet the requirements of the Hygiene Norm of Lithuania HN24:2017. However, the concentrations of these indicators did not exceed the limit levels indicated in the Guidelines of the World Health Organisation above which adverse health effects are likely to occur.

In case the laboratory determines that the values are greater than the maximum authorised values, it replicates samples of drinking water and informs the management of the Company's Water Supply Stations and Departments of Water Supply Networks so as to restore the values of drinking water indicators up to the authorised limits.

WATER SUPPLY CHALLENGES

The majority of the water supply networks has been constructed in the processes of city expansion, thus have been in place for decades. Due to the long term of operation, pipelines in certain parts of the city are obsolete, thus resulting in occasional water leaks or accidents. In 2020, the Company responded to 541 water supply accidents.

Accidents in water supply networks



The most frequent reasons of accidents are wear and tear of the network (more than 60% of water supply and wastewater network is more than 30 years old), corrosion of pipelines, obsolete shut-off and control, and protective fittings, pipeline fractures affected by seasonal temperature changes to soil, faults of developers, contractors when pipelines are damaged during the construction works (earthmoving, drilling, etc.).

In previous years, the development of new networks from European Union structural funds was a priority, thus only the sections of water supply pipelines with highest accident concentration were renovated.

Compared to 2019, the average duration of fault and accident localisation in 2020 reduced from 132 up to 128 minutes, i.e. on average the accident is localised 4 minutes faster.

In 2020, the average interruption duration per customer (SAIDI) due to accidents decreased from 18.3 to 16.67 minutes, compared to 2019.

A water supply network segmentation project was pushed ahead to reduce water losses and operatively identify accident sites. In 2020, the supply zone of Naujoji Vilnia was divided into 7 subzones with flow meters being installed for water supplied therein metering purposes.

ACCIDENT AND FAILURE PREVENTION

In view of the fact that Ostrovets NPP (Belarus) has been put into operation, Vilniaus vandenys assessed these risks and envisaged actions when preparing a strategic plan for 2020–2030 and the action and development plan for 2020–2022 to ensure the continuous supply of safety and quality-compliant drinking water to consumers.

On its own initiative, Vilniaus vandenys has drawn up two plans under two scenarios: one to be used in the event of a nuclear accident and radioactive contamination from the Ostrovets NPP reaching us across the river Neris, and the other – in the event the contamination spreading through the atmosphere.

In 2020, the Company continued its planned actions focusing on the first scenario, i.e. Contamination through water, as safe and quality water supply is one of the Company's key areas for action.

To prevent accidents and water supply disruptions, the Company has used hydraulic modelling technology: a hydraulic modelling information system for the Vilnius city water supply network was developed and implemented, which will allow the Company to assess scenarios of water consumption in the event of accidents, including an accident in the Ostrovets NPP, changes in the main sources of water supply, wellfields. In the event of radioactive contamination of the river Neris, it would be necessary to change the drinking water supply scheme of the city of Vilnius and the boundaries of the water supply areas, and to increase the water supply from the surveyed wellfields that do not enter the river Neris basin.

Water consumption requirements and the capacity of the wellfields operated by the Company were analysed. Total water consumption requirement is about 2.6 million m³ of water per month. Meanwhile, the capacity of water extraction from all the wellfields owned by the Company is slightly above 12 million m³ of water per month, of which approx. 4.4 million m³ per month would be extracted from wellfields outside the river Neris basin. As a result, only about a fifth of the total capacity of the wellfields is currently being utilised, and about 80% of the capacity of the wellfields is a potential that needs to be tapped.

In total, 36 wellfields are operated by the Company in the serviced area, of which 18 are covered by the river Neris basin, one by the basin of rivers Vilnelė-Neris, Mera-Kūna (Švenčionys), Žeimenė (Švenčionėliai), Šalčia (Šalčininkai), Verseka (Eišiškės), and 2 are covered by the basins of rivers Vokė-Neris remaining 11 – by the basins of rivers Vilnelė and Vokė.

Another solution used by the Company is the development of the merge of water supply zones. To ensure safe water supply in different zones of Vilnius city, the Company has provided for the merger of different water supply zones in the strategic plan, creating a "ring" of the water supply system and ensuring the possibility to change the direction of water supply and uninterrupted water supply to consumers in the event of accident.

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

Compared to 2019, the number of scheduled inspections of water supply networks in 2020 increased by 17% (from 213 km to 249 km).

In line with internal audit recommendations, the procedure for recording and counting scheduled inspections of water supply stations has been amended in August 2020, with 5,448 inspections carried out within 5 months.

When optimising energy consumption, the water pumping station in Viršuliškės has been equipped with a reduced capacity night pump, which allows to save electricity.

WASTE COLLECTION AND MANAGEMENT

For the collection of wastewater and its transportation to the wastewater treatment facilities, Vilniaus vandenys uses 1,394 km wastewater networks and collectors, including 199 km pressure lines and 213 wastewater-pumping stations. In 2020, 25.3 km of new sections of the wastewater network were constructed and 1 km was reconstructed.

The Company operates 8 wastewater treatment plants: Vilnius city, Švenčionys, Švenčionėliai, Pabradė, Nemenčinė, Gėla, Šalčininkai and Eišiškės. The Company also accepts and manages wastewater collected by companies transporting wastewater.

Wastewater management is governed by the Wastewater Management Regulation and Integrated pollution prevention and control permits/emission allowances, issued to the Company. The Company's laboratory examines about 40 wastewater quality indicators.

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

In 2020, Vilniaus vandenys collected and treated 40.3 million m³ of wastewater (in 2019: 40.6 million m³).

In terms of the key examined indicators (biochemical oxygen consumption in seven days (BOD7), the total phosphorus content, the total nitrogen content), high treatment efficiency levels are reached in the Vilnius wastewater treatment plant, which remained the same in 2020, compared to 2019.

In order to achieve a better protection for environment from pollution caused by operating activity, maintain high quality of wastewater cleaning, in 2020, important steps were taken in the reconstruction projects of Vilnius wastewater treatment plant and Švenčionys wastewater treatment plant.

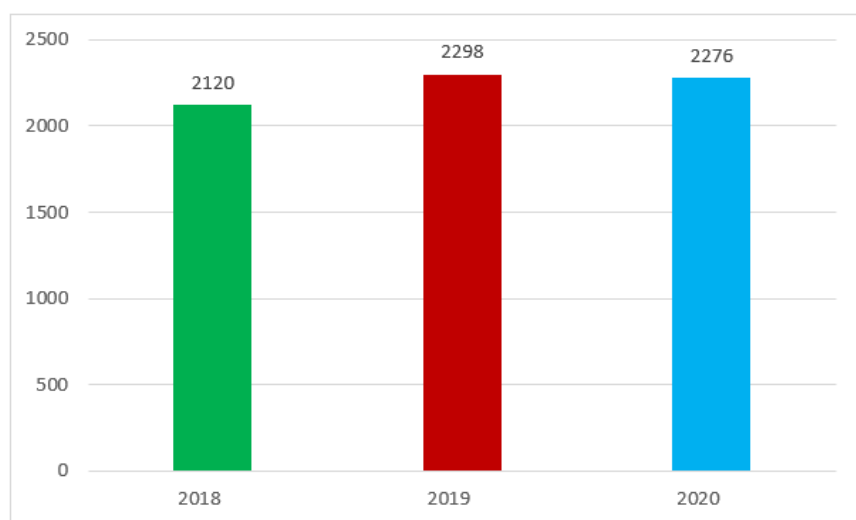
CHALLENGES IN WASTEWATER MANAGEMENT

In 2020, there were 369 accidents in wastewater networks. Despite all preventive work, the number of accidents in wastewater networks has increased compared to 2019. Accidents and breakdowns in wastewater networks were mainly caused by obsolescence of pipelines and blockage of pipes caused by irresponsible attitudes of residents, industry, services and, in particular, construction companies towards emissions.

A mixed wastewater drainage system is installed in Vilnius city centre, the Old Town, a part of Antakalnis and Naujamiestis where both wastewater and rainwater is collected. These wastewater networks accumulate sediment and silt causing frequent blockages.

The Company faces challenges in taking over an orphan, unskilfully constructed and/or improperly operated network infrastructure that often requires greater investment and other kind of resources. In most cases, such networks are taken over from municipalities, thereby meeting the expectations of shareholders. Increased pollution caused by manufacturing facilities is also observed, and this contribute to a greater number of accidents in the wastewater network.

Accidents and breakdowns (blockage) in wastewater networks



The Company's wastewater operation and accident response units focus not only on the response to such accidents and breakdowns but also on their prevention.

During the inspections of wastewater networks, 23,825 wells were tested, which was 12% more than in 2019.

In 2020, 149 km of wastewater network were cleaned, which was 33% more than in 2019.

Modern video-assisted diagnostic equipment is used to assess the condition of wastewater networks: 27 km of the Company's wastewater networks were tested in 2020, which was 8% more than in 2019.

Also the wastewater-pumping station of Pakalnė village was refurbished in 2020.

In 2020, metering devices were installed in wastewater pumping stations to reduce losses in wastewater networks.

8 portable flow measurement devices were also purchased to identify the most loss-making areas in the network.

STRATEGY. OBJECTIVES

In 2020, Vilniaus vandenys implemented the Company's business strategy for 2020–2030, which was approved on 12 September 2019 by the Company's Board. The strategy was prepared through analysis of internal and external environmental drivers of the Company's activities and taking into account the provisions of the Law on State and Municipal Enterprises, the Law on Drinking Water Supply and Wastewater Management, as well as the Water Area Development Program 2017–2023 and action plan. The Vilnius City Strategic Direction Vilnius 2IN is integrated into the Strategy.

The strategy established the Company's mission, vision, values, set the strategic directions for 2020–2030 (customers, efficiency, sustainable development and modernisation, employees/organization), defined the goals to be achieved, and described tasks and specific measurement indicators to assess the Company's performance and the fulfilment of goals.

In 2020, the Company's management, together with the Board, reviewed and updated the Company's mission and defined the Company's vision and a new strategic orientation (Efficient Management of Customer Experience; Sustainable Activities; Sustainable Development and Innovation; Caring Organization and Involved Employees).

MISSION, VISION, VALUES

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

The Company's mission: High quality water and a clean environment.

The Company's vision: A leader in sustainable and innovative water management services in the Baltics, committed to nature and the community.

The Company's vision encrypts a constant goal to strive for modernity, sustainability and a cleaner environment – in every step, and in every project implemented.

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

Values:

Responsibility

We take responsibility for our words, actions and results.

We care about nature, the communities, partners, customers and colleagues.

We are each responsible for the safety and health of ourselves and those around us.

Professionalism

We are seeking to improve and innovate through understanding the importance of professional knowledge, practical experience and learning.

We strive for each employee to gain recognition and ability to grow as a professional in their field.

Professional is an employee who works safely, and protects himself and his colleagues.

Cooperation

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

We share experience and knowledge.

We work together to create safe and enjoyable working environment.

STRATEGIC DIRECTIONS, OBJECTIVES AND TASKS

Revised and redrafted strategic orientations will allow the Company to perform its goals and tasks more purposefully.



Efficient Management of Customer Experience. This is one of the most important strategic orientations for the implementation of which the Company will use the experience and professionalism of its employees, partners' expertise, state-of-the-art technologies and financial resources to provide customers with the highest quality services, attentive service, and efficient management and to shape a positive customer experience.

Sustainable Activities. Strategic direction indicating the Company's willingness to carry out environmentally sustainable activities: not only to meet but exceed the ever stricter environmental requirements to spare natural resources, accelerate the use of renewable energy sources in business, prioritising the green energy production, continuously searching and purposefully investing in the implementation of environmentally friendly technologies in water management.

Sustainable Development and Innovation. The application of innovative solutions in water management is an essential element that directly affects the quality of life and activities of the community. By carrying out environmentally- friendly and sustainable to environment, cities and districts activity of refurbishment and development of drinking water supply and wastewater treatment infrastructure, by smartly digitizing activities, the Company consistently improves the quality of the services provided. And by implementing best practices and introducing advanced technologies, the Company keeps the pace with developing society, sets an example for other companies, while optimising the allocation of the Company's resources and reducing operating costs.

Caring Organization and Involved Employees. Employees are considered as one of the most important components of success. Respectful treatment, focus on development, career opportunities, concern and daily

efforts of the Company to ensure safe jobs, remind employees of the need to protect themselves, maintain a value-based organisational culture increases employee engagement, motivation, promotes mutual orientation of both the Company and its employees towards the result and consistent value creation.

For the purposes of implementing of newly defined strategic orientations, in 2021, **strategic objectives** will be revised and **targets** for their implementation will be set.

In the currently adopted Strategy, the Company's performance is estimated against the indicators set out in the table below (planned change from the beginning of 2020 until the end of 2030). The following indicators will be reviewed in 2021 on the basis of the new agreed strategic orientations and the planned update of the Strategy:

Indicator	Indicator size	
	2020	2030
Length of water supply networks	1,697.93 km	1,850 km
Length of wastewater networks	1,346.24 km	1,500 km
Number of water improvement equipment	19 units	21 units
Number of water extraction columns	500 units	0 units
Number of customers	255 thousand	296 thousand
The Company's metrologically certified metering devices installed for customers	90%	95%
One-stop customer service (<i>Multichannel</i> customer management with 360-degree customer view)	Not implemented	Implemented
Smooth connection of new customers in line with the principle "one-shop-stop" (the Company provides all necessary services)	5 units	8 units
Net Promoter Score (NPS)	70	80
Ancillary services	12 units	28 units
Revenue from ancillary services, % of revenue	0.5%	5%
Remote (smart) meter reading	0%	95%
Number of ultrasonic meters	0%	95%
Water losses in multi-dwelling-units (difference between the amount of water supplied to the network and the amount sold to customers)	15%	2%
Employee engagement	68%	75%

The operational and development plan of Vilnius vandenys for 2020–2022 contains a detailed draft measures and envisaged projects to achieve strategic goals and objectives, as well as the need for funds and sources of funding, discusses the deadlines and indicators needed not only to achieve strategic directions and goals, but also to maintain the Company's activity.

The operational and development plan for 2020–2022 will be revised based on the Company's 2020–2030 strategy, updated in 2021, and submitted to the following municipal councils (shareholders' of the Company) for the approval: Vilnius City and Vilnius, Šalčininkai and Švenčionys Districts.

OPERATIONAL AND FINANCIAL GOALS

With a clear strategy, expectations defined by its shareholders and consistent implementation and planning for further development, the Company set the ambitious goal in 2020. Objectives have been achieved despite last year's challenges associated with the global pandemic, the deteriorating economic situation in the country, and other objective disruptions of activity that are difficult to predict.

No	Indicator	Definition	Weight (%)	Objective	Results
1	CAPEX	Investments in property, plant and equipment, including investments part funded through the European Union	30	≥ 19.8 mln EUR.	15.297* mln EUR.
2	EBITDA	Profit before interest rates, taxes, depreciation, impairment and costs written off	30	≥ 6.26 mln EUR.	6.31mln EUR.
3	Revenue from non-regulated activities	Increase the revenue from the basket of the commercial services by 80%	15	200K (+80%)	>260K (+134%)
4	Customer service and customer satisfaction index of the Company's services (GCSI) ¹	Increase customer satisfaction index (GCSI) to 73 points	10	73 (+1 p.)	76
5	Employee engagement	To create value-based organizational culture	15	70%	68%

1. **CAPEX.** In 2020, investments in property, plant and equipment, including investments part funded through the European Union, were implement to a lesser extent due to smaller tenders received in public procurement. (*- investments (excl. Savings) amounted to EUR 15.297 million, savings – EUR 4.895 million)
2. **EBITDA.** The objective set was achieved – EBITDA amounts to EUR 6.31 million. Excess – EUR 50 thousand.
3. **Revenue from non-regulated activities.** The service basket project aims not only to increase the revenues from non-regulated activities, to continuously improve existing services, but also to create new services that meet customers' needs and expectations. In 2020, 9 new/revised and updated services were approved. Compared to planned revenue from non-regulated activities of EUR 200,000, actual result last year amounted to EUR 260 000, containing mainly revenue from services provided to Vilnius City Municipality. The significant change in the revenue from non-regulated activities was due to the successful implementation of the initiative "one-shop-stop", under which private customers were granted access to all services of the Company required for connection to centralised networks. Under the offer, the services are available for immediate use, while payments can be made in instalments. This has accelerated and facilitated the procedures for connecting to networks. Increase of revenue from non-regulated services was also triggered by a proactive project of installing drinking fountains in schools.

4. **Customer service and customer satisfaction index of the Company's services.** A significant improvement was recorded when evaluating the Company's customer satisfaction with service quality for a fourth year in a row. Based on an international GCSI (*Global Customer Satisfaction Index*) method, the performed investigation revealed that Vilniaus vandenys customer satisfaction index in 2020 increased from 72 to 76 points. In 2017, this indicator was measured for the first time and the customer satisfaction index reached 67 points. Vilnius vandenys exceeds both the overall Lithuanian and US-European average at national and international level. This result was due to the consistent implementation of targeted actions aimed at increasing customer satisfaction with the services provided by the Company, prompt and consistent communication of the Company with external audiences.
5. **Employee engagement.** In 2020, the employee engagement rate was 68% (2% lower than expected). The Company's employee engagement rate is high, reflecting the ability of the organisation, managers and employees to maintain stable activity and focus while working in both standard and non-standard conditions, the ability to adapt, change, accept changes and challenges, of which there were many in 2020. In 2020, the Company's employee engagement rate was higher than the market rate (Vilniaus vandenys – 68%, overall market rate Europe) – 66%, Lithuania – 61%), after only the high-performing companies (Fortune's list "Most Admired Companies") – 73%. Compared to 2018, the drop in the employee engagement rate by 1% reflects the overall market trend (engagement rates in 2018: overall market (Europe) – 67%, Lithuania – 64%, high-performing companies (Fortune's list "Most Admired Companies") – 74%.

OVERVIEW OF ACTIVITIES

SCOPE OF SERVICE PROVISION

The dynamics of the volume of sales of drinking water and wastewater treatment services best reflects the changes in the Company's operating volumes that affect the income. The key performance indicators – the volume of drinking water sold and the volume of collected and treated wastewater – distributed unevenly through the activities of Vilniaus vandenys: the volume of water sold decreased by 2%, whereas the volume of wastewater treated increased by 3% in 2020, compared to 2019. Such results were due to the situation in the country, with quarantine declared as many as twice. It has changed consumer behaviour: there has been an increase in consumption of hot and cold water in the private sector, and a decline in the small businesses sector. The big business sector suffered the smallest hit, resulting in an increase in the ratio of wastewater treated to the water purchased.

Performance indicators, thousand m ³	2018	2019	2020	Change in 2020–2019	
				thousand m ³	%
Drinking water sales	28,160	28,436	27,977	-458	-2%
To natural persons (consumption)	14,069	14,096	14,499	403	3%
To legal persons (subscribers)	14,090	14,339	13,478	-861	-6%
Wastewater treatment service sales	29,602	29,765	30,741	975	3%
To natural persons (consumption)	13,659	13,663	14,171	509	4%
To legal persons (subscribers)	15,943	16,103	16,569	467	3%

In 2020, the Company extracted 32.7 million m³ of drinking water, supplied 32.6 million m³ of water and used 1.3 m³ of water for technical purposes.

The differences between the amount of drinking water supplied to the pipelines and the drinking water sold occur due to technical reasons (leakages and accidents), but incorrect meter readings submitted by the customers plays an important role. The Company treats more wastewater than sells wastewater treatment services mainly due to rainwater infiltration in the wastewater collection system. 40.3 million m³ of treated wastewater was accounted for in wastewater treatment plans, while only 30.7 million m³ of wastewater treatment services were sold.

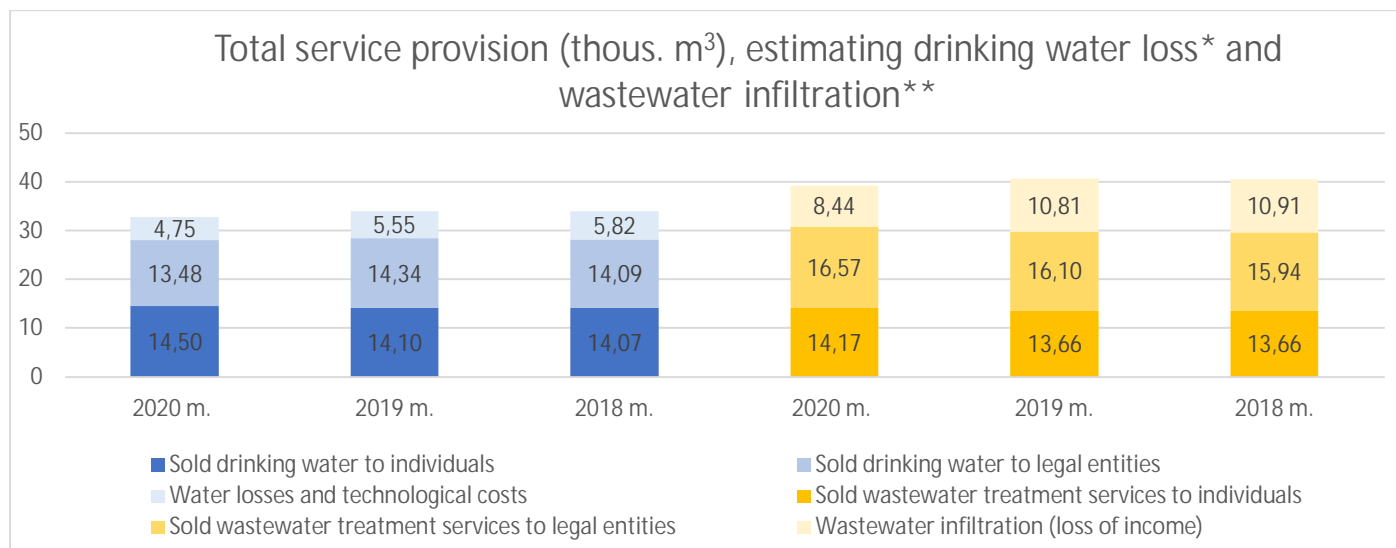
The management has compiled a working group to reduce infiltration and rainwater access to wastewater network in order to reduce the difference between sold wastewater treatment services and cleaned wastewater.

The working group meets on average once a month to discuss results and further work. During the meetings, the group highlights problem areas in Vilnius City. In 2020, the Company reached an agreement with Vilnius City Municipality regarding the taxation of 114.81 thousand cubic meters per month of surface sewage in a mixed wastewater drainage system in Vilnius City.

One of the most significant achievements of the working group in reducing infiltration and rainwater access to wastewater networks in 2020:

- In the basin of the wood fibber wastewater pumping station, the monthly amount of wastewater collected was successfully reduced from 50 thousand to 30 thousand m³. Losses from untaxed wastewater have also been reduced from 75% to 25% with continuous efforts to further reduce losses in this basin.
- In the basin of Vingis wastewater pumping station, the monthly amount of wastewater collected was successfully reduced from 30 thousand to 25 thousand m³ during 2020. Losses from untaxed wastewater have also been reduced from 92% to 78% with continuous efforts to further reduce losses in this basin.

During 2020, 9 cases of illegal connections to wastewater networks were detected, during which approx. 22,000 m³ of rainwater and domestic wastewater were discharged into the Company's networks. An additional 200,000 m³ of wastewater discharged by businesses has been identified using portable flow meters. In such cases, additional invoices were issued for wastewater with the requirement to disconnect.

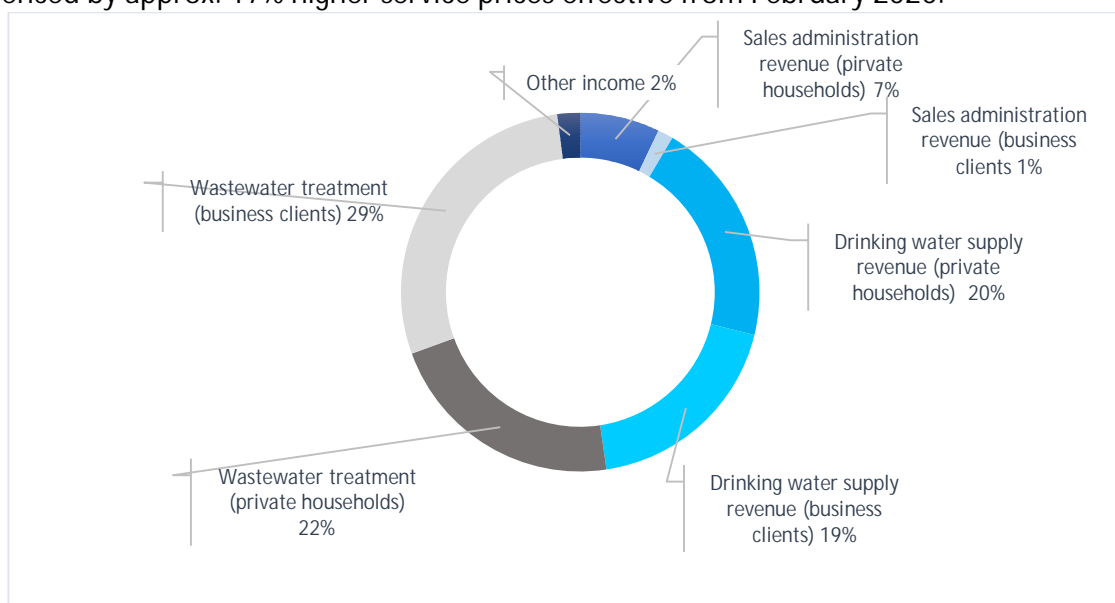


* Water losses means a difference between the volume of drinking water supplied to pipelines and the volume of drinking water sold;

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

REVENUE FROM THE SALE OF SERVICES

Principal (sales) revenue generated by Vilniaus vandenys comprises revenue earned from the provision of services of drinking water supply and wastewater treatment. The Company earned EUR 36.5 million from services sold in 2020. Compared to 2019, revenue from sale in 2020 increased by EUR 4.1 million. This has been influenced by approx. 17% higher service prices effective from February 2020.



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

Sales revenue from business customers* accounts for about 49% of the Company's revenue, whereas revenue from private customers** – for 49%, and other income – for 2%. Revenue from the largest hot water supplier (Vilniaus šilumos tinklai) accounts for 34% of revenue from business customers.

Sales revenue, thousand EUR	2018	2019	2020	Change in 2020–2019	
				thousand EUR	%
SALES REVENUE	36,227	32,390	36,531	4,141	13%
Revenue from the supply of drinking water, including:	15,162	12,874	14,561	1,687	13%
Revenue from private customers (consumers)	7,551	6,308	7,556	1,248	20%
Revenue from business customers (subscribers)	7,611	6,567	7,005	439	7%
Revenue from centralised wastewater management, including:	18,207	16,256	18,752	2,496	15%
Revenue from private customers (consumers)	7,779	6,960	8,121	1,161	17%
Revenue from business customers (subscribers)	8,298	7,337	8,606	1,269	17%
Revenue from business customers (subscribers) for increased pollution	2,130	1,960	2,025	65	3%
Sale administration (price) income	2,832	3,085	3,194	109	4%
Change in income accruals	27	174	24	-151	-86%

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

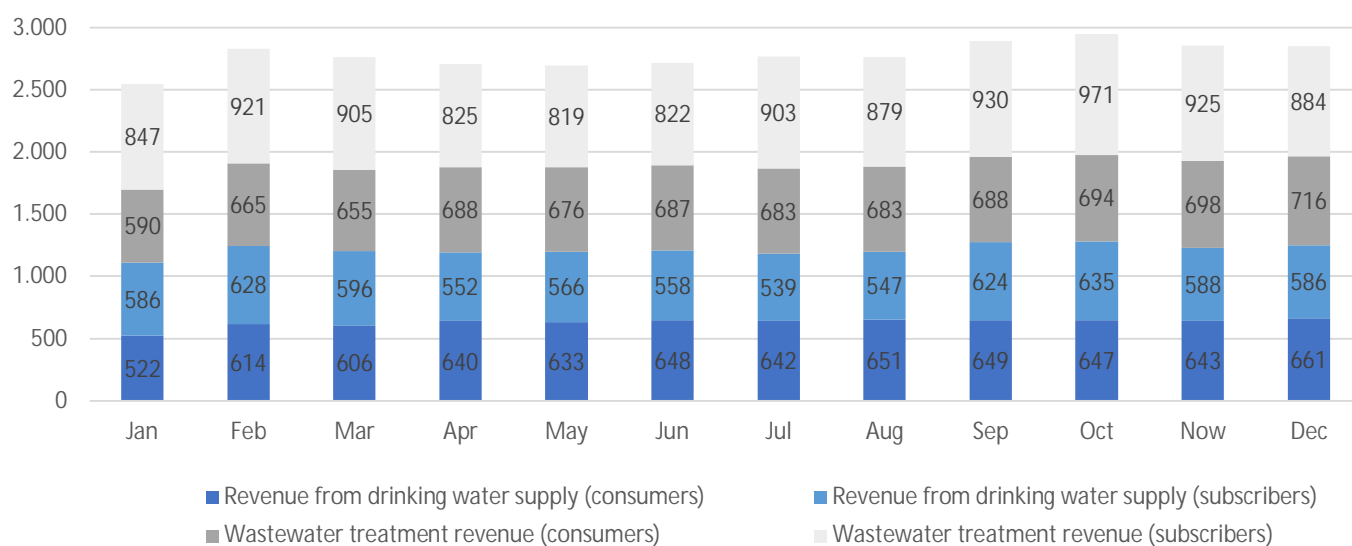
Subscriber is a natural or legal person, a branch of a foreign legal entity or another organisation established in the Republic of Lithuania purchasing the services of the supply of drinking water and/or wastewater management for business needs or carrying out economic activities and having concluded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

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

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

In 2020, the Company's revenue increased from EUR 33.2 to 37.3 million (12%). The higher price has influenced a significant increase in revenue. Operating income also includes income earned from assets received free of charge from third parties, that amounted to EUR 117 thousand.

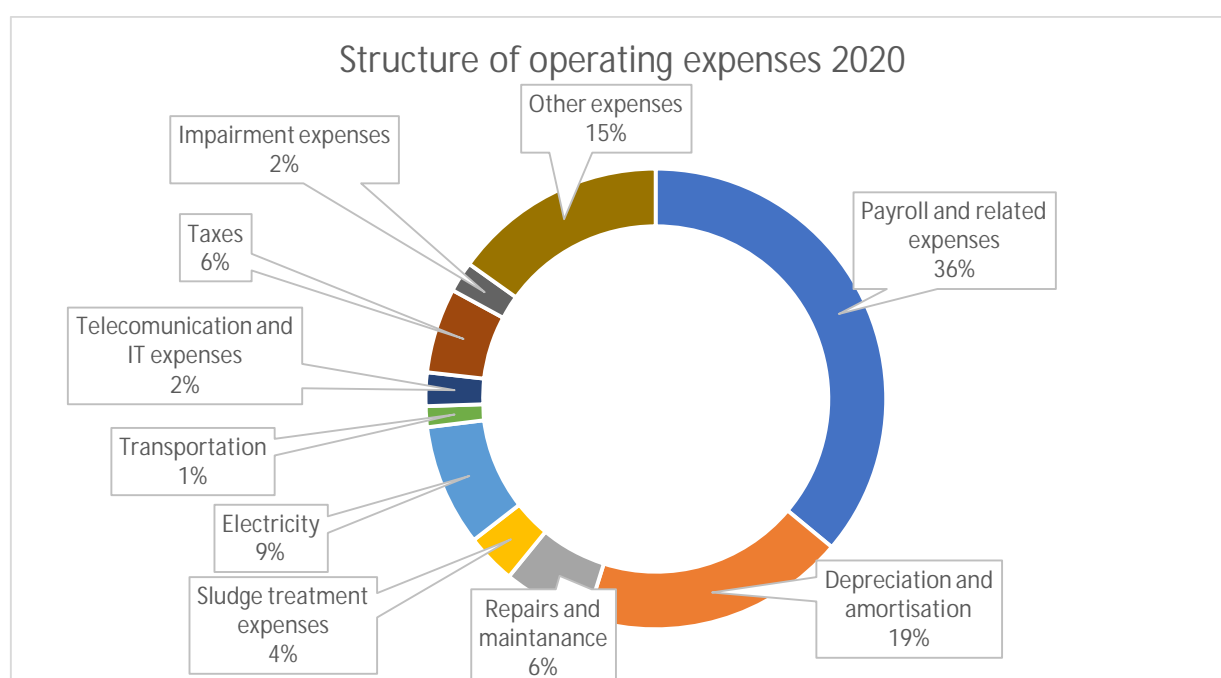
2020 revenue from the sales of water and wastewater treatment (thous. Eur)



Income from different activities remained almost stable in 2020 compared to 2019. Respectively, revenue from the supply of drinking water accounted for 42% in the revenue structure, revenue from wastewater management – for 50% and revenue from the selling fee – for 8% of the Company's revenue.

OPERATING EXPENSES

In 2020, operating expenses amounted to EUR 39.3 million, whereas in 2019 – EUR 33.5 million.



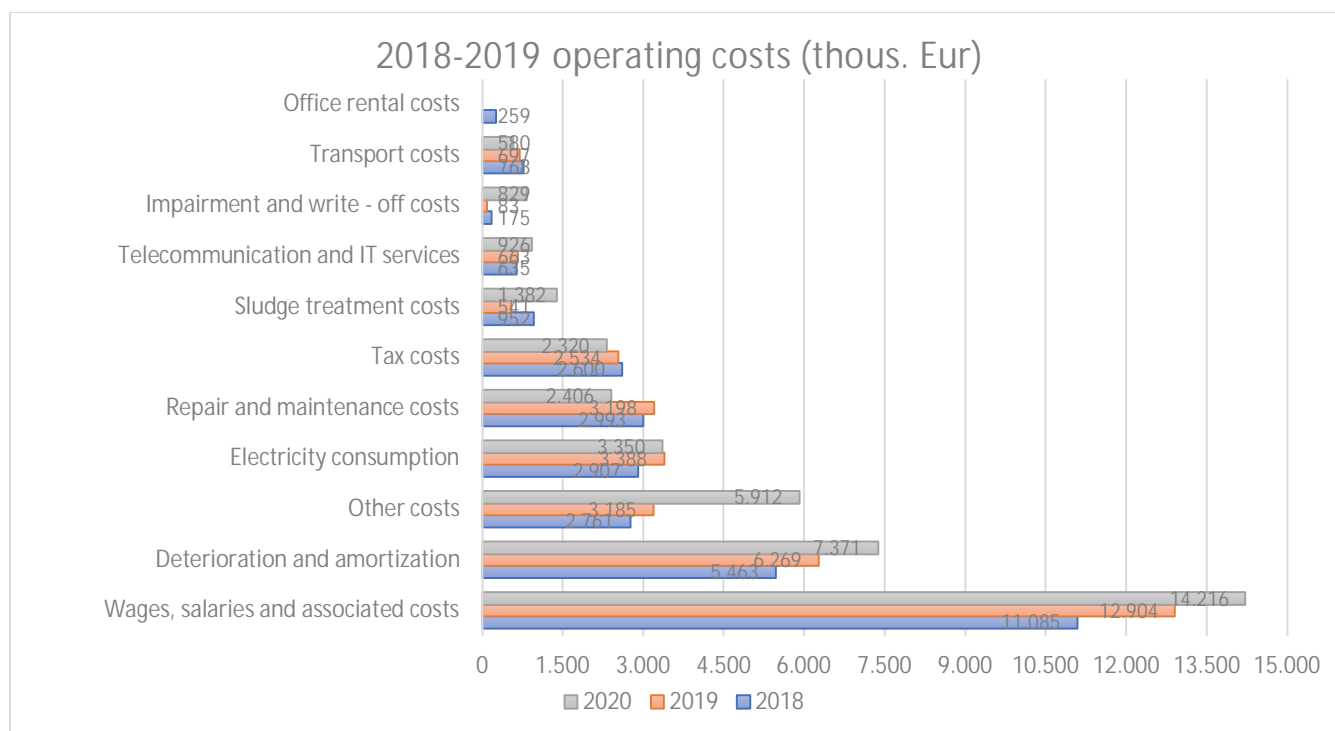
* Other costs include heating, security, garbage collection, cleaning of premises, landscaping, customer service costs, occupational safety and special clothing, promotion, advertising, insurance, compensation for damage resulting from the Company activities, office costs, legal services and other costs.

In 2020, payroll and related tax expenses made up the major share of operating expenses accounting for 36% of the total OPEX. Payroll and related tax expenses totalled EUR 14.2 million in 2020 and increased by EUR 1.3 million, compared to 2019. Changes in remuneration market and the Company's direction to aim at qualitative growth through employee expertise improvement and employment activity governance system that motivates to pursue the best results had the most impact on it. The Company is guided by the Remuneration Policy approved by the Board, according to which remuneration for the Company's employees are reviewed annually, taking into account annual performance.

Property, plant and equipment amortisation expenses grew by EUR 1.1 million to EUR 7.4 million in 2020 and made up 19% of the total operating expenses. Increase in expenses in 2020 was a result of a newly acquired, built and reconstructed property, plant and equipment.

Other expenses comprised 15% of operating expenses and in 2020 increased by approximately EUR 2.7 million. The increase in these expenses was due to a provision for a pollution tax at an increased rate (EUR 2.646 million), a provision for pension (actuarial) liabilities, and COVID-19 related expenses. This was also influenced by the insurance, legal services, promotion, advertising, consultancy, cleaning and environmental management, water for technology and own use, as well as other expenses.

Repair and maintenance costs that comprise of technical materials and consumables, network diagnostics, cleaning and repair, dug-hole restoration after accidents, equipment servicing, etc. amounted to 6% of operating expenses. They increased by approx. EUR 0.8 million: from EUR 3.2 million in 2019 to EUR 2.4 million in 2020.



In 2020, tax (non-payroll related) expenses, which account for about 6% of operating expenses of Vilniaus vandenys, decreased to EUR 2.3 million (from EUR 2.5 million in 2019). This was mainly due to the Company's stricter pollutant concentration control, which resulted in reduced environmental pollution and resulting lower taxes. In 2020, Vilniaus vandenys paid a total of EUR 9.284 million of taxes **administered by the State Tax Inspectorate** and EUR 3.108 million to Sodra (including payroll related taxes).

Sludge treatment expenses made up 4% of the operating expenses, the increase of which by almost EUR 0.8 million in 2020 was caused by the larger quantities compost (sludge) provided to Bioineksas UAB.

Telecommunication and IT service expenses made up 2% of the operating expenses. In 2020, these expenses increased by EUR 0.3 million due to new installations in IT systems. 180 updates were installed in 2020.

Transport expenses made up 1% of the operating expenses. In 2020, they decreased by EUR 0.12 million or 17% as a result of renewal of vehicle fleet.

KEY FINANCIAL INDICATORS

Key financial indicators, thousand EUR	2019	2020	2020*	Change in 2019-2020	
				thousand EUR	%
Profit or loss statement indicators					
Total revenue	33,215	37,268	37,268	4,053	12%
Operating revenue (sales)	32,390	36,984	36,984	4,594	14%
Operating expenses (OPEX) (1)	27,056	30,962	28,315	3,906	14%
EBITDA (2)	6,159	6,306	8,953	147	2%
Profit (loss) before tax	-245	-2,104	543	-1,859	759%
Net profit	-240	-1,992	655	-1,752	730%
Indicators of assets, equity and liabilities					
Total assets	143,420	156,663	156,663	13,243	9%
Cash and cash equivalents	4,456	6,043	6,043	1,587	36%
Equity	127,870	129,607	129,607	1,737	1%
Borrowings	3,198	10,378	10,378	7,180	225%
Trade receivables (before impairment)	4,974	7,694	7,694	2,720	55%
Trade payables	5,111	6,035	6,035	924	18%
Profitability indicators					
EBITDA margin (3)	19%	17%	24%		
Net profit margin	-2%	-5%	2%		
Return on assets (ROA) (4)	-0.2%	-1%	0.4%		
Return on equity (ROE) (5)	-0.2%	-2%	1%		
Other financial indicators					
Net financial debts (6)	-1,258	4,335	4,335	5,593	-445%
Equity level (7)	89%	83%	83%		
Investments, total (8)	21,415	18,029	18,029	-3,386	-16%
Debt to equity ratio (9)	2.5%	8.0%	8.0%		
Current ratio (10)	0.83	0.86	1.02		
Critical liquidity coefficient (11)	0.80	0.84	1.00		

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

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

(3) EBITDA margin = EBITDA/revenue

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

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

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

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

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

9) Debt to equity ratio = Financial debts/Equity

(10) Current ratio = Current assets/current liabilities

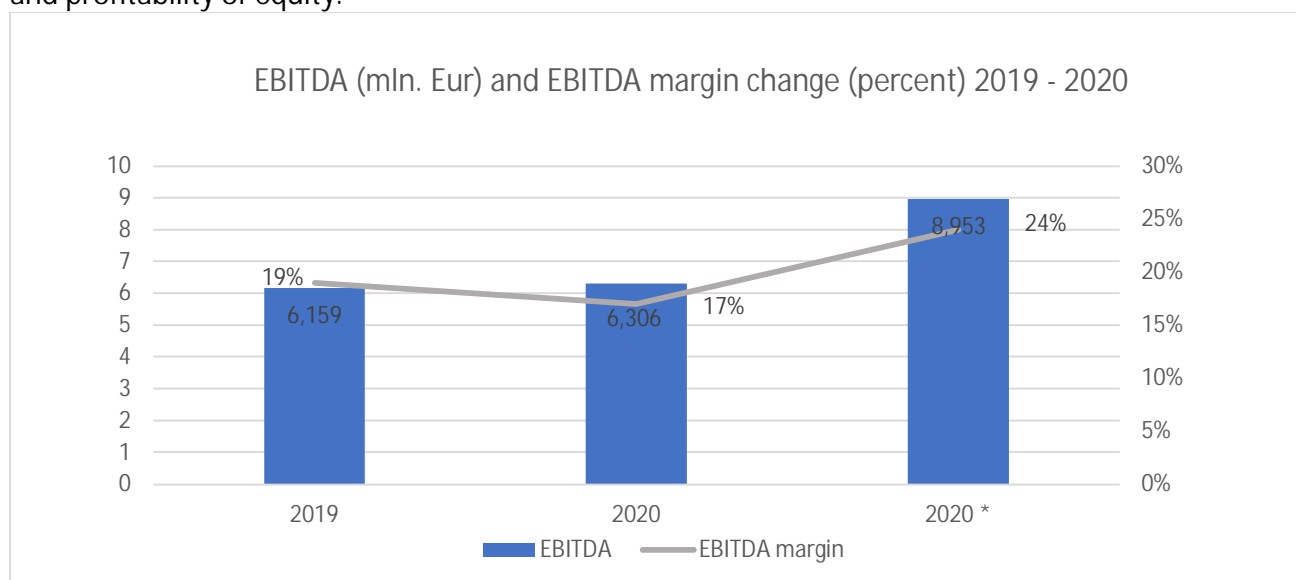
(11) Quick ratio = (Current assets - Inventories)/Current liabilities

* Excluding provision of EUR 2,646 thousand for a pollution tax at an increased rate.

Financial debts totalled EUR 10.4 million at the end of 2020 and accounted for 8% compared to equity, or 6.6% compared to assets. In 2020, five agreements for sponsorship of investment projects in the development of drinking water supply and wastewater collection networks in Vilnius, Švenčionėliai, Šalčininkai and Eišiškės agglomerations with Viešųjų Investicijų Plėtros Agentūra UAB: four on 22/01/2020 (funding received in December 2019) and one on 29/12/2020. The total amount of sponsorship is EUR 14,594 thousand with grant of EUR 4,875 thousand, and the loan amounts to EUR 9,719 thousand. Also on 20 October 2020, a new financing agreement was signed with APVA for the reconstruction of Vilnius wastewater treatment plant, which increased the funding allocated in 2016 from EUR 13.3 million to EUR 19.2 million Eur. The total investment in the project (reconstruction phase I) is EUR 33.4 million. The remaining part of the project, which is not covered by the grant, is financed through a loan under an agreement concluded with the Ministry of Finance of the Republic of Lithuania for a period of 18 years.

The Company had no overdue trade payables at the end of 2020. In 2020, comparing to 2019, the amount of the investments made with the Company's funds decreased by 16%. The volume of investments in non-current assets is to be increased in 2021. Investments were drifted towards the renovation of operated networks and stations, as well as wellfield areas, upgrades of sludge treatment equipment, replacement of water metering devices, renewal of vehicle fleet etc.

The change in equity was determined by the increase of the issued capital by EUR 3.4 million due to the shareholders' in kind contributions and net loss incurred. In 2020, equity increased to EUR 129 million and accounted for 83% of the Company's assets, and this resulted in respective decrease in profitability of assets and profitability of equity.



* Excluding provision of EUR 2.646 thousand for a pollution tax at an increased rate.

Higher expenses resulted from the increase in remuneration, and the provision for a tax on environmental pollution, meanwhile higher revenue were caused by the higher rate, but the EBITDA and EBITDA margin rates shows small variations, compared to 2019.

In 2020, activities of the Company were loss-making with a negative net result of EUR 1.99 million. One of the determining factors was the provision for tax (EUR 2.646 million) at the rate increased for environmental pollution.

Finance expenses amounted to EUR 0.22 million. They were incurred from the interest paid to financial institutions on loans, and default interest and fines paid. Finance income from received default interest and interest amounted to EUR 0.14 million. These income include non-performance of contract liabilities and the interest payable to Vilnius City Municipality under the agreement of the scheduled deferred payments.

In 2020, Vilniaus vandenys had no investments in term deposits or debt securities. The Company's income and expenses in 2020 were not related to other currencies, so the impact of the change in exchange rates was not incurred. The Company did not use derivative financial instruments to hedge from risk.

In 2020, there was no dividend payment to shareholders for 2019 performance.

IMPACT OF THE GLOBAL COVID-19 PANDEMIC ON THE COMPANY'S OPERATIONS

The Company carried out an assessment of the impact of the COVID-19 pandemic on the Company's activities and financial statements and considers that the COVID-19 pandemic did not make a significant impact on the Company's financial performance, since the Company provides vital services that are not particularly sensitive to economic changes and the prices of which are regulated by the State. However, as in the rest of the world, the COVID-19 pandemic still affected the Company's activities: the challenge was to ensure the continuous provision of water supply, wastewater management, emergency response and other services, as well as to monitor replacement of water meters and to verify readings of water meters.

Although the Company provided customers with a longer and the default interest-free period for invoice payment, as a result of which the actual payment deadlines may be extended, however, taking into account the relatively small share of costs consisting of fees for services provided by the Company in the cost structure of natural and legal persons, the Company does not observe a significant increase in uncollectible amounts.

In 2020, the Company incurred a loss of EUR 149 thousand for managing the COVID-19 pandemic and ensuring the safety of employees and customers. The Company made maximum efforts to adjust employment of its staff and organise work in a way that allows everyone to feel safe at work, however, some professionals were in downtime.

During the first wave of the COVID-19 virus from 16 March 2020 to 16 June 2020, 22-meter reading operators from the Meter Reading Division were temporary laid off.

During the second wave of the COVID-19 virus, between 9 November 2020 and the end of 2020, meter reading operators from the Meter Reading Division (19 employees) and 1 staff member from the Meter Reading Control Unit (locksmith) were also temporary laid off, with a total of 20 staff in downtime during the second wave.

There were 23 employees in downtime throughout 2020 (9,381 h). Gross remuneration due to downtime was EUR 34,614.81. Government grants received amounted to EUR 31,435.60.

Due to the restrictions of quarantine declared in the country, the Company suspended the meter data verification and meter replacement activities carried out due to ended or ending metrological inspection, in order to protect the health of customers and its employees. For this reason, some of the objectives set have not been met.

The construction of the networks was also terminated due to quarantine, and the Company had to reschedule investments, procurement and works.

The Company will go forward in 2021: it will pursue the smooth reconstruction of Vilnius city wastewater treatment plant, implementation of the investment plan, and continuation of the ongoing sustainability projects.

PUBLIC PROCUREMENT

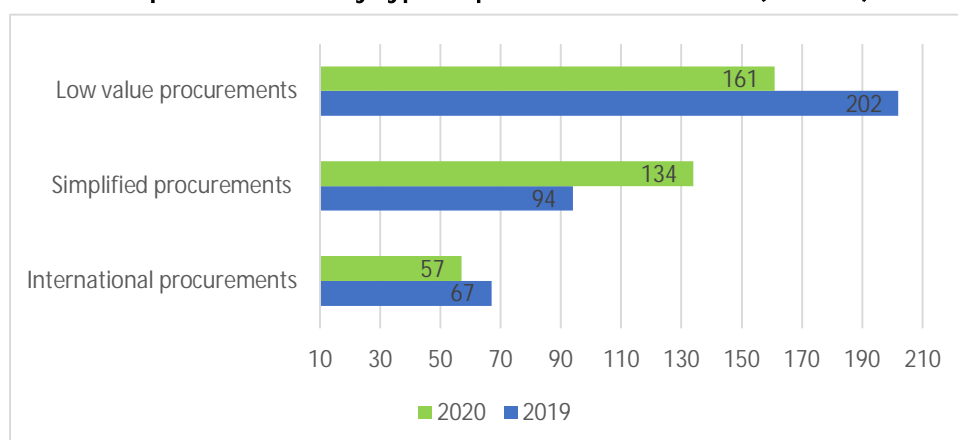
Public procurement of Vilniaus vandenys is arranged and carried out in compliance with legal acts regulating water management activities and public procurement (the Law of the Republic of Lithuania on Procurement by Contracting Authorities Operating in the Water, Energy, Transport or Postal Services Sectors; Methodologies and guidelines approved by the Public Procurement Office; Descriptions of Low Value Procurement Procedure and Public Procurement Procedure approved by the Company, etc.).

Vilniaus vandenys is targeted and focused towards a transparent, open, efficient and competitive public procurement. We note that the direction of the Company has remained largely unchanged in both 2019 and 2020, but in 2020 particular attention was paid to standardisation of the procurement process (*i.e. the development of standard forms of procurement, templates of technical specification, simplification of requirements for suppliers participating in procurement, etc.*) and increasing efficiency of procurement procedures (*i.e. to carry out procurements on timely basis (within the time limits set) and with adequate and advance planning*).

In 2020, the Company made a total of 557 procurements, of which 366 were low value procurements (of which 205 were below 3,000, excl. VAT) with a total estimated value of EUR 190,730.40 (excl. VAT), and 134 simplified procurements, 57 international procurements, with a total estimated value of EUR 73,539,174.61 (excl. VAT). For comparison, in 2019, the Company made a total of 643 procurements: 482 low value procurements (of which 280 were below 3,000, excluding VAT), 94 simplified procurements, 67 international procurements. These statistics suggests that the focus on standardisation of the procurement process in 2020 has led to optimisation and efficiency of the procurement process. In that context the Company will consider reducing organisational resources in the field of public procurement in 2021.

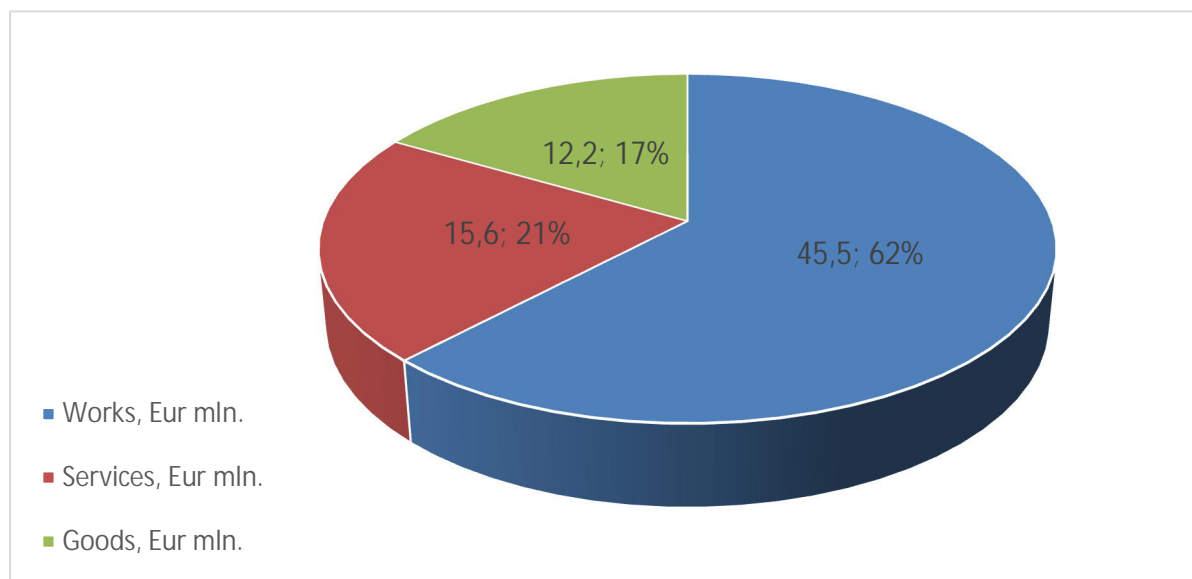
The Company pays particular attention to international and simplified procurement, procedure of which is strictly regulated by laws and regulations. However, the low value procurements definitely make up a significant portion of the Company's total procurements. The detailed analysis of distribution of procurements in 2020 by type of procurement is provided in the chart below.

Number of procurements by type of procurement in 2020 (units/%)



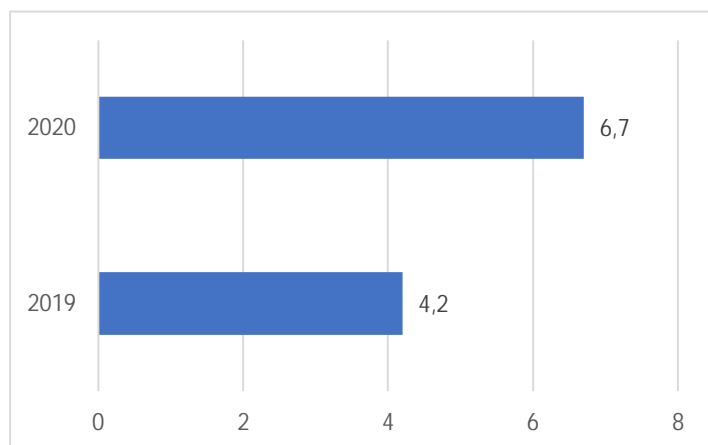
Taking into account the planned value, procurement of works undoubtedly accounted for the largest share of the Company's procurements in 2020. For more detailed information on the distribution of procurement of works, services and goods by value, see diagram below.

Distribution of procurements in 2020 by total planned value of works, services and goods (EUR million/%)



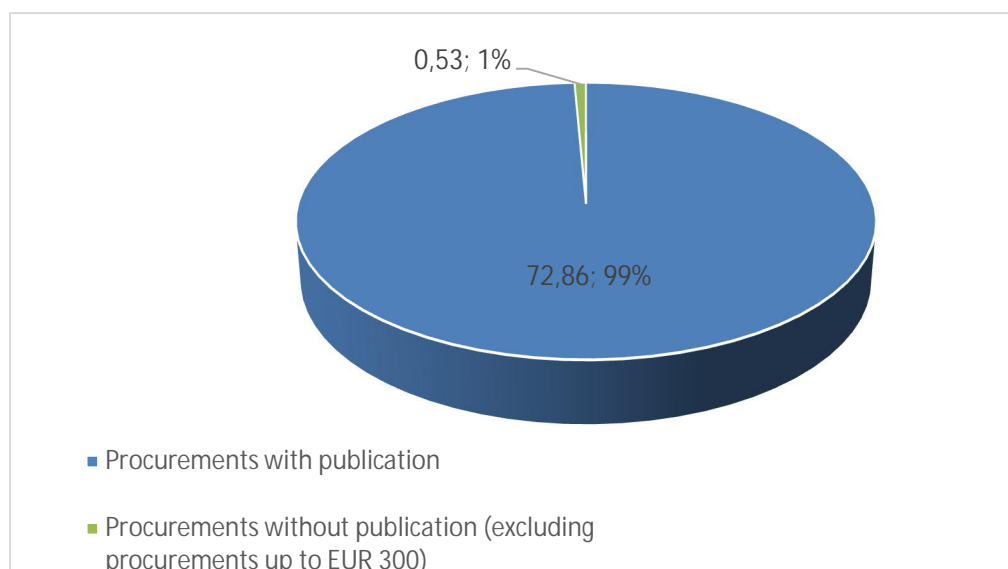
The analysis of the number of suppliers who participated in the procurements of works in 2020 show that, on average, 6.7 suppliers participate in one procurement of works. For comparison, the average number of suppliers involved in procurement of works in 2019 was 4.2. Such a change is indeed encouraging and may suggest that the review of qualification requirements (only minimum qualification requirements are set in procurement, choosing very minimum values for their compliance) delivers tangible results – increasing competition between suppliers participating in public procurement.

Average number of participants in procurement of works in 2020



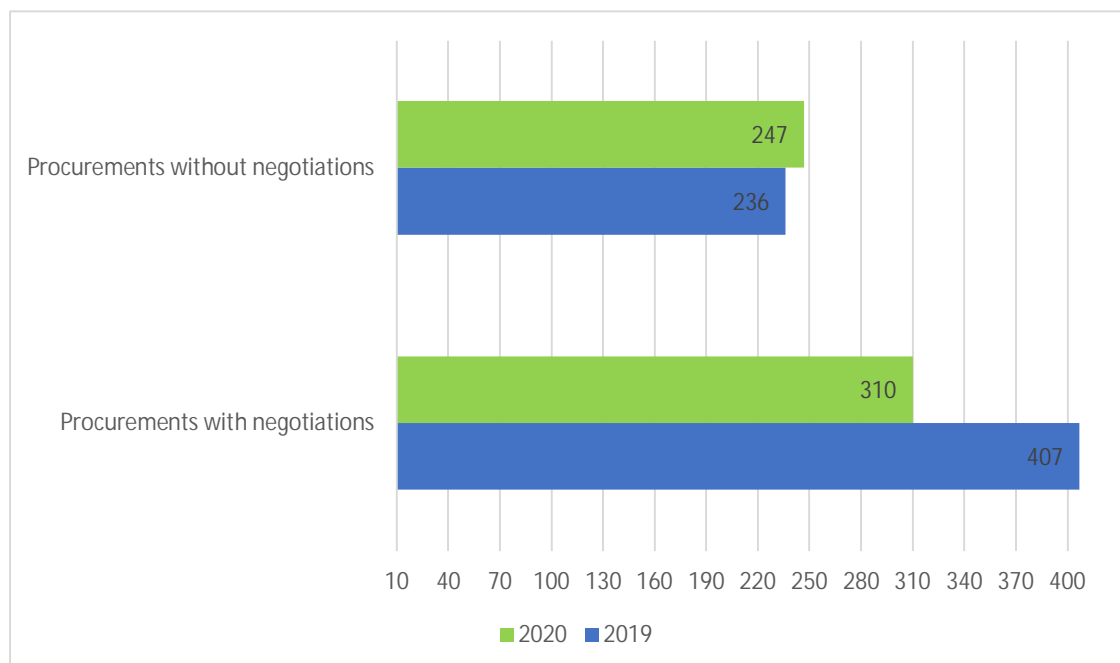
In 2020, the Company made virtually all of its purchases publicly available. Only procurements of a particularly low value were made through negotiated procedure and/or negotiated procedure without publication of a contract notice taking into account the exemption provided for in the law. Public procurements had undoubtedly led not only to competition between suppliers, price flexibility, but also to the possibility for Vilniaus vandenys UAB to make budgetary savings.

Public procurements with/without publication of a contract notice by planned value in 2020 (EUR million):



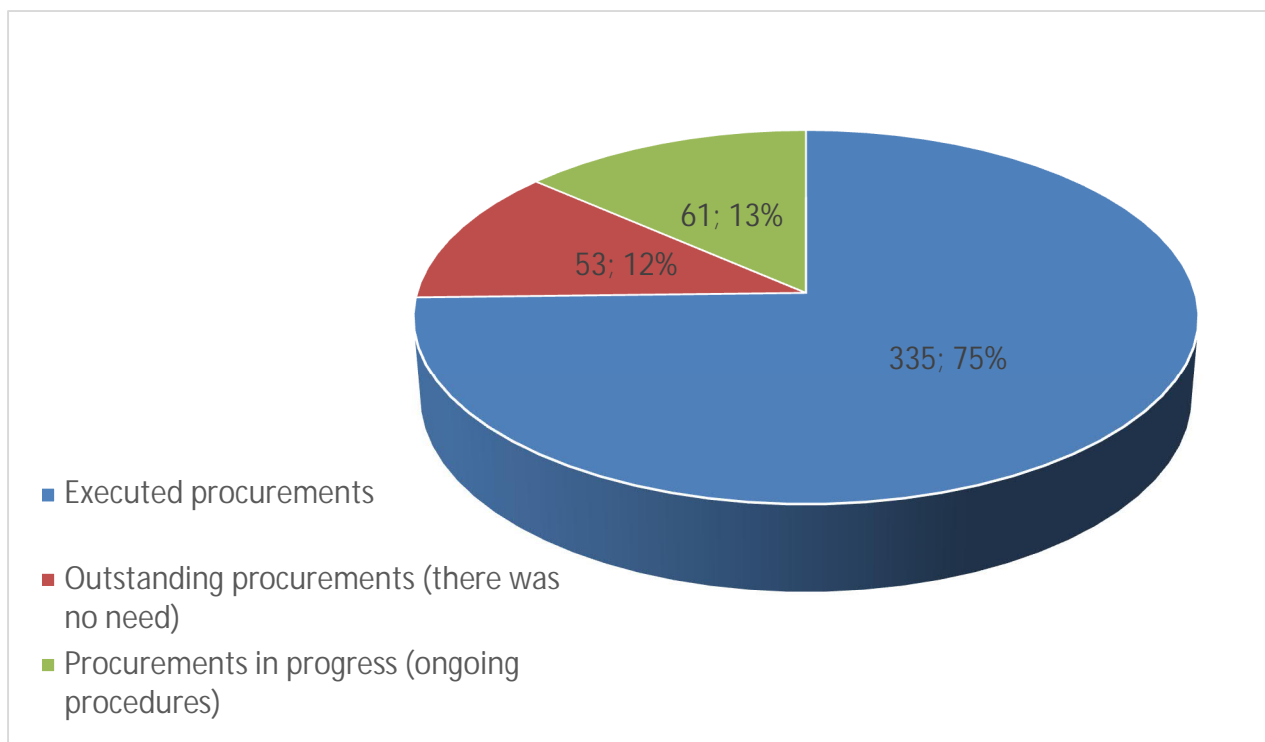
It must be noted that the Company has carried out more than 56% of its procurement negotiating in order to use the resources rationally.

Procurements through negotiations in 2020 (units/%)



Vilniaus vandenys planned to carry out a total of 449 purchases in 2020. It should be noted that part of the procurements were planned as general procurements, and therefore 108 procurements were made on demand, additionally to approved total requirement (these procurements are not separately represented in the statistical chart and are classified as general procurements).

Execution of the Procurement Plan for 2020 (units/%)



449 procurements were included in the plan for 2020.

Important (strategic) high-value purchases, completed in 2020 by awarding public contracts:

Type of procurement object	Name of procurement object	Date of contract registration	Contract value in EUR, excl. VAT	Successful tenderer
Cleaning of pumping station tanks	Services	08/05/2020	650,000.00	Ekovalis UAB
Design and reconstruction of pressure line in wastewater network from pumping station in Upės st. 15, Vilnius (Part II)	Works	18/05/2020	1,580,000.00	KRS UAB
Document delivery service	Services	25/05/2020	735,756.00	Skolos LT UAB
Construction of water preparation plants in Žemieji Paneriai	Works	25/05/2020	2,400,000.00	Eigesas UAB

Development of drinking water supply and wastewater collection networks in Šalčininkai agglomeration	Works	09/06/2020	730,000.00	Požeminės Sistemos UAB
Electricity	Goods	10/06/2020	4,500,000.00	INTER RAO Lietuva AB
Dismantling and installation of cold water metering devices in flats and premises of apartment buildings	Services	11/06/2020	1,500,000.00	Revika UAB
Procurement of indoor drinking water fountains and installation works in schools in Vilnius city (2 parts of the object)	Goods/works	12/06/2020	Part I: 106,600.00; Part II: 200,000.00	Part I: Elegia UAB; Part II: Statybų paletė UAB
Development of wastewater collection networks in Šalčininkai agglomeration	Works	16/06/2020	472,000.00	Žilinskis ir Co UAB
Reconstruction of wastewater collectors Jasinskio st./Geležinio Vilko st. to Gynėjų st.	Works	18/06/2020	217,470.00	Požeminės Linijos UAB
Installation of new and repair of existing wells, regeneration, pumping and liquidation works	Works	30/06/2020	365,000.00	Artva UAB
Consultancy services for the project "Financial accounting, management accounting and customer accounting" (FAVAKA)	Services	30/06/2020	189,333.00	Civitta UAB
Design and construction of water supply and wastewater networks in community gardens in Vilnius city: Šermukšnėlė, Ridikas, Paežerys 1 and Žalieji ežerai.	Works	01/07/2020	3,272,700.00	Gensera UAB
Refurbishment of water supply networks located in collectors (2 parts of the objects)	Works	08/07/2020	Part I: 109,000.00; Part II: 186,808.00	Part I: Inžineriniai statiniai UAB Part II: Statovita
Inlet and outlet design services	Services	09/07/2020	500,000.00	Part I: Atamis UAB; Part II: Infrastruktūros inžinerija UAB
Design and reconstruction works in Vilnius city wastewater treatment plant	Works	03/08/2020	32,799,958.20	Arginta UAB (joint arrangements with Atzwanger and EMIT Group)

Reconstruction of wastewater collector in the area of Žemieji Paneriai wellfield	Services/works	04/08/2020	252,000.00	Inti UAB
Construction of water supply and wastewater networks SB "Statyba" in Vilnius	Works	14/08/2020	719,700.00	Mėlynoji liepsna UAB
Development of drinking water supply and wastewater collection networks in Eišiškės agglomeration	Works	18/08/2020	907,000.00	Avadi UAB
Multifunctional N1 cars and passenger electric cars (Class M1) (electric cars) with charging stations	Goods	10/09/2020	325,055.56	Sostena UAB, Fakto autocentras UAB
Design and construction of water supply and wastewater networks SB "Statybininkas" within the territory of a group of natural persons and in P.B. Šivickio st.	Works	16/09/2020	1,236,000.00	Inti UAB
Development of block wastewater networks SB "Veteranas"	Works	17/09/2020	718,000.00	Avadi UAB
Reconstruction of water supply mains: Antaviliai (Nemenčinė) – Baronai village, including design works	Works	25/09/2020	584,000.00	Mikludava UAB
Repair of wells in water supply and wastewater networks	Works	28/09/2020	600,000.00	SKDR UAB
Cold water metering devices	Goods	29/09/2020	430,000.00	Taiklu UAB
Verify cold water meter readings	Services	19/10/2020	548,200.00	City Service Engineering UAB
Refurbishment of water supply networks located in collectors: in Papilėnų st. 3A; S. Stanevičiaus st. 18A; Papilėnų st. 11A; Gedvydžių st. 3A.	Works	26/10/2020	412,000.00	KRS UAB
Construction, reconstruction and repair	Works	06/11/2020	900,000.00	Stareka UAB
Reconstruction of ventilation systems in wastewater stations	Works	06/11/2020	348,000.00	Santjana UAB
Reconstruction of block water supply networks in Elniakampio st.	Works	19/11/2020	147,600.00	Požeminės jungtys UAB
Design and construction of water supply and domestic wastewater networks SB	Works	02/12/2020	398,800.00	Mėlynoji liepsna UAB

"Beržynas" in Vilnius city and Vilnius District				
Design and construction of water supply and domestic wastewater networks in Sembų st., Buivydiškių village, Zujūnų civil parish and Vilnius District	Works	17/12/2020	169,700.00	Žilinskis ir Co UAB
Natural gas with related services	Goods/services	29/12/2020	1,270,000.00	Achema gas trade UAB

Achievements in 2020 – increased efficiency of the procurement process:

- Increased competition (average number of participants: 4 in 2019, 7 in 2020);
- Fund savings – 10 proc.;
- Simplified and shortened procedures;
- The Company developed "green" procurement guidelines.

Focus areas in 2021:

- Efficient procurement: ensuring the principle of value for money and controlling the duration of procurement execution;
- Standardisation of the procurement initiation and execution process;
- Continuous monitoring of the procurement process parameters;
- Development of competence of procurement professionals;
- Green and sustainable procurement.

RISK AND UNCERTAINTY MANAGEMENT

Risk management has been a cornerstone of the Company's strategic planning for years. The main objective of the Company is to prepare at maximum capacity and to ensure going concern even in the event of force majeure.

A formalistic approach to risk management may possibly turn into costly lessons, therefore the Company carefully analyses the causes of the risks, determines the potential scale of the consequences based on financial losses, health problems, time perspective, reputational effects, etc.

The Company's most significant and priority risks in 2020 were related to:

- ✓ environmental pollution;
- ✓ occupational health and safety;
- ✓ implementation and management of changes.

The Company has established the basic principles of risk management and clearly defined responsibilities in the field of risk management. The Company manages risks in accordance with the best practices in the world and the guidelines of the group of ISO 31000 standards.

Not only the Company's employees, but also the Board and the Audit Committee are involved in the risk management process.

Continuous communication, rigorous control of risk management plans, regular risk monitoring, evaluation of the effectiveness of risk management measures, adoption of solutions for new management measures, sharing of good practices are the key activities to ensure an appropriate response to events, i.e. cases that may have a negative impact on the achievement of the Company's objectives. As a result, we continued to increase our knowledge through workshops, round table discussions and training organised by the Association of Risk Management Professionals in 2020.

The following risk management actions carried out in 2020:

To ensure effective risk management, the Risk Management Methodology was reviewed in 2020 and a decision was made to draw up two separate documents:

The risk management policy that sets out:

- risk management objective;
- definitions;
- essential principles of the risk management process;
- responsibilities of participants in risk management processes.

A description of the risk management procedures, including:

- the detailed procedural steps and response to the question "how to do it";
- revised forms and filling instructions;
- adjusted impact assessment criteria;
- the function of determining risk appetite, which has been delegated to the Board.

These documents were approved by the Board on 30 July 2020.

The Company's annual risk assessment was launched in August 2020, starting with analysis of risk questionnaires. During this stage, changes in external and internal factors, the weakest links between processes were analysed by taking into account complaints/operational disruptions/incidents that have been recorded in recent years, as well as anticipated future developments.

Process owners assessed the risks of the processes they are accountable for by participating risk assessment working groups. More than 50 meetings were held. The results were presented to the Management Council and the Audit Committee. The Board approved the Company's assessed risks in October 2020.

The implementation of risk management measures was monitored on a quarterly basis to assess whether the measures implemented provide the expected benefits and are effective, decisions were made on the need to adjust the Risk Management Measures Plan by adding a set of new actions.

NON-COMPLIANCE MANAGEMENT

Recording and addressing of non-compliances on timely basis ensures continuous improvement of quality of the Company's services and mitigation of risks and threats to the Company to suffer financial or reputational damage. Non-compliance management focuses not only on the earliest possible identification of poor quality, but also on the possibility of addressing it before it causes a lot of damage.

In order to meet ISO 9001: 2015 and ISO 14001: 2015 standards and improve performance, the Company decided to improve the non-compliance management process in 2020.

To that end:

1. A non-compliance management team was set up in March 2020;
2. Drafting of a description of the procedure for the non-compliance management was launched;
3. To ensure centralised management, the non-compliance management tool "Non-compliance register" (data management system) was developed;

Recording non-compliance in the "Non-compliance register" will provide opportunities to:

- Record and address non-compliance at a single location;
- communicate non-compliance information to the responsible persons;
- ensure that non-compliances are addressed (corrective actions taken);
- prevent recurrence of non-compliances (corrective actions taken);
- ensure transparency of information;
- ensure continuous access to clear, informative, systematised information about the non-compliances recorded in the Company, resolution outcome or the reasons why some non-compliances have not been recorded or have not yet been addressed.

In parallel, all the Company's risks were reviewed and a unified system for their identification, assessment and management was adopted.

In 2020, a particular attention is paid to crisis communication: a purposeful process of information dissemination to external and internal audiences, which is launched and carried out upon occurrence of Emergency Event, Emergency Situation or Event, as well as a Communication Crisis. Crisis communication aims to manage public opinion about the Company, mitigate or eliminate possible consequences for the Company's reputation.

Crisis communication in the Company is a centralised and systematically operated process used to manage every crisis that has arisen in the Company.

In 2020, a crisis communication plan was developed and introduced to employees. This plan covers the following:

- Arrangement of the crisis communication team meetings and the responsibilities of its members;
- Methodology of classification and identification of communication threats;

- Crisis communication process;
- Communication tools during the crisis;
- Memo for providing information on behalf of the Company;
- Information collection forms, communication templates, contact lists.

In 2021, the Company intends to increase employee involvement and improve preparedness for possible crises by organising command post exercises and crisis simulation exercises.

ENSURING PHYSICAL SECURITY

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

The Company was the first among the country's water management companies to prepare and approve the Security Plan in the Government of the Republic of Lithuania. Video surveillance and security alarm systems installed in the Company's facilities are being updated and improved. The Company currently has 407 facilities, which are divided into three levels of physical protection based on their significance to the Company's activities and potential risks: security level 3 is assigned to 4 facilities, level 2 – to 22 facilities, and level 1 – to 381 facilities.

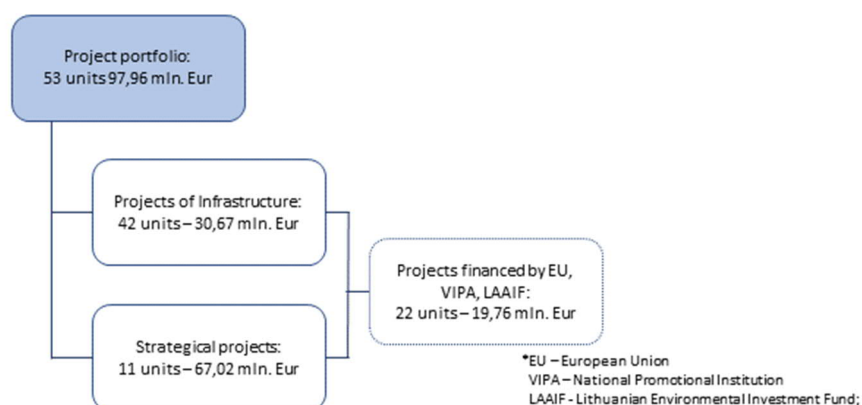
PROJECT MANAGEMENT

To increase effectiveness of the Company's project implementation, manage the project portfolio, systematise project management knowledge and standardise the methods and tools used, the standard Project Management Body of Knowledge (PMBOK) developed by the Project Management Institute has been chosen for project management.

Project management applies a single project management methodology ensuring systematic and standardised project management, including management structure, roles of participants, stages, decision-making points and documentation. Using a single project management methodology, projects are managed and implemented in line with the planned schedule, scope and budget. The project portfolio monitoring and control mechanism applied in project portfolio management ensures a more rational use of the Company's resources.

At the end of 2020, the Company's project portfolio contained a total of 53 projects with the overall budget of more than EUR 97 million, 22 of these projects were funded with almost EUR 20 million received from the European Union Structural Funds.

As at 31 December 2020, the Company's project portfolio consisted of the following projects:



STRATEGIC PROJECTS

The Company is implementing 12 strategic projects with a total budget of more than EUR 67 million:

NAME	START DATE	END DATE
- Reconstruction of Vilnius city wastewater treatment plant	2019	2023
- Smart network management (3rd stage of 3): Installation of digital ultrasonic metering devices with remote reading function in apartments, private homes and commercial premises.	2020	2026
- Financial accounting, management accounting and customer accounting (FAVAKA)	2020	2023
- Smart network management (2nd stage of 3): Installation of smart metering devices with remote reading function in consumer water supply inlets located in wells and basements of apartment buildings.	2019	2022
- Reconstruction of Švenčionys wastewater treatment plant	2020	2022
- Development of customer self service portal	2018	2021

- Implementation of the information system for the operation and management of infrastructure (AMS)	2017	2021
- Development and implementation of Vilnius city water supply network hydraulic modelling information system (HMIS)	2018	2022
- Identification of protection zones for infrastructure managed by Vilniaus vandenys	2019	2022
- Project Management IT System Installation (PMS)	2020	2021
- Company's compliance with GDPR requirements	2019	2021

FOUR MAJOR PROJECTS

1. Reconstruction of Vilnius city wastewater treatment plant

The aim of the project is to increase the quality of the wastewater treatment services provided to Vilnius City and Vilnius District by ensuring that the average annual concentrations of pollutants in discharged wastewater meet the requirements of legal acts.

The outcome of the project: the reconstruction of wastewater treatment plants, improvement of the wastewater treatment plant treatment indicators, prevention of wastewater entering the environment and improvement of the efficiency of the wastewater treatment plant.

The project budget is EUR 33.4 million.

Project plan/progress:

NC	NAME	START DATE	END DATE
1	Procurement procedures were completed and a contract was signed	October 2019	August 2020
2	FIDIC engineer announced the start of works	August 2020	September 2020
3	A technical project has been prepared. A construction permit has been received	September 2020	July 2021
4	Construction works completed. Final tests carried out	July 2021	July 2023

2. Smart network management (3rd stage of 3): Installation of digital ultrasonic metering devices with remote reading function in apartments, private homes and commercial premises.

The aim of the project is to accurately account for the amount of water supplied and consumed, to eliminate the abuse of residents by providing meter readings, to identify in a timely manner the emergency situations occurring between the building's inlet metering device and apartment, as well as emergency situations occurring outside the metering device located in the apartment.

The project outcome: installation of almost 360 thousand units of digital ultrasonic metering devices with remote reading function.

The project budget is EUR 25.0 million.

Project plan/progress:

NC	NAME	START DATE	END DATE
1	Market analysis, coordination, preparation of procurement documents	July 2020	October 2020
2	Procurement of a communication service (market analysis, market consultation, purchase)	September 2020	September 2021
3	Procurement of metering devices (market analysis, market consultation, purchase)	July 2020	December 2021
4	Installation/implementation of metering devices	2022	2026

3. Financial accounting, management accounting and customer accounting (FAVAKA)

The aim of the project is to optimise the processes of financial accounting, management accounting, customer servicing and the provision of all services, as well as billing for services by acquiring a tool that will allow the activities to be organised more efficiently.

The project outcome: introduction of a solution for financial accounting, management accounting, customer servicing and provision of services to customers.

The project budget is EUR 2.3 million.

Project plan/progress:

NC	NAME	START DATE	END DATE
1	Technical specifications and procurement documents for FAVAKA IS prepared	July 2020	February 2021
2	Procurement procedures for FAVAKA IS completed	February 2021	December 2021
3	FAVAKA IS installation	October 2021	September 2023
4	Project activities completed	September 2023	November 2023

4. Smart network management (2nd stage of 3): Installation of smart metering devices with remote reading function in consumer water supply inlets located in wells and basements of apartment buildings.

The aim of the project is to remotely account for the amount of water supplied and consumed in segments, such as wells and water inlets located in basements of apartment buildings, in order to respond to in a timely manner and eliminate accidents and losses in water supply mains, internal networks of apartment buildings, and to make effective use of human resources.

The project outcome: introduction of remote reading of inlet water metering devices by the end of 2021, which are installed in wells and basements of apartment buildings. The stage of manual reading recording has been eliminated from the process. Losses due to non-invoiced water reduced. The Company plans to connect a total of 8 thousand inlet cold-water meters located in buildings through the internet network. More than half of the 5.6 thousand units were installed in 2020.

The project budget is EUR 2.6 million.

Project plan/progress:

NC	NAME	START DATE	END DATE
1	Procurement of smart metering implementation service (market analysis, market consultation, purchase)	January 2019	September 2019
2	Installation of smart metering devices in wells	April 2020	December 2021
3	Installation of smart metering devices in basements of apartment buildings	January 2020	September 2021
4	Project closure	July 2021	December 2021

DIGITISATION AND RENEWABLE ENERGY PROJECTS In 2020, the Company paid particular attention to digitisation and renewable energy projects: the Company is currently implementing 21 of such projects, the most important of which include:

Information system for the operation and management of infrastructure (AMS)

The aim of the project is to digitise the assets managed by the Company and to ensure single and unified management of the asset maintenance and work planning.

The benefit of the project a unified and standardised technology asset management system in The Company tailored to the activities of the water management company. The new system will help optimise operations, improve the quality of services provided and facilitate more efficient processes related to the operation, maintenance and repair of technological assets.

NC	NAME	START DATE	END DATE
1	Preparation of technical specifications	March 2017	October 2017
2	Public procurement procedures	October 2017	April 2018
3	Implementation	May 2018	September 2019
4	Go Live!	October 2019	December 2019
5	Project closure	January 2020	October 2021

Portable stand-alone wastewater flow meters for preventing unauthorised connections (theft)

The aim of the project is to reduce theft and loss of water by using portable stand-alone wastewater flow meters.

The benefit of the project flow meters are installed in case of suspicion that the wastewater metering data is incorrect. Water theft is prevented and the Company's losses are reduced.

NC	NAME	START DATE	END DATE
1	Preparation of technical specifications and public procurement procedures	2019	2020
2	Implementation	February 2020	February 2021
10 units of flow meters are currently being successfully used			

Installation of solar power plants

The aim of the project to generate part of the electricity required for the needs of the Company by installing solar power plants on the buildings of the Company's stations and within the territories.

The benefit of the project is the use of natural resources for energy recovery, reduction of the Company's costs, storage of natural resources, reduction of fossil fuel and CO₂ emissions.

NC	NAME	START DATE	END DATE
1	Study	May 2020	August 2020
2	ESO terms sheet issued		September 2020
3	Licence obtained from NERC		November 2020
4	Procurement procedures	December 2020	December 2021

CUSTOMER SERVICE

For the customers of Vilniaus vandenys, 2020 was another year of improving customer experience and greater satisfaction with the quality of services provided, and this was confirmed by the customer surveys and inquiries. The Company continued to invest in key customer service areas: cutting red tape, shortening and streamlining processes, and implementing smart solutions that allowed customers to get the services they needed faster, easier, and in line with “one-stop-shop” principle.

It was in 2020 that the Company offered its customers all the services for the installation and connection of networks to centralised water supply and wastewater networks through “one-stop-shop”, and the possibility to use services immediately with payments for services settled in instalments. This accelerated and facilitated connection to the network procedures, with the process of connecting new customers to centralised systems sped up by 16% in 2020 (the process of connecting customers took 26 calendar days in 2020 and 31 calendar days in 2019).

In the hot summer of 2020, residents and the city were delighted by the much-expanded network of drinking fountains in public spaces of the city. Modern, visually attractive drinking fountains have also appeared in 53 schools in Vilnius city. This project will continue in 2021, and the drinking fountains will be installed in an additional 100 schools in Vilnius. In this way, the Company, together with the city administration, has contributed to promoting a healthy lifestyle, reducing the use of plastics and total CO₂ emissions in Vilnius city.

The number of those who appreciated the quality of the Company’s services continued to grow. The findings suggest that the water quality, reliability of supply, clarity of billing information, easy settlement of services and proper information on preventive works were well accepted by the Company’s customer in 2020.

The biggest positive developments in 2020 were noted by customers in the area of e-mail and telephone consultations, and appreciated the improved self-service system and access to information on the progress of the issue being addressed.

Customers have also expressly welcomed the increased operational efficiency of employees in solving issues of concern, timely communication about scheduled works, convenient system of payment for services, and simplicity in concluding the contract.

Improving customer service has also had a positive effect on reducing the number of customer complaints. During 2020, number of complaints fell 43% compared to 2019.

CUSTOMER SURVEYS AND INTERVIEWS

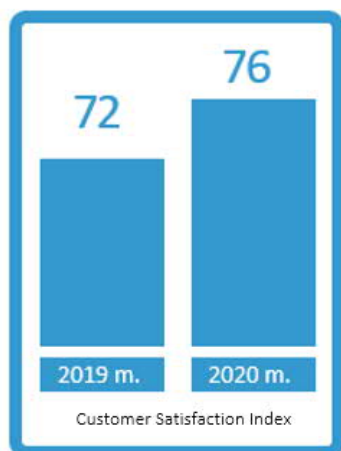
Customer Satisfaction Survey (GCSI)

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

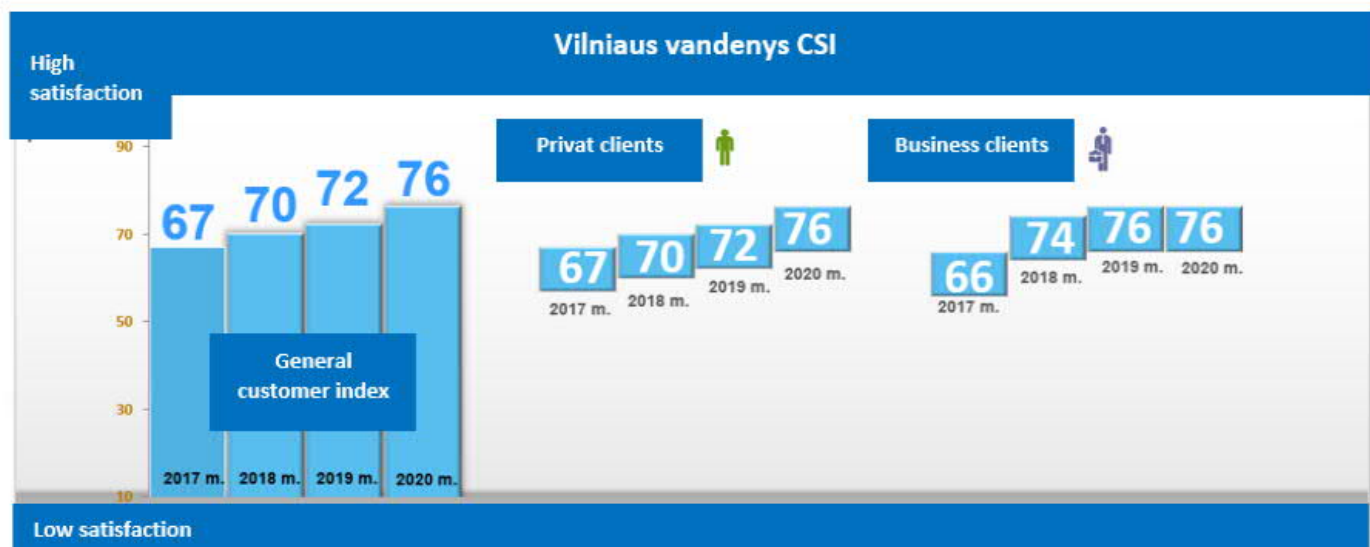
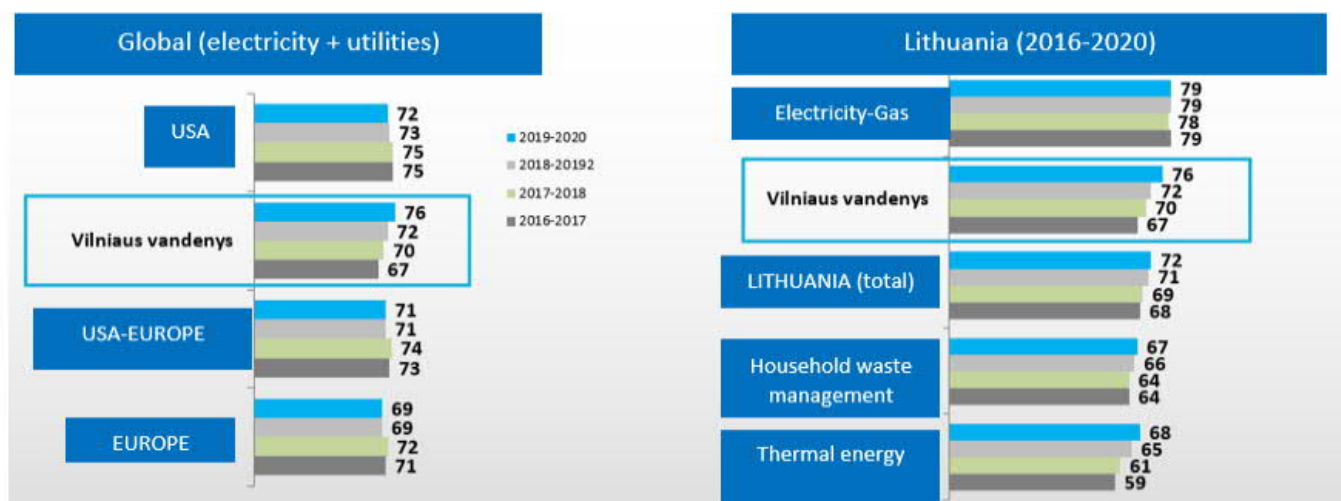
The results of the survey demonstrated a steady increase in the level of customer satisfaction since 2017. In 2020, the overall GCSI satisfaction index for private and corporate customers was 76 points out of a possible 100 (+4 points compared to 2019 and +9 points compared to 2017). The Company’s rating is 4 points higher than the average rating (72) of utilities provided in Lithuania and 7 points higher than the European average (69). In 2020, business and private customers rated the Company at the same level – by 76 points, and satisfaction index for private customers rose by +4 points compared to 2019 (72). Satisfaction index for corporate customers remained stable, which currently stands at 76.

The overall average of the quality and service aspects of the services (20 aspects) on the 10-point scale is 8.4. During the year, assessments of most aspects of private customer service have improved.

The Company's customers feel and appreciate the actions and efforts to improve the quality of services and servicing. The change indicates a decreasing number of customers encountering problems with services or maintenance, and at the same time a rapidly improving level of service and maintenance.

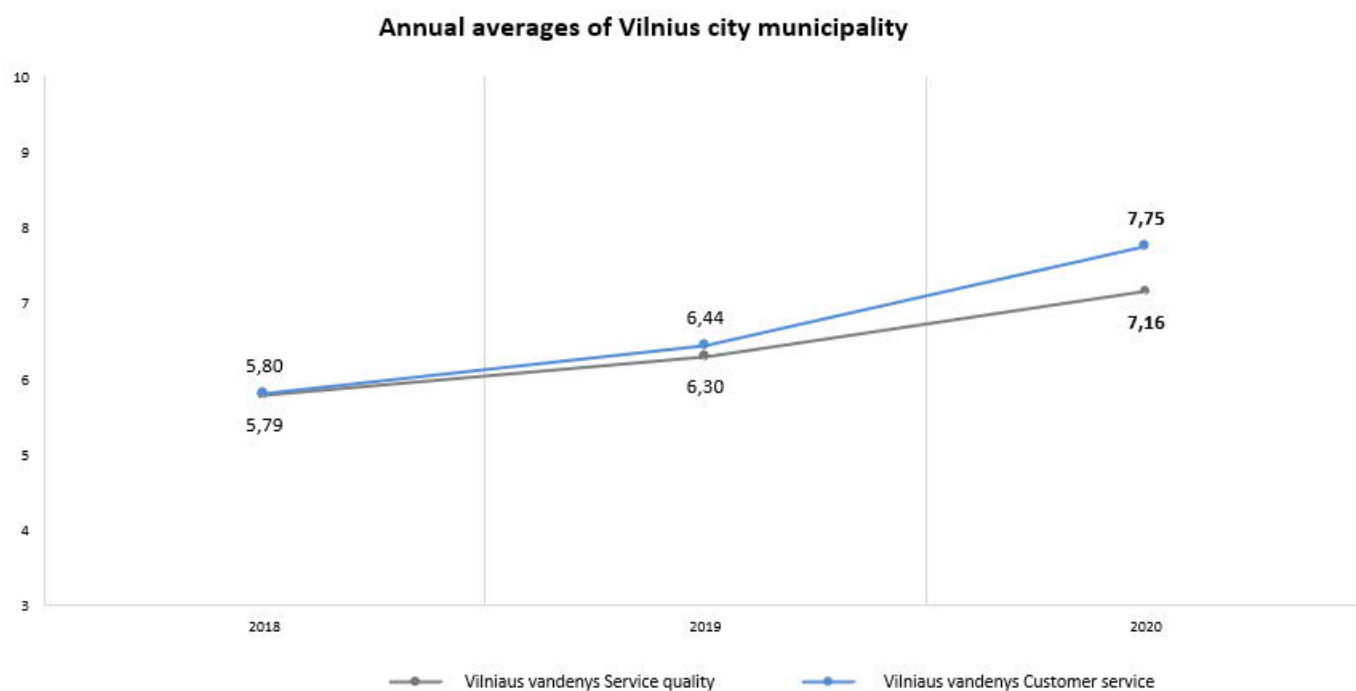


Comparison of GCSI (Global customer satisfaction index) rates



Vilnius City Municipality Survey

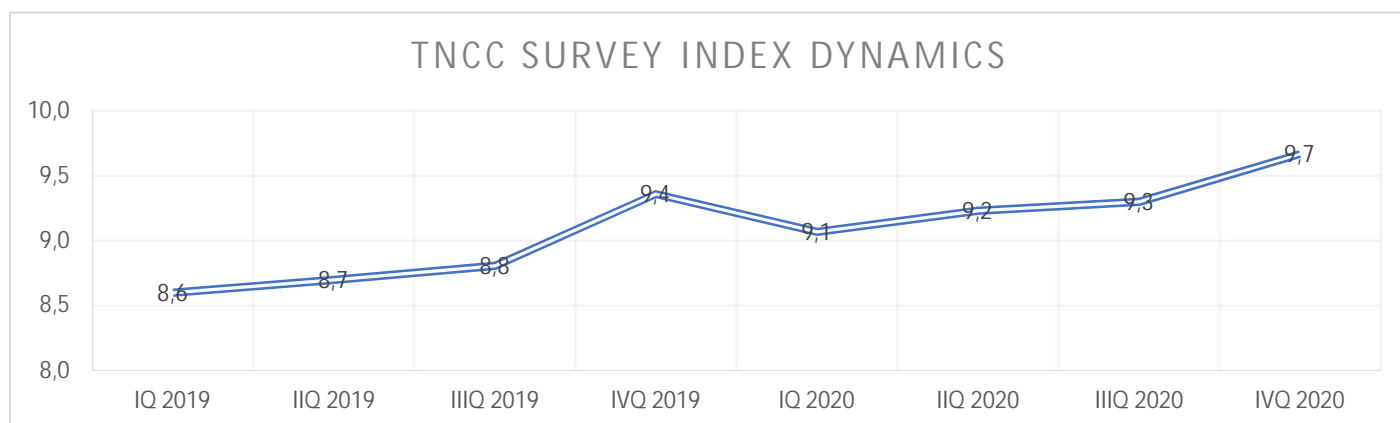
As from September 2017, the Company has also participated in the survey carried out by the Vilnius City Municipality, which measures the rating of customer service and services of municipal companies. By actively encouraging customers to share their ratings and provide feedback (the survey tool is published on the Company's homepage, emails and payment notices to customers). In 2020, the average service quality rating amounted to 7.75 points out of a possible 10 (+1.31 compared to 2019) and the service quality was 7.16 points +0.86 compared to 2019).



TRANSACTIONAL NEW CUSTOMER CONNECTION SURVEY

The Company carries out the Transactional New Customer Connection Survey (TNCC) was also launched to assess the stages of new customer connection. The survey indicates, here and now, all vulnerabilities the customers face for the Company to respond quickly. New customer process evaluation is carried out by telephone canvassing. The overall annual rating amounted to 9.4 points out of a possible 10, with a change of +0.5 compared to 2019.

It should be noted that the rating score for new customers was 8.6 in Q1 2019, and reached 9.7 points in Q4 2020.



The best aspects evaluated by customers were as follows:

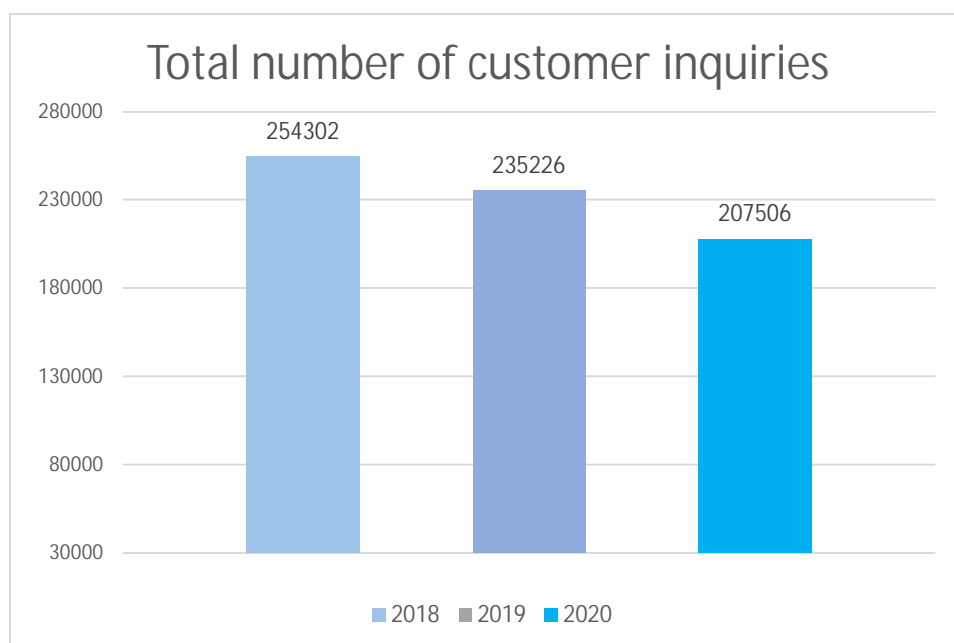
- employees, who provided connection services, were helpful and demonstrates good manners – 9.9 points (9.7 in 2019);
- the connection work carried out by the employees at the site was well organised – 9.7 points (9.4 in 2019);
- the maintenance technicians inspected and accepted the work promptly, providing all the necessary information – 9.6 points (9.4 in 2019);
- the employees with whom customers were associated throughout the connection process were helpful, showing a willingness to help – 9.6 points (9.3 in 2019);
- the terms and conditions regarding the connection were clearly defined – 9.4 points (9.2 in 2019).

In order to improve customer experience and the Company's assessment from their point of view, most of the planned initiatives to increase customer satisfaction were implemented in 2020.

- The process of managing customer queries has been further improved.
- New commercial services have been introduced.
- Opportunities have been created for clients to order additional services through "one-stop-shop" system: design, contracting, preparation of geodetic stock pictures.
- The customer have been provided with the possibility to pay for these services in instalments.
- Improvements have been made in the process of connecting new customers to define more clearly the function of the departments involved and shortening the customer's path.
- There has been regular active communication and customer information on relevant issues.

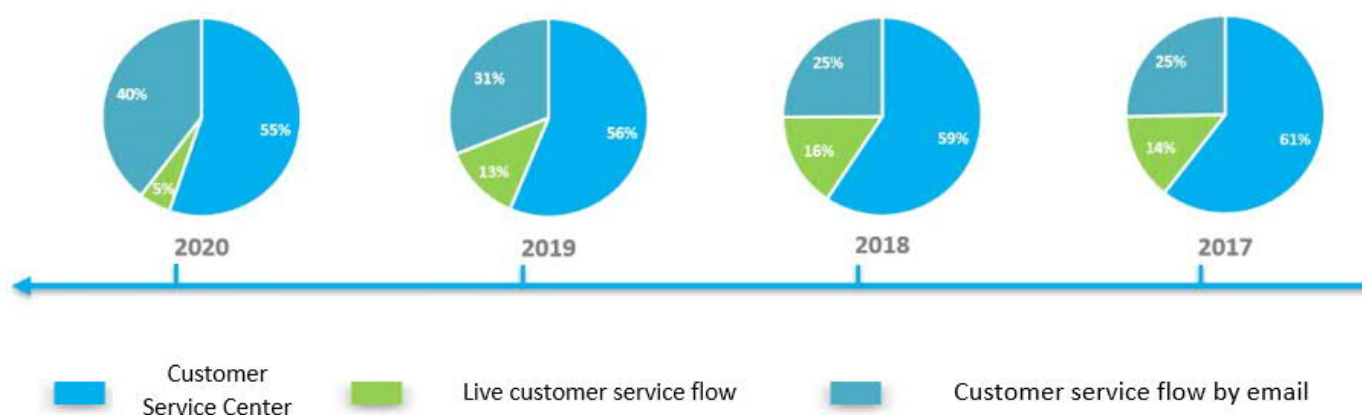
CUSTOMER INQUIRIES

In 2020, Vilniaus vandenys accepted 207,506 customer inquiries by phone, in writing, and in customer service centres regarding various issues. This is a record low number of inquiries in the period of the last four years: 13% less than in 2019.



The declining number of customer inquiries was influenced by the continuous improvement in the quality of customer service (continuous control of the quality and timing of responses), the renewal of the Company's internal procedures, compliance monitoring and audit.

Customer inquiries distribution by channels



In 2020, the volume of live customer service decreased (-8%).

Customer service provided through telephone has maintained its popularity (-1%).

A significant change in the e-mail channel, which has grown significantly (+9%).

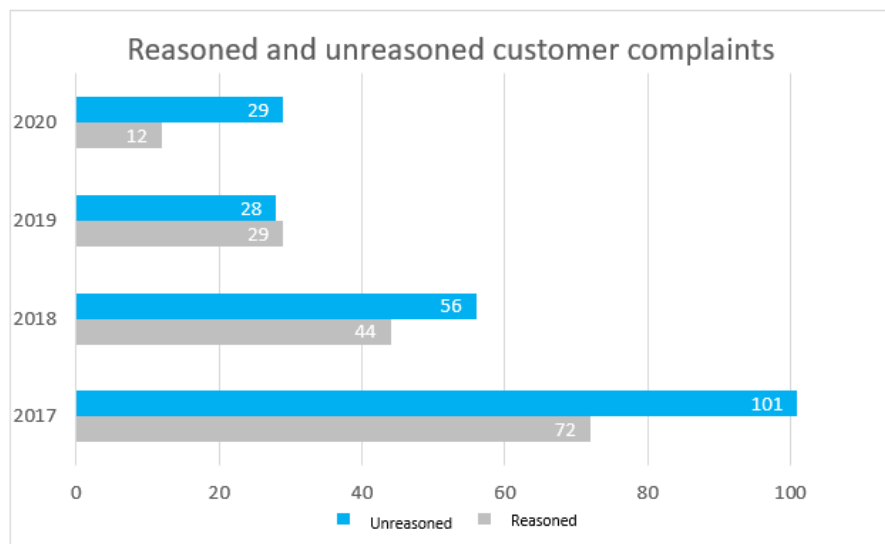
The first quarantine had the greatest impact on these changes. Upon redesigning the processes of customer servicing through e-mail, this channel has become a customer-friendly and fast means of communication with the Company.

Quarantine-induced changes in customer habits show that they will increasingly choose remote, electronic servicing channels in the future. The need to come to a physical service location is significantly reduced, but will remain necessary to safeguard the interests of the most vulnerable groups in society.

CUSTOMER COMPLAINTS

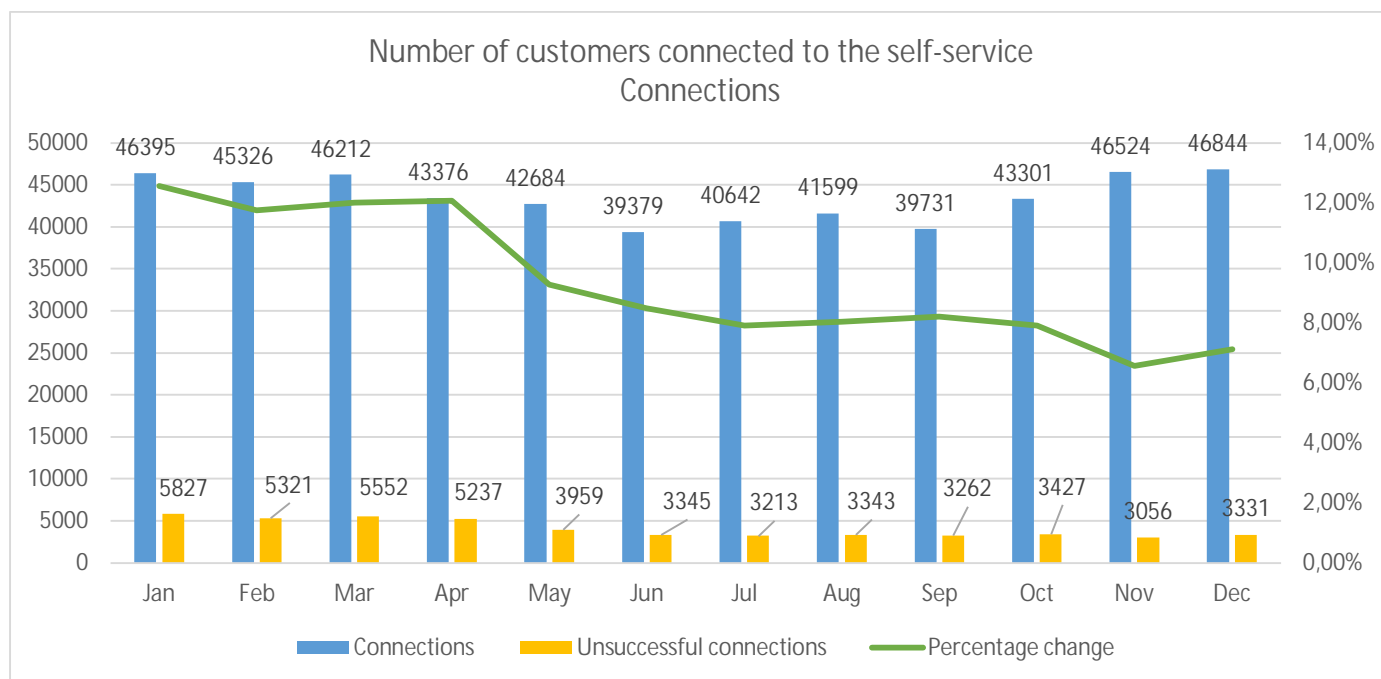
In 2020, the Company received 41 complaint in total. This is the lowest number of complaints in the last four years. This trend shows that the Company's employees make every effort to manage difficult situations and solve problems by finding a mutually acceptable solution.

Last year, the average time taken to resolve complaints was 13 calendar days.

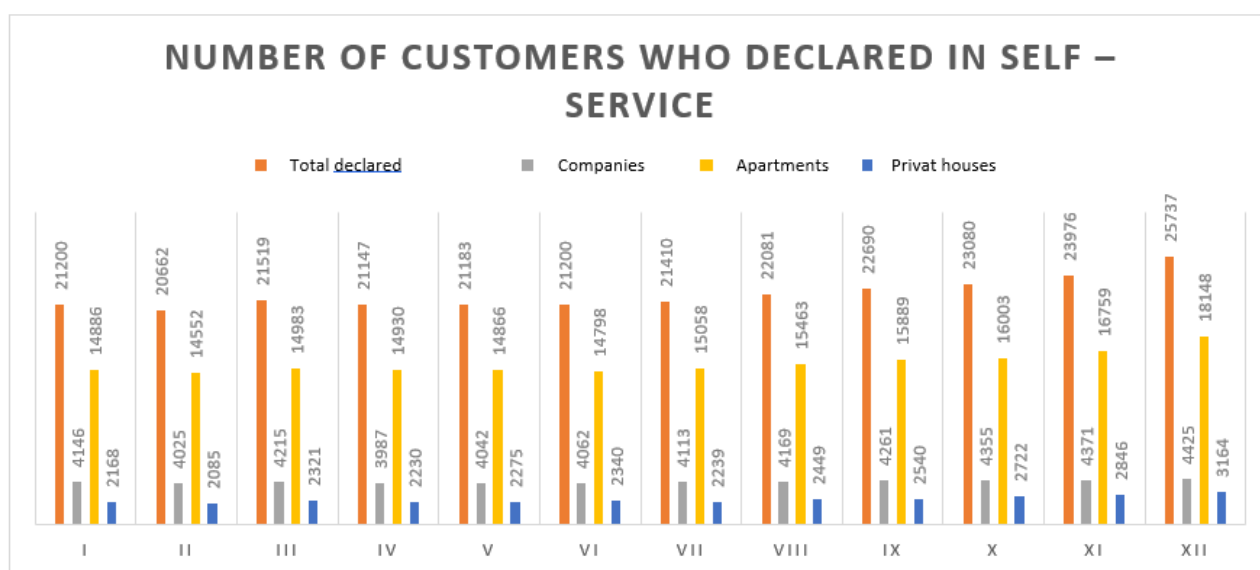


SELF-SERVICE PLATFORM

In 2020, the Company placed major emphasis on convenience features in customer self-service. By giving profound attention to customer expectations, the self-service login page was redesigned. Practical usability testing has created a completely new logic of the process of login to the self-service, and the changes made have yielded the desired results. The said change was implemented in May, and the number of unsuccessful login attempts fell by more than a tenth between then and the end of the year.



2020 is the year of maturity of the self-service project. No advertising campaigns were conducted, but the number of customers submitting readings through the self-service grew steadily each month. The number of customers submitting readings through the self-service increased by 14% during the year (in 2019: increased by 5%).



In 2021, the self-service portal will be further focussed on customer needs with the following functionalities:

- signing documents with unqualified and qualified signature;
- Possibility of becoming the Company's customer;
- Ordering additional Company services.

CUSTOMER SERVICE DIVISIONS

Between September 2020 and the beginning of quarantine, the clients of Vilniaus vandenys were able to consult in person in two locations in Vilnius:

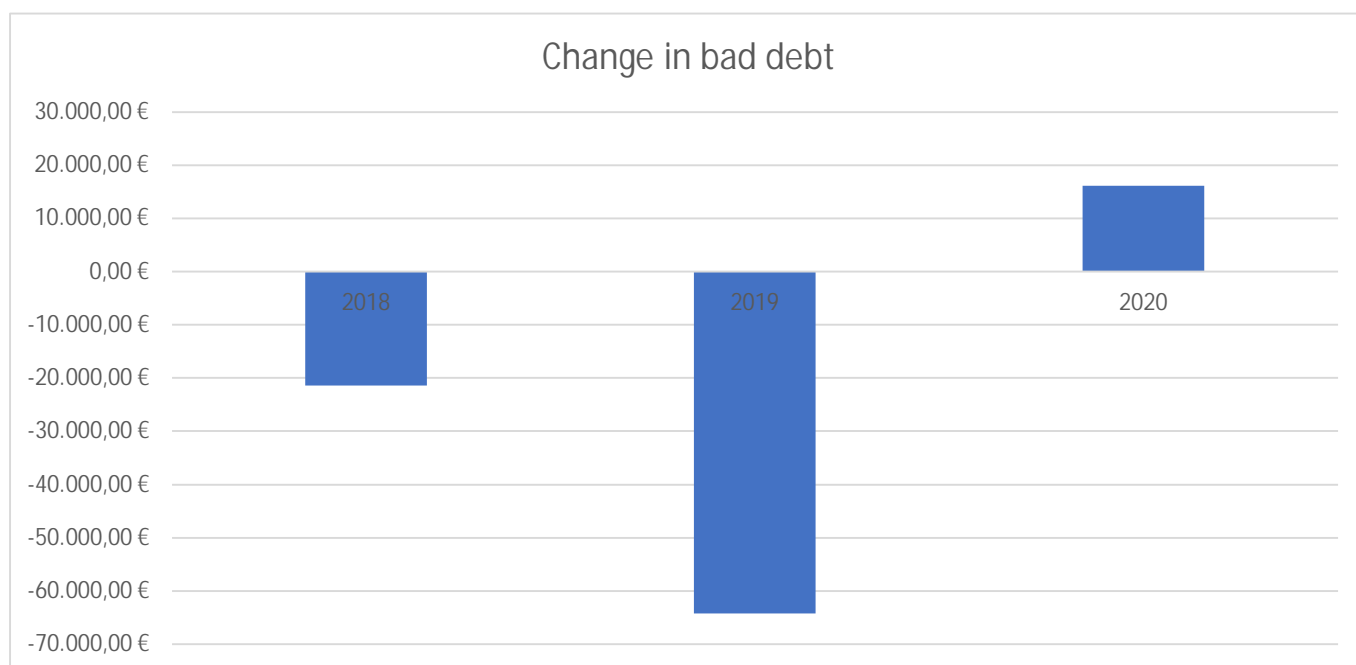
- Customer service branch of Vilniaus vandenys at Spaudos st. 8-1;
- General Customer Service Centre of Vilnius City Municipality at Konstitucijos ave. 3

The Company's customer in Švenčionys and Nemenčinė districts were serviced remotely from Q3 2020, and in Šalčininkai district – from Q1 2021.

DEBTS

Following the announcement of quarantine due to the COVID-19 pandemic in Lithuania from March to July 2020, the Company did not take any action to recover debts from debtors. It was a joint and several decision of the Company to help residents of more sensitive groups of the society, whose income may have suffered from the quarantine declared in the country.

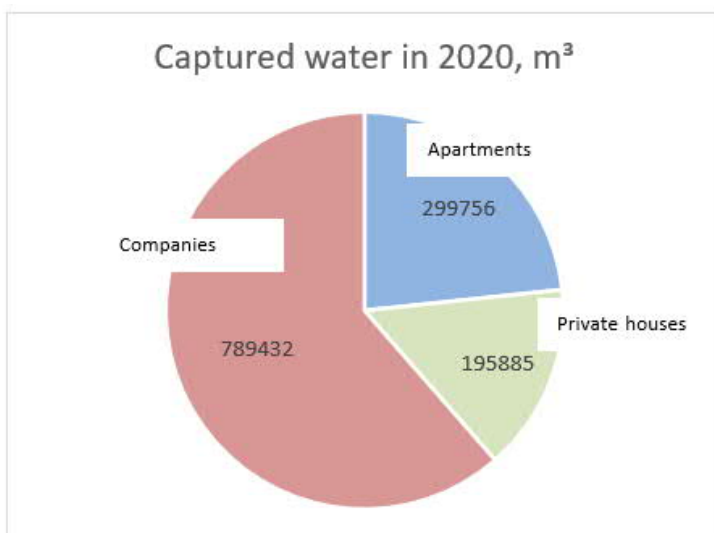
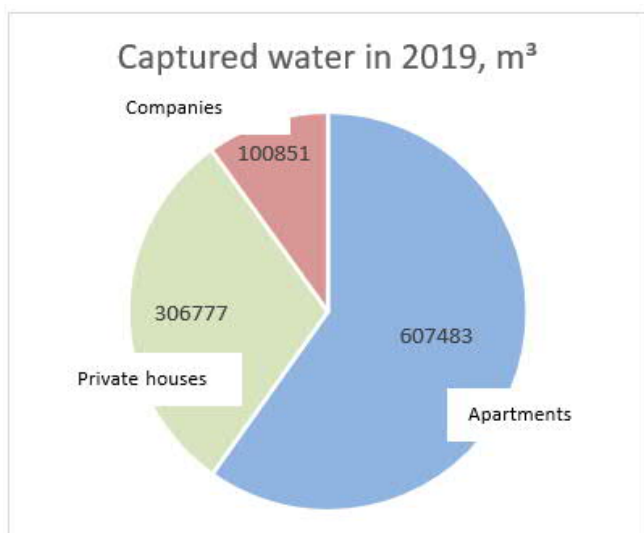
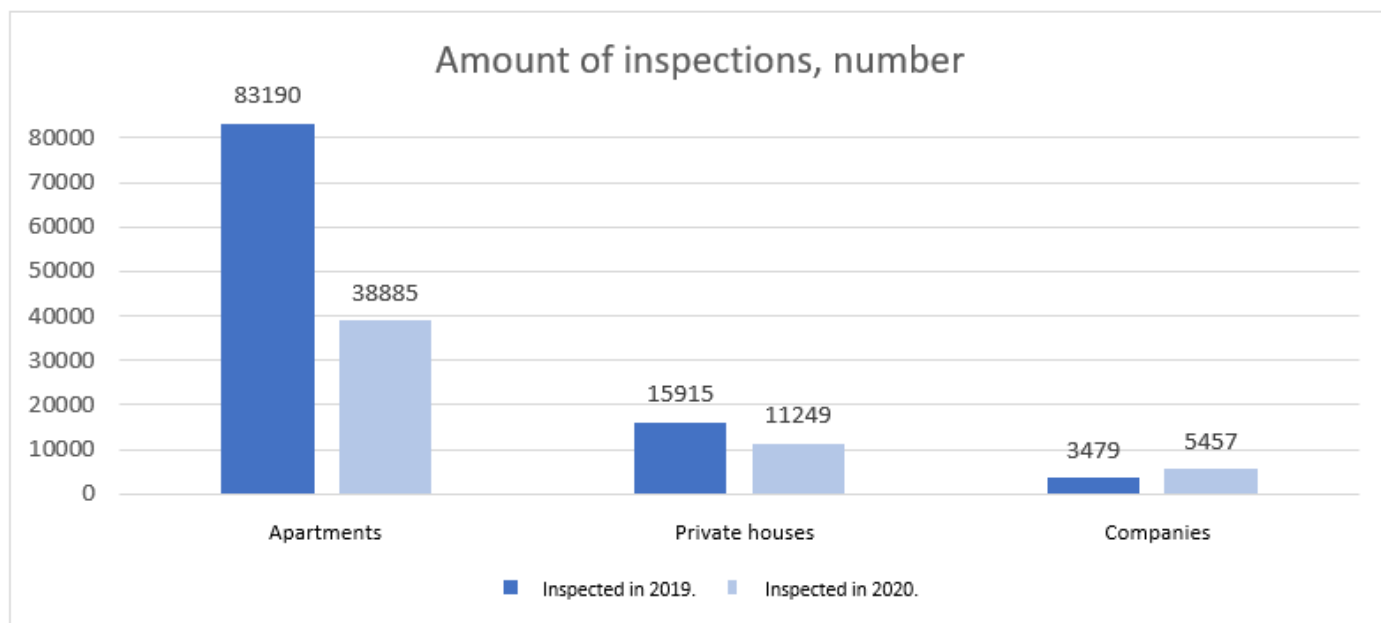
This decision had an impact on the significant growth of debts (up to EUR 130 thousand) during the year, but after the end of the quarantine period and resumption of the debt management process, the Company managed to stabilise the share of increased bad debts – the growth of bad debts amounted only to EUR 16 thousand in 2020.



The debts recovered in 2018 and 2019 exceeded the new debts incurred during that period, thus resulting in a negative debt change. The overall portfolio of bad debts has been shrinking.

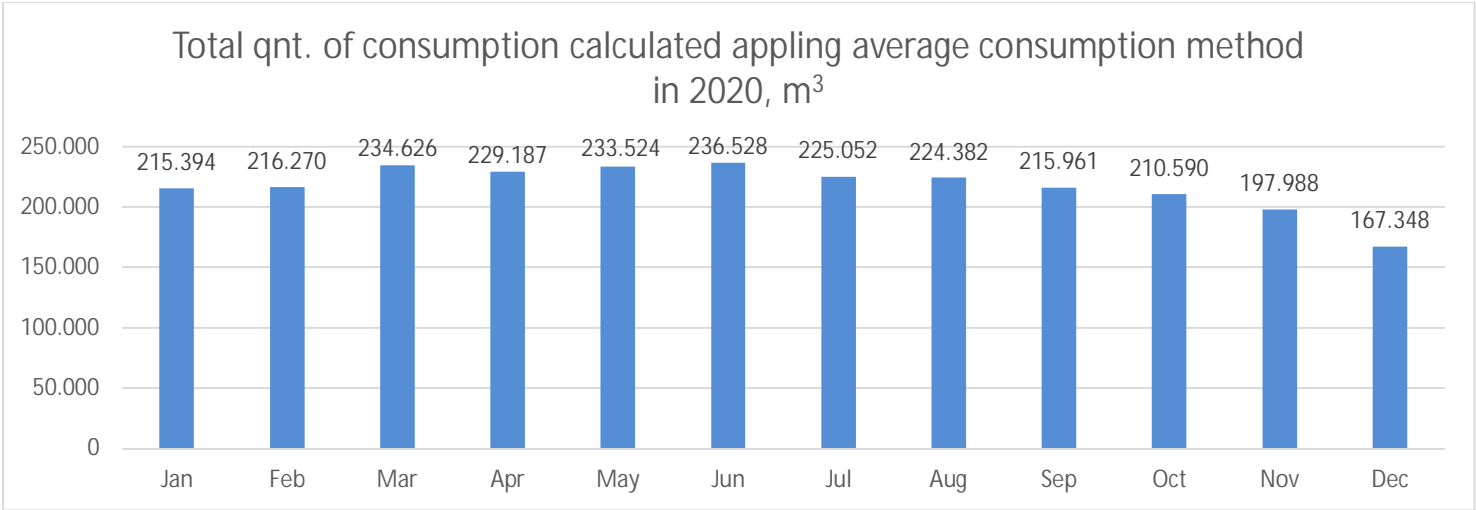
READINGS CONTROL

In 2020, the Company's employees together with the contractors inspected 55,591 objects and reported 1,285,073 m³ of water consumed, the meter readings of which have not been submitted. Compared to 2019, 102 584 objects were inspected and 1,015 111 m³ of water consumed, the meter readings of which have not been submitted.



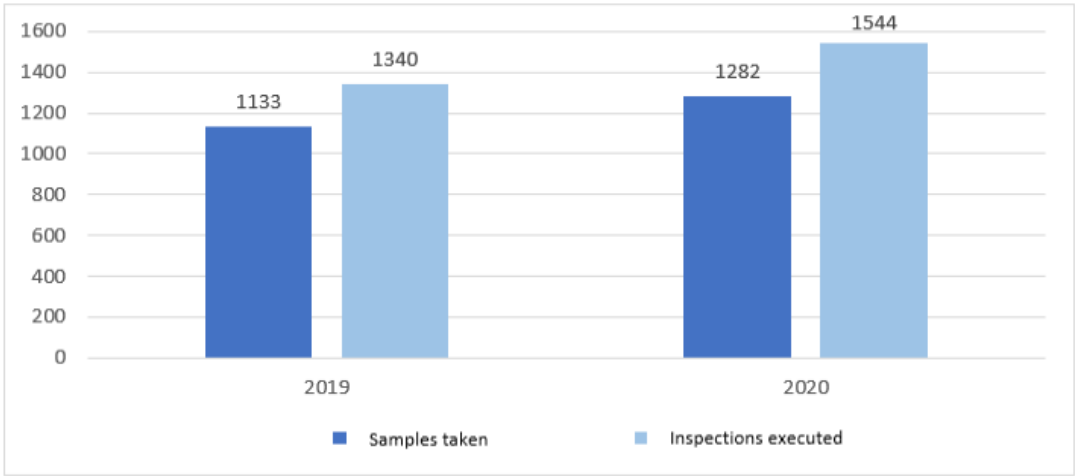
Due to the situation caused by the COVID-19 pandemic in Lithuania in 2020, fewer objects were inspected, compared to 2019. During the quarantines declared by the government, the Company suspended inspection of meter readings, in order to protect the health of customers and its employees.

Customers who do not submit their meter readings are billed based on average consumption. To calculate the average of the last 12 months readings submitted is used. The number of customers who did not submit readings in 2020 was 22% of all the Company's customers. They had 2,606,850 m³ of water recalculated. The number of customers who did not submit readings in 2019 was 20% of all the Company's customers. They had 2,614,625 m³ of water recalculated.



WASTEWATER CONTAMINATION CONTROL

During 2020, 1,544 inspections were carried out and 1,282 samples were collected to determine the pollutants discharged into the Company's networks, of which 201 samples were received from wastewater carriers. During 2019, 1,340 inspections were carried out and 1,133 samples were collected, of which 199 samples were received from wastewater carriers.



During 2020, 202 non-routine inspections were carried in the context of the search for plastics, heavy metals, etc., collecting samples in presence or without presence of bailiffs, and installing automatic sampling scoops.



In 2020, the following measures applied:

- 120 inspections were carried out in companies to identify and prevent the sources of plastic in wastewater;
- 60 pumping stations and 4 collectors have been inspected for the detection of sources of heavy metals;
- 66 business customers of the Company were provided with updated and more rigorous contractual obligations for wastewater management.

Preventing plastic pollution

In early 2020, Vilniaus vandenys faced a large-scale and illegal discharge of plastic waste into the household wastewater network owned by the Company. In response to the situation, all possible measures were taken immediately to identify sources of pollution and to prevent plastic pollution from entering both Vilnius wastewater treatment plant and the natural environment.

In the search for a source of plastic pollution, all companies recycling, storing or using plastic waste as a raw material in their manufacturing activities were promptly inspected. 57 companies of this type were identified and, following the prompt inspection, wastewater samples were collected from 13 companies as potential contributors to plastic pollution and tested.

All inspections revealed two sources of plastic pollution. They were sampled in the presence of bailiffs and environmental officials. Following identification of plastic pollution, wastewater treatment services were terminated to one of the Company's customers, who continued to contaminate wastewater with plastic even after the warning. The service was resumed only after the customer had eliminated the causes of plastic waste and implemented additional safeguards (implemented multi-stage filtration systems).

In solving the problems of plastic pollution, the Company implemented special local-level solutions in Vilnius wastewater treatment plant to prevent plastic particles from entering the natural environment.

After the Company identified and prevented plastic from entering the wastewater networks, a serious environmental problem emerged: some legal entities do not comply with the requirements of the Wastewater Management Regulation approved by the Ministry of Environment of the Republic of Lithuania regarding wastewater quality.

In 2020, the Company established a **Working Group on Pollution Risk Management**, which carries out legal regulation of the reception of wastewater into the Company's networks by reviewing and strengthening contractual requirements for customers, develops and implements preventive measures to reduce wastewater pollution, continues the search for potentially polluting objects and gradually reduces the entry of contamination into the Company's wastewater networks.

In order to strengthen and ensure control of wastewater pollution, a separate Wastewater Control Unit will be operational from 2021 with increased number of wastewater controllers.

Legal strengthening of the business customers' pollution control

In 2020, the Company strengthened the requirements for legal persons discharging wastewater into the networks owned by the Company. The Company introduced a requirement from new customers to provide information about the planned discharge of pollutants into wastewater, the composition of the wastewater, and the compounds generated during the production process that could enter the wastewater.

The Company imposed the same requirements on existing customers in order to obtain new terms for connection when production volumes are increased or the technological process is changed. With reference

to the information obtained, the terms for connection oblige the customer to install additional primary wastewater treatment plants or apply other pollution reduction measures. In this way, customers are obligated to foresee the necessary equipment or technological solutions to achieve the tolerable levels of wastewater pollution at the design stage.

In 2020, the Company prepared and approved stricter "Special terms and Conditions to the Drinking Water Supply and Wastewater Treatment Agreement", which became applicable to business customers.

Conclusion of contracts using approved new special terms and conditions

Following the approval of new contractual requirements for business customers, the Company drawn up the list of TOP 50 largest customers. These customers were further inspected by collecting wastewater samples to detect pollution before the renewal of the agreement. During the agreement renewal process, the TOP 50 list has expanded to 66 business customers. In 2020, a new version of "Special terms and Conditions to the Drinking Water Supply and Wastewater Treatment Agreement" was drafted for each of these customers. The process of renewing agreements will continue in 2021.

Strengthening the reception of transported wastewater

In 2020, the Company strengthened the control of carriers in order to prevent entry of wastewater exceeding the permissible limit of pollution into wastewater treatment plants. Fully automated wastewater reception points are currently being designed. During the reconstruction, seven wastewater reception points will be equipped with automatic sampling scoops for sampling of incoming wastewater, which will be controlled remotely, and emission measurement sensors will be installed to block the discharge of wastewater when unauthorised pollution is detected. The design procedures will be completed in the first quarter of 2021, followed by contract work.

Strengthening wastewater control

In 2020, the Company increased the frequency of inspections of the plastic industry companies, and inspecting them on weekly basis. Moreover, inspections were carried out without prior notice, at night and on weekends.

Wastewater samples were collected from legal entities in 2020 to determine concentrations phenol and phthalate. The control of concentrations of these pollutants in wastewater networks will be further carried out in 2021. Legal persons who exceed the permitted level of these pollutants will be charged with additional fee for their discharge into the networks of the Company.

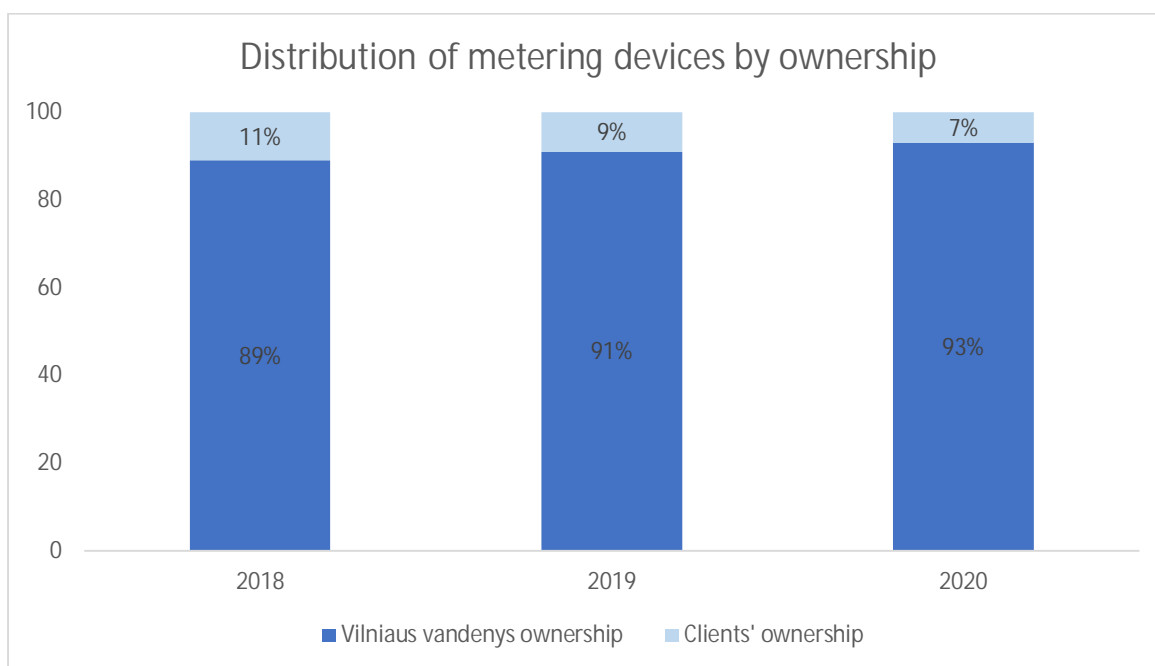
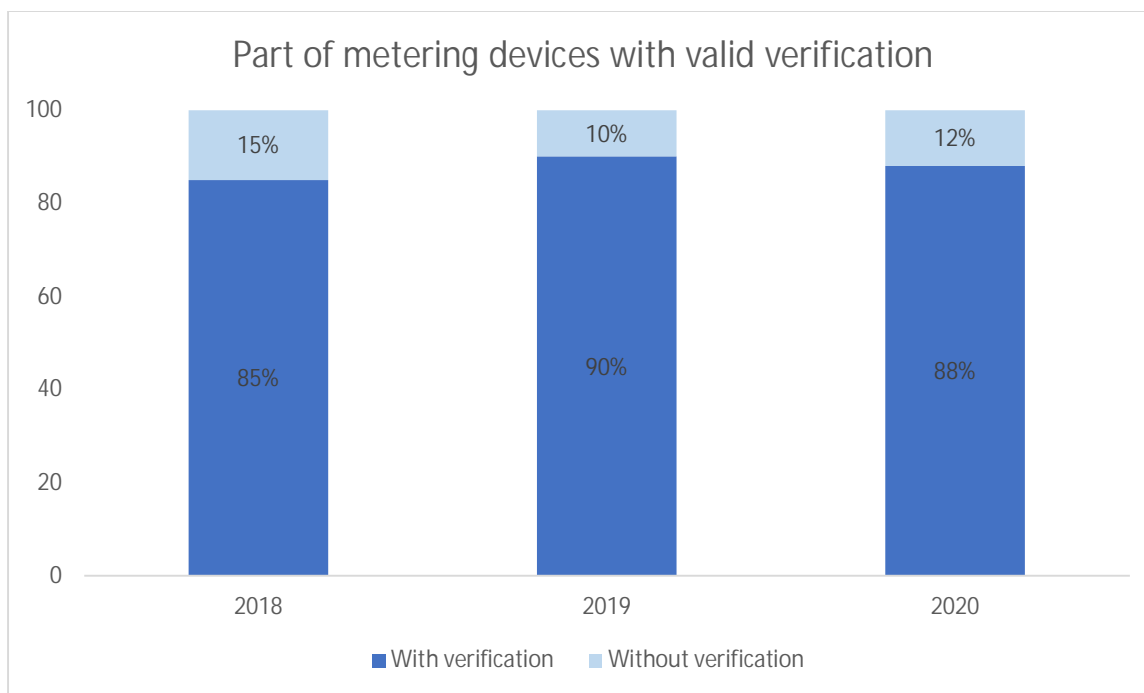
In 2020, there were three cases where discharge did not coincide with the declared water consumption. In this context, customers are equipped with portable flow meters for recording of wastewater discharges for commercial purposes. Customers are billed for the services provided based on the amount of wastewater discharged. In 2021, the Company will continue looking for this type of cases.

Income from increased and specific emission loads

Performing the wastewater contamination control, EUR 2.03 million of income were earned in 2020 from the tax on increased and specific emission loads (in 2019: EUR 1.96 million).

WATER METERING DEVICES

The Company operates approx. 320,000 units of metering devices. The service area comprise the following territories: Vilnius, Nemenčinė, Pabradė, Švenčionys, Švenčionėliai, Šalčininkai and Eišiškės.



In 2020, the number of meters without metrological inspection was increased from 10% to 12% due to COVID-19 situation, because the Company suspended the replacement of metering devices during the quarantine in facilities where direct contact with the customer is possible. The Company's employees were able to replace meters only in facilities where there was no direct contact with customers.

In 2020, 44,964 units of metering devices were replaced/installed, in 2019 – 44,219 units.

As at 31 December 2020, there were 93% of water meters owned by the water supplier in the territory serviced by the Company.

INNOVATIONS

The purpose of remote reading of inlet metering data and installation of data transmission system is to reduce water loss, identify water users in apartment buildings disorderly submitting metering data, and localise

emergency situations in internal networks and mains of apartment buildings. This is convenient for customers whose metering devices are installed in inlets of wells and buildings – they are billed based on the exact data of water consumption, when the Company scans the readings remotely.

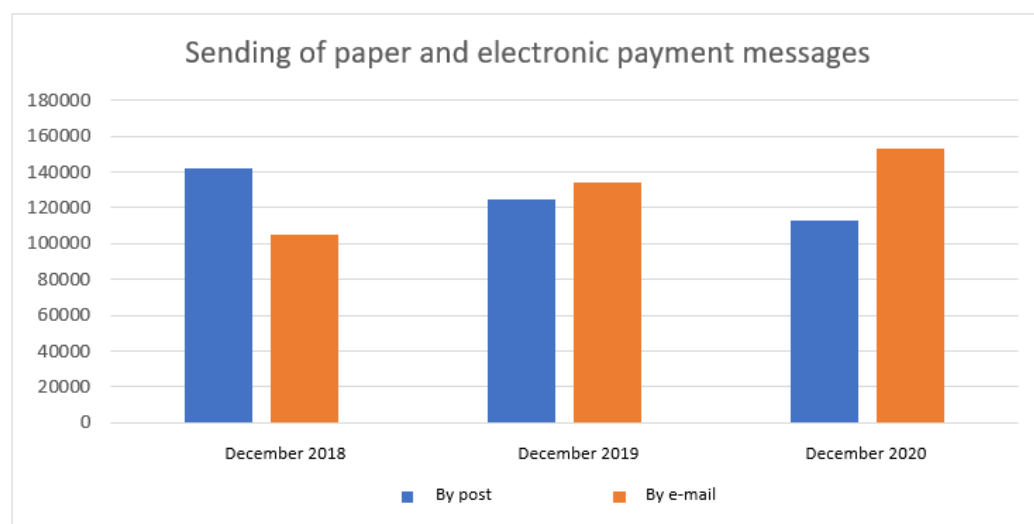
During 2020, 5,668 units of remote reading from inlet water meters equipment were installed. The data information system Enersys was installed, which collects data from water meters and transmits it to the Company's internal systems.

In 2020, five automated water dispensing points were installed: in Liepto st. 2, Titnago st. 74, Kalvarijų st. 161, Daugėlišio st. 22, Laisvės ave. 60 together with commercial metering systems. These points are used by the Company's business customers who provide wastewater transportation, pipeline washing and site management and maintenance services.

BILLS

In 2020, payment notices sent to private customers in paper form decreased by 155.5 thousand compared to 2019. This get access for the Company to savings of costs arising from delivering paper letters to customers by mail and contribute to the promotion of sustainability.

In 2020, 19 thousand of the Company's private customers opted to receive payment documents by email, thus responding to the Company's constant call for nature-friendly solutions.



SERVICE PRICE

On 1 February 2020, new prices of many water supply and wastewater treatment services provided by Vilniaus vandenys came in effect. These prices were restored to the base price level of 2018, but remained the lowest of all public water management service providers in Lithuania.

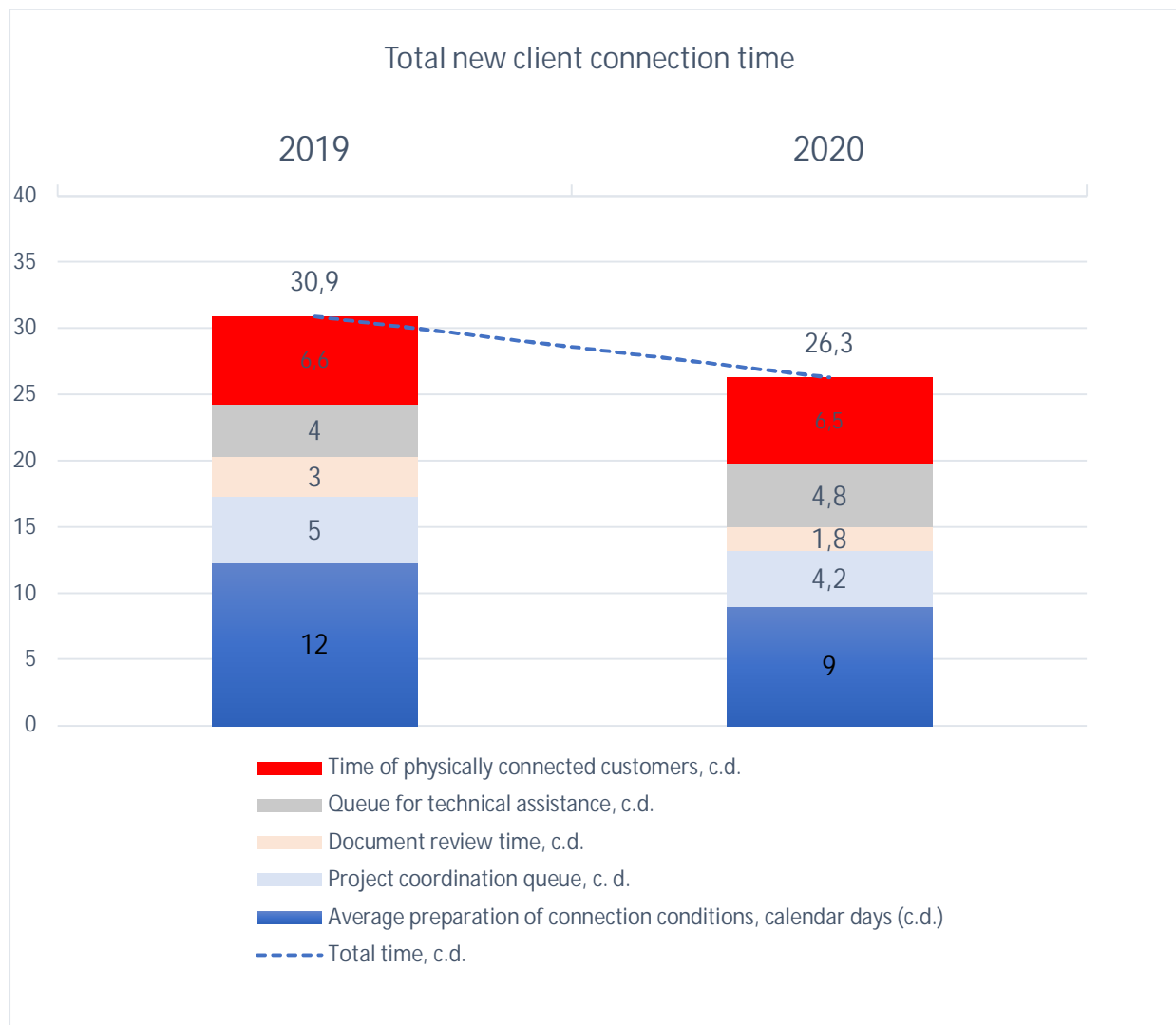
The price of services for private customers living in multi-family homes increased by approx. 17%, for those living in single-family homes – also by approx. 17%. For business customers, the price of drinking water supply and wastewater management services increased to EUR 1.33 (including VAT) per cubic meter. The monthly selling price (subscription fee) remained unchanged.

These service prices were approved on 31 December 2019 by a unilateral decision of the State Energy Regulatory Council (NERC) and apply to all customers of Vilniaus vandenys in Vilnius City and in Vilnius, Švenčionys and Šalčininkai districts.

CONNECTING NEW CUSTOMERS TO THE NETWORKS

The Company's New Customer Connection Department worked purposefully to ensure higher quality of service and faster deadlines for the completion of works: a new customer physical connection time was reduced from 8 calendar days in 2019 to 6.5 calendar days in 2020.

In 2020, the total time of new customer connection, excluding the duration of the actions to be carried out by the customer himself, was 26.3 calendar days, which was 4.6 calendar days shorter than in 2019 (30.9 calendar days).



In order to facilitate the connection process for new customers, in 2019 the transfer of the request for obtaining design requirements for connection to the electronic environment was implemented. This request form was also made available to business customers in 2020. This functionality makes it much easier for customers to provide the data they need and saves them time.

Achievements in 2020 in improving new customer experience

- The time for obtaining design requirements shortened by **30%**: 9 c.d. in 2020 – 13 c.d. in 2019;
- Project coordination process reduced by **20%**: 4 c.d. in 2020 – 5 c.d. in 2019;
- The time for reviewing documents reduced by **40%**: 1.8 c.d. in 2020 – 3 c.d. in 2019;
- The time of physical connection reduced by **20%**: 6.5 c.d. in 2020 – 8 c.d. in 2019;
- Experience of connecting new customers, measured by interviewing newly connected customers, has improved: 9.4 c.d. in 2020 – 8.9 c.d. in 2019

PARTIAL FUNDING

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

The co-financing project continued in 2020 and gave customers the possibility to obtain reimbursement of the part of the amount paid for wastewater outlet installation. In order to reimburse part of the amount, the customers submitted applications to the Vilnius City Municipality, which together with the Commission established by Vilniaus vandenys assessed them against the criteria of the selection procedure.

In 2020, 170 applications for support were received from residents, 138 of which met the eligibility criteria, and therefore applicants were granted the funding.

BLOCK NETWORK DEVELOPMENT

After the completion of development projects in 2020, 916 residents were given the opportunity to connect to the centralised water supply system, and 1,128 residents – to the centralised wastewater system. Of those with this option, 526 residents have already benefited from connection to water supply and 596 – to wastewater systems. Residents are guided towards the procedure for connecting, access to “one-stop-shop” services and immediate access to networks, thus facilitating their everyday life and respecting the environment.

In 2020, the Company continued to implement its rating project, during which the Company ranked the inquiries received from communities even in the areas where it has not been so far and installed centralised water supply and wastewater networks. Following implementation of selected projects in 2020, more than 170 households will be able to connect to water supply and wastewater networks. The development of centralised block network will continue in the future.

BASKET OF SERVICES

The basket of services is a strategic goal of the Company, which aims to offer customers quality services that meet all their needs. In 2020, 9 new services were approved.

Drinking fountains (outdoor, portable, indoor, fog system). Drinking fountains are an environmentally friendly solution that the Company has offered to the city. Water in Vilnius is supplied from underground wells and is clean and qualitative, its quality is constantly inspected, and therefore it is safe and healthy to drink such water. Moreover, by refraining from water in plastic bottles we save money and preserve nature.

The Company continued to expand its basket of services in 2020 and offered a range of options and solutions: permanent outdoor drinking fountains in public spaces of the city, indoor drinking fountains that can be installed in schools, cafes, business centres, as well as portable drinking fountains that are easy to transport, and they are particularly attractive during events. The Company also offers a so-called “fog” system, which creates water dust to freshen up during sport events or in extremely high temperatures. Drinking fountains are installed in public places of the city with the aim to gradually change and shape the behaviour of residents of the capital: whether you are exercising, entertaining, travelling or simply spending time in the city, always have a reusable bottle that can be filled with water when you're thirsty.

Outdoor drinking fountains. The Company made an offer to the city scarcely a year ago, and this year it continued to develop an environmentally friendly solution – permanent outdoor drinking fountains. Currently, 11 outdoor drinking fountains are installed in Vilnius, which can be used during warm months, and their network is expanded every year. New locations for drinking fountains are selected based on the recommendation of Vilnius City Municipality, taking into account pedestrian traffic, the most visited places of citizens and city guests, and the existing water supply and wastewater treatment infrastructure.

Portable drinking fountains. Portable drinking fountains are convenient to transport and can be easily installed anywhere in the city. Moreover, instead of one, several drinking fountains or even a chain of drinking fountains can be located in one place. This is particularly true during mass events such as marathons, city celebrations, where there is a need to refresh for a large number of people. In 2020, 8 portable drinking fountains were tested for the first time in various parts of the city.

“Fog” system. Portable “fog” system consists of easy-to-transport stands fitted with water spray equipment that produces water dust. Portable “fog” system, in conditions of still air (light wind), can spray water dust about 50 cm in both directions and cover an area of almost 10 sq. metres. This system helps not only to refresh during sport events, marathons, but also reduces the amount of dust in public spaces.

Such “fog” systems are popular in many countries, especially in the south. During the heat, they are also used in outdoor cafes and public places in the city. Compared to other systems with a similar function, this system saves electricity, water and money, because it takes a very small amount of water to make the water dust, but covers a large area.

Indoor drinking fountains. On the initiative of Vilnius City Municipality and the Company, a project for the installation of indoor drinking fountains in Vilnius schools launched in 2020. The aim of this project is not only to encourage pupils to consume more water, to shape their healthy lifestyle, but also to develop a responsible young generation that cares about reducing the use of plastics and environmental pollution.

Schools have 53 drinking fountains installed this year, and in 2021 this number will double: a total of 115 schools in Vilnius City Municipality will benefit from these classy-looking drinking fountains.

It is estimated that if one pupil drinks at least one bottle of water he/she brings to school every day, more than 35,000 litres will be consumed in Vilnius schools every day.

The total value of the project is more than EUR 250,000. For schools in Vilnius City Municipality, the installation, decoration and maintenance of drinking fountains will cost nothing. Costs are shared between the Company and Vilnius City Municipality.

One-stop-shop services The Company constantly expands and modernises water supply and wastewater management infrastructure and gives thousands of new users access to the centralized system every year. To facilitate connection procedure, the Company started offering its customers all the services for the installation and connection of networks to centralised water supply and wastewater networks through “one-stop-shop”, and the possibility to use services immediately with payments for services settled in instalments. Users of water supply and wastewater networks do not themselves have to worry about the installation of networks or waste time finding suitable contractors to perform installation works. In the summer of 2020, a full package of services was offered to all private customers.

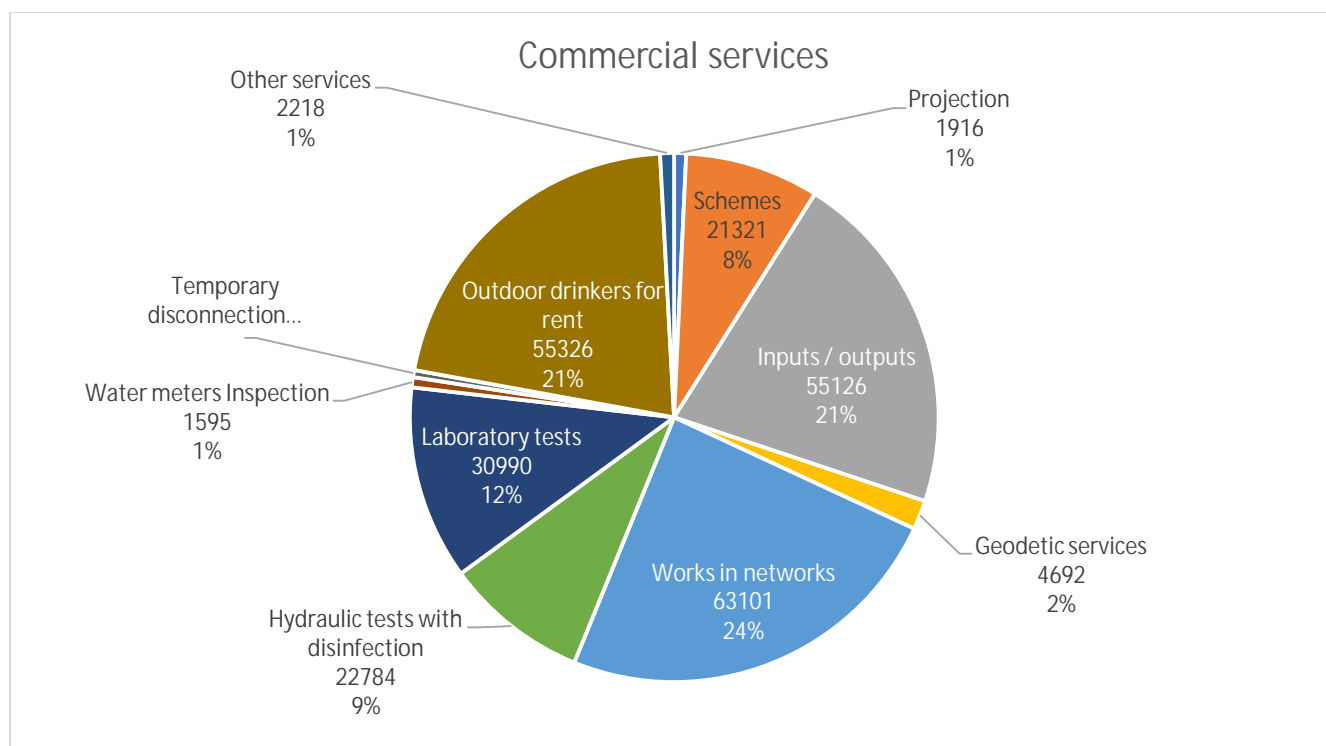
After applying for and receiving the design requirements, customers will be able to order from the Company services for designing networks, installation of water inlets and wastewater outlets, dismantling and restoration of coatings and preparation of a control geodesic picture.

The customer is given the opportunity to pay for the services in instalments using a consumer credit. The conditions of the consumer credit service provided by Vilniaus vandenys UAB together with its partner SB Lizingas are among the best in the market.

The new services offered by the Company have already been assessed by some customers. Since launch of services in summer 2020, 273 customers have subscribed to the design service and over 50 customers have utilised contracting and geodesic picture services. Anyone who took advantage of this opportunity highlighted the convenience of not having to worry about anything and wasting time finding reliable contractors.

Wastewater transport. Further expanding the basket of services, the Company will launch another service in Q1 2021, which will make life of residents easier: removal of wastewater from the facilities of residents (wastewater treatment plants, outdoor toilets, cesspits). These services will be available in areas where no centralised wastewater networks are yet available or for residents who are not yet connected to a centralised wastewater system. This service will not only make life of residents easier, but will also contribute to the environment through the proper management of wastewater.

Cross-cutting analysis of revenue



THE DYNAMICS OF THE COMPANY'S CUSTOMERS

Customer type	31 December 2018	31 December 2019	31 December 2020	Change in 2019–2020, %
Private	247,130	252,844	258,677	2%
In apartment buildings (settlement based on meter readings)	226,583	231,244	235,322	2%
In apartment buildings (settlement based on the feed-in point)	524	391	391	0%
In single-family houses	20,023	21,209	22,964	8%
Business	7,746	8,047	8,492	6%
TOTAL clients	254,876	260,891	267,169	2%

Breakdown of customers (natural persons) by service areas

Area	31 December 2018	31 December 2019	31 December 2020	Change in 2019–2020, %
Vilnius city	237,895	243,634	249,400	2%
Vilnius District	2,370	2 249	2 272	1%
Šalčininkai district	2 968	3 031	3 038	0%
Švenčionys district	3 897	3 930	3 967	1%

CORPORATE GOVERNANCE REPORT

In accordance with the Company's Articles of Association, the management bodies of the Company are the general meeting of shareholders, the collegial management body is the Board and the sole management body is the manager of the Company.

Vilnius City Municipality, Vilnius District Municipality, Švenčionys District Municipality and Šalčininkai District Municipality are the shareholders of the Company, who delegate their representatives to the Company's collective supervisory and management bodies.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme management body of the Company. The General Meeting of Shareholders consists of representatives delegated by municipalities of Vilnius City (ownership interest –94.12% as at 31 December 2020), Vilnius District (2.58%), Švenčionys District (1.98%) and Šalčininkai District (1.32%).

The general meeting of shareholders has the exclusive right to elect members of the subsidiary body and to revoke its members. In 2020, 7 general meetings of shareholders were conveyed.

BOARD OF THE COMPANY

The Board consists of 7 members elected by the General Meeting of Shareholders for a term of office of four years. The Board elects its Chairman from among its members.

The Board of the Company acts in accordance with [the Rules of Procedure of the Board](#) (document published on www.vv.lt).

As at 31 December 2020, the Board consisted of the following members:

Adomas Bužinskas – Chairman of the Board, Deputy Director of Vilnius City Municipality Administration;
Edvardas Varoneckas – Member of the Board, Leader of Law group of Vilnius City Municipality Administration;
Miroslav Romanovski, Member of the Board, Head of Local Maintenance Department of Vilnius City Municipality Administration;
Jurgita Petrauskienė – independent Member of the Board, Practitioner of the Model of Decision Quality Management, the Lean Practitioner, environmental expert, Member of the Board of Municipal enterprise Vilnius Waste System Administrator (VASA SĮ), Member of the Supervisory Board of AS Eco Baltia.
Laura Joffé – independent Member of the Board, COO at Lithuanian Airports.
Rytis Ambrazevičius – independent Member of the Board, president of Baltic Institute of Corporate Governance, Member of the Board of the European Confederation of Directors' Associations (ecoDa).
Robertas Šerėnas – independent Member of the Board, director and partner at Leaners.

Members of the Board declare their interests in accordance with the procedure laid down by the Law on the Adjustment of Public and Private Interests of the Republic of Lithuania.

Candidates for independent board members meet the independence criteria established in the Description of Selection of the Candidates for the Collegial Supervisory or Management Body of a State or Municipal Enterprise, a State-Owned or Municipally-Owned Company or its Subsidiary approved under the Resolution No 631 of the Government of the Republic of Lithuania of 17 June 2015.

By decision of the Board, Gintaras Maksim, the Head of Legal Division, was appointed permanent secretary of the meetings, and in his absence – lawyer Ramunė Purlienė.

Summary of the Board's activity report for 2020

In 2020, 16 meetings of the Board took place. Both members of the Board Edvardas Varoneckas (2020-03-18) Miroslav Romanovski missed one meeting (2020-04-22), all other meetings were held in full composition of the Board.

The Board has implemented all the measures provided for in the Preliminary Action Plan 2020:

1. Consideration and approval of the Company's operational objectives;
2. Consideration and approval of the Company's annual budget;
3. Monitoring the implementation of the Company's risk management plan;
4. Analysis and evaluation of the Company's annual report, profit/loss distribution project and submission to the general meeting of shareholders together with feedback and proposals thereon and the Company's annual report;
5. Review of the key staff substitutability plan;
6. Review and evaluation of the compliance of the Company's employee remuneration system with good practice;
7. Identification and review of the corporate governance structure and the list of staff positions;
8. Monitoring and improvement of the effectiveness of corporate governance practices;
9. Adoption of guidelines for the assessment of the Board's activities;
10. Review and monitoring of the Company's functional strategies (IT, communication, transport, etc.);
11. Monitoring the implementation of the Company's most important ongoing projects;
12. Review and approval of the Board's Rules of Procedure, provisions of the Internal Audit Unit;
13. Review of the crisis communication plan;
14. Monitoring of the effectiveness of the Company's internal control system;
15. Supervision and control of implementation of policies approved by the Board, supervision and control of implementation of other documents approved by the Board. Approval of updated policies;
16. Review of the Company's mission and vision, values and business strategy;
17. Procurement approval;
18. Monitoring of the procurement process parameters;
19. Monitoring of the management of conflicts of interest;
20. Monitoring of the Company's business strategy, performance plan and financial indicators;
21. Monitoring of the activities of the Audit Committee;
22. Monitoring the implementation of internal audit activities and recommendations;
23. Review and approval of the internal audit strategic action plan and annual plan.

As from 06/09/2019, a remuneration for members of the Board has been established at EUR 1,200 per month (before taxes).

Remuneration paid to the members of the Board during 2020 for the performance of the duties of the members of the Board was as follows:

Member of the Board*	Date of signature of the performance agreement	End of term of office	2020, in thousand EUR
Edvardas Varoneckas*	06/09/2019		14,400.00
Adomas Bužinskas*	06/09/2019		14,400.00
Miroslav Romanovski*	06/09/2019		14,400.00
Rytis Ambrazevičius	06/12/2019		14,400.00
Jurgita Petrauskienė	06/12/2019		14,400.00
Robertas Šerėnas	06/12/2019		14,400.00
Laura Joffė	06/12/2019		14,400.00
			100,800.00

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

The Company's Internal Audit Function, headed by Jolita Česonienė from 20 April 2020, is directly accountable to the Board. The Internal Audit Division plans and coordinates its activities with the Board of the Company and the Audit Committee.

AUDIT COMMITTEE

In its work, the Company's Audit Committee is guided by [The Rules of Procedure of the Audit Committee](#) (published on www.vv.lt) and is accountable to the Board of the Company.

As at 31 December 2020, the Audit committee of Vilnius vandenys was consisted of the following members:

Rytis Ambrazevičius – independent Member of the Board, president of Baltic Institute of Corporate Governance, Member of the Board of the European Confederation of Directors' Associations (ecoDa).

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

Jurgita Petrauskienė – independent Member of the Board, Practitioner of the Model of Decision Quality Management, the Lean Practitioner, environmental expert, Member of the Board of Municipal enterprise Vilnius Waste System Administrator (VASA SĮ), Member of the Supervisory Board of AS Eco Baltia.

The Company's Audit Committee has developed guidelines for the evaluation of its activities on the basis of recommendations developed by the Public Enterprise Monitoring and Forecasting Agency in order to follow best governance practices and the highest standards of corporate governance. The guidelines aim to identify areas for improvement by organising the work of the Audit Committee and to identify actions for the efficiency of the work of the Audit Committee.

Summary of the Audit Committee's activity report for 2020

The Audit Committee held 13 meetings in 2020. All three members of the Audit Committee were in attendance in all meetings. The Audit Committee has implemented all the measures provided for in the Action Plan 2020:

- 1 Discussion and approval of the annual action plan and objectives of the Audit Committee;
- 2 Supervision of the Company's financial reporting and auditing processes;
- 3 Ensuring the Company audit firm's compliance with the principles of independence and objectivity;
- 4 Meeting with the Company's Financial Director. Discussion of the plan for preparing the financial statements, discussion of significant management judgements;
- 5 Review of non-audit services provided by auditors and assessment of whether the provision of services was in conflict with internal policies and legislation of the Company;
- 6 Meeting with external auditors. Discussion of the audit plan for 2020;
- 7 Review of the Company's internal controls;
- 8 Review of the Company's risk management and internal audit systems;
- 9 Monitoring the effectiveness of the Company's business processes;
- 10 Meeting with the Company's Internal Audit Manager, discussion of the business plan;

- 11 Understanding of internal audit reports and the corrective action plan;
- 12 Reading the documentation/understanding the process of drawing up a plan/budget for a new year, discussion in the Committee;
- 13 Preparation, discussion and presentation to the Board of the quarterly, annual report on the Committee activities;
- 14 Development of guidelines and questionnaire for the Audit Committee to assess its own activities. Organisation of a self-assessment session in January 2021 and anticipation of further steps to improve performance.
- 15 Preparation, approval and presentation to the Board of the annual action plan of the Audit Committee;
- 16 Assessment of the Company's emergency situations and business continuity plans;
- 17 Discussion of the internal audit plan for 2020 and provision of recommendation to the Board of the Company.

In implementing Action Plan 2020, the Audit Committee achieved the following objectives:

Monitoring the effectiveness of the Company's internal controls;

The monitoring of the effectiveness of internal controls was carried out by analysing the principles and adequacy of the functioning of the individual elements of the internal control system. Controls on compliance, transactions with related parties, conflict of interest, management of information systems, physical safety management were taken into account and proposals were made to improve efficiency. Supervision of activities of external audit was implemented. The financial controls applied were analysed, risks discussed and managed, and proposals were made to improve the effectiveness of internal controls. On the initiative of the Audit Committee, the management policy for the transactions with related parties was developed and approved by the Board, together with recommendations to update the methodology for controlling the financial accounting process by adding indicators for measuring the effectiveness of controls. An IT problem-solving process was developed that formalizes the analysis of the causes of critical incidents and the planning of preventive actions.

Supervision of the effectiveness of the Company's risk management system

The understanding of the description of the Company's risk management procedure and the risk management process was obtained and proposals for improvement of the process and the description were provided. The understanding of the procedures for drawing up the Risk Management Plan, their management measures, practical aspects of the whole process was obtained and recommendations to review the risk assessment methodology and the risks were provided. Quarterly reports on monitoring the implementation of the Company's risk management measures plan were analysed. Proposals of the Audit Committee on the Improvement and Efficiency of the Risk Management Process were implemented upon approval of Risk Management Policy and Description of Risk Management Procedure by the Company's Board. The risk register was adjusted based on the Audit Committee's comments. The Company's management was proposed to consider the need to develop a risk management training plan for 2021 by management levels, employee responsibility limits, etc. and, if necessary, to develop a plan and arrange trainings.

Supervision of the effectiveness of the Company's internal audit system

The monitoring of the effectiveness of the internal audit process involved assessment of the Internal Audit Function's action plan for 2020 and its implementation, as well as recommendations to improve effectiveness.

The internal audit management process was assessed and proposals for improvement and efficiency of the process were provided. Quarterly reports on internal audit activities were analysed, internal audit reports, observations and recommendations were taken into account and implementation of recommendations was assessed. In order to ensure the efficiency of the internal audit process, the following proposals of the Audit Committee were implemented: to prepare the Strategic Action Plan for Internal Audit Unit, amend the Internal Audit Activities Management Process, as well as recommendations regarding the content and form of annual and three-year internal audit activity plans and content and form of quarterly internal audit activity reports.

Monitoring the effectiveness of the Company's business processes;

The Audit Committee took note of the procedures for backup of data, the Company's methodology for calculating the WACC discount rate and other areas to be improved. On the initiative of the Audit Committee, the Compliance Management Policy and Policy for the management of Related Party Transactions were developed and approved by the Board.

The Company's business planning/budget cycle documentation/process analysis and improvement

Monitoring of the Company's business planning and financial position was carried out every month through evaluation of the Company's financial and activity reports, proposals for improvement of the Company's budgeting process and forms were implemented, and the solution for the Company's cash flow management strategy and solution for improving the cash flows were aligned.

Analysis, evaluation and proposals for improvement of the Company's Emergency and Business Continuity Plan

The Company's Emergency and Business Continuity Plans were evaluated. Members of the Audit Committee took note of the Company's emergency management, discussed the established communication (internal and external) process, the nature and topics of the planned exercises, cyber risk management and planned measures, and topics of planned trainings.

As from 13 December 2019, a new remuneration for a member of the Audit Committee has been established at EUR 800 per month (before taxes).

Remuneration paid to the members of the Audit Committee during 2020 for the performance of the duties of the members of the Audit Committee was as follows:

Member of the Audit committee*	Date of signature of the performance agreement	End of term of office	2020, in thousand EUR
Laura Joffé	13/12/2019		9,600.00
Rytis Ambrazevičius	13/12/2019		9,600.00
Jurgita Petrauskienė	13/12/2019		9,600.00
			28,800.00

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

AUDIT OF THE FINANCIAL STATEMENTS

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

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

The annual audit fee will amount to EUR 25,000 (excluding VAT) with additional EUR 7,000 (excluding VAT) for the inspection of the accounting system of regulated activities. The total fee for three-year audit will amount to EUR 75,000 (excluding VAT) with additional EUR 21,000 (excluding VAT) for three-year inspection of the accounting system of regulated activities. Additional costs (travel, accommodation and other related costs) are included in the total amount of EUR 96,000. Payment for 2019 and 2020 and the following year shall be made by signing the deed of acceptance of services and submitting the VAT invoice – within 30 calendar days from the date of its issuance, provided that all the services specified in the technical specification are rendered and all the obligations under the contract are fulfilled. The contract is valid until 31 May 2022.

On 7 February 2020, a letter from Ernst & Young Baltic UAB (hereinafter the “Service Provider”) entitled “*The proposed amendment to the audit agreement for 2019–2021*” was received stating that the State Energy Regulatory Authority (hereinafter “NERC”) approved the Terms and Reference on Inspection of Reports on Regulated Activities (hereinafter the “Terms and Reference”), according to which the requirements for the report have substantially changed compared to the legal framework in force at the time of conclusion of Agreement for Audit of Financial Statements and Inspection of the Accounting System of Regulated Activities And Inspection of the Reports on Regulated Activities No SUT19-P-219 (hereinafter “the Agreement”) of 17 May 2019. For this reason, it is proposed to amend the terms and conditions of the Agreement by indicating that the fee for the inspection of accounting system of regulated activities and audit of financial statements is EUR 17,500.00, excl. VAT, rather than EUR 7,000.00, excl. VAT, which is stipulated in current version of the Agreement. The circumstances set out in the letter are not considered a sufficient basis for changing the fee of the Agreement, therefore, the proposal made in the letter to change the fee for inspection of accounting system of regulated activities was rejected and dismissed as unfounded. This proposal was also presented to the Audit Committee, which opposed the proposed amendment to the Agreement. The Audit Committee recommended to cease the service and to arrange a single procurement for this service. The Company promptly initiated the procurement of services of inspection of the accounting system of regulated activities and inspection of the reports on regulated activities. The contract was awarded to Tezaurus Auditas UAB and the Agreement No SUT20-P-95 of 31 March 2020 was signed for provision of the said services. The period for the provision of services is 29 (twenty-nine) months from the date of the Agreement. The agreement entered into force on the day of its signing. The maximum value of the agreement is EUR 15,000.00, excl. VAT.

HEAD OF THE COMPANY

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

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

ORGANISATIONAL STRUCTURE OF THE COMPANY

The Company operates in all geographical territories indicated in the licence issued by the National Energy Regulatory Council, but it does not have any independent divisions and branches.

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

As at 31 December 2020, the Company's management consisted of the following members:

Marius Švaikauskas, CEO

Tadas Kazlauskas, Technical Director

Saulius Savickas, Head of Production and Customer Service

Gintaras Samuolis, Director of Business Planning and Finance

Egidijus Anulis, Director of Operations and Organisation Authority

Renata Smalskė, Head of Communication Department

Gintaras Makšimas, Acting Manager of Prevention

Jolita Česonienė, Manager of Internal Audit Unit

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

OPERATING POLICY

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

4 new policies were approved by the Board in 2020:



These are newly developed policies, and their emergence is due to the natural need to strengthen certain areas in the Company. For example, after the accident on 21 July 2020, when three employees of the Company were killed while carrying out scheduled repairs in Tušciauliai village (Nemenčinė), every precaution was taken to address safety and health at work. In this way, following an analysis of various documents and an in-depth assessment of the occupational safety measures in place, the Zero Tolerance for Accidents at Work Policy has emerged, in particular with a view to changing attitudes and developing everyone's personal responsibility over their own and their colleagues' health and life.

In parallel, all the Company's risks were reviewed and a unified system for their identification, assessment and management was adopted. The aim of this document is to ensure the efficiency of the Company's business processes, the growth of outcome and the achievement of the Company's goals by timely and proper identification, analysis and assessment of risks, implementation of risk management measures and regular monitoring.

Since the Company promotes sustainable and environmentally friendly activities, the main provisions leading to this are set out in the Social Responsibility Policy. Activities of Vilniaus vandenys are indissociable from nature: The Company extracts a vital resource – water – from the nature and supplies it to the society, and discharges treated wastewater back the natural environment. By supplying water or treating wastewater, the Company aims to act in harmony with the surrounding environment, therefore it is implementing technologies that reduce pollution and conserve natural resources, consistently increases the use of renewable resources in its activities, responds promptly and sustainably to accidents and disruptions.

In 2020, two policies approved by the Company's Board were reviewed and updated: the Description of the Risk Management Procedure, which was valid until mid-year, was extended to Risk Management Policy, while the Corruption Prevention Policy, approved by the Board on 16 December 2020, replaced the Responsible Business Policy then still in force.

[Risk Management Policy](#)

[Corruption Prevention Policy](#)

In 2020, the following policies were reviewed, updated and approved by the General Manager:

Personal data processing and security policy

[Technical Policy](#)

Information Systems Security Policy

[Privacy policy](#)

In 2020, there were no cases where the Company's employees would not comply with the Privacy Policy, the Personal Data Processing and Security Policy and its implementing rules.

The Personal Data Processing and Security Policy and its implementing rules are used in the Company as a basic internal legal act, which also has 13 annexes. It lays down the main guidelines for the processing of personal data in the Company.

No substantial comments were received from external and internal customers as a result of the updated Technical Policy. Each year, due to changes in internal or external legislation, as well as the observations received, we revise and adjust the solutions specified in the Technical Policy.

Information Systems Security Policy sets out guidelines and measures to be applied to avoid IT security breaches. Specific actions and technical measures are considered confidential information of the Company and therefore are not made publicly available. There were no IT security breaches in 2020.

The provisions described in the Privacy Policy have been used very often to respond to customers' enquiries about the processing of their personal data. This policy served as the basis to explain the circumstances and conditions of processing personal data by making reference to this Privacy Policy.

Reference and binding guidelines for conduct for all Company employees are set out in a series of regulations and policies, which are regularly reviewed and updated taking into account changing situation. In order to achieve its vision, the Company is primarily guided by principles of responsible behaviour, transparency and intolerance to corruption. They are embedded in the Company's Corruption Prevention Policy, [the Code of Conduct](#), [Rules of Management of Confidential Information](#), [Rules of Employee Conflict of Interest Management](#).

The most important policies for the Company's activities are publicly available on website of Vilniaus vandenys www.vv.lt, in section About Us/Management.

PREVENTION OF CORRUPTION IN THE COMPANY

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

The Company operates in compliance with requirements provided in the [Corruption Prevention Policy](#) (publicly available on www.vv.lt). This Policy was reviewed and approved by the Company's Board in 2020. This document sets out the basic principles and requirements to be followed in carrying out the activity. This creates the preconditions and conditions for the implementation of the highest standards of responsible and transparent conduct. The Policy also describes which gifts are tolerated in the Company, and which are prohibited, and how they can be accepted.

During 2020, a number of actions were taken that set out the Company's approach and efforts to ensure transparent and ethical conduct:

- The procedure for declaring private interests has been updated by transferring it to Doclogix, a content management system. Thus preconditions were created for managers to participate more actively and effectively in the management of conflicts of interest among subordinates. In addition, the procedure of withdrawal and recusal has become simpler and clearer;
- The document [Description of the assessment of the likelihood of corruption](#) (publicly available www.vv.lt in the Corruption Prevention section) was drafted which helps to disclose the causes, conditions of corruption and address them in the process of planning and implementing infrastructure development and construction investment projects financed by the Company;
- Employees' compliance with the procedure for declaring private interests in the Company was verified and assessed;
- An assessment of the likelihood of corruption has been carried out and measures to reduce its impact have been envisaged.
- A survey of public procurement participants was conducted to assess changes in the procurement process organised by the Company. The results are encouraging: the majority of participants said that procurement became more transparent due to clearer, more precise technical requirements, and fewer excessive requirements. However, the procurement of services also requires improvement. For the results of the survey see the Company's website: www.vv.lt >> ABOUT US >> PREVENTION OF CORRUPTION >> Additional information on prevention of corruption;
- A survey of the Company's new clients was conducted seeking to understand how new customers assess the likelihood of corruption in different stages of network connection. The results of the survey suggest that customers do not encounter corruption when connecting to the water supply/wastewater networks managed by the Company;
- The work of technicians in the Company's New Customer Connection Department was inspected.

CHANGES IN REGULATORY ENVIRONMENT

SETTING SERVICE PRICES

The prices of drinking water supply and wastewater treatment services are set in accordance with the Methodology for Setting Prices of Drinking Water Supply and Wastewater Treatment Services approved by NERC, and the principles of non-discrimination, cost recovery and the “polluter pays” principle. The prices of drinking water supply and wastewater treatment services are calculated on the basis of costs for separate parts of the drinking water supply and wastewater treatment activities, in accordance with approved drinking water supply and wastewater management infrastructure development plans and plans of operations of drinking water suppliers and wastewater managers. The calculation of prices considers the estimated necessary service provisions costs, the value of the assets used in the licensed activity, the return on investment that corresponds to the criterion of reasonableness, the necessary costs of implementation of the plan of operations and the influence thereof on price increase. Service provision efficiency indicators are set. Municipality councils approve the base prices of drinking water supply and wastewater treatment services coordinated with NERC. Base prices are set for a three-year regulatory period and are recalculated each year. The prices equal to base prices are applied in the first year of validity of base prices. Municipality councils approve recalculated base prices of drinking water supply and wastewater treatment services coordinated with by the NERC. The prices not approved by the Municipality Councils are set unilaterally by NERC. NERC controls the setting of the prices of drinking water supply and wastewater treatment services set by Municipality Councils and applied by drinking water suppliers and wastewater managers in accordance with the Methodology for Setting Prices of Drinking Water Supply and Wastewater Treatment Services and the pricing principles laid down in the Law on Drinking Water Supply and Wastewater Treatment, and makes sure that the prices cover the necessary costs of supply of drinking water and wastewater treatment services as well as other related necessary expenses.

NERC RESOLUTIONS AND PUBLIC CONSULTATIONS

Prepared on the basis of information published on NERC website

The Methodology for Setting the Prices of Drinking Water Supply and Wastewater Treatment and Surface Wastewater Treatment Services (hereinafter “the Methodology for Setting the Prices”) was amended under the Resolution of NERC No O3E-28 of 17 January 2020 and Resolution No O3E-1208 of 26 November 2020.

Principal changes in new version of 17 January 2020: cost and asset groups have been made homogeneous in line with the Description of the Accounting Separation and Related Requirements of Drinking Water Supply And Wastewater Treatment, Surface Water Treatment Companies, additional regulation has been set to determine the change in the depreciation (amortization) costs and return on investments after the entity puts the new asset, which was coordinated with NERC, into operation, and when the use of asset units (after the asset is put into operation) is discontinued; gone is the clause regarding the calculation of the price of wastewater transportation services using waste removal vehicles – entities providing wastewater transportation services are no longer required to calculate service prices in line with the methodology approved by NERC, as established by the amendments to the Description of the Standard Terms of the Public Contract for the Supply of Drinking Water and/or Wastewater, approved by the Government of the Republic of Lithuania in April 2019; the category of consumers purchasing drinking water and wastewater treatment services for multi-family houses has been changed by adding consumers from single-house communities.

Principal changes in new version of 26 November 2020: if the number of employees of an entity is lower than the benchmarking indicators of the relevant group of economic entities, the average remuneration of employees cannot be higher than the remuneration of the last average remuneration published by the Department of Statistics of Lithuania for public sector water supply, wastewater treatment, waste

management and regeneration activities, and quarterly remuneration for electricity, gas, steam supply and air conditioning activities.

The Methodology for Calculating Fees for the Acquisition, Installation and Operation of Drinking Water Metering Devices was amended under the Resolution of NERC No O3E-178 of 29 February 2020. Principal changes in new version: cost groups have been made homogeneous in line with the Description of the Accounting Separation and Related Requirements of Drinking Water Supply And Wastewater Treatment, Surface Water Treatment Companies, and group of indirect costs is presented separately from the group of general costs.

On 22 June 2020, considering the Methodology for Calculating Fees for the Acquisition, Installation and Operation of Drinking Water Metering Devices, NERC announced the open public consultation regarding the fee for acquisition, installation and operation of drinking water metering devices fitted before the hot water preparation plant, i.e. Regarding calculation options of this fee (with or without remote meter reading) and the obligation for the Municipality Councils to ensure that the method of meter reading does not affect the size of the fee when establishing the fee for acquisition, installation and operation of drinking water metering devices fitted before the hot water preparation plant. The legislation did not come into effect in 2020.

The Description of the Procedure for Consulting Economic Entities was amended by the Resolution No O3E-144 of 14 February 2020. Principal changes: the consultation description provides for the storage period for records, quality assurance control and other changes to ensure more efficient and expeditious provision of information.

The Methodology on Rate of Return on Investments was amended under the Resolution of NERC No O3E-143 of 14 February 2020 and No O3E-1582 of 31 December 2020.

Principal changes in version of 14 February 2020: two incentive thresholds are provided (actual weighted average cost of debt capital in the sector and the cap of cost of debt as announced by the Bank of Lithuania in terms of estimating the cost of debt of companies).

Principal changes in version of 31 December 2020: when calculating the cost of debt capital, one of the components will be to assess whether the entity is borrowing at a lower than the average interest rate on loans published by the Bank of Lithuania, if borrowing at a lower rate takes place, the price of the debt capital will be increased by a share equal to the difference between the weighted average cost of the debt capital calculated as the weighted average of the relevant sector in which the entity operates and the actual cost of the debt capital of the entity. Debt capital and equity capital structure: in all cases, economic operators will be subject to an optimal debt/equity structure, which is 50%/50%. Equity risk premium: regulated sectors will be subject to a fixed 5% equity risk premium. Relative risk dimension: the arithmetic mean of unlevered *beta* of relevant activity will be used to calculate the relative risk dimension *beta*. A data source which will be used for each regulated sector is a database of the Council of European Energy Regulators or A. Damodaran.

The Terms and Reference on Inspection of Reports on Regulated Activities revised by the Resolution of NERC No O3E-194 of 13 March 2020. Principal changes: the possibility to narrow the scope of inspection of reports on regulated activities for reporting period of 2019 (financial year) by carrying out only three inspection procedures is applicable for micro-enterprises in the water sector, and drinking water suppliers and wastewater management companies providing services to less than 150 users and subscribers. Regulation of wastewater transportation services using waste removal vehicles was removed, individual costs groups were revised, the annexes to the Terms and Reference applicable to the undertakings in water sector was adjusted.

Under the Resolution of NERC No O3E-262 of 31 March 2020, the validity of the Terms and Reference on Inspection of Reports on Regulated Activities approved under the Resolution of NERC No O3E-386 of 2 September 2019 was extended: inspection of reports on regulated activities of drinking water suppliers and wastewater managers for the reporting period (financial year) 2020 must be carried in accordance with the approved Terms and Reference.

The Rules for Registration of Administrative Offence Procedure, Protocol and Resolution in Administrative Proceedings and Enforcement of the Resolution in the State Energy Regulatory Council were approved and amended. Approved under the Resolution of NERC No O3E-281 of 9 April 2020, amended – under the Resolution of NERC No O3E-425 of 20 May 2020.

Principal changes in version of 9 April 2020: time limits were set for the commencement of administrative proceedings, investigation, drawing up of minutes and administrative instructions, preparation and examination of the case, drawing up and adoption of a resolution; the procedure for appealing and enforcing the resolution, compiling and accounting for the administrative proceedings, registration of the minutes and resolution in the administrative proceedings, etc. was set.

Principal changes in version of 20 May 2020: the minutes of administrative proceedings may be drawn up in the absence of the person being held administratively liable, where the summoned person being held administratively liable did not appear (the number of summons is reduced to 1, before – 2) and did not participate in the drafting of the minutes.

The Description of the Accounting Separation and Related Requirements of Drinking Water Supply And Wastewater Treatment, Surface Water Treatment Companies was amended under the Resolution of NERC No O3E-440 of 21 May 2020. Principal changes: it has been established that the amounts incurred between the beginning and the end of the quarantine and two months after the quarantine may be recognised as allocated costs of bad debts, and where there is substantiated evidence that all lawful and reasonable steps have been taken to recover the debt, as well as the costs of interest on both loans already made and new short-term (up to one year) loans concluded during the quarantine period to balance the financial flows of undertakings in the regulated sectors and two months after the quarantine period.

The Description of the Procedure for Evaluation and Adjustment of Investments of Heat Suppliers, Independent Heat Producers, Drinking Water Suppliers and Wastewater Managers, Surface Wastewater Managers with the State Energy Regulatory Council was amended under the resolution No O3E-1156 of 20 November 2020.

Principal changes: the possibility of combining planned investments for the next year* or three-year regulatory period applicable for a base price of drinking water supply and wastewater treatment, surface wastewater treatment services. Water companies serving more than 40 thousand consumers will be able to make investments actually carried out twice a year if a request is made for re-adjustment of investments already co-ordinated with NERC, the value of which has changed as a result of public procurement procedures or self-dependent construction; the time limit for processing the application is reduced to 20 working days, undertakings in water sector may take advantage to be released from the requirement to renegotiate the investments already agreed with NERC, if the value of the investments after the actual completion of the works is lower or higher up to 10% than the value agreed with NERC (supporting documents are provided); the definition of the property renovation has been clarified, providing that it is an investment in a non-current asset at the end of its physical or technical depreciation period, or that of its constituent parts, with the aim of restoring its former functional characteristics at the time of disposal, and (or) repair increasing the value of property, plant and equipment aimed at extending the period of their useful life and/or performance standard; the procedure for submitting documents justifying information about the assets received from municipalities by undertakings in heat and water sector was set out in detail, and the procedure for notifying undertakings water sector about on-the-spot inspections, if necessary, was introduced.

The Rules for the Provision of Information by Energy, Drinking Water Supply And Wastewater Treatment, Surface Water Treatment Companies were amended under the Resolution of NERC No O3E-370 of 30 April 2020 and the Resolution No O3E-547 of 25 June 2020. Amendments of 30 April 2020 are not relevant for the water sector. Principal changes in version of 25 June 2020: the requirements regarding submission of information related to wastewater transportation services using waste removal vehicles and service of settlement meter maintenance and customer service were removed.

The Terms and Reference on Inspection of the Accounting System of Regulated Activities revised approved under the Resolution of NERC No O3E-1121 of 12 November 2020. Principal provisions: the requirements on costs and income accounting were set for companies providing regulated energy and drinking water supply, wastewater treatment and surface wastewater treatment services, to enable both regulator (NERC) and municipal administrations to ascertain that the essential cost accounting principles are being properly implemented; inspection may take place if NERC obtains information or if there is reasonable suspicion that the company's accounting system of regulated activities does not comply with the requirements laid down in the legal acts, or if circumstances arise as a result of improper regulated activity. Auditor's/audit firm's report on inspection of accounting system of regulated activities and/or auditor's opinion will allow NERC to fully ascertain the implementation of the established requirements of the accounting system of regulated activities.

The Description of the Procedure for assessing the Technological, Financial and Governance Capacity of Entities was amended under the Resolution of NERC No O3E-1251 of 27 November 2020. Principal amendments: the wording of the documents issued by NERC justifying the technological capacity of entities was amended, the financial capacity assessment for 2020 and subsequent reporting periods will not include grants and subsidies in the debt ratio of companies.

INVESTMENTS

In order to ensure availability of water supply and wastewater treatment services to residents as well as their compliance with quality, environmental and health requirements, the Company constantly invests in the development and modernisation of infrastructure.

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

The Company's shareholders have approved the Operational and Development Plan for 2020–2022, under which the total investment over three years will amount to EUR 108,737million. The Company has actively launched procurement of infrastructure development and modernisation works for the implementation of investment projects in the next three years. The total investment in 2020 amounted to EUR 15.27 million. More than EUR 12 million were invested in development and modernization of infrastructure: EUR 3.7 million were invested in development of water supply and wastewater network, EUR 3.4 million – reconstruction of networks and emergency response, EUR 1 million – improvement of the efficiency of the wastewater treatment plants, more than EUR 1 million – construction of water improvement plants, more than EUR 1 million – installation and replacement of metering devices and acquisition of remote reading devices in inlets and wells. The remaining amount of 3 million investments were drifted towards the renewal of water/wastewater stations, electrical equipment, information systems and vehicle fleet.

In 2020, the Company implemented network development projects selected in 2018 and 2019 based on the Methodology for Ranking Infrastructure Development Objects and other projects provided for in the VPP.

All network development projects carried out in 2020

Project name	Total project value, EUR thousand	Amount of investment 2020, EUR thousand	Project implementation period	Length of water supply networks planned/constructed, m*	Length of wastewater networks planned/constructed, m*	Number of customers connected /will be connected to water supply networks*	Number of customers connected /will be connected to wastewater networks*
Development of water supply and wastewater networks in Plukių st., Pienių st., Šaltapusnių st., Pelynų st., Žvaigždikių st., Antakalnio civil parish (Vilnius)	1537	529	May 2018 – June 2020, completed	7,601	6,053	213	203

Construction of water supply and wastewater networks in Kregždžių st., Giedros st., Vanagų st., Antakalnio civil parish (Vilnius)	547	332	June 2018 – July 2020, completed	3,293	1,276	77	13
Construction of water supply and wastewater disposal networks in Šnipiškės, Žalgirio st., Lvovo st., Linkmenų st. ir Trimitų st. (the Southern part) (Vilnius)	507	9	October 2017 – May 2020, completed	1,670	2,658	376	404
Construction of SB "Tabakas" domestic wastewater networks	158	102	August 2019 – July 2020, completed	-	1,708	-	69
Construction of SB "Troleibusas" and SB "Kūryba" water supply and wastewater networks	775	375	April 2019 – October 2020, completed	3,824	2,633	108	106
Design and construction of SB "Energija" wastewater networks	487	468	March 2019 – June 2020, completed	-	2,373	-	106
Development of water supply network near Vilnius Airport	87	12	October 2019 – June 2020, completed	379	-	-	-
Block networks of SB "Statyba" water supply and wastewater networks	720	227	August 2020 – October 2021, ongoing	4,740	4,419	201	201
Block networks in Kryžiokų sodų 2-oji st. (group of natural persons)	37	37	February 2020 – December 2020, completed	155	160	7	8
Block networks of SB "Jurginas" water supply networks	135	111	August 2020 – July 2021, ongoing	2,395	-	99	-

Block networks of SB "Veteranas" wastewater networks	501	202	September 2020 – November 2021, ongoing	-	3,905	-	135
Development of block networks in Untulių st., group of natural persons	107	107	March 2020 – December 2020, completed	415	593	19	19
Block wastewater networks SB "Statybininkas" and group of natural persons	741	121	September 2020 – April 2022, ongoing	360	5,925	4	220
Block wastewater networks in Kaimelio st., Juzeliūno st., group of natural persons	157	142	May 2020 – April 2021, ongoing	-	534	-	23
Development of block networks by connecting the water supply zones in Kalnėnai and N. Vilnia	2191	1	May 2020 – July 2022, ongoing	8,932	-	-	-
Water supply and domestic wastewater networks in Bendoriai vlg. Vilnius District	80	7	April 2020 – March 2021, ongoing	50	134	15	25
Block networks of IGNSB Šaulio ženklas water supply and wastewater networks	144	111	April 2020 – January 2021, ongoing	12	403	23	23
Construction of water supply and wastewater disposal networks in Austėjos, Vėjų st., Vakarinė st., Naujasodžių vs. (Vilnius District).	127	127	January 2020 – October 2020, completed	250	429	35	35
block networks of water supply in T. Kosčiuškos st., Nemenčinė	32	32	March 2020 – September 2020, completed	315	-	12	-
Development of wastewater	472	96	June 2020 – November	-	2121	-	63

collection networks in Šalčininkai agglomeration			2021, ongoing				
Development of drinking water supply and wastewater collection networks in Šalčininkai agglomeration	730	350	June 2020 – October 2021, ongoing	2,668	2,950	142	145
Development of drinking water supply and wastewater collection networks in Eišiškės agglomeration	907	0	August 2020 – December 2021, ongoing	1,900	2,500	103	119
The project of design and construction of water supply and wastewater networks in community gardens in Vilnius city: Šermukšnelė, Ridikas, Paežerys 1 and Žaliejų ežerai.	3523	21	July 2020 – July 2022, ongoing	16,979	16,809	615	619
project of design and construction of water supply and wastewater networks in community gardens in SB "Gintaras", SB "Tėvynė" and for group of natural persons in Liepiškių st., Vilnius city	1750	49	February 2020 – May 2022, ongoing	6,136	5,974	241	243
The project of construction of water supply and wastewater networks in K. Bizausko ir V. Čarneckio st., Vilnius	126	111	September 2020 – March 2021, ongoing	27	28	-	-

Construction of water supply and wastewater networks in Naujininkai eldership.	1721	57	August 2018 – June 2020, completed	6,906	7,419	300	357
Development of water supply network in Grigaičių st., B. Grigo st., Smurgainių st., Rimdžiūnų st., Vilnius	53	0	December 2020 – November 2021, ongoing	604	-	25	-
Development of wastewater network in Kauno st.	38	0	March 2021 – September 2021, planned	43	96	1	9
Development of water supply and wastewater networks in SB "Aronija", Vilnius	1123	0	March 2021 – April 2022, planned	2,730	3,272	146	149
Development of water supply and wastewater networks in SB "Beržynas", Vilnius City and Vilnius District	402	0	December 2020 – April 2022, ongoing	2,232	1,845	79	79
Development of water supply and wastewater networks in Sembų st., Buivydiškių vlg., Zujūnų eldership, Vilnius District	170	0	December 2020 – April 2022, ongoing	451	973	23	23

** If the object is finished, the actual data is reported. * If the object is ongoing, the scheduled data is reported.*

Most network development projects ran for several years due to the complexity and scale of the projects. In 2020, the Company completed projects with a total network length (introduced into operation) of 24.8 km of water supply and 25.3 km of wastewater collection, allowing 1,147 households to connect to the block networks and 1,320 – to the wastewater network, respectively.

In 2021, further investment will be made in ongoing development projects of block networks/mains and selected new infrastructure development objects based on the Methodology for Ranking Infrastructure Development Objects.

For the modernisation of the existing water supply and wastewater networks in 2020, the Company allocated EUR 3.4 million of the Company's investments. The reconstruction projects completed in 2020 with the following outcome: 8 km of water supply, 1 km of wastewater networks, the implementation of other projects

presented in the table below will continue over the period 2021–2022. In addition, the Company carried out repair of networks damaged due to accidents.

Project name	Total project value, EUR thousand	Amount of investment 2020, EUR thousand	Project implementation period	Length of water supply networks planned/reconstructed, m*	Length of wastewater networks planned/reconstructed, m*
Renovation of water supply networks in Grigiškės, Salininkai and Trakų Vokė	1197	591	November 2018 – July 2020, completed	6,863	-
Reconstruction of block water supply networks in Elniakampio st.	154	0	November 2020 – October 2021, ongoing	1,640	-
Refurbishment of water supply networks located in collectors: Papilėnų st., S. Stanevičiaus st., Gedvydžių st.	412	29	October 2020 – September 2021, ongoing	3,832	-
Reconstruction of water supply mains in Vingis park – Gerosios Vilties st.	98	0	January 2021 – October 2021, ongoing	648	-
Reconstruction of water supply mains in Eišiškių rd. Design and reconstruction works in Vilnius City	520	0	January 2021 – January 2022, ongoing	1,733	-
Design and reconstruction water supply mains in Žirmūnų st.- Vileišio st.	116	0	February 2021 – October 2021, ongoing	374	-
Reconstruction water supply mains in Goštauto st. – Jasinskio st.	178	0	February 2021 – December 2021, ongoing	375	-
Reconstruction of block water supply networks in Olandų st. (Polocko st.), Balstogės st. (Pešos), Rasų st.	166	0	March 2021 – January 2022, planned	427	-
Reconstruction of block water supply networks in Maironio – Malūnų, Maironio – Užupio, Užupio – Paupio streets	60	0	June 2021 – December 2021, planned	95	-

Reconstruction water supply mains in Paneriškių st.	440	0	March 2021 – January 2022, planned	1,567	-
Reconstruction of block water supply networks: D. Kabiškės st.	34	27	August 2020 – June 2021, ongoing	500	-
Reconstruction of block water supply networks: Lentupio st., Švenčionys, Sodų st., Švenčionys	42	42	September 2020 – December 2020, completed	403	-
Reconstruction of block water supply networks: Vilniaus st., Šalčininkai, Sodų st., Eišiškės	55	55	March 2020 – December 2020, completed	532	-
Reconstruction of block water supply networks: Laisvės ave.	23	23	February 2020 – February 2020, completed	117	-
Reconstruction of block water supply networks: Nemenčinės rd.	9	9	September 2020 – December 2020, completed	68	-
Refurbishment of water supply networks located in collectors (Part I: Žirmūnų st., Giros st.; Part II: Vydūno st., Kanto st.)	296	214	July 2020 – April 2021, ongoing	2,936	-
Refurbishment of water supply networks located in collectors: Sausio 13 st., Vaitkaus st.	263	132	October 2020 – April 2021, ongoing	1,283	-
Refurbishment of water supply networks located in collectors: Architektų st.	43	43	October 2020 – February 2021, ongoing	256	-
Reconstruction of water supply mains: Antaviliai (Nemenčinė) – Baronai village	584	0	September 2020 – August 2021, ongoing	1,250	-
Reconstruction of water supply mains: Rytų st. - Linksmoji st.	167	0	September 2020 – August 2021, ongoing	720	-
Reconstruction of water supply mains: Tūkstantmečio st. - Prūsų st.	77	77	July 2020 – March 2021, ongoing	515	-
Reconstruction of water supply mains: Karoliniškių VS3-0015 - Laisvės ave.	88.8	0	September 2020 – April 2020, ongoing	385	-

Reconstruction of self-drainage wastewater networks in Pašaminės st. until NS-0076	400	0	February 2021 – October 2022, ongoing	-	750
Reconstruction of self-drainage wastewater networks in Vilnius	260	0	January 2021 – December 2021, ongoing	-	949
Design and reconstruction of pressure line in wastewater network from pumping station in Upės st. 15, Vilnius (Part II)	1600	325	June 2020 – May 2022, ongoing	-	1585
Reconstruction of wastewater collector in Karoliniškės	800	0	May 2021 – July 2022, planned	-	960
Reconstruction of self-drainage wastewater networks (blocks, street, courtyard) Justiniškių st., Šviesos st. (Grigiškės), Lazdynų st., Vasario 16-osios st., Tauro / Pamėnkalnio st., Giedraičių st.	199	0	August 2020 – May 2021, ongoing	-	1030
Reconstruction of wastewater collectors: Jasinskio st./Geležinio Vilko st. to Gynėjų st.	219	219	June 2020 – February 2021, ongoing	-	298
Reconstruction of wastewater collectors: Krantinės st.	43	43	April 2020 – December 2020, completed	-	97
Reconstruction of pressure line in wastewater networks: Naujoji st., Eišiškės	84	84	February 2020 – December 2020, completed	-	855

** If the object is finished, the actual data is reported. * If the object is ongoing, the scheduled data is reported.*

In addition to expanding and modernizing networks, the Company also invests in water improvement facilities to provide high-quality water to consumers, as well as investing in wastewater treatment plants focused on international environmental requirements.

In 2020, the Company carried out a water treatment plant construction project in New Zadvarninkai vlg., Švenčionys District (the investments amounted to EUR 1.2 million). Water of a better quality is expected to be supplied to 3,000 customers. A project for the reconstruction of Vilnius Wastewater Treatment Plant was also launched by undertaking necessary preparatory works. Construction work is scheduled to begin in 2021. In addition, the procurement of reconstruction works of Švenčionys Wastewater Treatment Plant is being carried out.

In order to implement as many projects as possible, the Company is applying to public authorities for EU structural funds.

Currently, the Company has signed 9 agreements with the Environmental Projects Management Agency and Public Investment Development Agency UAB regarding the implementation of the following projects, part of which will be financed through the European Union Structural Funds for 2014–2020:

- 1) No 05.3.2-APVA-R-014-01-0001 "Provision of drinking water and wastewater treatment system renovation and development in Vilnius city"; the funding agreement was signed on 27 December 2016. The total funding of project is EUR 15,546 thousand, of which EUR 7,773 is allocated from the EU funds. End of the project – 31 December 2021.
- 2) No 05.3.2-APVA-R-014-01-0009 "Provision of drinking water and wastewater treatment system renovation and development in Švenčionys District"; the funding agreement was signed on 14 December 2017. The total funding of project is EUR 1,480 thousand, of which EUR 740 thousand is allocated from the EU funds. Švenčionys District Municipality acts as the partner of the projects. End of the project – 31/07/2021.
- 3) No 05.3.2-APVA-V-013-04-0007 "Reconstruction of Švenčionys wastewater treatment plan"; the funding agreement was signed on 31 July 2019. The total funding of project is EUR 4,184 thousand, of which EUR 3,347 thousand is allocated from the EU funds. End of the project – 30 July 2022.
- 4) No 05.3.2-APVA-V-013-04-0010 "Reconstruction of Vilnius city wastewater treatment plant"; the funding agreement was signed on 20 October 2020. The total funding of project is EUR 33,407 thousand, of which EUR 19,200 thousand is allocated from the EU funds. End of the project – 31 August 2023.
- 5) No 05.3.2-VIPA-T-024-01-0001 "Development of drinking water supply and wastewater collection networks in Antakalnio, Fabijoniškių, Naujosios Vilnios ir Verkių elderships (Vilnius city)"; the funding agreement was signed on 22 January 2020. The total funding of project is EUR 4,229 thousand, of which EUR 1,729 thousand is allocated from the EU funds. End of the project – 31/01/2022.
- 6) No 05.3.2-VIPA-T-024-01-0002 "Development of drinking water supply and wastewater collection networks in Eišiškės agglomeration"; the funding agreement was signed on 22 January 2020. The total funding of project is EUR 678 thousand, of which EUR 234.8 thousand is allocated from the EU funds. End of the project – 31/01/2022.
- 7) No 05.3.2-VIPA-T-024-01-0003 "Development of drinking water supply and wastewater collection networks in Šalčininkai agglomeration"; the funding agreement was signed on 22 January 2020. The total funding of project is EUR 700 thousand, of which EUR 250 thousand is allocated from the EU funds. End of the project – 31/01/2022.
- 8) No 05.3.2-VIPA-T-024-01-0004 "Development of wastewater collection networks in Švenčionėliai"; the funding agreement was signed on 22 January 2020. The total funding of project is EUR 299 thousand, of which EUR 149.5 thousand is allocated from the EU funds. End of the project – 31/01/2022.
- 9) No 05.3.2-VIPA-T-024-02-0001 "Development of drinking water supply and wastewater collection networks in Vilnius agglomeration", the funding agreement was signed on 29 December 2020. Total project funding amounted to EUR 8,688 thousand, of which EUR 2,511.3 was funded from EU funds. End of the project – 29/12/2022.

In order to ensure the smooth implementation of the Vilnius WWTP reconstruction project and the required scope, the Company initiated the actions of the Ministry of Environment of the Republic of Lithuania to include the Vilnius WWTP reconstruction object in the Action Plan Implementing the Water Area Development Program 2017–2023 approved under the Order of the Minister of the Environment and the Minister of Agriculture No D1 375/3D 312 on 5 May 2017. The project of the 1st stage of reconstruction of Vilnius WWTP was transferred from the Regional Planning Measure financed by the EU structural funds to the State Planning Measure. EUR 19,200 thousand was allocated for the implementation of 1st stage (the total value of the project is EUR 33,407 thousand) under the decision of the Minister of Environment of the Republic of Lithuania No D1-601 of 6 October 2020. On 20 October 2020, Vilniaus vandenys and the Environmental Project Management Agency under the Ministry of Environment of the Republic of Lithuania (AVA) signed an agreement on 20 October 2020 for funding project No 05.3.2-APVA-V-013-04-0010 "Reconstruction of Vilnius city wastewater treatment plant". Under the order of the Minister of Environment of the Republic of Lithuania

No D1-601 of 6 October 2020, the project was granted the outright grant under Priority Axis 5 "Environment, sustainable use of natural resources and adaptation to climate change" of the Operational Programme for EU Structural Funds Investments for 2014–2020, Implementing Measure No 05.3.2-APVA-V-013 "Improvement of the drinking water supply and waste-water treatment sector"; the other part of the project is financed with Vilniaus vandenys own funds and loans.

In 2019 and 2020, the Company submitted applications seeking to obtain funding for projects of network infrastructure development under the published calls of the Public Investment Development Agency (PIAA) (two measures are coordinated: to obtain repayable grant under the Measure No 05.3.2-VIPA-T-024 Development of wastewater collection networks" and soft loan under the Measure No 05.3.2-FM-F-015 „"Water Management Fund"). Funding was received for all submitted applications and as many as five project contracts were signed in 2020: four under the first call on 22 January 2020 and one under the second call on 29 December 2020. The total value of projects is 14,594 thousand: the grant received in the amount of EUR 4,875 thousand, the loan – EUR 9,719 thousand.

In July 2020, the environmental protection investment project "Construction of SB Tabakas Domestic Wastewater Networks" was completed, the funding of which was allocated in accordance with the Order No D1-519 of the Minister of Environment of the Republic of Lithuania of 9 September 2019 "On the allocation of funding to projects based on the financing axes of the use of funds of the Lithuanian Environmental Investment Fund program in 2018, and the Project financing and supervision agreement was signed with the Environmental Project Management Agency. The grant awarded for the project amounted to EUR 200 thousand, however, savings were achieved even without reducing the volume of work. As result, the amount of the grant will be EUR 120,134 thousand (the first part of the grant in the amount of EUR 72 thousand was paid at the end of the project in July 2020y, the second will be paid a year later, after providing evidence of lower emission rates).

SOCIAL RESPONSIBILITY

Activities of Vilniaus vandenys are indissociable from nature: The Company extracts a vital resource – water – from the natural sources and supplies it to the society, and discharges treated wastewater back the natural environment. By supplying water or treating wastewater, the Company aims to act in harmony with the surrounding environment, therefore it is implementing technologies that reduce pollution and conserve natural resources, consistently increases the use of renewable resources in its activities, applies modern human resource management, supports or initiates transparent, ethical and responsible business initiatives.

In 2020, the Company for the first time prepared and provided to the Board for approval the [Social Responsibility Policy](#) (publicly available on www.vv.lt), which is a public commitment to contribute consistently and purposefully to the achievement of the Sustainable Development Goals, to create added value for the most important social groups, and to measure progress in the defined areas and to present progress to the public in the Company's annual Progress Report on Social Responsibility.

Joining associations that support sustainable activities, demonstrate progress in the field of sustainability and responsible business (Lithuanian Responsible Business Association, in the long run, the Company aims to join the United Nations Global Compact, which promotes corporate social responsibility).

The Company perceives socially responsible, sustainable and environmentally friendly activities as a set of purposeful economic, social and environmental actions. It is a commitment to operate in a transparent, ethical, environmentally friendly manner, to foster a values-based organizational culture, to be open, to implement anti-corruption measures and to support responsible business initiatives.

Vilniaus vandenys applies the principles of social responsibility in the following areas: transparent and sustainable business, environmentally friendly activities, a value-based organisational culture, and an active member of society.



Transparent and sustainable business

This is the Company's commitment to operate in a transparent manner and to be accountable for the performance not only to shareholders, but also to the public. To make performance data open and accessible to anyone interested in the Company's activities. To obligate its business partners and contractors to apply the principles of business transparency. In order to achieve sustainability, the Company is committed to consistently improving the quality of services provided, digitizing operations, and managing customer expectations.

Sustainable activities.

This is the Company's commitment to prevent pollution in the natural environment. These include rapid and sustainable emergency response, the implementation of long-term water management and infrastructure solutions serving the well-being of the city, the development of water supply and wastewater networks, and the strengthening of control functions in working with polluter companies.

In 2020, the Company took proactive steps to extract energy from renewable sources and to increase its use in its activities, to develop and implement modern wastewater and water treatment technologies together with scientists, to develop green projects, as well as to organise green procurement.

In 2020, the first educational information campaign in the media on appropriate wastewater management was initiated. With the slogan "Nature close to home, let's not pollute, let's take care of it together", the company invited the public to contribute to environmentally friendly initiatives and provided advice on how to manage everyday life without harming the environment.



To combat natural pollutants, the Company also used the public: in 2020, a new message channel was introduced to residents on the Facebook platform, urging civilians, nature-conscious residents or their communities to report detected water pollution. The Company addressed the residents on behalf of the funny character "Neterštukas", who seeks to bring together a community that cares about clean nature, to fight nature pollution and educate the public on environmental issues, gradually growing public intolerance to polluters.



More information on sustainability initiatives can be found in the section Environment protection.

A value-based organizational culture

It is the Company's commitment to ensure a safe working environment for employees, to provide them with all the measures guaranteeing safety, to foster the Company's values – Cooperation, Professionalism, Responsibility, and to base the most important decisions on them. The Company also provides employees with the tools to express their opinions freely, involve them in decision-making and the Company's communication in the social space.

The Company's value-based required behaviours are detailed and integrated into the selection and employee performance management processes and apply to both newly hired and existing employees.

A survey conducted in 2020 revealed that the Company's employee engagement index exceeds European indicators and is approaching the highest performing companies.

Active member of society

Vilniaus vandenys is an open, cooperative and active company, the activities of which are interesting for many groups of society. The Company maintains a sustainable business relationship with all of them. In order to establish a strong relationship with the communities, the Company implements educational initiatives, focusing on raising the awareness of schoolchildren and students about water resources and their proper use, as well as using individual groups of society in search of innovative ideas (hackathons).

In 2020, approx. a thousand students, representatives of business entities and state-governed institutions visited various objects of Vilniaus vandenys (watering-places, pumping stations, wastewater treatment objects, laboratories and the like) participated in excursions and presentations. The Company's specialists shared with the guests information about the Company's activity, presented the key processes of water extraction and preparation and wastewater treatment processes and technologies deployed.

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

OBJECTIVES TO BE PURSUED IN THE FIELD OF SOCIAL RESPONSIBILITY

Taking into account global trends and best practices, in all areas of application of the principles of social responsibility, the main commitment and target of the Company are based on the principle of zero tolerance or the so-called ambition of zero.

- **Zero electricity purchased in technological activities**
We strive to produce all the energy necessary for our technological activities from renewable sources, thus conserving natural resources.
- **Zero fresh water wastage**
We build on global practice to ensure that the percentage of water wastage declines steadily every year.
- **Zero customers without centralized water supply and wastewater treatment services**
Calculated based on the rate set by the European Union Directive, which is 95%.
- **Zero disruptions unresolved for more than 24 hours**
We strive to eliminate water supply or wastewater disruptions and accidents as soon as possible to minimise damage to the environment and customers.
- **Zero paper invoices**
By choosing paperless billing, we are helping to preserve more trees.
- **Zero treated wastewater contamination**

We strive to ensure that all the wastewater we treat meets the requirements set by the State of Lithuania.

- **Zero water tests non-conforming with hygiene standards**

We strive to ensure that the water we supply is in all cases in line with hygiene standards.

- **Zero reasoned complaint concerning water quality**

We strive to ensure that all our customers get the most high-quality and exquisite water regardless of their place of residence.

- **Zero customers dissatisfied with the services provided**

Water is one of the basic human needs. By understanding this responsibility, we strive to ensure that our customers are always satisfied with our services.

- **Zero unanswered customer questions and inquiries for more than 24 hours**

We understand the vital importance of water, therefore we strive to respond to all customer questions or inquiries as quickly as possible.

- **Zero customers dissatisfied with the Company's services (GCSI index)**

Each customer's satisfaction with our services is crucial for us, thus we constantly improve the quality of customer service and services.

- **Zero corruption**

We do not tolerate shadow activities, non-transparent procurement, non-transparent, unethical management behaviour.

- **Zero accidents at work**

The safety of workers is a fundamental value for us. It is therefore we want all employees to protect not only themselves, but also everyone else they work with.

- **Zero non-involved employees**

We will only achieve all the goals we have set if all our staff are involved in achieving them. Therefore we are making continuous efforts to increase their motivation and loyalty. We also have the goal of becoming a role model of social responsibility for society and increasing the spread and support of ideas of volunteering among workers.

The Company has committed itself to achieving these goals from 2021.

The Company's achievements in the field of social responsibility visible to the people of Lithuania

The Company continued to expand its basket of services in 2020 and offered a range of options and solutions to increase tap water consumption and reduce widespread consumption of water in plastic bottles. The city has seen a rapid expansion of network of drinking fountains: both permanent drinking fountains installed outdoor in public urban spaces, and indoor drinking fountains installed in 53 schools in Vilnius. As a new service offered to customers, portable drinking fountains are easy to transport, and convenient and aesthetic to use during major events. Drinking fountains are installed in public places of the city with the aim to gradually change and shape the behaviour of residents of the capital: whether you are exercising, entertaining, travelling or simply spending time in the city, always have a reusable bottle that can be filled with water when you're thirsty.

Vilniaus vandenys installed remote reading device in every outdoor drinking fountain to monitor water consumption in the mobile phone and to contribute to a cleaner environment by refraining from water in plastic bottles, as well as to find a drinking fountain [in the city](#).

According to data recorded since the beginning of the summer season, residents and city guests have already drunk nearly 2 million glasses of water from drinking fountains in various parts of the city. This means that they have refrained from 767,420 plastic water bottles. They also reduced carbon dioxide emissions from plastic production processes by almost 64 tonnes. By refreshing themselves with water instead of sweetened beverages, residents of Vilnius consumed almost 35 tonnes less sugar. Finally, by not buying water and drinking it for free, residents and guests of the capital saved almost half a million euros.

ENVIRONMENTAL PROTECTION

ISO-COMPLIANT QUALITY AND ENVIRONMENTAL MANAGEMENT SYSTEM

Performing its activity, the Company complies with Quality and Environmental Protection Policy, which is applicable to all the employees of the Company. It defines the key directions in the area of quality and environmental management that are closely linked to the directions and initiatives identified in the Company's strategy. The Company aims to use the most advanced tools, technologies and processes in its activities, promote the rational use and management of resources and thus reduce adverse impact of its activities on the environment.

The Company has implemented and applied an integrated quality and environmental management system that meets the requirements of ISO 9001 and ISO 14001 standards, which shows that the environmental impact of the Company's activities is identified and managed, the Company's activities comply with legal and other environmental requirements. The quality management and environmental protection system is integrated into all business processes that are defined by the specifics of the work of divisions to ensure their effective operation, monitoring and management. Each process is planned and controlled continuously in light of customer needs.

ISO certificate is a certificate from an independent organisation having carried out an assessment of a third party confirming that the Company's quality management system complies with ISO standard requirements. The latest ISO certificate certifying compliance of Vilniaus vandenys integrated management system with ISO 9001: 2015 and ISO 14001: 2015 standards was issued to the Company following the re-certification audit carried out on 16-17 January 2020. This certificate is valid for a period of three years, subject to periodic surveillance audits every year.

A re-certification audit carried out in 2020 identified the following strengths of the Company's management system:

- Motivated and competent management at all levels, clear organisation strategy, policy and objectives;
- Systematic assessment of the quality of processes;
- Employees are involved and interested in achieving the results of the processes;
- A strong focus on managing customer satisfaction;
- Particularly enhanced risk assessment in internal audit processes;
- A high level of competence and management principles of laboratory staff.

Responsible use of natural resources

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

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

Network development for protecting nature

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

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

Drinking fountains: promoting tap-water consumption

Drinking fountains were installed in public spaces of the city, sports grounds and parks also contribute to sustainability and protection of nature: the Company encourages residents to drink tap water using reusable containers instead of buying water bottled in disposable plastic containers.

By expanding a network of permanent and portable drinking fountains in the city, the Company promotes healthy lifestyles, reduces the use of plastics and overall CO² emission rate. Remote reading devices in each drinking fountain allow residents to monitor water consumption on their mobile phones and contribution to a cleaner environment.

Responsible wastewater treatment activities and pollution prevention

Environmental threats also arise in the field of wastewater collection and treatment, and here the Company's efforts to protect nature are at their maximum. After the wastewater is cleaned, water that meets strictly regulated requirements gets back into the environment – mainly into the rivers next to the wastewater treatment facilities. Therefore, a high degree of importance is attached to the used technologies and the results from this activity.

The reconstruction of the largest wastewater treatment plant in Vilnius launched in 2020 was an important event in this area. By implementing this project, the Company seeks to increase the quality of the wastewater treatment services provided to Vilnius City and Vilnius District by ensuring that the average annual concentrations of pollutants in discharged wastewater meet the requirements of legal acts.

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

Efforts to reduce CO₂ emissions

Sustainable CO₂ emission reduction activities integrated with nature:

- Instead of being incinerated, the sludge resulting from the wastewater treatment process is dried and used for the fertilisation of energy plantations – the Company, together with its partners, continued its activities in the circular economy project NutriBiomass4Life.
- In 2020, the Company's car fleet was topped with eight electric cars, which will contribute to a cleaner environment.

Renewable energy projects

In 2020, 6 renewable energy projects were initiated in the Company:

- Treatment of sludge – based on the principles of the circular economy;
- Waste edible fats' reception and processing point – fats are converted into biogas
- Generation of electricity for own consumption using solar power plants installed on roofs
- Tertiary treatment plants for better phosphorus, nitrogen removal, plastic capture
- Hydropower plant in wastewater network and hydro-turbine in water supply network

PERSONNEL MANAGEMENT

PERSONNEL

On 31 December 2020, the Company had 695 employees.

Distribution of employees by function:

58% of the Company's employees worked in the Production Service and carried out functions related to core activities of the Company, 25% worked in the customer service area, and the remaining 17% engaged in support activities.

Distribution of employees by employee groups:

Based on the data of 31 December 2020, the Company had 265 specialists, 80 senior specialists, 307 workers, 38 middle managers and 5 administrative managers.

Distribution of employees by education:

According to data of 31 December 2020, 46% of the Company's employees had a university degree, 20% – a vocational training degree, 34% – secondary/basic/incomplete higher education degree.

Distribution of employees by length of service:

The average length of service of employees in the Company was 13 years in 2020. As many as 212 employees (31%) had worked for the company for 20 years or more. Vilniaus vandenys appreciates and respects its long-time experienced employees.

PERSONNEL MANAGEMENT POLICY

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

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

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

VALUE-BASED ORGANIZATIONAL CULTURE

The required employee behaviour (competence) is based on the Company's values of responsibility, cooperation and professionalism.

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

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

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

The employee performance management system introduced in 2020 is based on the aim of encouraging employees to achieve the best performance and strengthening value-based employee behaviour by regularly planning and assessing employees' performance in the context of the Company's performance.

The employee performance management system is the main instrument on the basis of which:

- performance targets are set and appraised;
- education programmes for competence management are established and developed;
- decisions on employee performance appraisal are made;
- the organisational potential is assessed and the Company's decisions on ensuring the continuity of the Company's activities are designed.

This process-management based system of employee performance management, which promotes value-based behaviour and best performance, applies to 401 employees (managers, (higher-level) professionals) and has been designed and will be extended to workers from 2021.

In 2020, the employee turnover rate was 7.5% (in 2019: 13.2%).

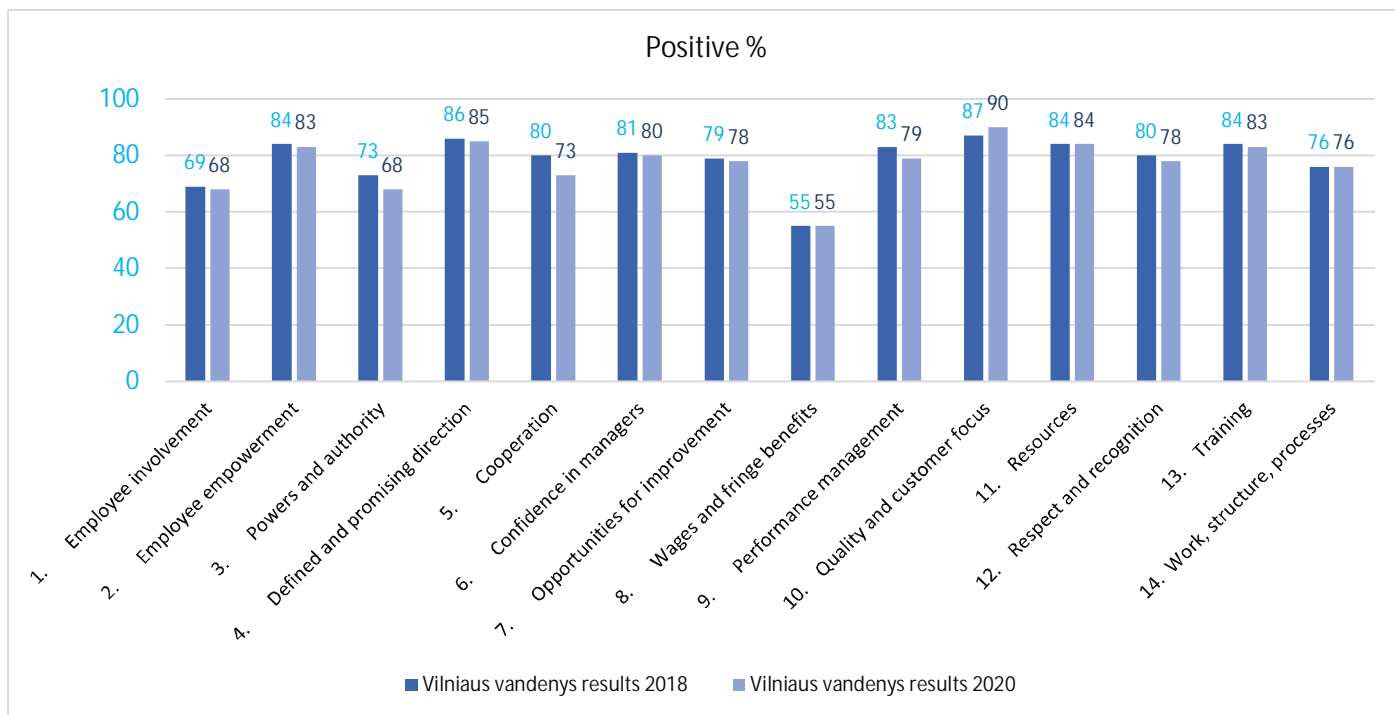
The organisation supports and promotes open, business-like and productive communication by constantly using internal communication channels and ensuring communication of relevant topics:

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

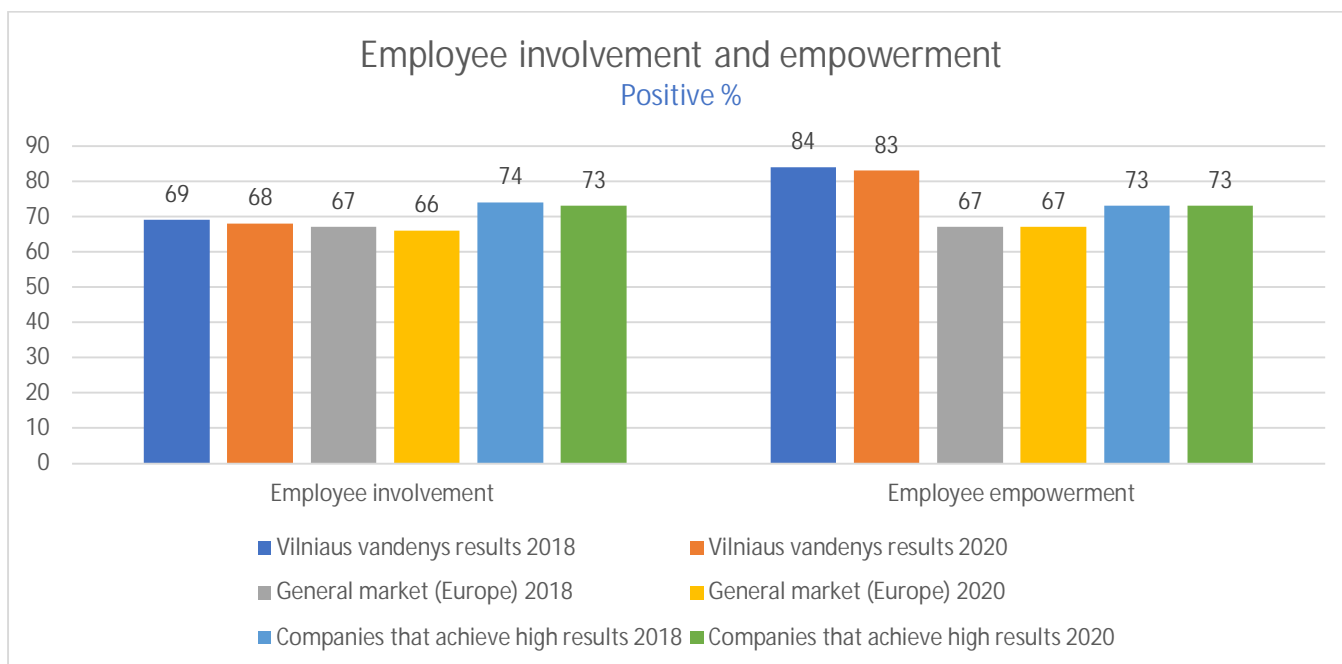
EMPLOYEE ENGAGEMENT

In 2020, there was an employee involvement study covering 94% employees of the Company.

The results of the survey showed that the Company's employees feel empowered, have the necessary resources and mandates to work, value quality work, focus on clients, and have opportunities to learn and develop in the organization. The only area that was seen by employees as requiring attention is reward and added value, which is also rated at the lowest score in other companies.



In 2020, 68% employee engagement rate demonstrates the ability of the organisation, managers and employees to maintain stability and concentration in both standard and non-standard conditions, their ability to adapt, change, accept changes and challenges, of which there were many last year. In 2020, the Company's employee engagement rate is higher than the external benchmarks (Vilniaus vandenys – 68%, the single market (Europe) – 66%, Lithuania – 61%), excelled only by one benchmark – high-performing companies (Fortune's list "Most Admired Companies") – 73%.



Compared to 2018, the drop in the employee engagement rate by 1% reflects the overall market trend (engagement rates in 2018: overall market (Europe) – 67%, Lithuania –64%, high-performing companies (Fortune’s list “Most Admired Companies”) – 74%.

Action plans are developed based on the findings of the engagement study to foster a positive change in areas that have been assessed as needing to be strengthened.

IMPLEMENTED AND EXECUTED IN 2019–2020

REMUNERATION AND ADDITIONAL BENEFITS

- Remuneration was revised, and the main component of the remuneration increased for 920 employees.
- The position matrix and information about the Company’s remuneration intervals are permanently available to all Company employees in the document management system DocLogix.
- A unified description of the quarterly variable remuneration component was drawn up.
- Employees were given the opportunity to participate in a variety of activities to promote and facilitate greater cooperation between departments. A joint events, such as Carnival Tuesday lunch, Vilnius Marathon, Vilnius Basketball League, football competitions, kayak march, pet day in the office, Christmas party, etc. are organized (temporary suspended in 2020 due to COVID-19 epidemic).
- The system of employee performance appraisal (EPA) was installed, which requires the direct manager and the employee to discuss the employee’s annual performance and the level of target achievement, including the previous reporting period, to set annual targets and current performance indicators for the next reporting period, and to highlight the required competences and needs for strengthening and developing competences.

TRAININGS AND COOPERATION

- A new concept of Newcomer Day was implemented.
- The Successful Onboarding Plan was updated and implemented into the current EPA system.
- A Newcomer’s kit was designed for joining new colleagues.
- An annual employee education plan has been drawn up based on the competence needs.
- Employees were participating in trainings (84 employees participated in trainings on conflict management , 28 in webinar for strengthening leadership competencies, 91 – time planning and work organisation).
- Internal communication tools and channels are focused on making employees feel valued, protected and needed, as well as raising awareness of their role in achieving the Company’s goals. Internal communication is a tool to foster the organisational culture.
- The Company’s value-based required behaviours are detailed and integrated into the selection and employee performance management processes and apply to both newly hired and existing employees.

RESOURCES/WORK, STRUCTURE AND PROCESSES

- Employees have been granted business payment cards as needed.
- Employees are provided with well-arrange work clothing and footwear. Employees receive consultations, and are offered to test the measures and express their opinion.
- Fuel rates have been increased for meter reading operators.
- Business phones, tablets have been renewed. More than 300 PCs have been replaced. The program Tasker has been installed.

- To improve the working conditions and environment: work equipment, the Company's car fleet were renewed, ventilation systems was arranged, premises repairs carried out, etc.
- Employees are kept informed of the internal legal acts adopted by the Company.
- Monitoring of the post requirements is implemented and managed through the EPA system.
- Wastewater pumping stations are equipped with 30 flow meters to facilitate more operational organisation of work.

TRAINING

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

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

- working practices (for example, appointment to lead a complex project, involvement in non-standard situations, implementation of systems, assignment to another area or higher responsibility position, etc.)
- internal and external formal training;
- self-learning by means of distance and virtual training, various sources of information, publications, etc.

Employee participation in trainings in 2020:

Training area	Number of employees
Optional professional training	244
Basic competence development	91
Leadership and managerial competence development	110
Total:	445*

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

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

The Company performs performance appraisals of existing employees and promotes the strengthening and development of competencies and career continuity in the Company: if internal and external candidates participating in the recruitment meet the selection criteria, internal candidates are given priority.

During 2020, 29 employees moved up the internal career ladder: 22 employees changed position to take on higher level responsibilities (vertical career growth*) and 7 employees made a horizontal career move**

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

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

REMUNERATION SYSTEM

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

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

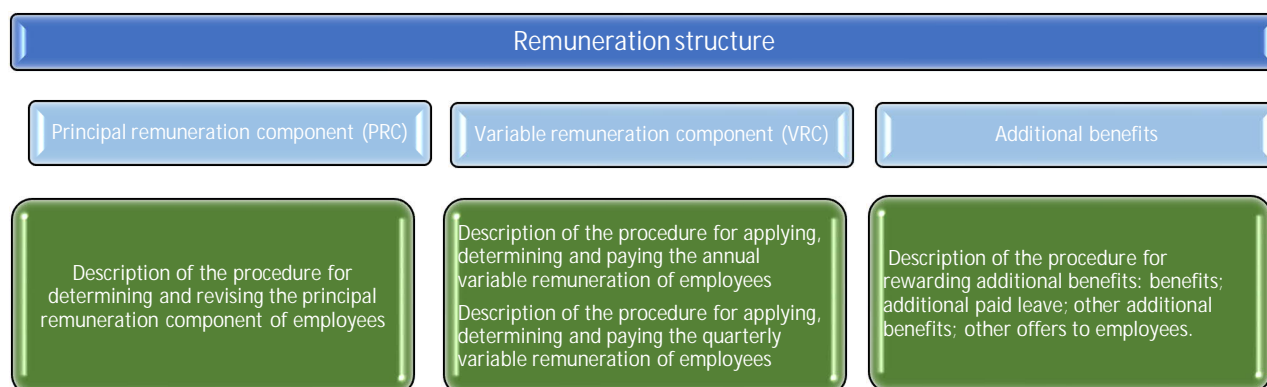
Remuneration criteria:

- The Company's remuneration budget
- Job level
- Employee performance

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

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

Remuneration package consists of the following:



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

Variable remuneration component (VRC) paid by the Company

	% of the annual estimated remuneration		% of the quarterly estimated remuneration
Amount of PRC	For the fulfilment of the Company's goals	For the fulfilment of individual annual goals	For the fulfilment of individual quarterly goals
Directors of Units	20	10	

The heads of departments and divisions subordinate to the CEO, the head - the chief accountant	10	10	
Mid-level executives	5	10	
(Senior) specialists		10	
Workers			10

Average monthly salary by employee categories:

Job title	Number of employees as at 31/12/2018	Average remuneration in 2018*	Number of employees as at 31/12/2019	Average remuneration in 2019	Number of employees as at 31/12/2020	Average remuneration in 2020
Top management	4	5,907	5	5,775	5	6,669
Mid-level executives	38	2,863	37	3,166	38	3,584
Senior specialists	58	2,043	77	2,191	80	2,327
Specialists	254	1,335	260	1,463	265	1,612
Workers	304	1,023	310	1,168	307	1,300

Top management – the CEO and directors of units.

Middle management – heads of departments, divisions and groups.

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

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

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

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

COLLECTIVE AGREEMENT

The Company has a Collective Agreement signed between the employer and the chairman of the trade union on 17 December 2017. The agreement entered into force on 1 January 2018. The employer has launched a review of this agreement in 2020 and has submitted proposal for amendments. Negotiations on the agreement with a functioning trade union will be launched in 2021. The purpose of the collective agreement is to ensure an adequate mutual balance between rights and obligations, to specify the legal rules established by the state, to promote value-based employee behaviour, and to maintain the best employees by promoting additional benefits.

The agreement provides for various benefits, paid additional leave days and similar benefits for employees.

- During 2020, 69 employees were granted benefits under the Collective Agreement, amounting to a total of EUR 34,623.
- During 2020, 628 employees took additional paid leave, 1,242 rest days were granted.

LABOUR COUNCIL

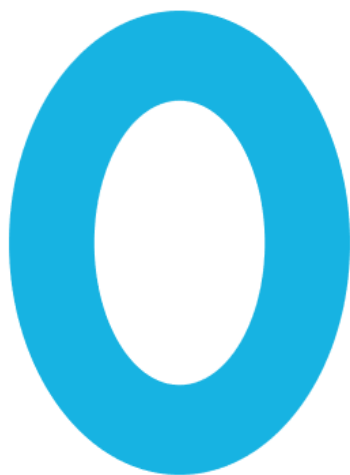
Implementing the requirements of the Labour Code, the Labour Council of 11 members operates in the Company as from February 2018. In 2020, 5 meetings of the Labour Council took place to discuss issues important to employees and 2 meetings were held with the employer's representatives.

OCCUPATIONAL SAFETY AND HEALTH

In the implementation of value-based organisational culture, each employee is expected to take a responsible approach to his/her work environment and instruments. An important emphasis is placed on occupational safety, because a safe and healthy working environment is created in compliance with these rules only.

Vilniaus vandenys consistently assesses the potential risks associated with preserving the health of workers, ensuring safe work, and continuously ensures availability of measures promoting health and well-being. The Company invests in employee protection measures, fire safety management system, thus fostering a safe working environment.

The Company promotes the responsible behaviour of each employee at work, thus ensuring safe work. In order to ensure safe and healthy working conditions for employees in their workplaces, to prevent work-related injuries and occupational diseases of employees and to develop a global culture of fostering a safe and healthy environment in the Company, obliging every employee to pursue and contribute to this, the Company continues to implement the policy of occupational safety and health with zero tolerance to accidents at work.



Zero policy on tolerance of accidents at work

An occupational safety and health policy has been adopted to ensure:

- safe and healthy working conditions for employees in their workplaces,
- to prevent work-related injuries and occupational diseases,
- to strive for a culture of occupational safety and health as part of every employee's work.

APPLICATION OF A ZERO TOLERANCE POLICY

01

**SECURITY
SYSTEM AND
SECURITY
CULTURE**

02

**RELIABLE
CONTRACTORS
AND BUSINESS
PARTNERS**

03

**SAFE ENGINEERING
SOLUTIONS AND
SECURE SERVICES**

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

- Assessment of professional risk of workplaces is carried out regularly.
- Safety, health and fire safety trainings are arranged for employees. Occupational and occupational safety and health knowledge of employees is verified at regular intervals. Interactive Occupational Safety and Health training is provided for newly hired employees (both in administration and production department).
- Employees are supplied with personal protective equipment free of charge.
- Health of employees is checked periodically
- Employees receive preventive vaccination against tick-borne encephalitis, tetanus, diphtheria and influenza at the Company's expense. For the convenience of employees, physicians, who perform these procedures on-site, are invited to the Company.
- The employees are continuously involved in the preventive campaign "Let's be safe at work" for organization of works, compliance with occupational safety and health requirements.
- Internal OSH inspections are carried out at the facilities (90% of deficiencies are corrected immediately): the sobriety of employees and compliance of employees and contractors with OSH requirements at the workplace;
- Procurement of OSH measures is carried out.

In 2020, an Occupational Safety and Health (OSH) Additional Risk Management Plan was developed following an accident involving three Company employees. All the measures provided for in the plan were implemented:

- a risk management analysis in the Company's processes were carried out: the Company's processes (33) in which the activities relate to the risk of accident/death were reviewed and identified; the possibilities of risk occurrence, elimination or reduction in each activity were assessed; the Company's processes (procedures) requiring changes to manage the risk of accident/death were identified; changes were made;
- a Threat Register was set up to enable employees to record threats and prevent accidents at work. Using this tool, the Company's employees can report any threat in their working environment and initiate changes;
- Occupational Safety and Health: Zero-Tolerance Policy for Accidents at Work was approved;
- additionally information and instructions were provided for employees carrying out hazardous work;
- non-scheduled re-testing of Water and Wastewater Network Unit staff (69) on OSH-related questions (theory and practice);
- List of appliances (safety, life-saving, etc.) was revised, a basic list of configuration of safety and life-saving appliances mandatory for vehicles (cars, minibuses, trailers)/crew was set up;
- additional appliance (gas analysers, safety belts, rescue ropes) were purchased and the need for additional appliance to be purchased in 2021 was assessed.
- additional assessment of professional risk of workplaces was carried. SGD UAB carried out a study of physical factors "Work in wells": reviewed the assessment of occupational risk of employees working in wells/chambers and confirmed that the Company's occupational risk assessment was appropriate;
- the list of posts requiring training and certification on safety and health at work, fire safety and civil protection was revised;
- development of clearer OSH instructions and communication was launched: posters in workplaces are updated, more understandable/clearer instructions with visual material in crew cars (the most important processes related to safety and health at work will be provided through visualisation).

The Company allocated at least 100,000 working hours per year for compulsory OSH training, briefings and exercises. Approx. EUR 600/year is allocated to ensure the safety of one employee, who spends more than 250 hours in briefings, trainings and exercises where he/she assimilates OHS knowledge.

Mandatory training statistics

Trainings		Number of employees who participated in training		
		2020	2019	2018
1	Interactive OHS training for new employees	42	95	123
2	Mandatory trainings/regular knowledge tests (external)	568	544	439
3	Mandatory trainings (internal)	709	775	788
4	Regular knowledge tests (internal)	173	81	169
TOTAL		1,492	1,495	1,519

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

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

Statistics on the deeds of mutual safety responsibilities at work

Years	Number of the deeds of the mutual safety responsibilities at work, signed with the contractors
2020	70
2019	82
2018	50

The Company investigates all incidents and accidents at work and on the way to/from work.

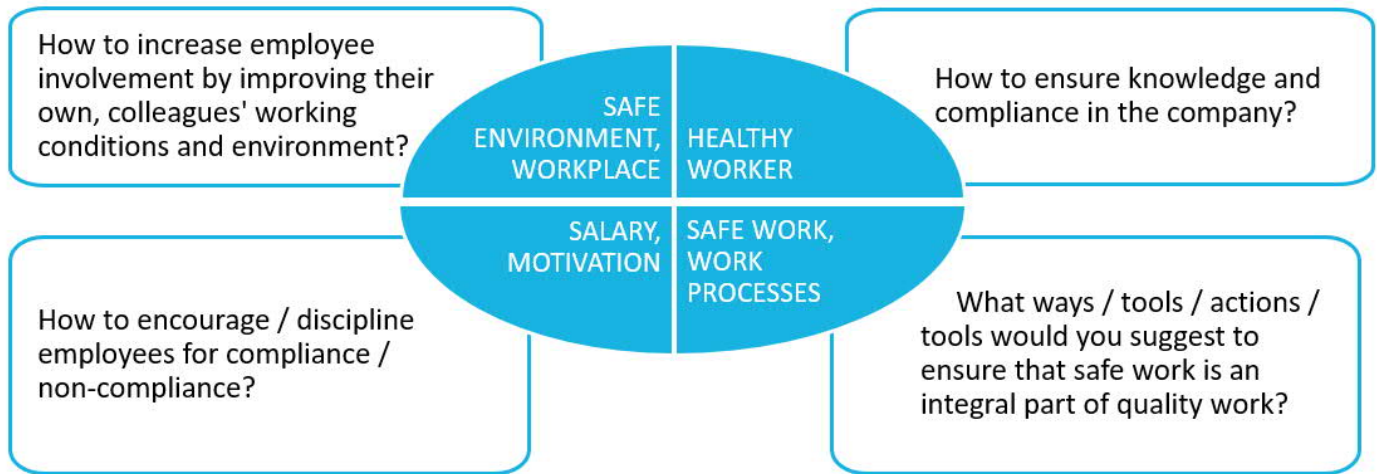
Statistics of accidents

Distribution of accidents by their	2020		2019		2018	
consequences	Accident at work	On the way*	Accident at work	On the way*	Accident at work	On the way*
Minor	1		2	1	3	3
Major	1			1		
Lethal	3					
Total:	5		2	2	3	3
Overall	5		4		6	

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

In the aftermath of the severe accident (3 Company employees were killed on 21 July 2020), the Company conducted a study/survey “Fostering OSH Culture in the Company”.

OCCUPATIONAL SAFETY AND HEALTH SURVEY “PROMOTION OF OCCUPATIONAL SAFETY AND HEALTH CULTURE IN THE COMPANY”



The main pillars for improving OSH are:

- Reinforced focus on dangerous works, and their control.
- Development of training base, updating of training material.
- Ensuring protection, work, fire-fighting measures, arranging exercises, practical training.
- Active communication on OSH issues.

In 2020, a strong focus was placed on measures to prevent the spread of COVID-19 within the Company:

- Ensuring the coordination of unified measures and actions;
- Providing employees with personal protective equipment and disinfectants;
- Communication and education;
- Internal legislation – drawing up memos;
- Disinfecting services licensing (Disinfecting team was formed in the Company).

SHARES AND CAPITAL MANAGEMENT

On 31 December 2020, issued capital of the Company comprised of 4,222,824 ordinary shares with the par value of EUR 28.96 per share.

The issued capital of the Company was fully paid as at 31 December 2020. The Company did not hold its own shares.

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

The Company manages the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The dividend policy is one of capital risk management tools. Based on this policy, the Company plans the distribution of dividends in view of the ratio of return on equity and net profit earned.

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

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

Company's shareholders	31 December 2020		31/12/2019	
	Number of shares held	Ownership interest, %	Number of shares held	Ownership interest, %
Vilnius City Municipality	3,974,484	94.12	3,870,339	94.31
Vilnius District Municipality	109,007	2.58	94,170	2.30
Švenčionys District Municipality	83,450	1.98	83,450	2.03
Šalčininkai District Municipality	55,883	1.32	55,883	1.36
	4,222,824	100.00	4,103,842	100.00

MAJOR EVENTS OF 2020

January 2020

Four financing agreements were signed in accordance with Priority Axis 5 "Environment, sustainable use of natural resources and adaptation to climate change" of the Operational Programme for EU Structural Funds Investments for 2014-2020, measure No 05.3.2-VIPA-T-024 "Improvement of the wastewater treatment networks". The total amount of investments under the agreements signed is EUR 5,907 thousand. The amount of loans granted by VIPA for the implementation of the measure is EUR 3,543 thousand. Loans are granted with fixed annual interest rate of 2%, the loan maturity term is 240 months following the date of entry into force of the loan agreements.

21 January 2020

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

1 February 2020

On 30 December 2019, the State Energy Regulatory Council unilaterally set recalculated base prices of drinking water supply and wastewater treatment services (on average higher than 17%) for customers in Vilnius City, Vilnius District, Šalčininkai and Švenčionys.

1 February 2020

Average volume of consumed drinking water per capita per month (2.32 m^3) was changed for customers who do not have individual meters in the territory served by the Company.

3 March 2020

Modernisation works of the Naujoji Vilnia wellfield completed. In total, approx. EUR 2.7 million were invested in the project.

3 March 2020

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

13 March 2020

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

16 March 2020

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

25 March 2020

The Articles of Association of the Company were amended by establishing direct accountability of the Internal Audit Function to the Board of the Company.

30 April 2020

Construction of new water supply and wastewater networks was completed in the southern part of Šnipiškės. As a result of this infrastructure development project, more than 1.6 km of water supply networks and 2.6 km of wastewater networks were constructed and more than 400 households were able to connect to centralised water supply and wastewater networks.

13 May 2020

The self-service portal for private and business customers was upgraded. Changes were made based on customer needs and best practices for Internet users.

15 May 2020

Taking into account the latest technological trends, offers of partners and the Company's employees, the Company updated its Technical Policy. This policy is intended for the Company's employees, designers and builders in planning the development of water supply and wastewater networks, drafting general technical requirements for construction of new, and reconstruction and operation of existing technological facilities, requirements for connecting customers to water supply and wastewater networks.

21 May 2020

A project for the development of water supply and wastewater networks was completed in Naujininkai eldership (Vilnius). Nearly 7 km of water supply networks and 7.4 km of wastewater networks, and additional wastewater pumping station were constructed. More than 350 households in the area will have access to the new infrastructure.

27 May 2020

The results of block network development funding application ratings. In order to make the most of the investments, applications submitted were evaluated and ranked using a publicly available ranking formula.

4 June 2020

A works contract was signed with the contractor Eigesas UAB, which will carry out modernisation works wellfield in Žemiejai Paneriai. The total value of the contract is EUR 2.4 million.

4 June 2020

The Company's issued capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 543,318.56.

11 June 2020

The Company started offering its customers all the services for the installation and connection of networks to centralised water supply and wastewater networks through "one-stop-shop", and the possibility to use services immediately with payments for services settled in instalments.

11 June 2020

The season of permanent drinking fountains was opened in the public spaces of Vilnius city. Intensive work started on the installation of these drinking fountains in the city.

2 July 2020

An interactive map has been posted on the Company's website with tagged places of the city where drinking fountains can be found and bottles refilled with water free of charge.

7 July 2020

A final list of block network development projects to be funded in 2021 was announced. All 3 rated applicants had fulfilled their requirements by set deadline. Vilniaus vandenys signed agreements with them for the implementation of projects in 2021.

10 July 2020

The Company's issued capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 2,183,381.28.

14 July 2020

Another water supply and wastewater network development project was completed – nearly 7.6 km of water supply networks and 6 km of wastewater networks, and 5 wastewater pumping stations were constructed in Kairėnai. More than 200 households in the area will have access to the new infrastructure.

17 July 2020

The Company installed remote reading device in every outdoor drinking fountain to monitor water consumption in the mobile phone and to contribute to a cleaner environment by refraining from water in plastic bottles.

21 July 2020

Three employees of the Company were killed while carrying out scheduled repairs in Tuščiauliai village (Nemenčinė)

10 August 2020

After signing the reconstruction contract, the reconstruction of the largest wastewater treatment plant in the country and the only plant in Vilnius was officially launched. The planned duration of the works is three years and the Company's investment in the refurbishment of the wastewater treatment plant in Phase I will amount to EUR 33.4 million, while the investment in additional management facilities in Phase II will bring the total investment to almost EUR 44 million.

17 August 2020

A new channel "No Pollution" of the Company was launched on Facebook platform, where local nature-lovers or their communities are encouraged to report on water pollution or other environmental disasters.

3 September 2020

In some schools in Vilnius City Municipality, permanent water columns – drinking fountains were installed. By the end of 2021, the drinking fountains will be installed in all schools in Vilnius City Municipality. The total value of the project is more than EUR 250,000.

3 September 2020

A general customer service centre of Vilnius City Municipality started operation. Vilniaus vandenys provides consultations on all topics and provides all services, the same as in customer service centre located in Spaudos g. 8-1.

20 October 2020

The Company and the Environmental Project Management Agency under the Ministry of Environment of the Republic of Lithuania (AVA) signed an agreement for funding project No 05.3.2-APVA-V-013-04-0010 "Reconstruction of Vilnius city wastewater treatment plant". Under the order of the Minister of Environment of the Republic of Lithuania No D1-601 of 6 October 2020, the project was granted the outright grant under Priority Axis 5 "Environment, sustainable use of natural resources and adaptation to climate change" of the Operational Programme for EU Structural Funds Investments for 2014–2020, Implementing Measure No 05.3.2-APVA-V-013 "Improvement of the drinking water supply and waste-water treatment sector"; the other part of the project is financed with Vilniaus vandenys own funds and loans.

4 November 2020

Following declaration of quarantine in Vilnius city and Vilnius District, the Company closed all Customer Service Departments from 4 November 2020 to avoid close contact between people and to protect the health of customers, employees and their relatives. Customers were served only remotely: by phone and e-mail.

13 November 2020

The Company's issued capital was increased by in kind contribution of the Vilnius City Municipality in the value of EUR 429,679.52.

25 November 2020

The Board approved the Company's new vision.

22 December 2020

The Company renewed its car fleet with the first 100% electric cars.

22 December 2020

Resident applications to receive funding for residential block connection to water and wastewater networks in 2022 has been started to be collected. This is the fourth year in a row that the Company has allocated its own funds for the implementation of network development projects.

29 December 2020

The Agreement for funding the project "Development of drinking water supply and wastewater collection networks in Vilnius agglomeration" was signed in accordance with Priority Axis 5 "Environment, sustainable use of natural resources and adaptation to climate change" of the Operational Programme for EU Structural Funds Investments for 2014-2020, measure No 05.3.2-VIPA-T-024 "Improvement of the wastewater treatment networks". The total amount of investments under the agreements signed is EUR 8,687 thousand. EUR 2,511 thousand of repayable assistance was allocated to the project "Development of wastewater collection networks in Vilnius agglomeration", and EUR 6,176 thousand of loans granted by VIPA for the implementation of the measure. Loans are granted with fixed annual interest rate of 2%, the loan maturity term is 240 months following the date of entry into force of the loan agreements. The deadline for the implementation of project activities is 29 December 2022.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

1 February 2021

Average volume of consumed drinking water per capita per month (2.44 m³) was changed for customers who do not have individual meters in the territory served by the Company.

8 February 2021

An agreement reached between the Government, the Ministry of Environment, Vilnius City Municipality and Vilniaus vandenys to give priority to the reconstruction of Vilnius Wastewater Treatment Plant and to make maximum efforts to ensure that the reconstruction project is implemented smoothly and on timely basis, i.e. within strict deadlines related to the country's commitments to the European Union.

8 February 2021

The Company's official profile, another channel of communication with customers, was created on Facebook.

18 February 2021

The agreement for the reconstruction of the Švenčionys wastewater treatment plant was signed providing investment of EUR 3.2 million into the renewal of the Švenčionys wastewater treatment plant. 80% of the project will be financed through European Union Structural Funds.

18 February 2021

The Company initiated a review of the Collective Agreement, which was signed with the chairman of the trade union and employer on 17 December 2017 and came into force on 1 January 2018. Negotiations are under way and are scheduled to be completed on 30 April 2021.

18 February 2021

The Company's Board approved the partial sale of 12 properties on Maironio st. The price of EUR 1,465,000 constitute the opening bid set based on the Real Estate Sale Study carried out by Newsec advisers LT UAB.

18 February 2021

The Company became a member of the Lithuanian Association for Responsible Business (LAVA).

February 2021

The Company received proposals from international banks to obtain a loan of EUR 43.6 million for the implementation of the investments provided for in the Action and Development Plan 2020–2022. A loan agreement is expected to be signed in the first half of 2021 following negotiations with banks.

1 March 2021

The change of the organisational structure of the Company takes place in order to improve operational efficiency. A Wastewater Control Unit was established in the Readings Management Department of the Customer Service. The Department of Operations and Organisation will concentrate activities related to environmental regulation and compliance management. A Supply Group was established in the Logistics and Property Supervision Department. The Performance Efficiency and Risk Management Team was established in the Strategic Project and Process Management Unit of the Business Planning and Finance Department. The Management Accounting Unit was renamed Finance Management Unit. The Strategic Planning and Investment Unit is renamed the Strategic Planning and Control Unit. Position of the Advisor to the General Manager on corruption and other threats prevention renamed Advisor on the Company's Activities Management.

March 2021

The European Investment Bank (EIB) granted a loan of EUR 50 million for the improvement of infrastructure. A 20-year loan facility is intended primarily for the extension and refurbishment of water- and wastewater networks, modernisation of wastewater treatment plants in Vilnius City and Švenčionys, and improvement of the availability of services to the communities of the municipalities of Vilnius, Švenčionys and Šalčininkai and Vilnius District.

DETAILS AND CONTACT DATA OF THE COMPANY

Company name	Private limited liability company Vilniaus vandenys
Legal form	Private limited liability company
Registration date	27 March 1991
Name of Register of Legal Entities	State Enterprise Centre of Registers
Company code:	120545849
Registered address:	Spaudos st. 8-1, LT-01517, Vilnius, Lithuania
Telephone	19118, 1889
E-mail	Info@vv.lt
Website:	www.vv.lt

CUSTOMER SERVICE DIVISIONS

Vilnius

Spaudos st. 8-1, Vilnius

I–IV 8.00 a.m. – 5.00 p.m.

V 8.00 a.m. – 3.40 p.m.

Šalčininkai

Lydos st. 34, Milvydų k., Šalčininkų sen., Šalčininkų District Municipality

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

Customer service lines open 24/7

19118 – a general service centre for customers of Vilnius City

1889 – a service centre for customers of Vilniaus vandenys

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

+370 5 266 4455

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

8 800 10880

Toll-free telephone for registering accidents.

Vilniaus vandenys UAB

Independent Auditor's Report and
Financial Statements for the Year
Ended on 31 December 2020

This version of financial statements is a translation from the original, which was prepared in the Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

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Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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

To the management of UAB Vilniaus vandenys

Ernst & Young Baltic UAB has performed an audit of the financial statements of UAB Vilniaus vandenys (hereinafter the Company) for the year ended 31 December 2020 prepared in the Lithuanian language. The accompanying set of financial statements is the translation into the English language and below is presented a translation of our auditor's report from the original, which was issued in the Lithuanian language. The Management of the Company is responsible for the translation of the financial statements. All possible care has been taken to ensure that the translation of the auditor's report and the accompanying financial statements is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

“INDEPENDENT AUDITOR'S REPORT

To the shareholders of UAB Vilniaus vandenys

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UAB Vilniaus vandenys (the Company), which comprise the statement of financial position as at 31 December 2020, 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 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

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

Key audit matters

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

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

Key audit matters

1. Contingent liabilities and provisions relating to legal matters

As it is disclosed in Note 28 of these financial statements, the Company is involved in legal proceedings and is exposed to potential claims, including a new material one, regarding which a provision has been recorded in 2020 of approximately EUR 2.6 million. This matter is significant to our audit because an adverse outcome of these claims and litigations could have a material adverse effect on the financial position, results of operations and cash flows of the Company and it involves significant management's judgment to assess the probable outcomes of the uncertainties and consequently the amount of provisions to be recorded and / or contingent liabilities to be disclosed in the financial statements.

2. Impairment assessment of property, plant and equipment

Property, plant and equipment amounts to EUR 140,095 thousand in the statement of financial position of the Company as at 31 December 2020. As disclosed in Note 3.23 to the financial statements, the Company performed an annual impairment test of these assets as at 31 December 2020 based on the value in use estimation. Based on the outcome of this impairment test, the Company has not recognized an impairment charge.

The annual impairment test was significant to our audit as it involves management judgment regarding the assumptions used in the underlying cash flows forecasts. Furthermore, the property, plant and equipment represent more than 89% of the total assets of the Company as at 31 December 2020.

How the matter was addressed in the audit

Our audit procedures included, among others, the following:

- we have obtained understanding of the process how management perform assessment of legal matters, measurement and/or disclosures for each of the material contingencies;
- discussions with the management and the Company's internal legal counsel of the basis underlying the management's assessment of the potential outcome of the claims and litigations;
- we also obtained a letter from the external legal counsel of the Company outlining the material contingencies and key fact pattern of the legal proceedings in order to evaluate the judgment made by the management;
- we inspected relevant legal correspondence, meeting minutes of the Board and Shareholders and other relevant information to support individual facts and circumstances underlying the management's judgment on provisions and contingent liabilities, as per criteria set in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Furthermore, we have reviewed the adequacy of the disclosure in the financial statements on this matter (Note 28).

Our audit procedures included, among others, the following:

- we have obtained understanding of the process (including assumptions and methods) how management perform property, plant and equipment impairment assessment;
- we involved a valuation specialist to assist us with the assessment of the impairment model's structure and composition as well as the discount rate used by the management in the impairment test;
- we also considered other key assumptions used by the management in the estimation of cash flows forecasts for revenue, costs, level of capital expenditure by comparing them to historical performance levels and management's expectations of their development in the future. We tested the sensitivity in the available headroom of the impairment test by considering if a reasonably possible change in assumptions could cause the carrying amount of property, plant and equipment to exceed its recoverable amount;
- we have also assessed the historical accuracy of the management's estimates.

Finally, we have reviewed the adequacy of the Company's disclosures included in Note 3.23 about the assumptions used in the impairment test and the outcome of the test.

3. Impairment assessment of trade accounts receivable

As at 31 December 2020 the Company had current trade accounts receivable balance amounting to EUR 6,372 thousand reported in the statement of financial position, part of which was overdue as disclosed in Note 12 of the financial statements.

The determination as to whether a trade receivable is collectable involves management's judgment. Specific factors management considers include the age of the various receivable balances, recent historical payment patterns as well as forward looking information. This matter is significant to our audit due to materiality of the amounts as these receivables constitute over 46% of the total current assets of the Company in the statement of financial position as at 31 December 2020 and high level of management judgment involved in impairment allowance calculation.

Our audit procedures included, among others, the following:

- we have obtained understanding of the process (including assumptions and methods) how management perform impairment assessment of trade accounts receivable;
- we reviewed the management's assumptions used in the impairment assessment of trade accounts receivable, including the historical default rate information used, by agreeing on a sample basis information used by the management with the supporting evidence;
- we also considered forward-looking information used in the impairment estimation by comparing the management's estimate with the publicly available reputable sources of information (e.g. Bank of Lithuania);
- additionally, we tested the correctness of aging of the receivables data by obtaining sale documents for a selected sample and comparing that with the information included in the ageing report. In addition we reviewed clerical accuracy of the calculation of impairment recorded for the customer groups based on their ageing.

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

Other information

Other information consists of the information included in the 2020 Company's Annual Report, including Corporate Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

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

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

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

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment and approval of auditor

In accordance with the decision made by the shareholders we have been chosen to carry out the audit of the Company's financial statements for the first time on 14 November 2016. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for approximately 5 years.

Consistency with the audit report submitted to the audit committee

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

Non-audit services

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

Throughout our audit engagement period, we have provided to the Company non-audit services disclosed in the Company's financial statements (Note 7). There were no other non-audit services provided to the Company except for those disclosed in financial statements.

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

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

Jonas Akelis
Auditor's licence
No. 000003

26 March 2021"

Jonas Akelis
Partner

28 April 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Revenue			
Revenue from contracts with customers	4	36,984	33,113
Other income	4	284	102
Total revenue:		37,268	33,215
Salaries and related expenses	5	(14,216)	(12,904)
Depreciation and amortisation	10,11	(7,371)	(6,269)
Repair and maintenance expenses	6	(2,406)	(3,198)
Sludge treatment expenses		(1,382)	(542)
Electricity expenses		(3,350)	(3,388)
Transportation expenses		(580)	(697)
Telecommunication and IT services		(926)	(663)
Tax expenses (excl. Income tax)		(2,320)	(2,534)
Impairment (losses) and reversal of impairment losses from contracts with customers	12	(270)	181
Impairment/(reversal of impairment) of non-current assets		36	(211)
Non-current assets write-off expenses		(595)	(53)
Other expenses	7	(5,912)	(3,185)
Total expenses:		(39,292)	(33,463)
Operating profit (loss)		(2,024)	(248)
Finance income	8	138	149
Finance costs	8	(218)	(146)
Net financial result		(80)	3
Profit/(loss) before tax		(2,104)	(245)
Income tax benefit (expenses)	9	112	5
NET PROFIT (LOSS)		(1,992)	(240)
Other comprehensive income (expenses)			
Items that will be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
Total other comprehensive income (expenses)		-	-
TOTAL COMPREHENSIVE INCOME (EXPENSES)		(1,992)	(240)

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.
These financial statements were approved and signed on 26 March 2021.

Marius Švaikauskas
General Director

Gintaras Samuolis
Director of Business Planning and
Finance

Zina Chmieliauskienė
Head of the Accounting
Department

STATEMENT OF FINANCIAL POSITION

	Note	31/12/2020	31/12/2019
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	10	140,095	128,617
Intangible assets	11	758	769
Right-of-use assets	10	2,070	1,889
Non-current portion of trade and other receivables	12	-	2,271
Total non-current assets		142,923	133,546
<i>Current assets</i>			
Inventories		301	386
Trade and other receivables	12	6,372	3,744
Prepaid income tax		-	40
Prepayments and deferred expenses	13	505	460
Contract assets – accrued revenue	14	494	470
Cash and cash equivalents	15	6,043	4,456
Total current assets		13,715	9,556
<i>Assets held-for-sale</i>		25	318
TOTAL ASSETS		156,663	143,420
EQUITY AND LIABILITIES			
<i>Equity</i>			
Issued capital	16	122,293	118,847
Legal reserves	17	1,054	1,054
Retained earnings (deficit)		6,260	8,252
Total equity		129,607	128,153
<i>Non-current liabilities</i>			
Loans	18	7,833	427
Lease liabilities	19	1,884	1,688
Deferred tax liabilities	9	376	488
Employee benefits		353	225
Grants		44	61
Other non-current liabilities		512	412
Total non-current liabilities		11,002	3,301
<i>Current liabilities</i>			
Loans	18	427	857
Current portion of lease liabilities	19	234	226
Trade and other payables	20	6,035	5,111
Contract liabilities – advances received	23	717	688
Provisions	28	3,013	842
Other current liabilities	21	5,628	4,242
Total current liabilities		16,054	11,966
TOTAL EQUITY AND LIABILITIES		156,663	143,420

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.
These financial statements were approved and signed on 26 March 2021.

Marius Švaikauskas General Director	Gintaras Samuolis Director of Business Planning and Finance	Zina Chmieliauskienė Head of the Accounting Department
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STATEMENT OF CHANGES IN EQUITY

	Notes	Issued capital	Legal reserve	Retained earnings /accrued deficit	Total equity
Balance as at 31 December 2018		115,616	777	11,769	128,162
Comprehensive income					
Net profit/(loss)		-	-	(240)	(240)
Total comprehensive income		-	-	(240)	(240)
Increase in issued share capital by in-kind contributions	16	3,231	-	-	3,231
Transfer to reserves	17	-	277	(277)	-
Dividends approved	16	-	-	(3,000)	(3,000)
Balance as at 31 December 2019		118,847	1,054	8,252	128,153
Balance as at 1 January 2020		118,847	1,054	8,252	128,153
Comprehensive income (expenses)					
Net profit/(loss)		-	-	(1,992)	(1,992)
Total comprehensive income (expenses)		-	-	(1,992)	(1,992)
Increase in issued share capital by in-kind contributions	16	3,446	-	-	3,446
Balance as at 31 December 2020		122,293	1,054	6,260	129,607

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.
These financial statements were approved and signed on 26 March 2021.

Marius Švaikauskas
General Director

Gintaras Samuolis
Director of Business Planning and
Finance

Zina Chmieliauskienė
Head of the Accounting
Department

STATEMENT OF CASH FLOWS

	Note	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Cash flows from operating activities			
Net profit/(loss)		(1,992)	(240)
Adjustments of non-cash items:			
Depreciation and amortisation	10,11	11,762	10,395
Change in deferred income tax	9	(112)	(5)
Grants (amortisation)	10	(4,391)	(4,126)
(Gain)/loss on disposal/write off of property, plant and equipment and assets held for sale		350	(3)
Impairment/(reversal of impairment) of non-current assets		(36)	211
Change in impairment arising from contracts with customers	12	270	(181)
Change in allowance for inventories		23	1
Change in provisions	28	2,349	145
Interest expenses	8	160	120
Financial income recognised in the statement of profit or loss and other comprehensive income	8	(80)	(123)
		8,303	6,194
Working capital adjustment:			
Decrease/(increase) in inventories, prepayments, deferred expenses and accrued income		(41)	41
(Increase)/decrease in trade and other receivables	12	(587)	847
Increase/(decrease) in trade and other payables		1,866	(951)
Income tax paid		-	(40)
Net cash flows from operating activities		9,541	6,091
Cash flows used in investing activities			
(Purchase) of property, plant and equipment and intangible assets		(17,550)	(19,213)
Proceeds from disposal of property, plant and equipment and assets held for sale		575	89
Interest received		13	14
Net cash flows used in investing activities		(16,962)	(19,110)
Cash flows from/used in financing activities			
Proceeds from borrowings		7,833	-
(Repayment) of loans		(857)	(857)
Repayment of lease liabilities		(232)	(177)
Payment of interest and similar expenses		(150)	(123)
Grants received		2,414	4,452
Penalties and default interest received		58	76
Dividends (paid)		-	(3,000)
Penalties and default interest (paid)		(58)	(25)
Net cash flows from/(used in) financing activities		9,008	346
Net (decrease) increase in cash flows		1,587	(12,673)
Cash and cash equivalents at the beginning of the year	15	4,456	17,129
Cash and cash equivalents at the end of the year	15	6,043	4,456

The accompanying notes on pages 12 to 63 are an integral part of these financial statements.
These financial statements were approved and signed on 26 March 2021.

Marius Švaikauskas	Gintaras Samuolis	Zina Chmieliauskienė
General Director	Director of Business Planning and Finance	Head of the Accounting Department

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND OTHER NOTES

1 General information

Vilniaus Vandenys UAB (hereinafter "the Company") was registered on 27 March 1991, the company code is 120545849. The registered office address is Spaudos st. 8-1, LT-01517, Vilnius, Lithuania. The principal activities of the Company are the supply of water and wastewater treatment services. Vilniaus Vandenys, UAB is the largest water supply company in Lithuania. It operates water supply and waste water assets in Vilnius City, Šalčininkai, Švenčionys and Vilnius District. As at 31 December 2020, the number of private customers of the Company was 258.7 thousand (as at 31 December 2019 – 252.8 thousand), legal entities amounted to 8.5 thousand (as at 31 December 2019 – 8.0 thousand). Private customers and legal entities are treated as defined in the Law on Drinking Water Supply and Wastewater Management of the Republic of Lithuania and the Methodology for Calculating Water Supply and Wastewater Management Prices. Based on the unaudited data for 2020, the Company supplied approximately 89 thousand m³ water per day and collected 104 thousand m³, and treated approximately 107 thousand m³ waste water per day. The mission of the Company is a pure water and clean environment. The main focus areas of the Company are sustainable and environmentally-friendly activities, efficient management of the customer experience, sustainable development and innovation, caring organization and engaged employees.

As at 31 December 2020 and 2019, the shareholders of the Company were:

	As at 31/12/2020		As at 31/12/2019	
	Number of shares held	Ownership interest, %	Number of shares held	Ownership interest, %
Vilnius City Municipality	3,974,484	94.12	3,870,339	94.31
Vilnius District Municipality	109,007	2.58	94,170	2.30
Švenčionys District Municipality	83,450	1.98	83,450	2.03
Šalčininkai District Municipality	55,883	1.32	55,883	1.36
	4,222,824	100.00	4,103,842	100.00

During 2020, the Company's issued capital was increased by in kind contributions from Vilnius City Municipality in the amount of EUR 3,016 thousand and Vilnius District Municipality in the amount of EUR 430 thousand (Note 16).

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

As at 31 December 2020, the number of employees of the Company was 695 (as at 31 December 2019 – 683), an average list number of employees during 2020 was 688 (2019 - 671).

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

2 Application of new and amended International Financial Reporting Standards

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

Compared to the previous financial year, the accounting policies adopted are consistent with those of the previous financial year, except for the following new/amended IFRSs which have been adopted by the Company as from 1 January 2020:

The accounting policies adopted are consistent with those of the previous financial year, except for the following new/amended IFRSs which have been adopted by the Company as from 1 January 2020:

- **Conceptual framework in IFRS standards**

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

- **IFRS 3 "Business Combinations" (amendments)**

The IASB issued "Definition of a Business" (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. The management of the Company has assessed that these amendments has no impact on the these financial statements as the Company had no business combinations.

- **IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – definition of material (amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The management of the Company has assessed that these amendments have no impact on these financial statements.

- **IFRS 16 "Leases" – COVID-19 related rent concessions (amendment)**

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct

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

consequence of the COVID-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The Company's management believes that adoption of these amendments has no significant effect on the Company's financial statements.

- **Interest rate benchmark reform – IFRS 9, IAS 39 and IFRS 7 (amendments)**

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary relief, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The management of the Company has assessed that these amendments have no impact on these financial statements.

Standards issued but not yet effective and not early adopted

New standards, amendments and interpretations that are not yet effective in the reporting period beginning on or after 1 January 2020 and have not been early adopted when preparing these financial statements are presented below:

- **Amendment in IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – sale or contribution of assets between an investor and its associate or joint venture (amendments)**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute

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

a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The management of the Company has assessed that these amendments will have no impact on the financial statements.

- **IAS 1 "Presentation of Financial Statements" – classification of liabilities as current or non-current (amendments)**

The amendments are effective for annual periods beginning on or after 01 January 2022 with earlier application permitted. However, in response to the COVID-19 pandemic, the IASB has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The Company's management has not yet evaluated the impact of the implementation of these amendments on the financial statements.

- **IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as well as annual improvements 2018–2020 (amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 "Business Combinations" (amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, plant and equipment (amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, contingent liabilities and contingent assets (amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual improvements 2018–2020** make minor amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and the Illustrative Examples accompanying IFRS 16 "Leases".

The amendments have not yet been endorsed by the EU. The Company's management has not yet evaluated the impact of the implementation of these amendments on the financial statements.

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

- **Interest rate benchmark reform – phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments)**

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The management of the Company has assessed that these amendments will have no impact on the these financial statements.

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

3 Accounting policies

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), interpretations approved by the International Financial Reporting Interpretations Committee as adopted by the 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 (EUR'000), unless stated otherwise.

3.3. Property, plant and equipment

Property, plant and equipment acquired or constructed by the Company is recognised at acquisition (construction) cost and subsequently carried at cost method. By selecting the acquisition cost method, property, plant and equipment is recorded in accounting at cost and reported in the financial statements at acquisition cost less accumulated depreciation and accumulated impairment loss.

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

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

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

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

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

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

3 Accounting policies (continued)

Depreciation rates of financial year

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

Buildings	50	years
Structures	35	years
Transmission devices	10–50	years
Plant and equipment	3–10	years
Vehicles	8–10	years
Other property, plant and equipment	5–25	years

The useful lives of assets are reviewed and adjusted prospectively if appropriate during or at the end of each reporting period.

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

Specifically attributable borrowing interest is capitalised as part of the cost of a qualifying asset (at least 6 months) if the value of the investment project for the development of the asset is not less than EUR 100,000 and the amount of the specifically attributable loan received prior to the commissioning of the asset is not less than EUR 50,000.

3.4. Intangible assets

Software and acquired rights

The costs of acquisition of new software are capitalised and recognised as an intangible asset if these costs are not an integral part of the hardware. Software is amortised within 3–8 years.

Servitudes

The category of the Company's intangible assets "Servitudes" includes the Company's rights to use the land plots owned by third parties on the basis of contractual servitudes. Contractual servitudes are recognised initially at the amount of the liability. The useful life of an intangible asset is indefinite, therefore, these assets are not subject to amortisation. Useful life of intangible assets is indefinite since the right to use the land is granted for an indefinite period of time according to the conditions of agreements for compensation for servitudes as well as provisions of the Civil code. It implies that, irrespective of the condition of the Company's property, plant and equipment, the right to use designated land plot is retained and (after the physical condition of the property is restored or a new property is developed), the land plot will continue to be used for indefinite time. Provision for non-current obligations is accounted for under IAS 37 to compensate for contractual provisions (see Note 3.14 "Provisions"). The estimation of the amount of the provision takes into account the expected time of settlement and the number of applicants. The provision is calculated at the discounted value. The Company tests the intangible assets of servitudes for potential impairment, by comparing their recoverable value with the carrying value at least once per year or when there are

3 Accounting policies (continued)

indications of impairment. If the value of the liability changes, such change is accounted for by decreasing/increasing the value of the assets of servitudes. The Company had no statutory servitudes as at 31 December 2020 and 2019.

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

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

3.5. Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets, and right-of-use assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purpose of impairment testing, assets are grouped together into the smallest group of assets for which there are separately identifiable cash flows (cash-generating units).

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

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

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

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

3 Accounting policies (continued)

3.6. Financial instruments: initial and subsequent measurement

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

3.6.1. Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

- Amortised cost (debt instruments);
- Fair value through OCI with recycling of cumulative gains and losses upon derecognition into profit or loss (debt instruments). The Company did not have such items as at 31 December 2020 and 2019;
- Fair value through OCI with no recycling of cumulative gains and losses upon derecognition into profit or loss (equity instruments). As at 2020 and 31 December 2019, the Company did not have such financial instruments;
- Fair value through profit or loss. The Company did not have such items as at 31 December 2020 and 2019;

Financial assets at amortised cost (debt instruments)

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

3 Accounting policies (continued)

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

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

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

Derecognition

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

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

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

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

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

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

Impairment of financial assets

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

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

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

3 Accounting policies (continued)

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECLs). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, the impairment loss is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECLs).

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

The Company considers a financial asset in default when indications exist that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. A financial asset is derecognised when there is no reasonable expectation to recover contractual cash flows.

3.6.2. Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred principally for the purpose of repurchasing them in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gain or loss arising from financial liabilities held for trade is recognised in the statements of profit or loss and other

3 Accounting policies (continued)

comprehensive income. As at 31 December 2020 and 2019, the Company did not attribute any financial liabilities to liabilities measured at fair value through profit or loss.

Loans received and other payables

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

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

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

Derecognition

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

Offsetting of financial instruments

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

3.7. Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. Unrealisable inventories are fully written-off.

The 100% allowance is established based on the list of inventories no longer suitable for use prepared during the inventory counting process. In addition, the allowance for slow moving inventories was established at the end of reporting period on 31 December: 100% allowance for items that have not been consumed for more than 2 years and 80% allowance items that have not been consumed for more than 1 year from acquisition date and less than 2 years, starting from the end of the reporting year.

3.8. Assets held-for-sale

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

3 Accounting policies (continued)

3.9. Cash and cash equivalents

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

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

3.10. Lease

The Company as lessee

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

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

Right-of-use assets

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

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

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

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for

3 Accounting policies (continued)

terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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

Short-term leases and leases of low-value assets

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

The Company is a lessor

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

3.11. Grants

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

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

Grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The grants related to income are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. As an associated receiver of support, the Company participated in a project funded by the European Union "Nutrient Recycling Circular Economy Model for Large Cities – Water Treatment Sludge and Ashes to Biomass to Bio-Energy" (NutriBiomass4LIFE). During the project period (2018–2022), received funds are accounted for as grants related to income.

3 Accounting policies (continued)

3.12. Employee benefits

Social security contributions

The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. Defined contribution plan is a plan under which the Company pays fixed contributions to the Fund and have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employees all benefits related to their work in the current and previous periods. The social security contributions are recognised as an expense on an accrual basis and are included within remuneration expenses. As from 1 January 2020, the Company pays social security contributions at a rate amounting to 1.77%.

Accrued employee benefit obligations

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

The above-mentioned employee benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. The obligation is recognised in the statement of financial position in non-current payables and liabilities and current payables and liabilities, and reflects the present value of these benefits on the date of the statement of financial position.

Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognised in the statement of profit or loss and other comprehensive income.

3.13. Contingencies

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

A contingent asset is not recognised in the financial statements.

3.14. Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties

3 Accounting policies (continued)

surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

3.15. Income tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period. The standard income tax rate in Lithuania for the Company in the years ended 31 December 2020 and 31 December 2019 was 15%.

For companies operating in Lithuania tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivatives. As from 1 January 2014, tax loss carry forward that is deducted cannot exceed 70% of the taxable profit of the current financial year. Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The loss from disposal of securities and/or derivatives not designated for hedge can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. As at 31 December 2020 and 2019, the Company did not have any tax losses carried forward.

Deferred tax

Deferred tax is recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all temporary differences, whereas deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

3 Accounting policies (continued)

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

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

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

Current and deferred tax for the period

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

3.16. Revenue recognition

Revenue from contracts with customers

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

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

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

The Company provides its services that are either sold separately (only water supply or wastewater services) or bundled together. Contracts for bundled services are comprised of several performance obligations because the promises to transfer different services are capable of being distinct and separately identifiable.

Accordingly, the Company allocates the transaction price based on the relative stand-alone selling prices of the separate services (including selling (fixed subscription) price).

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

Assets received free of charge from third parties are recognised at cost determined in accordance with the real estate registry central database and accounted for as a revenue at a point in time in the statement of profit or loss and other comprehensive income in the period,

3 Accounting policies (continued)

when the asset has been received, because the performance obligation is satisfied when customer is connected to the network.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). The Company typically provides maintenance services for general repairs of defects as required by law. These assurance-type warranties are accounted for under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. As of 31 December 2020 and 2019, the Company did not provide any warranties that would comply with IAS 37. No other promises in the contracts exists that could be treated as a separate performance obligation.

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

In addition, the management considers the effect of other matters to the revenue recognition such as the existence of significant financing components, non-cash consideration, and consideration payable to the customer. None of these are present in the Company's contracts with the costumers. Transaction price allocated to the remaining performance obligation is not disclosed because the Company has the right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date.

Contract assets – accrued revenue

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

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

Trade receivables

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

Contract liabilities: prepayments received

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

Cost of obtaining and fulfilling contracts

The costs incurred by the Company that meets capitalization criteria are within the scope of the accounting rules for property, plant and equipment. The Company did not incur such expenses as of 31 December 2020 and 2019. Other costs are expensed as incurred because these costs are not expected to be recovered.

3 Accounting policies (continued)

3.17. Borrowing costs

The Company capitalises specifically attributable borrowing interest costs that are directly attributable to the acquisition, construction, reconstruction or production of a qualifying asset over the period of investment project and that are incurred before the start of the use/commissioning of the asset. These costs are included in the cost of that asset. All other borrowing costs are expensed in the period they occur.

3.18. Foreign currencies

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

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

3.19. Related parties

A related party is a person or company related to reporting company.

A person or close member of the family is related to reporting company, if the person:

- has control or common control of the reporting company;
- has a significant influence on the reporting company; or
- is one of the key management personnel of the reporting company or parent company.

The Company is related to the reporting company if they meet any of the conditions below:

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

3 Accounting policies (continued)

3.20. Fair value measurement

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The 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 categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

3 Accounting policies (continued)

3.21. Offsetting

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

3.22. Regulated activity

Profitability of the Company's regulated services is regulated by the National Energy Regulatory Council under the approved Methodology for Calculating Water Supply and Wastewater Management Prices (hereinafter "the Pricing methodology"). Prices valid in 2020 were determined in accordance with the Pricing methodology effective at that date, based on which the prices were included to necessary costs and normative profit. Necessary costs are determined based on the actual costs of the basic year, long-term operating and development plan and other reasons influencing change in the level of service and costs, and water suppliers benchmarking indicators. Having regard to the efficiency coefficient, amount of services sold, completed investments, electricity, heat, prices of technological materials, tax tariffs and changes in salaries, actual return of investments and other factors beyond the Company's control, base prices were recalculated in 2019 in accordance with the applicable Pricing methodology and will come into force on 1 February 2020. In 2020, the Company submitted a draft of new base prices to the National Energy Regulatory Council, which was not agreed by the end of 2020.

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

3.23. Significant accounting judgements, estimates and assumptions

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

Useful life of property, plant and equipment

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

Revenue from contracts with customers

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

- Identifying performance obligations in a bundled sale of different services

3 Accounting policies (continued)

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

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

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

Accounted revenue based on average consumption

The Company provides services to existing customers uninterruptedly, regardless of whether they submit meter readings or not. In order to represent the Company's revenue as accurately as possible for the services provided and the water consumed, an average consumption for the customers that do not submit meter readings for the ongoing month is calculated on the basis of water and/or wastewater volumes calculated in previous reporting periods.

Impairment allowance for trade receivables

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

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

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

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

3 Accounting policies (continued)

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

For the purpose of the estimation of doubtful amounts receivable, private customers' (PC) and legal entities' (LE) debts are grouped by overdue period. The expected credit loss rates used to calculate the ECLs as at 31 December 2020 and 2019 are provided below:

Overdue period	2020		2019	
	Expected credit loss rates PC, %	Expected credit loss rates LE, %	Expected credit loss rates PC, %	Expected credit loss rates LE, %
Less than 1 month	2.00%	0.40%	6.00%	0.50%
1–2 months	9.00%	4.00%	12.00%	3.00%
2–3 months	19.00%	11.00%	19.00%	8.00%
3–4 months	29.00%	23.00%	28.00%	28.00%
4–5 months	39.00%	32.00%	37.00%	37.00%
5–6 months	49.00%	41.00%	45.00%	45.00%
3–7 months	57.00%	51.00%	53.00%	52.00%
7–8 months	65.00%	60.00%	61.00%	60.00%
8–9 months	71.00%	68.00%	70.00%	68.00%
9–10 months	76.00%	78.00%	77.00%	80.00%
10–11 months	82.00%	89.00%	84.00%	91.00%
More than 11 months	86.00%	100.00%	86.00%	100.00%

The Company builds the expected loss rate matrix which is based on historical credit loss analysis and adjusted to reflect future factors specific to debtors and the economic environment. For some customers of the Company, an individual assessment of impairment of receivables can be performed based on the decision of the Company's management. In 2020 and 2019, an individual impairment assessment had not been performed.

Impairment of property, plant and equipment

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

3 Accounting policies (continued)

Based on impairment test of property, plant and equipment, no impairment was accounted for property, plant and equipment as at 31 December 2020 and 2019.

Below are presented the key assumptions applied by the management for the budget and long-term planning, and, respectively, the impairment assessment as at 31 December 2020:

- Weighted average cost of capital (WACC) discount rate (pre-tax) of 8.65% was applied in the impairment evaluation model (9.15% as at 31 December 2019).
- Average market-based WACC used by the management is higher than the one approved by the National Energy Regulatory Council. Management believes that in the long-term (starting from the year 2026), it is reasonable to expect that return on investment set by regulator (as well as profitability of the Company) will exceed the currently set regulated level (3.37%) and converge to the market level.
- As at 31 December 2020 and 2019, cash flows occurring after 5 years were forecasted by using a growth rate of 1.5%.
- During the period of 2021 – 2025, capital investments to property, plant and equipment will consist of EUR 78,044 thousand in total.

3.24. Events after the reporting period

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

4 Revenue

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Water supply	14,575	12,943
Wastewater treatment	18,122	16,151
Selling fee	3,194	3,085
Drainage	641	211
Income from assets received from third parties free of charge	117	565
Income from commercial work and services	335	158
Net gain on disposal of non-current assets	246	55
Income from sale of inventory	31	41
Other income	7	6
Total:	37,268	33,215

In 2020, the Company attributed income from water supply, wastewater treatment services, selling fee, drainage, assets received free of charge and commercial work and services to revenue from contracts with customers, the total amount of which was EUR 36,984 thousand (in 2019: EUR 33,113 thousand). In 2020, other operating income comprised income from disposal of assets, sale of inventories and other income, the total amount of which was EUR 284 thousand (in 2019: EUR 102 thousand).

In 2020, revenue amounting to EUR 270 thousand was recognised that was included in contract liabilities, i.e. advances received as at 31 December 2019. In 2019, revenue amounting to EUR 255 thousand was recognised that was included in contract liabilities, i.e. advances received as at 31 December 2018.

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

Income from assets received free of charge in 2020 and 2019 is comprised of the average market value of networks reconstructed, newly built and registered on behalf of the Company funded by real estate developers. The average market value is based on the statements of real estate register central database.

5 Salaries and related expenses

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Wages and salaries	13,558	12,403
Change in vacation reserve	252	146
Social security contributions	240	220
Change in accrued liabilities to employees	166	135
Total:	14,216	12,904

6 Repair and maintenance expenses

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Digging recovery	459	455
Maintenance materials expenses	447	465
Technological materials	364	910
Equipment servicing	269	391
System cleaning	298	330
System diagnostics and repair works	249	286
Construction repairs	187	250
Laboratory services (monitoring)	59	42
Topo-geodesic photos and legal registration	43	33
Repair of tools and equipment	31	36
Total:	2,406	3,198

7 Other expenses

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Provisions for legal claims (Note 28)	2,171	77
Customer service expenses	754	880
Cleaning of premises	267	217
New customer connection expenses	208	112
Compensation for damage resulting from the Company activities	178	43
Provision for pensions	177	68
Rent of collectors	172	172
Water expenses for technology and own use	164	158
Insurance	156	131
COVID-19 related expenses	149	0
Promotion and commerce	132	78
Legal services	131	74
Heating	129	188
Garbage collection	104	105
Doubtful debts write-off	108	54
Work safety and special clothes	91	165
Consultations	84	10
NutriBiomass4Life project expenses	79	0
Certificate of Centre of registers and cadastral cases	72	130
Commercial service costs	70	3
Trainings*	62	48
Security services	52	49
Events to employees	48	48

(all amounts are in EUR thousand unless otherwise stated)

Audit	30	35
Change in allowance on inventories	23	1
Office administration expenses	18	20
Household-economic expenses	14	18
Representation expenses	9	15
Other expenses	260	286
Total:	5,912	3,185

* In 2020, non-audit services provided by Ernst & Young Baltic UAB to the Company amounted to EUR 407 and related to training expenses (no such services were provided in 2019).

8 Finance income and finance expenses

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Finance income		
Interest income	46	53
Penalties and default interest received	92	96
Total:	138	149
Finance expenses		
Interest (expenses)	(160)	(120)
Penalties and default interest (paid)	(58)	(26)
Total:	(218)	(146)
Finance income/(expenses), net	(80)	3

In 2020, interest from Municipal administration of the city Vilnius amounted to EUR 34 thousand, in 2019 – EUR 38 thousand.

9 Income tax

In 2020 and 2019 income tax expenses (benefit) were as follows:

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Income tax expense		
Current income tax	-	-
Deferred income tax (benefit) expenses	112	5
Income tax benefit (expenses) recorded in the statement of profit or loss and other comprehensive income	112	5

Change in deferred tax asset and liabilities during 2020 and 2019:

9 Income tax (continued)

	As at 01/01/2019	Income tax (expenses) benefit through profit or loss	As at 31/12/2019	Income tax (expenses) benefit through profit or loss	As at 31/12/2020
Accrual for vacation reserve	122	21	143	38	181
Allowance for accounts receivable	212	(27)	185	40	225
Employee benefits	142	30	172	51	223
Allowance for inventories	7	-	7	3	10
Provisions accrued for boreholes liquidation	-	7	7	3	10
Provisions for cadastral measurement and cases registration	4	-	4	-	4
Provisions for compensation of losses	-	11	11	-	11
Deferred tax assets	487	42	529	135	664

Change in deferred tax asset and liabilities during 2020 and 2019:

	As at 01/01/2019	Income tax (expenses) benefit through profit or loss	As at 31/12/2019	Income tax (expenses) benefit through profit or loss	As at 31/12/2020
Financial and tax differences for investment incentive using II method until 2002	(816)	25	(791)	25	(766)
Differences of property, plant and equipment financial and tax depreciation	(164)	(62)	(226)	(48)	(274)
Deferred tax liability	(980)	(37)	(1,017)	(23)	(1,040)
Deferred tax, net	(493)	5	(488)	112	(376)

9 Income tax (continued)

Presented in the statement of financial position as follows:

	As at 31/12/2020	As at 31/12/2019
Deferred tax assets	-	-
Deferred tax liability	(376)	(488)

As at 31 December 2020, the deferred tax asset is recognised in the statement of financial position to the extent that the Company's management expects it to be realised in the near future based on taxable profit forecasts.

On 31 December 2020, the Company had unused tax credits in the amount of EUR 3,826 thousand (as at 31 December 2019: EUR 3,468 thousand) related to the investments in property, plant and equipment made in 2019–2020 and eligible to use to reduce the taxable profit for 2021–2023, however, the Company's management decided not to recognise the related EUR 574 thousand (as at 31 December 2019: EUR 520 thousand) deferred tax assets as at 31 December 2020, whereas in the light of the taxable profit forecasts there was insufficient evidence that the Company would be able to use these assets to reduce taxable profit in the future.

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

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Profit/(loss) before tax	(2,104)	(245)
Income tax expenses (benefit) calculated at statutory tax rate	(316)	(37)
Non-taxable income	(40)	(106)
Expenses not deductible for income tax	781	185
Tax incentive for investments	(313)	(37)
Income tax expenses (benefit) recorded in the statement of profit or loss and other comprehensive income	112	5

10 Property, plant and equipment and right-of-use assets

	Buildings	Structures	Transmission devices	Plant and equipment	Vehicles	Other property, plant and equipment	Construction-in-progress	Prepayments	In total	Right-of-use assets
Acquisition cost										
Balance as at 31 December 2018	32,080	46,187	148,959	29,482	4,639	9,788	2,860	116	274,111	-
Lease recognition under IFRS 16	-	-	-	-	-	-	-	-	-	2,133
Balance as at 1 January 2019	32,080	46,187	148,959	29,482	4,639	9,788	2,860	116	274,111	2,133
Acquisitions	40	55	3,701	1,362	725	542	13,856	101	20,382	-
Disposals and write-offs	-	(379)	(489)	(268)	(707)	(353)	(20)	-	(2,216)	-
Reclassifications from CIP	84	339	4,303	1,169	839	856	(7,373)	(217)	-	-
Impairment of assets	(39)	(168)	(4)	-	-	-	-	-	(211)	-
Balance as at 31 December 2019	32,165	46,034	156,470	31,745	5,496	10,833	9,323	-	292,066	2,133
Acquisitions	3	97	3,290	1,135	536	452	10,693	2,611	18,817	436
Disposals and write-offs	(425)	(544)	(1,197)	(415)	(422)	(241)	(15)	-	(3,259)	-
Reclassifications from CIP	496	747	9,201	3,472	66	1,371	(15,320)	(33)	-	-
Reclassifications between groups of property, plant and equipment	-	-	-	(33)	33	-	-	-	-	-
Reclassified to assets held for sale	(18)	(67)	(12)	-	-	-	-	-	(97)	-
Reversal of impairment	18	18	-	-	-	-	-	-	36	-
Balance as at 31 December 2020	32,239	46,285	167,752	35,904	5,709	12,415	4,681	2,578	307,563	2,569

10 Property, plant and equipment and right-of-use assets (continued)

	Buildings	Structures	Transmission devices	Plant and equipment	Vehicles	Other property, plant and equipment	Construction-in-progress	Prepayments	In total	Right-of-use assets
Accumulated depreciation										
Balance as at 31 December 2018	11,859	29,830	83,398	24,525	3,469	6,710	-	-	159,791	-
Depreciation for the year	561	792	2,295	846	352	936	-	-	5,782	244
Disposals and write-offs	-	(354)	(456)	(260)	(704)	(350)	-	-	(2,124)	-
Balance as at 31 December 2019	12,420	30,268	85,237	25,111	3,117	7,296	-	-	163,449	244
Depreciation for the year	593	800	2,650	1,084	428	1,157	-	-	6,712	255
Disposals and write-offs	(411)	(522)	(601)	(415)	(422)	(235)	-	-	(2,606)	-
Reclassifications between groups of property, plant and equipment	45	(78)	-	9	-	24	-	-	-	-
Reclassified to assets held for sale	(10)	(66)	(11)	-	-	-	-	-	(88)	-
Balance as at 31 December 2020	12,637	30,402	87,275	25,789	3,123	8,242	-	-	167,468	499
Net book value as at 31 December 2019	19,745	15,766	71,233	6,634	2,379	3,537	9,323	-	128,617	1,889
Net book value as at 31 December 2020	19,602	15,883	80,477	10,115	2,586	4,173	4,681	2,578	140,095	2,070

10 Property, plant and equipment and right-of-use asset (continued)

As at 31 December 2020, property, plant and equipment cost was reduced by received grants, related to the assets, which cost was EUR 135,821 thousand as at 31 December 2020 (as at 31 December 2019 – EUR 133,930 thousand), and net book value of such assets was EUR 93,430 thousand as at 31 December 2020 (as at 31 December 2019 – EUR 95,700 thousand).

The grants consist of financing received from Structural Funds of the European Union. In 2020, the asset-related grants received from the EU amounted to EUR 2,382 thousand (in 2019: EUR 4,367 thousand).

In 2020, grants amortisation expenses were EUR 4,391 thousand (in 2019: EUR 4,126 thousand).

In 2020, the amount of assets received from third parties free of charge, accounted for as income and in the statement of profit or loss and other comprehensive income amounted to EUR 117 thousand (in 2019: EUR 565 thousand).

As at 31 December 2020, property, plant and equipment of the Company with net book value* of EUR 35,698 thousand (EUR 36,597 thousand as at 31 December 2019) was pledged to banks as a collateral for the loans (Note 18).

As at 31 December 2020, the Company's property, plant and equipment with an acquisition cost* of EUR 61,015 thousand was fully depreciated (as at 31 December 2019: EUR 60,168 thousand), but still in use.

As at 31 December 2020, the Company's the impairment of property, plant and equipment not used in the Company's activity amounted to EUR 175 thousand (EUR 211 thousand as at 31 December 2019).

In 2020, following reversal of impairment loss recognised, the net book value* of property, plant and equipment which was reclassified to asset held for sale amounted to EUR 9 thousand.

As at 31 December 2020, assets held for sale amounted to EUR 25 thousand (as at 31 December 2019: EUR 318 thousand). In 2020, four auctions were announced, during which the assets with net book value* of EUR 330 thousand were sold for EUR 575 thousand (excl. VAT). In 2019, three auctions were announced, during which the assets with net book value* of EUR 32 thousand were sold for EUR 41 thousand (excl. VAT).

In 2020, the Company's specifically attributed borrowing interest capitalised attributable to the acquisition, construction, reconstruction or production of a qualifying asset over the period of investment project amounted to EUR 17 thousand. In 2019, the Company did not have any borrowing cost, which would meet capitalisation criteria.

As at 31 December 2020 and 2019, the Company's property, plant and equipment with inventory count performed, but legally not registered, as well as property, plant and equipment with inventory count not performed and legally not registered was as follows:

10 Property, plant and equipment and right-of-use asset (continued)

	PPE with inventory procedures performed, but legally not registered		PPE with inventory procedures not performed and legally not registered	
	Net book value*, thousand EUR	Amount of PPE cards	Net book value*, thousand EUR	Amount of PPE cards
Net book value as at 31 December 2019	6,870	482	6,254	239
Net book value as at 31 December 2020	3,968	169	3,242	186

Applications for the award of the title by way of limitation have been submitted to the courts for 89 units of property, plant and equipment with inventory performed, but legally not registered, the net book value* of which as at 31 December 2020 was EUR 1,223 thousand. Once the court judgement is issued on the said property, plant and equipment, it will be registered in the Real Property Register of the State Enterprise Center of Registers.

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

* All total values are shown before offsetting with grants received.

Right-of-use assets

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

In 2020, four land lease agreements with lease term from 30 to 99 years were additionally accounted for in the right-of-use asset (Note 19 and 26).

	Buildings	Land lease	In total
As at 1 January 2019	2,133	-	2,133
Additions	-	-	-
Depreciation expense	(244)	-	(244)
As at 31 December 2019	1,889	-	1,889
Additions	-	436	436
Depreciation expense	(244)	(11)	(255)
As at 31 December 2020	1,645	425	2,070

New projects

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

“Provision of drinking water and wastewater treatment system renovation and development in Vilnius city”, total project funding amounted to EUR 15,546.2 thousand, of which EU funds amounted to EUR 7,773.1 thousand, and the end of the project – 31 December 2021.

10 Property, plant and equipment and right-of-use asset (continued)

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

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

"Reconstruction of Vilnius city wastewater treatment plant", total project funding amounted to EUR 33,407.8 thousand, of which EU funds amounted to EUR 19,200 thousand, and the end of the project – 31 August 2023.

In 2020, five agreements for financing of investment projects in the development of drinking water supply and wastewater collection networks in Vilnius, Švenčionėliai, Šalčininkai and Eišiškės agglomerations with Viešųjų Investicijų Plėtros Agentūra UAB. The total amount of financing is EUR 14,594 thousand with grant of EUR 4,875 thousand, and planned investment period is from 31 January 2022 to 31 December 2022.

11 Intangible assets

	Software and acquired rights	Servitudes	Projects in progress	In total
Balance as at 1 January 2019	1,445	-	-	1,445
Acquisitions	183	-	280	463
Reclassifications from projects in progress	280	-	(280)	-
Write-offs (-)	(24)	-	-	(24)
Balance as at 31 December 2019	1,884	-	-	1,884
Balance as at 1 January 2020	1,884	-	-	1,884
Acquisitions	131	18	244	393
Reclassification from CIP	62	-	(62)	-
Balance as at 31 December 2020	2,077	18	182	2,277
Balance as at 01 January 2019	896	-	-	896
Amortisation charge for the year	243	-	-	243
Write-offs (-)	(24)	-	-	(24)
Balance as at 31 December 2019	1,115	-	-	1,115
Balance as at 1 January 2020	1,115	-	-	1,115
Amortisation charge for the year	404	-	-	404
Balance as at 31 December 2020	1,519	-	-	1,519
Net book value as at 31 December 2019	769	-	-	769
Net book value as at 31 December 2020	558	18	182	758

11 Intangible assets (continued)

As at 31 December 2020, a part of the Company's intangible assets with the acquisition value of EUR 505 thousand were fully amortised (as at 31 December 2019 – EUR 371 thousand), but still in use.

12 Trade and other receivables

	As at 31/12/2020	As at 31/12/2019
Non-current portion of trade and other receivables		
Trade receivables	-	2,233
Non-current portion of interest receivables	-	38
Total:	-	2,271

As at 31 December 2020 and 2019, the receivable amount from Vilnius city municipality under a trilateral agreement for transfer of requirement rights and offsetting between the Company, Vilniaus Energija UAB and Vilnius City Municipality Administration amounted to EUR 2,233 thousand. Payments are planned in instalments starting from 31 March 2021, ending 31 December 2021. Under this agreement, the total amount of interest receivable until 31 December 2021 amounts to EUR 95 thousand, accrued interest income for the period until 31 December 2020 amounted to EUR 72 thousand (31 December 2019: EUR 38 thousand). The amount receivable from the Vilnius City Municipality was reclassified to current trade and other receivables in 2020.

	As at 31/12/2020	As at 31/12/2019
Current trade and other receivables		
Trade receivables	7,694	4,974
Other receivables	180	2
	7,874	4,976
Less: allowance for doubtful trade receivables	(1,502)	(1,232)
Total:	6,372	3,744

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

As at 31 December 2020, other receivables amounted to EUR 108 thousand of the grant receivable under the EU project "Provision of drinking water and wastewater treatment system renovation and development in Vilnius city" funding agreement and EUR 72 thousand interest receivable from the Vilnius City Municipality.

Trade receivable impairment is calculated from the first month.

Change of allowance for impairment losses from contracts with customers in 2020 and 2019 was as follows:

(all amounts are in EUR thousand unless otherwise stated)

12 Trade and other receivables (continued)

	As at 31/12/2020	As at 31/12/2019
Balance at the beginning of the year	1,232	1,413
Impairment for the year	365	7
Impairment reversal	-	(137)
Write-off to bad debts	(95)	(51)
Balance at the year-end	1,502	1,232

The ageing analysis of trade receivables of the Company as at 31 December 2020 was as follows:

	Trade receivables past due and impaired						
	Not past due	Less than 30 days	31-90 days	91-180 days	181-365 days	More than 365 days	In total
<i>Vilnius City Municipality</i>	2,358	25	-	-	-	-	2,383
Impairment	13	1	-	-	-	-	14
<i>Natural persons</i>	1,671	181	130	85	99	824	2,990
Impairment	154	22	39	53	99	824	1,203
<i>Other legal entities</i>	1,822	126	120	85	65	103	2,321
Impairment	52	7	27	43	65	103	297
Total impairment	219	30	66	96	164	927	1,502

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

	Trade receivables past due and impaired						
	Not past due	Less than 30 days	31-90 days	91-180 days	181-365 days	More than 365 days	In total
<i>Vilnius City Municipality</i>	2,262	-	-	-	-	-	2,262
Impairment	-	-	-	-	-	-	-
<i>Natural persons</i>	1,297	204	126	86	132	965	2,810
Impairment	75	24	27	37	99	805	1,067
<i>Other legal entities</i>	1,742	132	87	41	36	97	2,135
Impairment	8	4	11	17	30	95	165
Total impairment	83	28	38	54	129	900	1,232

(all amounts are in EUR thousand unless otherwise stated)

13 Prepayments and deferred expenses

	As at 31/12/2020	As at 31/12/2019
Prepayments	4	3
Deferred expenses	501	457
	505	460

14 Contract assets - accrued income

	As at 31/12/2020	As at 31/12/2019
Accrued income	494	470
	494	470

As at 31 December 2020, accrued income for the last month of the reporting year for water and/or wastewater management and maintenance services provided to legal persons (where the meter readings for these services have not been submitted and, therefore, these services are unbilled) decreased by EUR 29 thousand (accrued income for the first time as at 31 December 2019 amounted to EUR 233 thousand), whereas accrual of income for services provided to natural persons increased by EUR 53 thousand (as at 31 December 2019 – decreased by EUR 58 thousand).

15 Cash and cash equivalents

	As at 31/12/2020	As at 31/12/2019
Cash at bank	5,968	4,387
Cash in transit	75	69
	6,043	4,456

In 2020 and 2019, funds and future income in the bank account and future inflows to bank accounts were not pledged.

16 Issued capital

During 2020, the Company's issued capital was increased by in kind contributions from Vilnius City Municipality in the amount of EUR 3,016 thousand and Vilnius District Municipality in the amount of EUR 430 thousand. During 2020, the number of shares for in kind contribution from Vilnius City Municipality comprised 104,145 units, Vilnius District Municipality – 14,837 units. As at 31 December 2020, the Company's issued capital amounted to EUR 122,293 thousand and divided into 4,222,824 shares with the par value of EUR 28.96 each.

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

The issued capital of the Company was fully paid as at 31 December 2020 and 2019. The Company did not hold its own shares.

(all amounts are in EUR thousand unless otherwise stated)

16 Issued capital (continued)

On 29 April 2019, the General Meeting of the Shareholders passed a ruling to allocate EUR 3 million of dividends to shareholders for 2018 (EUR 0.7453 dividends per share).

17 Reserves

Legal reserves

The legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are compulsory until the reserve reaches 10% of the share capital. In 2019, when distributing net profit of 2018, EUR 277 thousand was attributed to legal reserve. As at 31 December 2020 and 2019, the legal reserve amounted to EUR 1,054 thousand.

18 Loans

	As at 31/12/2020	As at 31/12/2019
Non-current loans		
Non-current loans	7,833	427
	7,833	427
Current loans		
Current portion of non-current loans	427	857
Total:	8,260	1,284

Non-current and current loans of the Company include:

Lender	Annual interest rate, %	Currency of the loan	Total amount of the loan	Repayment date	As at 31/12/2020	As at 31/12/2019
Ministry of Finance of the Republic of Lithuania	4.172%	EUR	12,000	As at 01/06/2021	427	1,284
Ministry of Finance of the Republic of Lithuania	1.611%	EUR	19,400	As at 04/10/2040	7,570	-
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2%	EUR	2,500	As at 15/12/2039	252	-
Viešųjų Investicijų Plėtros Agentūra (VIPA)	2%	EUR	450	As at 15/01/2040	11	-
			Less: current portion		(427)	(857)
			Non-current loans, net of current portion		7,833	427

18 Loans (continued)

The terms of repayment of non-current and current loans are as follows:

	As at 31/12/2020	As at 31/12/2019
Within the first year	427	857
From one to five years	1,644	427
More than five years	6,189	-
Total:	8,260	1,284

To secure the fulfilment of financial liabilities to the creditor, the Company's property, plant and equipment with the balance of EUR 35,698 thousand as at 31 December 2020 has been pledged (as at 31 December 2019: EUR 36,597 thousand) (Note 10).

In 2018, the Company signed an agreement with the Ministry of Finance of the Republic of Lithuania, that entitles the Ministry of Finance of the Republic of Lithuania to provide an EUR 19,400 thousand loan to fund an investment project „Provision of drinking water and wastewater treatment system renovation and development in Vilnius city“. The loan agreement is concluded for a period of 18 years with a fixed annual interest rate of 1,611 % and maturity until 2040. In 2020, EUR 7,570 thousand received under this agreement with the Ministry of Finance.

In 2020, five agreements were signed with Viešųjų Investicijų Plėtros Agentūra UAB for sponsorship of the development of drinking water supply and wastewater collection networks in Vilnius, Švenčionėliai, Šalčininkai and Eišiškės agglomerations. The total amount of the agreement is EUR 9,719 thousand. Loans are granted with fixed annual interest rate of 2%, the loan maturity term is 240 months following the date of entry into force of the loan agreements. In 2020, EUR 263 thousand were received under these agreements with VIPA.

19 Lease liabilities

The Company accounted for lease liabilities, consisting of liabilities under a long-term office lease agreement with Duetto UAB, under IFRS 16 starting from 1 January 2019 using the modified retrospective approach. Having assessed the land lease agreements, the Company recognised additional lease liabilities consisting of liabilities under four long-term land lease agreements with Vilnius City Municipality and Švenčionys District Municipality. Lease liabilities are equal to the present value of the future lease payments discounted at a borrowing rate of 2.13%.

	As at 31/12/2020	As at 31/12/2019
<i>Non-current liabilities</i>		
Lease Liabilities	1,884	1,688
	1,884	1,688
<i>Current liabilities</i>		
Current portion of lease liabilities	234	226
Total:	2,118	1,914

The maturity analysis of lease liabilities is disclosed in Note 23.

19 Lease liabilities (continued)

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

The following are the amounts recognized in profit or loss:

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Depreciation expense of right-of-use assets	255	244
Lease liability interest expenses	57	43
Expenses relating to short-term leases (included in other expenses in profit or loss)	33	32
Expenses relating to leases of low-value assets (included in other expenses in profit or loss)	18	19
Rent of collectors (Note 7)	172	172
Total amount recognised in profit or loss	535	510

20 Trade and other payables

	As at 31/12/2020	As at 31/12/2019
Trade payables for services	1,081	937
Trade payables for repairs	82	57
Trade payables for constructions in progress and reconstruction	2,134	1,237
Trade payables for contractual works in EU-funded projects	1,912	2,327
Trade payables for non-current assets	515	436
Trade payables for inventories	311	117
In total	6,035	5,111

21 Other current liabilities

	As at 31/12/2020	As at 31/12/2019
Taxes payable	1,152	1,293
Vacation pay accrual	1,208	956
Accrued variable component of remuneration	974	808
Current portion of accrued pension liabilities	163	113
Taxes, salaries and social security	245	228
Accrued expenses	262	112
Other liabilities	1,624	732
In total	5,628	4,242

Other payables are non-interest bearing.

22 Net debt

For the purpose of the Company's net debt calculation, borrowings comprise cash and cash equivalents, debts to financial institutions and other debts relating to financing and lease liabilities.

Net debt balances as at 31 December 2020 and 2019 were as follows:

	As at 31/12/2020	As at 31/12/2019
Cash and cash equivalents	6,043	4,456
Current borrowings	427	857
Non-current borrowings	7,833	427
Lease liabilities	2,118	1,914
	<u>16,421</u>	<u>7,654</u>

Reconciliation of net debt balances and cash flows from financing activities of 2020 and 2019:

	Assets	Lease liabilities		Loans		
	Cash and cash equivalents	Non-current lease liabilities	Current portion of lease liabilities	Non- current loans	Current portion of non-current loans	In total
As at 1 January 2019	17,129	-	-	1,284	857	19,270
<u>Cash changes</u>						
Change in cash and cash equivalents	(12,673)	-	-	-	-	(12,673)
(Repayments) of borrowings					(857)	(857)
Lease payments	-	-	(219)	-	-	(219)
Interest paid	-	-	(42)	-	(81)	(123)
<u>Non-cash changes</u>						
Interest charged	-	-	42	-	81	123
Recognition of lease liabilities under IFRS 16 (first-time adoption on 1 January 2019)	-	2133	-	-	-	2,133
Reclassifications between items	-	(445)	445	(857)	857	-
As at 31 December 2019	4,456	1,688	226	427	857	7,654

(all amounts are in EUR thousand unless otherwise stated)

22 Net debt (continued)

	Assets	Lease liabilities			Loans		
	Cash and cash equivalents	Non-current lease liabilities	Current portion of lease liabilities	Non-current loans	Current portion of non-current loans	In total	
As at 31 December 2019	4,456	1,688	226	427	857	7,654	
Cash changes							
Change in cash and cash equivalents	1,587	-	-	-	-	1,587	
Loans received	-	-	-	7,833	-	7,833	
(Repayments) of borrowings	-	-	-	-	(857)	(857)	
Lease payments	-	-	(232)	-	-	(232)	
Interest paid	-	-	(57)	-	(93)	(150)	
Non-cash changes							
Interest charged	-	-	57	-	93	150	
Lease contracts concluded	-	436	-	-	-	436	
Reclassifications between items	-	(240)	240	(427)	427	-	
As at 31 December 2020	6,043	1,884	234	7,833	427	16,421	

23 Financial risk management objectives and policies

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

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

Interest rate risk

At the end of the year 2020 and 2019, the Company's loans were with fixed interest rate, therefore the Company does not face the risk of interest rate fluctuations.

In 2020 and 2019, the Company did not use derivatives to manage annual interest rate risk.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through

(all amounts are in EUR thousand unless otherwise stated)

23 Financial risk management objectives and policies (continued)

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 current liquidity (total current assets/total current liabilities) and quick ((total current assets – inventories)/total current liabilities) ratios as at 31 December 2020 were 0.86 and 0.84, respectively (0.83 and 0.80 as at 31 December 2019).

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

In 2020, the cash flow from operating activities was EUR 9,541 thousand (in 2019, EUR 6,091 thousand). The Company has managed to ensure its continuity – to cover obligations to suppliers, employees, pay taxes, etc.

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

The tables below summarise the maturity profile of the Company's financial liabilities as at 31 December 2020 and 2019 based on contractual undiscounted payments.

	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	After 5 years	In total
Interest bearing loans	-	-	436	2,283	6,994	9,713
Lease liabilities	-	69	208	1,119	1,311	2,707
Trade and other payables	-	6,035	-	-	-	6,035
Other liabilities	-	31	1,728	639	-	2,398
Balance as at 31 December 2020	-	6,135	2,372	4,041	8,305	20,853

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

23 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 foreign currency risk.

Credit risk

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

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

As at 31 December 2020 and 2019, the Company did not invest available funds into instruments of cash and securities market (deposits, bonds, government securities).

Fair value of financial instruments

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

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

The fair value of the Company's financial assets and financial liabilities approximates their carrying amounts as at 31 December 2020 and 2019 (Level 3).

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

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

- (a) The carrying amount of current trade amounts receivable, current trade accounts payable and current borrowings approximates fair value due to their short maturities (Level 3).
- (b) The fair value of non-current borrowings 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:

23 Financial risk management objectives and policies (continued)

	As at 31/12/2020	As at 31/12/2019
Financial assets		
Cash and cash equivalents	6,043	4,456
Non-current receivables, trade and other receivables	6,372	5,977
Financial liabilities		
Carried at amortised cost	16,413	8,309

Capital management

The primary objective of the capital management is to ensure that the Company maintains a strong credit health and healthy capital ratios in order to support its business and maximise shareholder value. The Company manages the capital structure and make adjustments to it in the light of changes in economic conditions and the operating risks. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

On 17 June 2020, the Company's Board approved dividend policy setting out the principles for the payment of dividends. The dividend policy is one of capital risk management tools. Based on this policy, the Company plans the distribution of dividends in view of the ratio of return on equity and net profit earned. The dividend policy provides that appropriation of profit for the payment of dividends for the financial year depends on the ratio of return on equity, availability of financial resources to the Company for payment of dividends and other circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period. The dividend policy provides that the share of net profits appropriated for the payment of dividends may be reduced if, following payment of dividends, the Company fails to meet its obligations under financing agreements or other obligations, there would be a significant change in the Company's financial position or the results would significantly deviate from the forecasts, as well as the payment of dividends would result in the Company's cash balance in bank accounts being less than the Company's total average costs for three months (rolling 12-month). The Company is not obliged to distribute dividends only when it incurs net loss. Dividends will not be paid if the Company's equity (after the payment of dividends) becomes lower than the sum of its share capital, legal reserve, revaluation reserve and reserve for acquisition of own shares; if it has outstanding obligations fallen due at the time of the decision, as well as the value of Company's current (current assets/current liabilities) and quick ratios ((current assets - inventory)/current liabilities) is lower than 1 at the end of the year.

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

The Company monitors capital using capital concentration ratio, which is calculated as ratio between equity and total assets (after eliminating advances received) of the Company.

(all amounts are in EUR thousand unless otherwise stated)

23 Financial risk management objectives and policies (continued)

Equity includes ordinary shares, reserves, retained earnings or accumulated losses. The Company's management seeks the capital concentration ratio to be no lower than 40%:

	As at 31/12/2020	As at 31/12/2019
Company's assets	156,663	143,420
Contract liabilities: advances received	(717)	(688)
	155,946	142,732
Equity	129,607	128,153
Capital concentration ratio	83.11%	89.79%

24 Related party transactions

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

The Company's transactions with related parties in 2020 and related year-end balances were as follows:

	Sales to related parties	Purchases from related parties	Receivables from related parties	Accounts payable to other related parties
Shareholders	757	18	2,455	-
Entities controlled by shareholders	7,036	407	805	51
In total	7,793	425	3,260	51

As at 31 December 2020, the receivable from Vilnius City Municipality amounted to EUR 2,454 thousand. Sales to Vilniaus Šilumos Tinklai AB in 2020 amounted to EUR 6,180 thousand.

The Company's transactions with related parties in 2019 and related year-end balances were as follows:

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

24 Related party transactions (continued)

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

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

25 Remuneration of the management and other payments

As at 31 December 2020 and 2019, the Company's management comprised 5 people.

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Key management remuneration	400	371
Social security	8	7
In total	408	378

During 2020, the Company's management received payment in amount of EUR 16.72 thousand for car rental (in 2019 – EUR 13.77 thousand).

26 Non-cash transactions

	01/01/2020 31/12/2020	01/01/2019 31/12/2019
Property, plant and equipment received from shareholders as capital contribution	3,446	3,231
Non-current assets received from third parties free of charge	117	565

27 COVID-19 pandemic

In 2020, the impact of the COVID-19 virus outbreak on the Company's activities and financial statements was not significant.

In 2020, revenue from sales to legal entities decreased by 4% compared to the planned level, but these losses were compensated by an increase in consumption by natural persons, which exceeded the planned sales volume by 2%.

The Company conducts observations and analysis of the dynamics of receivables. During the first quarantine in 2020, the Company suspended the debtor-related processes and debt collection activity. The Company also provided customers with the opportunity to defer payments until the end of the first quarantine, the amount of deferred payments amounted to EUR 130 thousand. The debtor-related processes were resumed following first quarantine with the greater part of debts recovered until the end of the year. As at 31 December 2020, the deferred payments amounted to EUR 16 thousand.

Additional COVID-19 related costs incurred by the Company in 2020 amounted to EUR 149 thousand (Note 7).

27 COVID-19 pandemic (continued)

After the declaration of a national level emergency in Lithuania, the Company made timely safety and organizational decisions ensuring personnel security and the Company's going concern. The Company has various safety measures in place to ensure the safety of both its employees and partners. Whereas the Company provides vital services and is obliged to ensure continuity and uninterrupted service (smooth operation of the water supply and wastewater management process and emergency response) during emergency and quarantine, the Company provided additional personal security measures to employees who were unable to work remotely and established other organizational arrangements related to health care. Having assessed the Company's activities of vital importance, the work of the Company's employees was arranged in shifts so that there was no direct contact between shifts. The possibility to continue the work in adverse circumstances without leaving the service spaces for a longer period of time was also made available. The employees, who can perform their functions remotely, worked from home. The relevance of the measures applied in the Company is subject to ongoing discussions and reviews.

The Company has established an Emergency Operations Centre (EOC) responsible for the proper management of the risks arising in the Company, monitoring the situation in the Company on a daily basis and making adjustments to the action plans as needed. The Company closely follows and assesses economic trends and their possible long-term impact on the Company's financial position.

The Company estimates that the impact of the COVID-19 virus outbreak on the Company's activities and financial statements in 2021 will similarly be insignificant. 98% of the Company's revenue are regulated and subject to the "cost recovery principle", therefore the impact of COVID-19 on the decrease in sales of services will be assessed at the time of the recalculation of the base prices and will not affect the Company's activities. Article 17(1) of the Law on Drinking Water Supply and Waste Water Management of the Republic of Lithuania: "The principle of cost recovery applied in the field of drinking water supply and waste water (including surface waste water) management services means that the prices of drinking water supply and waste water management services must cover the necessary costs for the provision of drinking water supply and/or waste water management services, ensuring a long-term operation, renovation and development of drinking water supply and wastewater treatment infrastructure, providing favourable conditions for subscribers and consumers for using drinking water and obtaining wastewater treatment services of appropriate quality, as well as reducing environmental pollution and ensuring rational use of water resources." The Company does not anticipate a significant increase in uncollectible amounts. Debt collection activities were not suspended during the second quarantine.

28 Off-balance sheet liabilities and contingencies

Litigations

The Company has received claims from the following persons:

- On 19 May 2017, the Environmental Project Management Agency under the Ministry of Environment of the Republic of Lithuania has informed the Company about undertaken investigations into alleged infringements of the incompliance with monitoring (result) rates during the period from 2007 to 2013 while performing projects funded by the European Union. The incompliance with monitoring (result) can modify the amounts of expenses suitable for funding from 5 to 20% of the funded amount. In September 2017, the Minister of the Environment of the Republic of Lithuania has issued the following orders: No D1-448; No D1-497; No D1-499 and the orders No D1-752; No D1-739; No D1-735 on application of financial corrections, under which the funded amount was EUR 4,021,761.

28 Off-balance sheet liabilities and contingencies (continued)

Vilniaus Vandenys UAB appealed the orders to Vilnius Regional Administrative Court on 2 October 2017. The Court of first instance did not uphold the Company's appeal, therefore, appeals have been filed to the Supreme Administrative Court of Lithuania on 9 July 2018. On 14 October 2020, the Supreme Administrative Court of Lithuania partially uphold the Company's appeal to annul the decisions of the Minister of the Environment of the Republic of Lithuania No D1-752, D1-739 and D1-735 on application of financial corrections and refer the matter regarding the adoption of the decision back to the defendant, the Ministry of Environment of the Republic of Lithuania, for reconsideration. As it is not possible to make a reasonable estimate of the outcome of this dispute, no provision is made for adjustments to the amounts funded. In the event the decision to repay the amounts funded is adopted, funding resources will be redistributed (by reducing the amount of the grant received). A possible return of funds should not have any impact on the Company's income or losses.

- On 21 November 2018, Envija ES UAB filed a claim for a unilateral offset to be announced as invalid and for the debt to be extended. The amount of the claim is EUR 59,688. As at 31 December 2019, the Company has formed a provision of EUR 59,688 for this claim. During the court hearing that occurred on 4 February 2020, the court has ruled to award the plaintiff EUR 17,823, however, the Company disagrees with the court judgement and appeal against it on 3 March 2020. On 2 February 2021, the court has ruled to perform a forensic examination and, therefore, the proceedings have been suspended. The amount of the provision has not changed as at 31 December 2020.
- There is a civil case in the Vilnius City District Court based on the plaintiffs J. Ž. and A. Ž. action negatoria against the defendant Vilniaus Vandenys UAB regarding freeing up the land plot by dismantling the cold water supply pipeline and the faecal sewer lines and by clearing up the land plot. The plaintiffs also request to award financial damage of EUR 196 in and EUR 1,500 in respect of non-financial damage. The dispute has lasted for about 6 years, but Vilniaus Vandenys UAB became the defendant only in November 2019. The claim relates to the removal of an existing network, however, the plaintiffs could claim not only the removal of the networks, but also compensation for the impairment of the land (restriction on use), therefore, a provision of EUR 74,439 has been formed as at 31 December 2019, calculated as the maximum possible compensation equal to the amount of network removal. In February 2020, the court upheld the claim for freeing up the land plot was satisfied and rejected the claim for compensation of damages. Both Vilniaus Vandenys UAB and plaintiffs appealed the court's ruling. the Court of Appeal has not yet had to rule on this appeal, therefore the amount of the provision recognised did not change as at 31 December 2020.
- There is a civil case in the District Court of Vilnius City based on the plaintiff KRS UAB action against Vilniaus Vandenys UAB regarding the award of EUR 30,751.00. As the Company has no reasonable prospect of success in the case, the terms of the settlement agreement have been agreed between the parties, and a draft settlement agreement has been prepared. Provision of EUR 30,751.00 was recognised as at 31 December 2020.
- On 20 October 2020, Gelmedis UAB filed a claim with the court against Vilniaus Vandenys UAB requesting that the defendant be ordered to pay EUR 31,460 debt, and annual interest at the rate of 6% for the entire amount awarded from the date of bringing a case before a court until the full compliance with the court's judgement and the costs incurred. The Company opposed the action, claiming that Gelmedis UAB provided inadequate container for the storage of ferrous sulphate and therefore refused to accept it, and is not obliged to pay. On 29 December 2020, the Vilnius Regional Court passed a judgement, where it satisfied the claim of Gelmedis UAB and ordered the Company to

28 Off-balance sheet liabilities and contingencies (continued)

pay EUR 31,460 debt, and annual interest at the rate of 6% for amount of EUR 31,460 awarded from the date of bringing a case before a court until the full compliance with the court's judgement, and EUR 929 costs incurred. Since the period for appeal had not yet expired as at 31 December 2020, a provision of EUR 33,000 was recognised.

- There is a civil case in Vilnius District Court based on the action of Vilniaus Vandenys UAB of 16 July 2020 against the decision of the Environmental Protection Department under the Ministry of Environment (EPD) by which it requested the court to set aside the decision of EPD "On the Approval of the Inspection Report" and to exempt Vilniaus Vandenys UAB (Applicant) from the pollution tax specified in the decision of EPD or to annul the decision of APD (Defendant) "On the Approval of the Inspection Report" in so far as it imposes a pollution tax of EUR 7,561,902.00 at a higher rate and reduce that amount (tax) to EUR 151,238.04 (i.e. exempt from the rate which is 50 times higher).

Taking into account that the economic sanction is imposed on the Company for the discharge of the pollutant Bis(2-ethylhexyl) phthalate into the environment in 2014–2018 with domestic and industrial waste water without a permit and that the amount of the economic sanction is determined based on the formula applicable to the concealed pollution (at a 50 times higher rate), the Company believes that such economic sanction is unreasonable and should be reduced by the court because the Company did not conceal the pollution and kept the competent authorities constantly informed about the pollution. The Company also implemented a monitoring program coordinated with the Environmental Protection Agency (EPA), conducted wastewater surveys and provided the results to EPA and the EPD on a regular basis. State authorities were informed in due time of the pollution. Moreover, given that phthalates were included in the list of priority substances in 2014, the Company acted proactively and applied to the EPD for a review of the IPPC permit back in 2014. On 11 July 2014, the response was received stating that there was no legal basis to change the Company's IPPC permit No VR-4.7-V-01 to the Emission Allowance. Therefore, it is obvious that the Company did not conceal the pollution, provided the necessary and accurate information on ongoing basis, therefore the imposition of a sanction and its calculation using the formula applied to concealed pollution is unlawful. The Court hearing has been scheduled for 20 April 2021. Provision of EUR 2,646,665.70 was recognised as at 31 December 2020 on the basis of all the relevant circumstances and case-law in the similar cases.

- On 24 September 2020, the Company received the claim from the State Environmental Protection Inspection (Vilnius administration) of the Environmental Protection Department under the Ministry of Environment for damages in the amount of EUR 82,709.76. The Company does not agree with the claim of EPD. On 31 December 2020, a provision of EUR 82,709.76 to repay the damages indicated in the claim was recognised.
- An accident occurred on 21 July 2020 involving death of 3 employees of the Company. This incident caused a pre-trial investigation. No any suspicions have been expressed against anybody in the pre-trial investigation, the investigation is not yet complete. The Company has obtained the employers' liability insurance, and therefore will not incur any financial loss even in the case of monetary claims against the Company. Since there was no any monetary claim against the Company, a provision was not recognised as at 31 December 2020.
- Additionally, the State Labour Inspectorate carried out an investigation into an accident at work which occurred on 21 July 2020. The findings of the investigation state that both the Company's fault for an accident at work and part of the responsibility falls on the workers who had died in accidents at work. The Company disagreed with the findings of the investigation and therefore appealed the findings

28 Off-balance sheet liabilities and contingencies (continued)

of the investigation to the Chief Labour Inspector who made a decision on 8 March 2021 not to grant the Company's request for additional accident investigation and to eliminate inaccuracies in accident investigation reports, and to make adjustments regarding the causes of accidents identified based on the unsubstantiated assumptions of investigators in accordance with the objective (factual) circumstances and to terminate the administrative procedure. The Company is bringing an appeal against this decision to the administrative court. This event is recognised as an insured accident at work. Insurance benefits for the survivors of the deceased workers will be paid by the State Social Insurance Fund Board, therefore the Company did not recognise a provision as at 31 December 2020.

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

	As at 31/12/2019	Accrued 01/01/2020 31/12/2020	Used 01/01/2020 31/12/2020	As at 31/12/2020
Provisions for trial claims	316	64	181	199
Provisions for environmental damage	455	2,729	455	2,729
Provisions accrued for boreholes liquidation	45	30	14	61
Provisions for cadastral measurement and cases registration	26	5	7	24
In total	842	2,828	657	3,013

Commitments under concluded contracts

As at 31 December 2020, the Company's commitments, assumed under the concluded work contracts at the reporting date, which are not yet recognised in the financial statements, amounted to EUR 16,311 thousand. As at 31 December 2019, commitments amounted to EUR 11,678 thousand.

Guarantee from the Vilnius City Municipality

By the decision of the Council of Vilnius City Municipality No 1-776 of 9 December 2020, the Vilnius City Municipality agreed to grant the guarantee of EUR 12,500 thousand to secure the loan to finance part of the investment program in 2021–2022 that is negotiated by the Company with several financial institutions.

Provision for special conditions on land use (protection zones)

On 1 January 2020, the Law on Special Conditions on Land Use of the Republic of Lithuania came into force introducing the obligation for the Company to register in the State Real Property Register special protection conditions (protection zones) of a land which will fall within the boundaries of the protection zones of the Company's water supply and wastewater collection infrastructure and pay compensations for them. This Law defines the procedure and principles for registration of these special land areas and requires to pay compensations for the use of special land areas under the procedure approved by the Government of the Republic of Lithuania. The Law requires all protection zones to be registered by 31 December 2022.

28 Off-balance sheet liabilities and contingencies (continued)

No provision is made for protection zone registration and compensation costs incurred in 2020, 2021 and 2022, as there is an uncertainty over the exact scope of work needed to register the protection zones.

No provision is accounted for compensation of land owners for the protection zones since the Company's management cannot reliably estimate the amount of expenditures expected to be incurred due to the inaccuracy of the cadastral data of the engineering networks available in the GIS, existing deviations and missing data on depth of the infrastructure, which is one of the key data for determining the area of protection zones and calculating compensations.

Other off-balance sheet commitments and uncertainties

As at 31 December 2020 and 2019, the Company has legally unregistered assets (Note 10) and to the date of approval of these financial statements the Company has not received any claims from the third parties. The Company bears all the risks and rewards related to these assets.

29 Events after the reporting period

On 18 February 2021, the agreement for the reconstruction of the Švenčionys wastewater treatment plant was signed providing investment of EUR 3.2 million into the renewal of the Švenčionys wastewater treatment plant. 80% of the project will be financed through European Union Structural Funds.

On 18 February 2021, the Company's Board approved the partial sale of 12 properties on Maironio st. The price of EUR 1,465,000 constitute the opening bid set based on the Real Estate Sale Study carried out by Newsec advisers LT UAB.

In March 2021, the European Investment Bank (EIB) granted a loan of EUR 50 million to the Company for the improvement of infrastructure. A 20-year loan facility is intended primarily for the extension and refurbishment of water- and wastewater networks, modernisation of wastewater treatment plants in Vilnius City and Švenčionys, and improvement of the availability of services to the communities of the municipalities of Vilnius, Švenčionys and Šalčininkai and Vilnius District.