

## **Vilniaus vandenys UAB**

**Annual Report,  
Independent Auditor's Report, and  
Financial Statements for the  
year ended 31 December 2018**

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Annual Report for the  
year ended 31 December 2018

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## MESSAGE FROM THE CHAIRMAN OF THE BOARD

UAB Vilniaus vandenys consistently performed and reached their set goals.

The Company's activity is organised economically. In 2018, Vilniaus vandenys operating expenses were 10% less than expected.

Due to this reason and to income higher by 3% than expected, income before interest, taxes, depreciation and amortisation (EBITDA) was higher than expected.

Client service received special attention. Customer satisfaction of the Company's services provided, and customer service quality index grew by 3 points. Therefore, we can align with modern Lithuanian companies.

Implementing new client connection process, the current block connection to the centralised network plan with 7 investment projects has been approved. These are block water supply and / or wastewater network connection projects in a few garden communities.

With these projects we want to help Vilnius city citizens connect to Vilniaus vandenys water distribution and wastewater networks. In 2018, the Company has made the process of new customer connection to the network and conditions easier, so that more citizens would feel both economic and ecological benefit.

During the reporting period, all expected agreements to implement investment projects funded by the EU have been signed. Water loss reduction goal has been reached by implementing water loss reduction instrument plan. Amongst many instruments, an overnight water loss search has proven to be effective. Also, a clear segregation between the accounting of the water supplied to the customers and used for the Company's purposes was defined.

Vilniaus vandenys will continue to aim at being the model not only to other companies in Vilnius municipality but also to the regional companies.

Best regards,

Julius Morkūnas

Chairman of the Board

## MESSAGE FROM THE CEO

Dear customers, partners, shareholders and colleagues,

The year 2018 was a year of continuing changes for Vilniaus vandenys. Good results of the Company proved that these changes were implemented successfully.

The Company always gives special attention to customer service and its development. Last year, we presented an essential project, that is a modern client service platform savitarna.vv.lt, to the Company's clients.

Responding to the customer remarks, we reviewed the process of new customer connection to the network and its maturities. The queue of works performed by the customers was shortened from 2 weeks to 5 calendar days.

After implementing these and other improvements, customer satisfaction index grew by 3 points from 67 to 70 and exceeded the general average of Lithuanian utility services companies' client satisfaction index.

In 2018, the Company allocated twice the funds of last year to investments. For the first time, the Company's block network development was implemented on its own funds solely. According to a public rating formula, 7 development projects were selected, that will be implemented in 2019.

Vilniaus vandenys were the first of the municipality-governed entities that started to collaborate with Governance Coordination Centre. We are a municipality Company that made its way to a level of a state-owned companies. We aim to work effectively and more transparent, therefore we align with the most advanced companies in the governance field.

I am happy that we could contribute to community wellbeing and projects important to the society, from drinking water station to waterslide installation implementation.

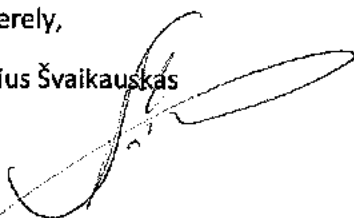
Decrease of costs, effective performance and positive changes inside the Company had impact on the price of the services, decreasing them by 13%. Lower prices are applied to the customers since 1 January 2019. That is the second price reduction within a short period of time that is less than a year and that is a challenge to the Company as well.

In 2019, a new caption and ambitious goals await for Vilniaus vandenys. We have to prepare a 3-year activity and development plan and a 10-year strategy. The latter will define such priorities as innovation implementation, new service development, service development in public places and service quality improvement. We will continue to give special attention to performance effectiveness and transparency, improvement of customer service, involvement in environmentally friendly and social responsibility increasing projects.

I believe that we, following the Company's values and working transparently, responsibly and actively, will meet your expectations.

Sincerely,

Marius Švaikauskas  
CEO



## ABOUT THE COMPANY

Vilniaus vandenys is the largest Lithuanian water management enterprise that is engaged in drinking water supply and wastewater management for about 255 thousand customers. The Company holds a drinking water supply and wastewater management licence issued by the National Commission for Energy Control and Prices (NCECP) and operates in Vilnius City Municipality as well as Vilnius, Švenčionys and Šalčininkai district municipalities. The Company has no branches or representative offices.

The Company supplies groundwater only, from 40-180-meter-deep wells. Vilniaus vandenys supplies approximately 93 thousand cubic meters of water, collects and treats more than 111 thousand cubic meters of wastewater per day.

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

## MAIN SERVICES

### SUPPLY OF DRINKING WATER

As at 31 December, Vilniaus vandenys operates 34 wellfields, 271 wells that can be operated, 147 water pumping stations, 1700 km water supply pipelines, 19 water improvement plants, 500 water extraction columns and 4922 fire hydrants.

In 2018, the Company extracted 33.98 million m<sup>3</sup> of drinking water (which is 1.58 million m<sup>3</sup> more compared to 2017).

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. High levels of iron and manganese are typical of groundwater in Vilnius and Vilnius district. Excess iron and manganese are removed by treating water in water improvement plants used to clean 87% of water supplied by the Company.

The Lithuanian Hygiene Norm HN24: 2017 lays down the requirements for safety and quality of drinking water. According to these requirements, and in order to ensure the quality of supplied water, the Company performs regular monitoring of the quality of drinking water and carries out tests thereof. Samples for the tests are taken from the distribution network and consumption points. Laboratory tests of the quality of drinking water are carried out in accordance with the programme supervision plan drafted each year and approved with the State Food and Veterinary Services and considering customer needs. In 2018, a total of 8,214 thousand tests were carried out in the Company's laboratory. About 50 water quality indicators were tested, and the absolute majority of them (98%) fully met the Hygiene Norm HN24: 2017 requirements.

The majority of the water supply networks was built in connection with the city expansion, thus it is decades old. Due to the long term of operation, pipelines in certain parts of the city are obsolete, thus resulting in occasional water leaks or accidents. In 2018, the Company liquidated 606 water supply accidents\*.

\*Accident - an unforeseen event having formed as a result of a fault in water management infrastructure, technological process damage or other unforeseen technical circumstances, which may lead to disrupted service provision to the customer, pose threat to human health or life, and result in another adverse environmental impact or a threat to public and private property.

In 2018, the Company renovated sections of water supply pipelines in emergency state located in collectors of Vilnius city heat networks. The Company also invested in renovation of equipment of wellfields and wells, new wells, restoration of water supply networks and wells, replacement of reinforcement and fire hydrants. During the year, 255 wells were reconstructed, or 592 bolts were repaired, and 126 hydrants were renewed and fixed.

Wear and tear of the network (more than 60% of water supply and wastewater network is more than 30 years old) and soil movement are most frequent reasons of accidents.

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

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

## WASTE COLLECTION AND MANAGEMENT

For the collection of wastewater and its transportation to the wastewater treatment facilities, Vilniaus vandenys uses 1 350 km wastewater networks and collectors, including 170 km pressure lines and 188 wastewater-pumping stations. The Company operates 8 wastewater treatment plants: Vilnius city, Švenčionys, Švenčionėliai, Pabradė, Nemenčinė, Gėla, Šalčininkai and Eišiškės. The Company also accepts and manages wastewater collected by companies transporting wastewater.

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

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

In 2018, Vilniaus vandenys treated 40.5 million m<sup>3</sup> of wastewater, which was 2.59% less than in 2017.

In terms of the key examined indicators (biochemical oxygen consumption in seven days (BOD7), the total phosphorus and the total nitrogen content), high treatment efficiency levels are reached in the Vilnius wastewater treatment plant, which remained the same in 2018, compared to 2017.

The Company faces with challenges regarding high concentration of nitrogen in cleaned wastewater, however the case is under control.

In order to achieve a better protection for environment from pollution caused by operating activity, maintain high quality of wastewater cleaning, reconstruction of wastewater treatment plant of Švenčionys is started to perform (public procurement was announced).

In 2018, there were 182 accidents in wastewater networks. Accidents and breakdowns in wastewater networks were mainly caused by obsolescence of pipelines and blockage of pipes. A mixed wastewater drainage system is installed in Vilnius city centre, the Old Town, a part of Antakalnis and Naujamiestis where both wastewater and rainwater is collected. These wastewater networks accumulate sediment and silt causing frequent blockages. The Company's wastewater operation and accident liquidation units focus not only on the liquidation of such accidents and breakdowns but also on their prevention.

In 2018, points of wastewater networks with highest accident concentration were repaired (having replaced about 1.413 meters of pipelines) and 470 meters of the network were reconstructed while implementing investment projects, 63 kilometres of wastewater were cleaned (treated), 455 failures were fixed, and TV

diagnostics was performed on 13 kilometres of pipes using a modern equipment. The plan is to continue the routine preventing washes of wastewater treatment networks and to invest in renovation of wastewater treatment networks in 2019.

## PERFORMANCE AND FINANCIAL INDICATORS

### SCOPE OF SERVICE PROVISION

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

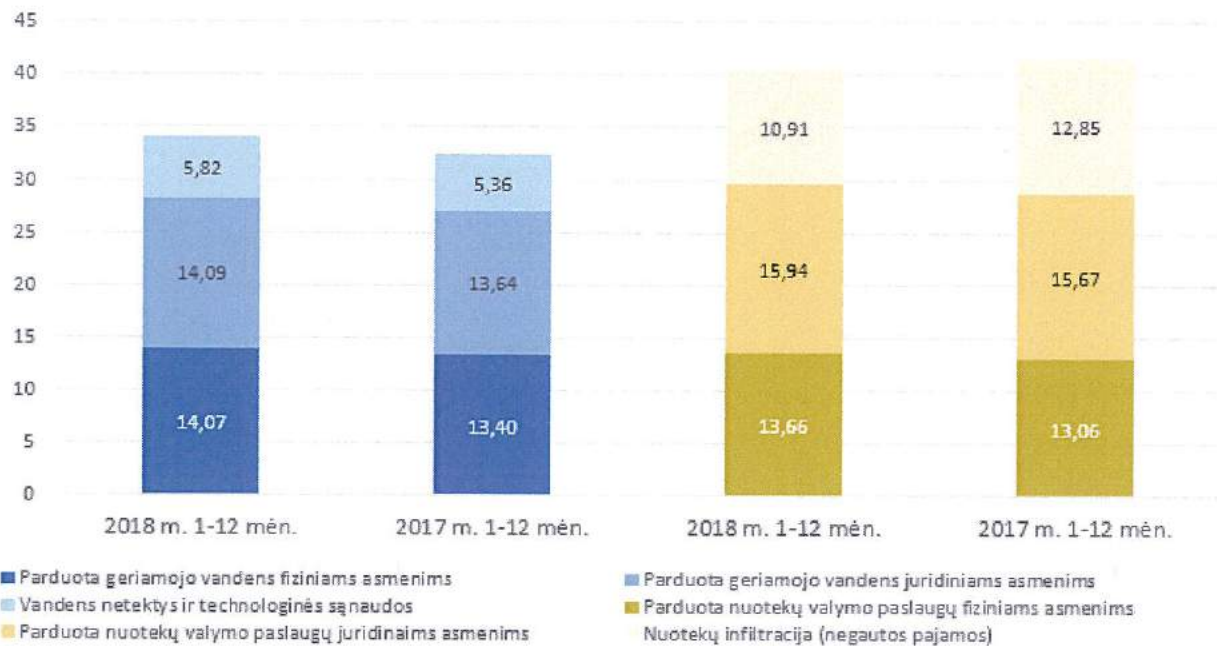
Performance indicators	2018	2017	Change in 2017 - 2018	
			thousand m <sup>3</sup>	%
<b>Drinking water sales, thousand m<sup>3</sup></b>	<b>28,160</b>	<b>27,043</b>	<b>1,117</b>	<b>4%</b>
To natural persons (consumption), thousand m <sup>3</sup>	14,069	13,403	667	5%
To legal persons (subscribers), thousand m <sup>3</sup>	14,090	13,640	450	3%
<b>Wastewater treatment service sales, thousand m<sup>3</sup></b>	<b>29,602</b>	<b>28,731</b>	<b>871</b>	<b>3%</b>
To natural persons (consumption), thousand m <sup>3</sup>	13,659	13,059	600	5%
To legal persons (subscribers), thousand m <sup>3</sup>	15,943	15,672	271	2%

In 2018, the Company extracted 34 million m<sup>3</sup> of drinking water (i.e. 5% more than in 2017), provided 33.8% of water m<sup>3</sup> and used 0.44 m<sup>3</sup> 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 leakages and accidents but incorrect declaration of client meter readings plays an important role as well. The Company treats more wastewater than sells wastewater treatment services mainly due to rainwater infiltration in the wastewater collection system. 40.5 million m<sup>3</sup> of treated wastewater was accounted for in wastewater treatment plans, while only 29.6 million m<sup>3</sup> 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. In 2018, three wastewater collection reservoirs underwent pilot infiltration and rainwater access to wastewater network reducing projects, different instruments and methods were tested. According to the good practice of pilot projects, the activities will continue in 2019 due to infiltration and reduction of rainwater access to wastewater network.

The diagram below shows the total service provision scope (in thousand m<sup>3</sup>) with respect to drinking water losses \* and wastewater infiltration\*\*.



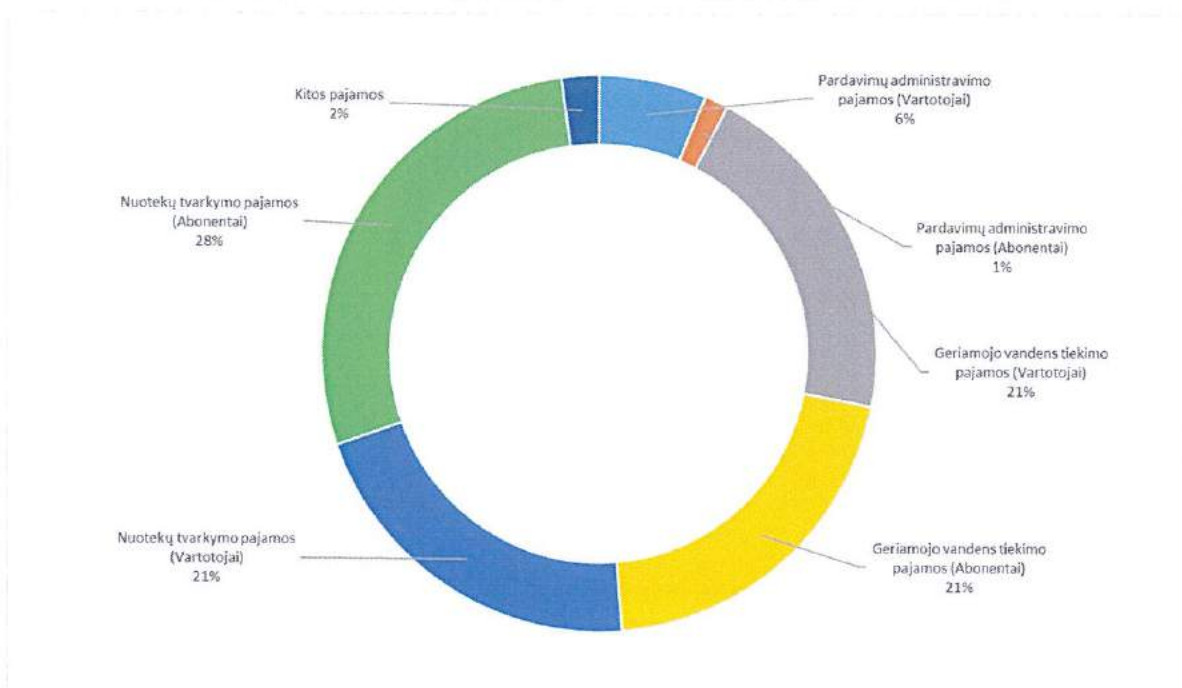


\*Water losses means a difference between the volume of drinking water supplied to pipelines and the volume of drinking water sold;

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

### INCOME FROM THE SALE OF SERVICES

Principal (sales) income generated by Vilniaus vandenys comprises income earned from the provision of services of drinking water supply and wastewater treatment. The Company earned EUR 36.2 million from sold services in 2018. Even though since October 2017, the prices of services dropped down by approximately 13%, however, due to increased sales quantity in 2018, sales income decreased only by 9% or EUR 2.65 million, comparing to 2017.



Sales income from business customers\* accounts for about 50% of the Company's income, income from private customers\*\* – for 48% and other income – for 2%. Income from the largest hot water supplier (Vilniaus energija) accounts for 33% of income from business customers.

Sales income	2018	2017	Change in 2017-2018	
			thousand EUR	%
<b>SALES INCOME</b>	<b>36,227</b>	<b>39,880</b>	<b>-3,653</b>	<b>-9%</b>
Income from sales administration (price)	2,832	3,162	-330	-10%
<b>Income from the supply of drinking water, including:</b>	<b>15,162</b>	<b>16,318</b>	<b>-1,156</b>	<b>-7%</b>
Income from private customers (consumers)	7,551	8,096	-545	-7%
Income from business customers (subscribers)	7,611	8,222	-611	-7%
<b>Income from centralised wastewater management including:</b>	<b>18,207</b>	<b>20,453</b>	<b>-2,246</b>	<b>-11%</b>
Income from private customers (consumers)	7,779	9,197	-1,418	-15%
Income from business customers (subscribers)	8,298	9,995	-1,697	-17%
Income from business customers (subscribers) for increased pollution	2,130	1,261	869	69%
Change in income accruals	27	-54	81	-150%

\*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.

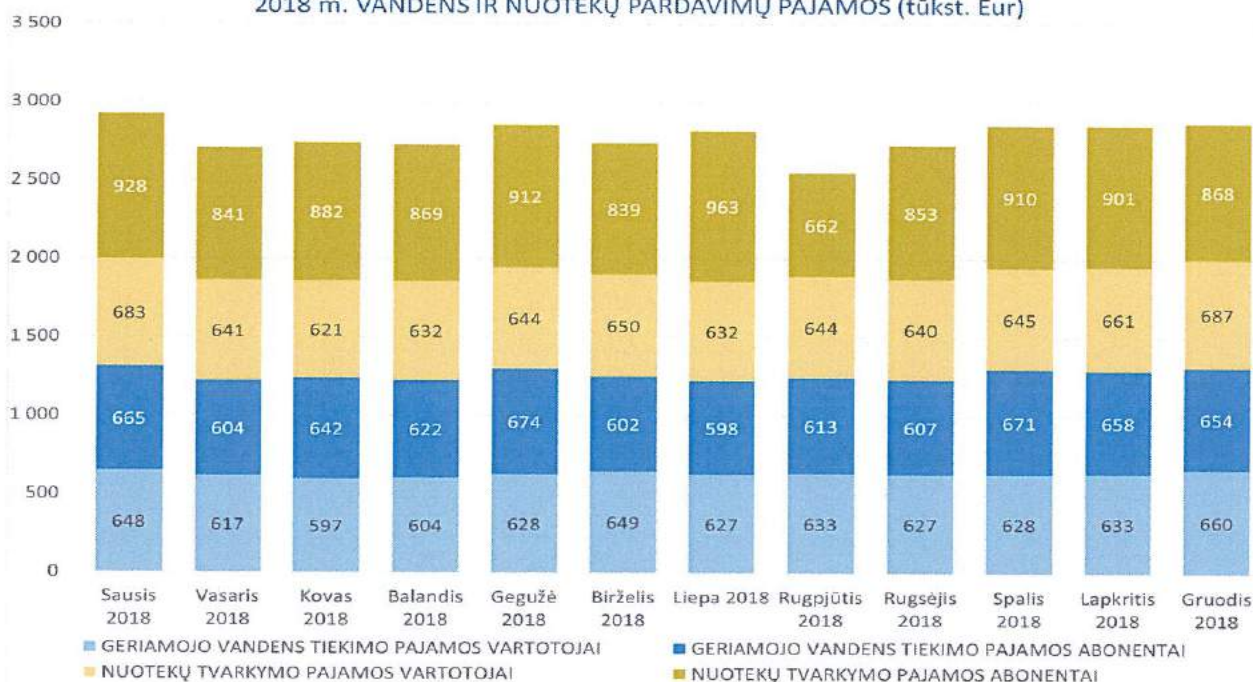
Subscriber is a natural or legal person, a branch of a foreign legal entity or another organisation established in the Republic of Lithuania purchasing the services of the supply of drinking water and/or wastewater management for business needs or carrying out economic activities and having concluded 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 2018, the Company's income decreased from EUR 41.8 to 37 million (11%). Even though the amount of services sold increased, however, decreased prices had impact on income decrease. Operating income also includes income earned from assets received free of charge from third parties, that amounted to EUR 621 thousand.

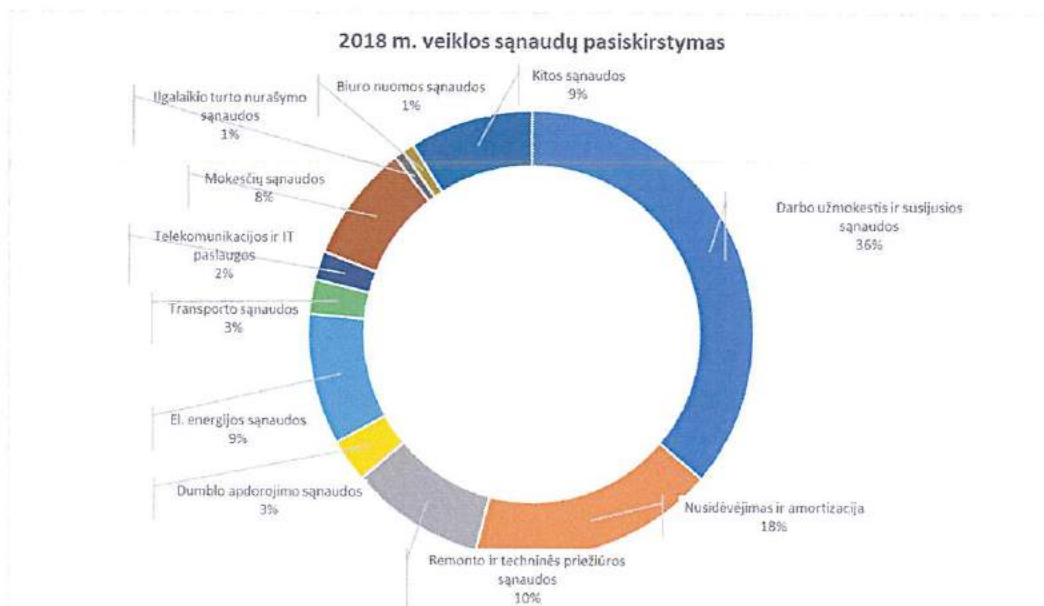
### 2018 m. VANDENS IR NUOTEKŲ PARDAVIMŲ PAJAMOS (tūkst. Eur)



Income from different activities remained almost stable in 2018 compared to 2017. Respectively, income from the supply of drinking water accounted for 42% in the income structure, income from wastewater management – for 50% and income from the selling fee – for 8% of the Company’s income.

### OPERATING EXPENSES

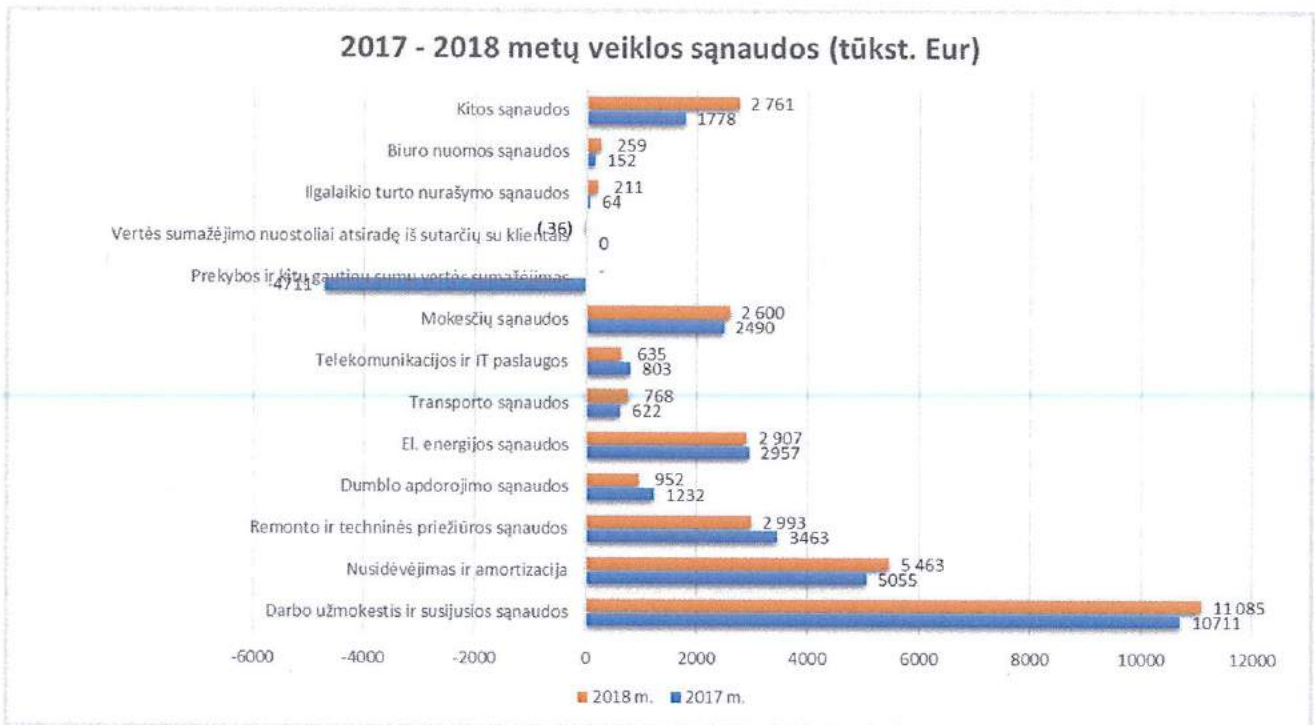
In 2018, operating income amounted to EUR 30.6 million, in 2017, it amounted to EUR 24.6 million.



In 2017, debt impairment reversal, which amounted to EUR 4.7 million, of which EUR 4.5 million was debt impairment reversal of Vilniaus energija, had a huge impact on the amount of expenses. In 2018, a change in debt impairment loss arising from contracts with customers amounted to EUR 36 thousand.

In 2018, 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 11.1 million in 2018 and increased by EUR 0.4 million or 3% compared to 2017. 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.

Property, plant and equipment amortisation expenses grew by EUR 0.4 million or by 8% to EUR 5.5 million in 2018 and made up 18% of the total operating expenses. Increase in expenses in 2018 was a result of a newly acquired, built and reconstructed property, plant and equipment.



Repair and technical maintenance costs that comprise of technical and exploitation materials, network diagnostics, cleaning and repair, dug-hole restoration after accidents, fixture services, etc. amounted to 10% of its operating expenses. They decreased by approximately EUR 0.5 million or 14% from EUR 3.5 million in 2017 and EUR 3 million in 2018. The decrease of these expenses was a result of strict control and increase in activity efficiency.

Electricity expenses accounted for 9% of operating expenses in 2018. Even though a larger amount of MWh electricity was bought (in 2018, MWh 39.3 of electricity was bought and in 2017, MWh 38.5), due to a decreased price of one electricity kWh bought, expenses insignificantly decreased.

Other expenses comprised 9% of operating expenses and in 2018 increased by approximately EUR 1 million or 55%. Mostly the increase of these expenses resulted from an increase of customer support related expenses, such as the updated self-service platform of the Company, a more frequent payment notices sent (in 2018, they were sent once a month while in 2017 they were sent once a quarter). Active work with debtors, call centre services, accounting instrument reading collecting services required additional expenses as well. In 2018, the Company paid special attention to maintenance of the managed property, therefore, the management and maintenance required additional expenses.

Increase in tax (not related to payroll) expenses, which account for about 8% of operating expenses of Vilniaus vandenys, to EUR 2.6 in 2018 from EUR 2.5 in 2017 was mainly influenced by increased environmental pollution tax. A 5% increase of obtained water and increasing environmental tax rate had some impact as well. In 2018, Vilniaus vandenys paid a total of EUR 10.9 million to the State Tax Inspectorate and EUR 3.36 million to Sodra (including payroll related taxes).

Sludge treatment expenses made up 3% of the operating expenses. In 2018, they decreased by almost EUR 0.3 million or 29% due to decreased composted sludge quantity that respectively decreased due to a decline in collected wastewater amount.

Transport expenses made up 3% of the operating expenses. In 2018, they increased by EUR 0.15 million or 23% due to increased repair expenses for aging vehicle park. The average age of the Company's managed vehicles is 10 years.

Telecommunication and IT service expenses made up 2% of the operating expenses. In 2018, it decreased by EUR 0.17 million or 21%. The withdrawal from wired telephone line in administrative branches by using Skype for Business programme for the Company's internal communication had impact on it.

#### KEY FINANCIAL INDICATORS

Key financial indicators, thousand EUR	2018	2017	Change in 2017-2018	
			thousand EUR	%
<b>Income statement indicators</b>				
Total income	37,008	41,752	-4,744	-11%
Income from operating (sales) activities	36,227	39,880	-3,653	-9%
Operating expenses (OPEX) (1)	24,898	24,120	778	3%
EBITDA (2)	12,110	17,632	-5,522	-31%
Profit/loss before tax	6,446	18,115	-11,669	-64%
Net profit	5,554	15,810	-10,256	-65%
<b>Indicators of assets, equity and liabilities</b>				
Total assets	140,427	135,452	4,975	4%
Cash and cash equivalents	17,129	12,583	4,546	36%
Equity	128,162	121,993	6,169	5%
Financial debts	2,141	2,998	-857	-29%
Trade receivables (including impairments)	5,017	6,839	-1,822	-27%
Trade payables	3,124	2,507	617	25%
<b>Profitability indicators</b>				
EBITDA margin (3)	33%	42%		-9 pp
Net profitability	15%	38%		-23 pp
Return on assets (ROA) (4)	4%	11%		-7 pp
Return on equity (ROE) (5)	4%	14%		-10 pp
<b>Other financial indicators</b>				
Net financial debts (6)	-14,988	-9,585	-5,403	56%
Equity level (7)	91%	90%		1 pp
Investment scope, total (8)	8,093,	4,605	3,488	76%
Financial debt to equity ratio (9)	2%	2%		
Current liquidity coefficient (10)	2,39	1,96		
Critical liquidity coefficient (11)	2,35	1,87		

1) OPEX – operating expenses other than depreciation and amortisation and asset amortisation and write-off expenses.

2) EBITDA (profit before interest, taxes, depreciation and amortisation) = profit (loss) before tax + costs of financial activities – income from financial activities – dividends received + depreciation and amortisation expenses + asset impairment expenses + asset write-off expenses;

3) EBITDA margin = EBITDA / income

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 - part of other non-current financial assets comprising investments in debt securities
- 7) Equity level = equity at the end of the period/ total assets at the end of the period
- 8) Investment scope, total = investment scope, from the Company's funds + received EU grants + property contributions of shareholders + assets received free of charge
- 9) Financial debt to equity ratio = financial debts / equity
- 10) Current liquidity coefficient = current assets / current liabilities
- 11) Critical liquidity coefficient = (current assets - inventories) / current liabilities

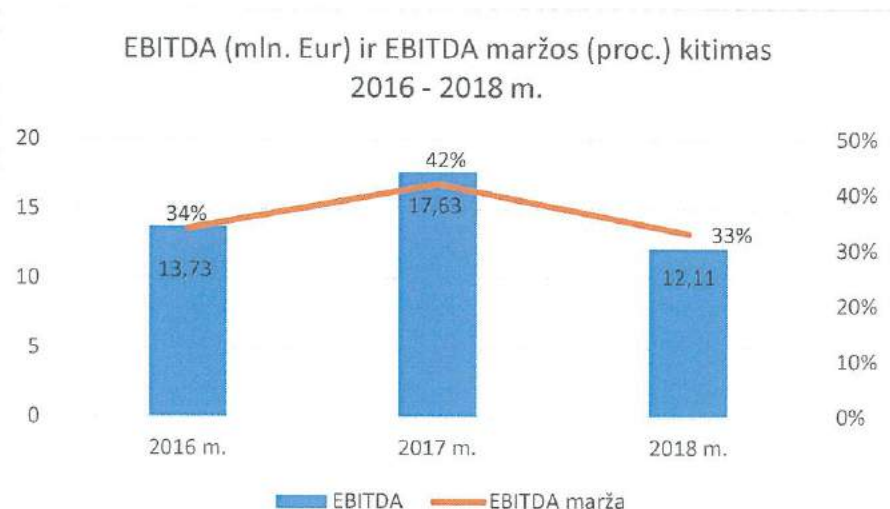
Financial debts totalled EUR 2.1 million at the end of 2018 and accounted for 1.7% compared to equity, or 1.5% compared to assets. In February of 2018, the Company signed with the Ministry of Finance of the Republic of Lithuania a new agreement on the line of credit of EUR 19.4 million with the maturity of more than 20 years, which will be used to implement investment programme.

Trade payables increased from EUR 2.5 million at the end of 2017 to EUR 3.1 million at the end of 2018. The Company had no overdue trade payables at the end of 2018. In 2018, comparing to 2017, the amount of the investments made with the Company's funds increased by 88%. It is planned to increase the size of investments in current assets even more in 2019. Investments were made to the used networks and station renovation, watering place renovation, sludge treatment equipment updates, water accounting instrument replacement and the like.

The increase in equity was determined not only by the net profit earned, but also by an increase in share capital due to the transfer of non-current tangible assets transferred by the shareholder. In 2017, equity increased by EUR 6.2 million to EUR 128 million and accounted for 91% of the Company's assets.

The decrease in the net profit earned resulted in respective decrease in profitability of assets and profitability of equity. It should be noted that the normalised profit\* before tax increased by as many as 132% in 2017 due to reduced OPEX. There were no significant events in 2018 that had impact on financial ratios.

\*Normalised profit was received having eliminated the impact of profit from the sale of the buildings in Dominikonų Street in Vilnius, interest and late payment interest from UAB Vilniaus energija and reversal of its debt impairment.



Increased expenses and decreased income due to decreased prices lowered the sizes of EBITDA and EBITDA margin. Due to these reasons, in 2018, EBITDA decreased to EUR 12.1 million comparing to EUR 17.6 million in 2017, respectively EBITDA margin decrease from 42% to 33%.

The Company's net profit in 2018 decreased from EUR 15.8 million to EUR 5.6 million compared to 2017. One of the critical factors is the price decreased on average by 16% that significantly decreased annual income, even though the amount of services sold increased. It must be noted that the size of income of the main Company's activity (drinking water and wastewater treatment) is regulated by the State Prices and Energy Control Commission (VKEKK). The share of income in different activities, exceeding the size agreed with VKEKK, are returned to the customers by recalculating (lowering) the deferred prices of services.

Financial activity expenses amounted to EUR 0.1 million. They were incurred from the interest paid to financial institutions on loans, paid late payment interest and fines. Financial activity income from received late payment interest and interest amounted to EUR 0.16 million. The major share of this amount makes up the interest of Vilnius city municipality under the agreement of the particularly scheduled deferred payments.

In 2018, Vilniaus vandenys had not invested in term deposits or debt securities. The Company's income and expenses in 2018 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.

For a 4-month period in 2017 that ended on 30 April 2017, EUR 4 million dividends were allocated to the shareholders that were paid out in 2017. For the May-December period, EUR 2 million dividends were allocated to the shareholders that were paid out in 2018. The further Company's dividend policy has not yet been formed.

## STRATEGY



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

Having a clear strategy and consistently implementing it, the Company fulfilled its goals set for 2018 and achieved sustainable results.

## 2018 metų tikslai ir jų vykdymas

Eil. Nr.	RODIKLIS	APIBRĖŽIMAS	SVORIS,%	2018 m. tikslas	
1.	OPEX	Veiklos sąnaudos, išskyrus nusidėvėjimo ir amortizacijos bei turto vertės sumažėjimo ir nurašymų sąnaudas	25	≤ 27,6 mln. Eur	YTD: 24,9 (-2,7)
2.	EBITDA	Pelnas prieš palūkanas, mokesčius, nusidėvėjimą ir amortizaciją = pelnas (nuostoliai) prieš apmokestinimą + finansinės veiklos sąnaudos – finansinės veiklos pajamos – gauti dividendai + nusidėvėjimo ir amortizacijos sąnaudos + turto vertės sumažėjimo sąnaudos + turto nurašymų sąnaudos	20	≥ 8,1 mln. Eur	YTD: 12,1 (+4,0)
3.	Darbuotojų įsitraukimas	Darbuotojų įsitraukimo rodiklis, rodantis kiek darbuotojai papildomai pasirošę įdėti pastangų dėl bendrų įmonės rezultatų	10	≥ 59	69
4.	Klientų aptarnavimo kokybė**	Klientų pasitenkinimas aptarnavimo kokybe (GCSI indeksas)	10	≥ 67	70
5.	Vandens nuostoliai**	Į vandentiekį patiekto ir vartotojams parduoto vandens kiekio skirtumas	15	≤ 16,15 proc.	15,4 proc.
6.	ES investiciniai projektai	Pasirašytos visos „Geriamojo vandens tiekimo ir nuotekų tvarkymo sistemos renovavimas ir plėtra Vilniaus mieste“ projekto įgyvendinimui reikalingos rangos sutartys*	10	Pasirašytos sutartys	Atlikta
7.	Naujų vartotojų prijungimo procesas	Pagal patvirtintą reitingavimo metodiką sudarytas ir pateiktas valdybos pritarimui esamų kvartalų prijungimo prie centralizuotų tinklų planas	10	Iki 2018.07.30	Atlikta

\* Pagal 2016-12-27 FAS Nr. 05.3.2-APVA-R-014-01-0001/03-1416(23.06), išskyrus Vilniaus nuotekų valyklos įrenginių rekonstrukcijos projekto sutartį.  
 \*\* Rugpjūčio 17 d. valdybos posėdyje priimtas sprendimas dėl 2 metinių tikslų koregavimo.

- OPEX. Operating expenses, except for depreciation and amortisation, asset impairment and write-off expenses of 2018 were 10% lower than expected, therefore, the Company saved EUR 2.7 million.
- EBITDA. Due to earnings higher by 3% than expected and lower operating expenses, EBITDA was higher in 2018 as instead of EUR 8.1 million it allocated EUR 12.1 million.
- Employee engagement. For the second time, an independent employee engagement investigation has been carried out, that showed how many employees are ready to put additional effort for the better results of the Company. 95% of the Company's employees made their statements. The general engagement rate reached 69% and was 13% higher than it was in 2017, when this investigation was carried out for the first time.
- Customer service quality. A significant improvement was recorded when evaluating the Company's customer satisfaction with service quality for a second year in a row. Based on an international GCSI (*Global Customer Satisfaction Index*) method, the performed investigation showed that Vilniaus vandenys customer satisfaction index reached 70 points. Meanwhile, European utility services companies average reaches 72 and in Lithuania it reaches 69. This result arose from a series of purposeful actions: new client connection process with the aim of strengthening the call centre with to install a one-window principle, (and client satisfaction was started to be rated after going through all the steps), inconvenience compensation order implementation. Also, technical policy and requirements of the materials to make everything clear to the developers has been prepared, an electronic self-service has been launched in full force, payment documentation to private clients has been changed, interactive planned work and incident map has been installed, wastewater control system for the drivers has been launched, etc.
- Water losses. Implementing water loss decreasing instrument plan, water loss goal has been reached as well. Then the Company began performing actions improving customer declaring / payment discipline, implemented the detachment of water expenses for technological purposes, implemented certain changes of incident and failure eliminating process and other instruments. Due these actions water expenses reached 15.4% (instead of the expected 16.15%).



6. EU investment projects. Implementing EU investment projects all the planned agreements were signed.
7. New customer connection process. In 2018, implementing the new customer connection process, for the first time, the existing block connection to a centralised network has been signed and filed to the Board based on an approved rating method It contained 7 investment projects.

## CUSTOMER SERVICE

In 2018, orientation to the client's needs in all organisational levels remained as the Company's priority. The Company improved the main customer service areas, reduced bureaucratic procedures to the clients, simplified and eased processes and invested into the electronic self-service development.

In 2018, the company continued with the trainings and tests of Customer service standards. Within a year, 104 investigations were carried out that had 106 employees investigated. Only 10 cases were recorded as negative (below the standard).

Also, the work has been conducted with an external partner, a contact centre which has employees that provide services for Vilniaus vandenys clients that call the short number 1889. Customer requirements were applied to these specialists, they were tested and evaluated. During the year, 22 employees of the contact centre and 264 customer service cases were evaluated. Price depends on the general quality rate as well, which the Company pays for the services provided by the contact centre.

The work is conducted with the employees of the companies that work with meter change and control, the standard is applied, and the employees are rated based on the same standard.

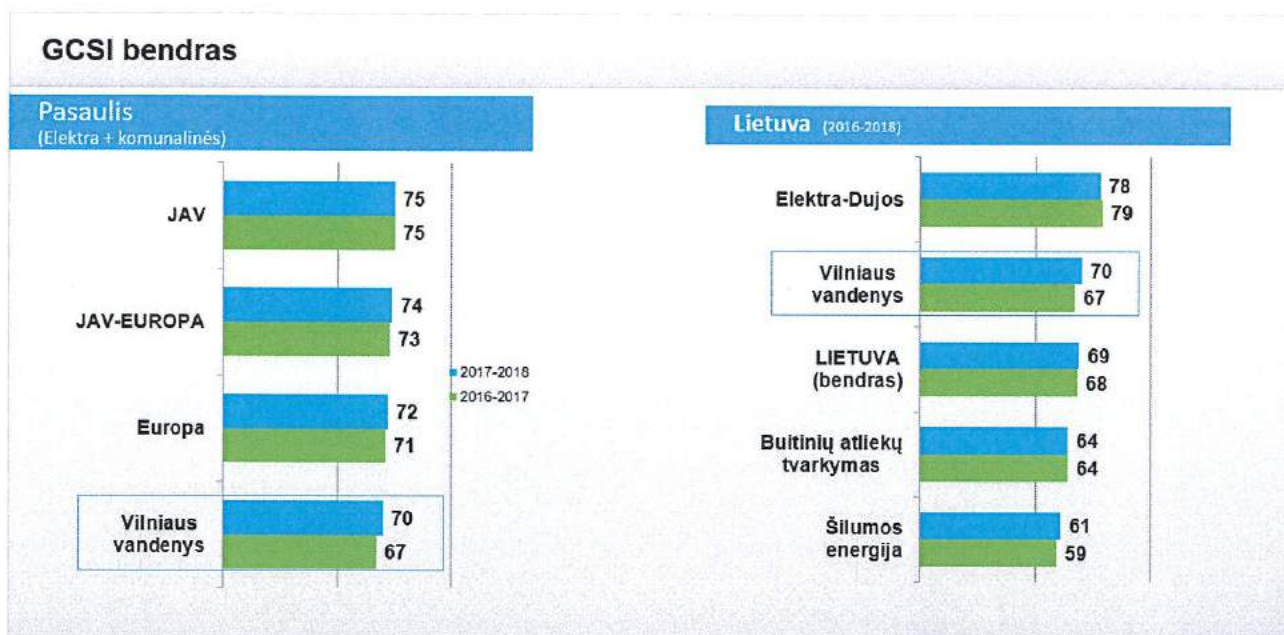
The Company's efforts to improve customer service were evaluated as positive in the annual client satisfaction survey.

## SURVEYS

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

The survey results showed that the current level of customer satisfaction of Vilniaus vandenys amounted to 70 (grew by 3 points from 67 in 2017). It exceeds the Lithuanian average by one point and comes close to the European average (72). The customer satisfaction (GCSI) with Vilniaus vandenys services has risen significantly to 74 (by 8 points comparing with the result of 66 in 2017).

## Pagrindinio pasitenkinimo rodiklio GCSI normų palyginimas

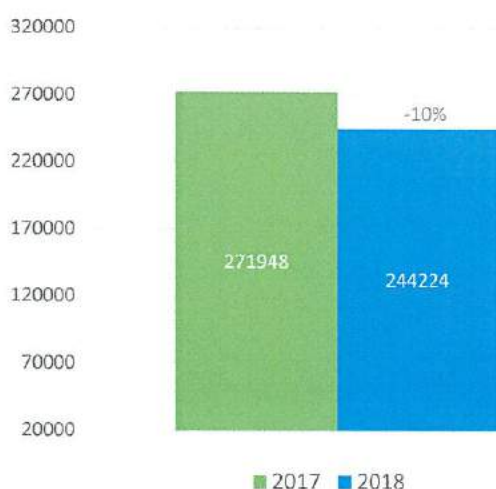


Since September 2017, the Company has also participated in the survey carried out by the Vilnius city municipality, which measures the rating of customer service and services of municipal companies. By actively encouraging customers to share their ratings and provide feedback (the link is published on the Company's homepage, emails and payment notices to customers), the number of respondents per week has increased from 375 to 2065 respondents; the average service quality rating amounts to 5.8 (+0.79) points and the service quality is 5.79 (+0.35) points.

In 2018, a transactional new customer connection survey has been carried out that indicates about the current weak spots that clients confront and then the Company can promptly respond to them. New customer process evaluation of the year 2018, conducted by phone survey recorded 194 respondents in the second half-year. The general index amounts to 8.5.

### CUSTOMER APPLICATIONS

In 2018, Vilniaus vandenys accepted 224,000 client applications by phone in both written and spoken forms about various issues and that is 10% less than in 2017 (272,000).



## CUSTOMER COMPLAINTS

In 2018, the Company received 99 complaints in total. This is the lowest amount of complaints within the last 3 years and 43% less than in 2017 (that was 173). Usually the customers complained about payment, debt, meter installation and the quality of services provided. Having performed the evaluation of these complaints, every other complaint (55%) had no ground. Complaint resolution timing decreased to 3 working days (20%) and at the year-end reached 7 working days.

Skundų skaičius 2016, 2017, 2018 m.



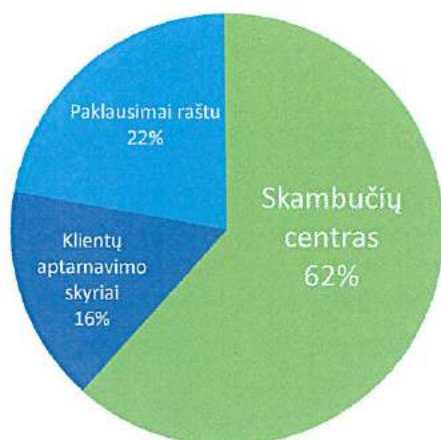
### Complaints of the year 2018.



## CALL CENTRE

In 2018, (as in 2017), call centre provided services to the largest portion of Vilniaus vandenys customers. i.e. 62% applications. In 2018, the call centre partner has changed, a switch to a new provider UAB Telenordi has been made, it is a call service team core based in Panevėžys. Organising the work of the call centre, a one-window principle is applied so that the customer receives every response within the first engagement.

## Customer application distribution by channels in 2018.

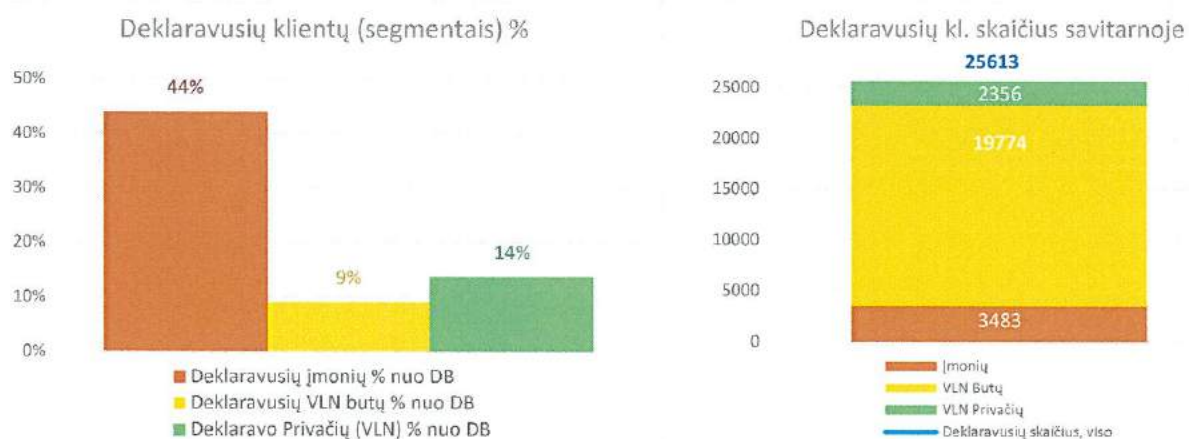


### E. SELF-SERVICE PORTAL

In 2018, the Company has kept its word to move as many services to the digital space, ensuring a modern and convenient customer service. At the end of 2017, a new modern self-service page has been created and elaborately presented to all the groups of customers. In September 2018, a convenient payment opportunity has been installed by Banklink.

The Company's effort to expand electronic e-services has been evaluated, the customers declaring accounting meter readings in the electronic self-service grew 25 times, while the meter readings for December was declared by 25,600 customers (10% of all customers). Electronic self-service platform is especially convenient to business clients as 44% of the business customers have declared their consumed cold-water readings here.

In 2019, it is planned to install even more convenient instruments of the electronic self-service system, such as electronic customer documentation application, electronic agreement signing, reservation of the timing of appointments with specialists and many more convenient features.



## CUSTOMER SERVICE DIVISIONS

In 2017, the main customer service branch of Vilniaus vandenys moved to a modern office building “Duetto” located at Spaudos Str. 8-1, Vilnius. Here customers are welcomed in a spacious customer service division, where all the matters of concern can be settled, and all questions can be answered by the specialists. The building can easily be accessed by public transport (a bus stop is located near) and own cars (there is a parking for business clients).

Customer service divisions in regions have also been renovated. In 2017, Šalčininkai customer service division recently moved to newly renovated premises. Divisions of Nemenčinė and Švenčionys will also be moved to renovated and much more convenient premises in 2018.

## BILLS

At the end of 2018, Vilniaus vandenys invited private customers to pay for the services in simplified way, i.e. not to calculate the amount payable but declare the current month’s meter readings and pay the amount written in the payment notice. All the calculations based on the actual prices of the services are conducted by the Company itself and it delivers payment notices to the customers that clearly states the amount of consumed water, the tariff and the payable amount. A simplified payment for services is more convenient in many ways and the most significant are the following: the clients do not have to track the meter reading history, get acquainted with the tariffs for services, calculate how much they have to pay on their own and that saves time and makes the possibility of errors lower.

After receiving a payment notice, the private customers may pay for the services provided and the declared drinking water meter readings in one of the usual ways, i.e. in the Company’s electronic self-service system, at the partner sites “Mano gilė” or “Viena sąskaita”, using the e-banking services, at the “Maxima” cashiers, in “Perlas” terminals or “Lietuvos paštas” branches.

Half the Company’s customers have already been paying like that before December, thus the payment system has been unified for all the customers and all payment accepting channels have been utilised. During the transitional period, a significant increase in customer applications has been recorded, however, after responding to all the clients’ questions, at the moment, more than 85% of the Company’s customers are paying for the services provided in this manner.

## DEBTS

The Company successfully managed customer debts.

In 2018, the Company cooperated with a lawyer firm to legally recover debts. That let old debts to be managed even more effectively. During 2018, EUR 200,000 of old debts (older than one year) have been recovered.

In 2018, the number of debtors decreased by 24%.

Per 2018 m.  
skolininkų skaičius  
sumažėjo  
 24%

## READINGS CONTROL

In 2018, the employees off Vilniaus vandenys together with the contractors checked 100,590 objects and reported 1.3 m<sup>3</sup> of water consumed by the clients but not declared.

Averages were calculated for customers who do not declare their readings. To calculate the average of the last 12 months readings is used. The average number of customers who do not declare readings was 21% of all the Company's customers. They had 2,602,661 m<sup>3</sup> of water recalculated.



## AGREEMENTS

Based on the reviewed agreement signing process in 2017, the Company continued to review agreements and resign contracts with customers. All newly signed agreements were digitalised and uploaded o systems in electronic format and upon request, quickly and easily accessed by electronic means. At the end of 2018, new agreements were re-signed with 20% of all the customers.

The general and special drinking water supply and wastewater treatment parts of the agreements were renewed based on the recommendations of State Consumer Rights Protection Authority (SCRPT). Based on them, other contractual documents were prepared, such as drinking water supply to water stations and drinking water supply (delivery) agreements.

Also, 100% of Wastewater treatment agreements were renewed that were approved by the Vilnius city municipality.

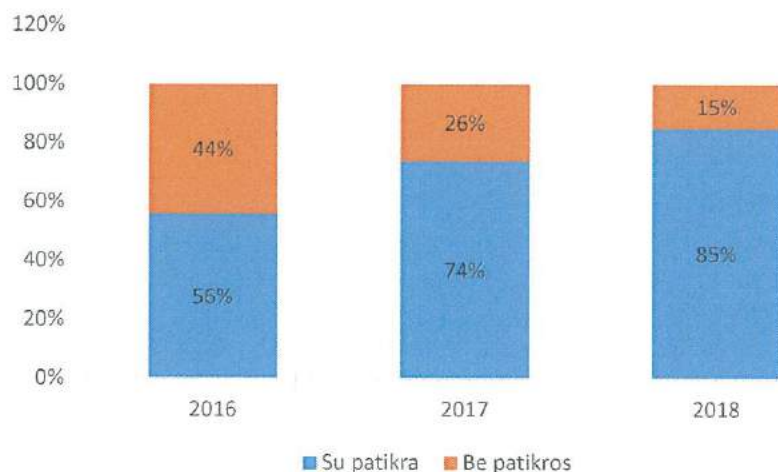
## SERVICE PRICE

In 2018, service prices remained the same and throughout the year were applied since 1 October 2017, when drinking water supply and wastewater treatment prices came into effect.

## WATER METERS

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

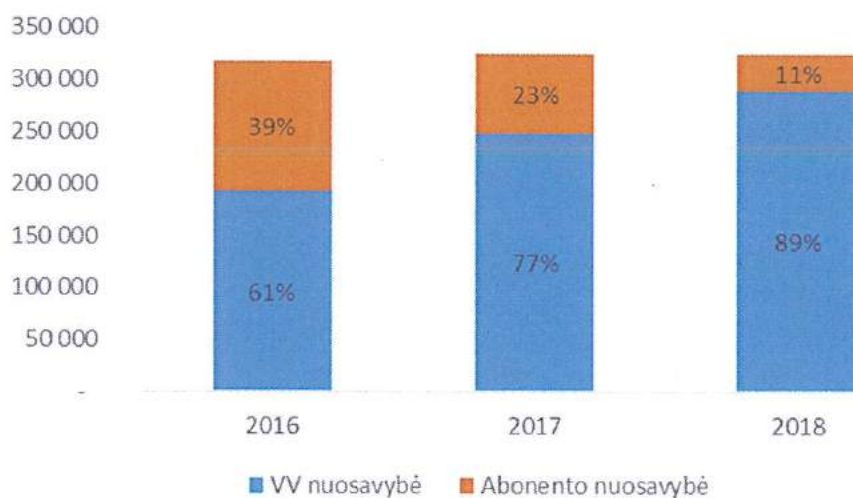
### Apskaitos prietaisų su galiojančia patikra dalis



In 2018, the number of meters without metrological inspection was reduced from 26% to 15%.

On 31 December 2018, there were 89% of water meters owned by the water supplier in the territory serviced by Vilniaus vandenys.

### Apskaitos prietaisų pasiskirstymas pagal nuosavybę 2016 - 2018 m.



## CONNECTING NEW CUSTOMERS TO THE NETWORKS

In order to optimise the Company's activity and facilitate connection to centralised water supply and wastewater networks, the process of connection of new customers to networks was thoroughly reviewed and renewed. Having implemented these changes, a higher service quality and faster terms are ensured (new customer connection term were shortened by almost one third).

All the information relevant to the customers is uploaded to the website. The customers can gradually get acquainted with the process of connection to the centralised water supply and wastewater networks.

In 2018, the Company connected 2546 new customers to the centralised water supply and wastewater networks (230 customer more than in 2017). Also, 437 preliminary connection agreements were signed.

#### BLOCK NETWORK DEVELOPMENT FUNDED BY THE COMPANY

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

In 2018, the first rating has been finished and 12 Vilnius city and Vilnius district communities' applications were selected. Based on these applications, funding will be allocated to the connection of populated blocks to the water supply and wastewater networks in 2019, 2020 and 2021. In total, 30 applications were received, 23 of them complied with the requirements. Other applicants can update their applications, remove deficiencies and file in new applications in a new rating stage.

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

#### SERVICE PACKAGE

In 2018, the Company will pay special attention to the Company's service package update. An additional service provision package has been approved, many of the Company's provided commercial services' provision terms and conditions to the customers were described (what kind of service that is, to whom it is provided, at what terms, at what price, how to order it). Specific services ordering drafts were standardised, prices were updated, and all the information was uploaded to the website.

#### WASTEWATER CONTAMINATION CONTROL

In 2018, Vilniaus vandenys prepared the customer-produced wastewater contamination control plan. Implementing the plan, the following things happened:

1. 925 samples were taken that were spread in order to detect contamination in wastewater collection system.
2. 379 sample cases exceeded individual contamination.
3. 104 new contaminating objects were detected.

Performing the wastewater contamination control, EUR 2.1 million were collected from income from increased individual contamination in 2018.

In 2018, a new control and wastewater accounting system (WSAS) for Wastewater supply companies were installed:

1. Using the system, transport control and register used by wastewater suppliers became simpler. Access to wastewater collecting stations is controlled by recognising vehicle licence plates.
2. A new possibility for the wastewater suppliers to see the amounts of wastewater brought and delivered by an own vehicle and the contamination attributed to those amounts in the self-service portal.

After implementing this system, the total brought and delivered amounts of wastewater increased by 4% comparing to the period in 2017 and 2018 until the implementation of the system.

After signing the agreements, sanctions were tightened for the suppliers for inadmissible contaminated wastewater delivery. Suppliers that do not perform this commercial activity were eliminated. Agreement terms and conditions were approved.



## INNOVATIONS

In 2018, with the aim to select the best technology, a pilot project of remote reading admission from the accounted meters has been implemented. During the project, various remote reading admission technologies have been tested, their advantages and disadvantages have been evaluated. Remote reading admission is crucial for the company as this technology would help to reduce water losses, deliver invoices to the customers in a timely manner, and identify accounting instrument failures and incidents in the network.

After updating the Company's GIS (Geographical Informational System, that contains all the Company's networks), three additional GIS internet applications have been created: "GeoDispečeris", "GeoInžinierius" and "Tinklo darbų ir įvykių stebėjimas". The updated GIS let the Company eliminate interruptions / failures more effectively, provide the connection terms to the customers and regulate projects faster and more conveniently.

In 2018, infrastructure exploitation system has been started to be installed (Asset managing system (AMS)). Infrastructure exploitation and managing system will accelerate and simplify the daily life of employees working with technological assets by making all the information accessible easier, see the planned jobs for the current day, report failures, see the condition of technological assets and future plans, change plans, manage agreements with contractors and many more. In the future, AMS will be integrated into GIS, accounting of current assets and other systems.

## THE DYNAMICS OF THE COMPANY'S CUSTOMERS

Customer type	31 December 2018	31 December 2017	31 December 2016
Private	247,130	243,074	239,922
In multi-apartment houses (settlement according to the meter)	227,107	223,442	221,145
In multi-apartment houses (settlement according to the feed-in point)	524	687	734
In private houses	20,023	18,945	18,043
Business	7,746	7,495	7,454
TOTAL clients	254,876	250,569	247,376

### Distribution of private customers by service provision territories

Territory	31 December 2018	31 December 2017	31 December 2016
Vilnius city	237,895	233,864	230,523
Vilnius district	2,370	2,346	2,339
Šalčininkai district	2,968	2,975	3,144
Švenčionys district	3,897	3,889	3,916

## MANAGEMENT OF THE COMPANY

In accordance with the Company's Articles of Association, the management bodies of the Company are the general meeting of shareholders, the collegial supervisory body is the Supervisory Board, 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 (its share of ownership accounted for 94.4939% on 31 December 2018), Vilnius district (2.0160%), Švenčionys district (2.0903%) and Šalčininkai district (1.3998%).

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

### SUPERVISORY BOARD OF THE COMPANY

The Company's Supervisory Board consists of 7 members elected by the general meeting of shareholders for a term of office of four years. The Supervisory Board elects the Chair of the Supervisory Board from among its members. The following is the composition of the Supervisory Board as at 31 December 2018:

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

### BOARD OF THE COMPANY

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

The Board was elected on 25 June 2015 for a term of office of four years. According to the Law of Joint-Stock Companies, individual members of the Board are elected for a term of the present office term.

On 17 January 2018, at the meeting of the Supervisory Board (minute No. 01), new members of the Company's Board were elected, namely, Gediminas Miškinis, Andrius Griškevičius, Dangirutis Janušas and Edgaras Dereškevičius.

On 8 March 2018, at the meeting of the Supervisory Board (minute No. 02), Julius Morkūnas was elected to replace the resigned member of the Board Gediminas Miškinis.

On 30 March 2018, Julius Morkūnas was elected as the Chairman of the Company's Board (replaced Virginijus Pauža).

On 23 May 2018, at the meeting of the Supervisory Board (minute No. 04), Virginijus Pauža was withdrawn from the Board and replaced with Darius Leišys.

On 23 July 2018, at the meeting of the Supervisory Board, a new member of the Board Edvardas Varoneckas was elected to replace the resigned Dovilė Mikalajūnė.

**As at 31 December 2018, the Board of the Company consisted of the following:**

Julius Morkūnas (Chairman of the Board), Deputy Director of Vilnius City Municipality Administration;  
Andrius Griškevičius (independent member), business consultant;  
Dangirutis Janušas (independent member), Director of UAB Verslo Konsultacijų Spektras;  
Edvardas Varoneckas, Director of Law department of Vilnius City Municipality Administration;  
Edgaras Dereškevičius (independent member), lawyer;  
Darius Leišys, Director of Finance and strategic planning department of Vilnius City Municipality;  
Miroslav Romanovski, Head of Local Maintenance Department of Vilnius District Municipality.

In 2018, 17 meetings of the Board took place. The monthly salary of members of the Board amounts to EUR 940 (including tax).

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

#### AUDIT COMMITTEE

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

Laura Joffe, CEO of VĮ Lietuvos oro uostai and Vladas Puzeras, CEO and operations advisor of UAB Retail IQ were appointed independent members of the Audit Committee. Alfredas Ziberkas, Chief Specialist of Corporate Governance at Property Department of Vilnius City Municipality Administration, was appointed a dependent member.

A member of Audit Committee receives a monthly salary of EUR 940 (including tax).

#### AUDIT OF THE FINANCIAL STATEMENTS

At an uncommon meeting of shareholders occurring on 14 November 2016, the decision on the appointing of the auditor and audit service fee payment term for UAB Vilniaus vandenys was approved. Meeting of shareholders approved the company Ernst & Young Baltic as an auditor for 3 (three) years, paying EUR 86,700 excluding VAT for the services. (The purchase of financial audit was announced on CVP IS on 2 September 2016, purchase No. 178217 and implemented in an announced simplified negotiation).

#### HEAD OF THE COMPANY

The Head of the Company is the CEO appointed, removed and dismissed by the Board of the Company.

Under the decision of the Board, on 20 July 2018 Marius Švaikauskas was elected as the Company's CEO, replacing Virgilijus Žukauskas, the Head of Production Service, appointed Acting CEO of the Company.

#### ORGANISATIONAL STRUCTURE OF THE COMPANY AS AT 31 DECEMBER 2018

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

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

Production Unit, Director – Tadas Kazlauskas,  
Customer Service Division, Director – Giedrė Blazgienė,  
Finance Department, Director – Viktoras Baltuškonis,  
Organisational Development Department, Director – Asta Karitonienė,  
Operating Quality Management Department, Director – Darius Bagdonas,  
Prevention Unit, Manager – Vidmantas Bruzgys,  
Legal Unit, Manager – Gintaras Makšimas,  
Procurement Unit, Manager – Arūnas Jurgelaitis,  
Internal Audit Unit, Manager – Loreta Jakštienė,  
Communications Department – temporarily unmanaged.

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.

#### **POLICY OF QUALITY AND ENVIRONMENT PROTECTION of the Company**

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

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

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

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

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

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

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

## INFORMATION ABOUT CHANGES IN THE COMPANY'S LEGISLATION

- The general meeting of shareholders was convened on 4 January 2018, during which the shareholders decided to increase share capital of the Company by the property contribution of the Vilnius city municipality in the value of EUR 195,914.40. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 31 January 2018.
- On 10 April 2018, during the general meeting of shareholders, the Company's share capital was increased by the property contribution of the Vilnius city municipality in the value of EUR 455,390.08. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 7 June 2018.
- On 30 April 2018, during the general meeting of shareholders, the Company's share capital was increased by the property contribution of the Vilnius city municipality in the value of EUR 933,902.08. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 25 June 2018.
- On 3 August 2018, during the general meeting of shareholders, the Company's share capital was increased by the property contribution of the Vilnius city municipality in the value of EUR 15,117.12. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 10 October 2018.
- On 23 October 2018, during the general meeting of shareholders, the Company's share capital was increased by the property contribution of the Vilnius city and Švenčionys district municipalities in the value of EUR 1,262,627.04. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 3 December 2018.

## CHANGES IN REGULATORY ENVIRONMENT

### SETTING SERVICE PRICES

The prices of drinking water supply and wastewater treatment services are set in accordance with the Methodology for Setting Prices of Drinking Water Supply and Wastewater Treatment Services approved by the NCECP, and the principles of non-discrimination, cost recovery and the "polluter pays" principle. The prices of drinking water supply and wastewater treatment services are calculated on the basis of costs for separate parts of the drinking water supply and wastewater treatment activities, in accordance with approved drinking water supply and wastewater management infrastructure development plans and plans of operations of drinking water suppliers and wastewater managers. The calculation of prices considers the estimated necessary service provisions costs, the value of the assets used in the licensed activity, the return on investment that corresponds to the criterion of reasonableness, the necessary costs of implementation of the plan of operations and the influence thereof on price increase. Service provision efficiency indicators are set.

Municipality councils approve the base prices of drinking water supply and wastewater treatment services coordinated with the NCECP. 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 the NCECP. The NCECP controls the setting of the prices of drinking water supply and wastewater treatment services set by municipality councils and applied by drinking water suppliers and wastewater managers in accordance with the Methodology for Setting Prices of Drinking Water Supply and Wastewater Treatment Services and the pricing principles laid down in the Law on Drinking Water Supply and Wastewater Treatment, and makes sure that the prices cover the necessary costs of supply of drinking water and wastewater treatment services as well as other related necessary expenses.

## Decisions of the National Commission for Energy Control and Prices

On 18 January 2018, the NCECP determined by its Resolution No. O3E-14 that the principle of differentiation of the price of the service of settlement meter maintenance and customer service chosen by Vilnius city, Vilnius district, Šalčininkai district and Švenčionys district violated interests of individual subscribers. This differentiation principle had been specified in the meeting of Vilnius district municipality Board on 20 February 2018, in the meeting of Vilnius city municipality Board on 7 March 2018, in the meeting of Švenčionys district municipality Board on 12 April 2018 and in the meeting of Šalčininkai district municipality Board on 26 April 2019. It came in effect on 1 June 2018.

On 26 March 2018, NCECP resolved a dispute between a consumer and Vilniaus vandenys on the validity of sub-group applied to the customer (the customer was attributed to a sub-group of private houses) in Vilnius Vandenys favour and under the decision No. O3E-89 recognized that UAB Vilniaus vandenys attributes the customer to the sub-group of individual houses legitimately as the customer makes the payments based on the readings of a meter installed in a single- or double-apartment house and a respective price for the services has to be applied to the customer.

On 6 September 2018, NCECP finished an unplanned inspection of UAB Vilniaus vandenys that was carried out on 26 February 2018 and based on the decision No. O3E-272 evaluated that UAB Vilniaus vandenys from 1 May 2014 to 31 January 2018 has been applying a wrong accounting (selling) price and due to this reason obtained income of nearly EUR 81 thousand unreasonably. The return of unreasonably received income to the customers was evaluated recalculating the base prices of UAB Vilniaus vandenys, which were agreed with the decision of the NCECP No. O3E-318 on 15 October 2018.

On 15 October 2018, based on the decision of NCECP No. O3E-318 agreed to make reduce base prices for most of the drinking water supply and wastewater treatment services of UAB Vilniaus vandenys. The reduced prices were approved in Švenčionys district municipality on 22 November 2018, in Šalčininkai district municipality on 27 November 2018, in Vilnius district municipality on 30 November 2019 and in Vilnius city municipality on 5 December 2018. It came in effect on 1 February 2018.

### NCECP public consultations

On 15 May 2018, based on NCECP decision No O3E-150, the description of Publicly published information terms was changed (public consultation took place from 22 December 2017 until 22 January 2018). The changes in the legislation are not associated with drinking water supply and wastewater treatment sector.

On 8 October 2018, NCECP announced the project of isolation of accounting for the Companies providing drinking water supply and wastewater treatment and surface wastewater treatment service and a renewed version of public consultation for description of related requirements (the first public consultation took place from 27 July 2017 to 28 August 2017) together with the aforementioned project of a price-setting method for drinking water supply and wastewater treatment services. Legislation was adopted based on NCECP decision No. O3E-460 on 21 December 2018 and on the decision No. O3E-459 adopted on 21 December 2018, respectively.

Principal changes: the processes of controlled companies' accounting and expense isolation was regulated (until then the isolation of controlled accounting and expenses was regulated by price-setting methods of Drinking Water Supply, Wastewater Treatment and Surface Wastewater Treatment service); Expense distribution and depreciation terms of non-current assets were aligned with other sectors controlled by NCECP; principles of some expense calculations were specified; Drinking water supply and Wastewater treatment service Companies'

accounting isolation was approved and related requirement description will come in effect on 1 January 2019 and its provisions will be applied in preparing the data of 2019 and further periods.

On 26 November 2018, NCECP announced a public re-consultation of new redaction of information provision rules of Energetics, drinking water supply and wastewater treatment and surface wastewater treatment companies (the first public consultation took place from 19 September 2017 to 18 October 2017). Legislation was adopted on 8 February 2019 based on the NCECP decision No. O3E-36.

Principal changes: the requirements stated in the legislation were aligned with Drinking water supply and wastewater treatment service companies accounting isolation and the provisions of related requirement description.

On 8 February 2019, considering the drinking water supply and wastewater treatment law of the Republic of Lithuania, article No. X-764 2, 3, 6, 9, 10, 12, 16, 20, 21, 22, 23, 32, 33, 34, 35 and 38 and the changes in the title of article no. 10 and additions to the legislation with articles 34-1 and 35-1 and addition designating provisions, NCEP provided a policy project of Heating suppliers, independent heating producers, drinking water suppliers and wastewater treatment officers and surface wastewater treatment officer investment assessment and aggreging upon at national Commission for Energy Control and Prices, a project of price-setting method change for Drinking water supply, wastewater treatment service and surface wastewater treatment services, a new payment calculating method for acquisition, installation and exploitation of Drinking water accounting meters. All three legislations shall be approved no later than 1 April 2019.

On 29 April 2018, considering the drinking water supply and wastewater treatment law of the Republic of Lithuania, article amendment provisions No. X-764 3, 9, 26, 33 and 36 NCECP had approved a Technical task that describes particular standards of international assurance task, international review task, international related service standards and related practical guidelines or international audit standards that must be applied in accounting of regulated activity and (or) regulated accounting system and the requirements and (or) the size of the inspection of these services, all of them prepared and approved by International Audit and Assurance Standard Board of International Federation of Accountants.

#### OTHER CHANGES IN LEGISLATION

On 25 May 2018, a regulation of European Parliament and of the Council (ES) 2016/679 on natural person security in the management of the person's data and on free movement of this data, which repealed the Directive 95/46/EB (General Data Protection Regulation or Regulation (EU) 2016/679).

On 9 May 2018, an amendment of the Order of the Minister "On Legal Metrology Regulation of the measurement of groups attributed to areas and the approval of time intervals between periodical measurement instrument check-up list" came into effect, which restored the previous term for cold water accounting meter metrological check-up, effective for the previous 6 years.

In 2018, 4 amendments of the laws of the Republic of Lithuania on Drinking water supply and wastewater treatment have been adopted. The most important amendments (on the establishment of conurbation borderline, the agreement of investment plans and other) will come in effect during 2019, while particular provisions will come in effect in 2021. On 1 April 2019, the responsible institutions are obliged to prepare the bylaws related to the changes in legislation.

## PUBLIC PROCUREMENT

In 2018, the Company focused on promoting competition and increasing procurement efficiency when holding its public procurement procedures.

Starting from 1 January 2018, a new procurement managing system has been installed to make a transition to electronic public procurement documentation. The key tasks and challenges were to teach the employees to work with new procurement management system, entitle responsible people that would employ the system, solve issues and look for things that could be amended. It contributed to the main goal of procurement, i.e. carry out procurement procedures faster and efficiently. Having implemented the management system, documentation agreement and approval processes inside of the Company and between remote branches became 4 times faster. Documentation is signed with electronic signatures. Control over agreements and their maturities became more effective. Agreements are linked to current procurements. Unplanned procurements are under control.

Before beginning with procurement procedures, the Company focused on market consultations and research, during procurement processes, the Company focused on the negotiations with suppliers. The Company paid a lot of attention to prepare clear and unambiguous, non-discriminating technical specifications of good quality so that as many suppliers would be interested in participating in the competitions held by the Company. These actions contributed not only to the competition promotion but also to the increase of procurement effectiveness.

Implementing these actions, the Company reached an average of supplier involvement of more than 3.5 in procurement.

It must be noted that the Company has carried out more than 90% of their procurement negotiating in order to use the resources rationally. That led to a layaway of more than 18% from the expected procurement value.

The Company publicly announced more than 70% of all their procurement. It must be noted, that most of unannounced procurement transactions comprised of no more than EUR 1000.

### EU-funded procurement procedures completed in 2018

No.	Name of procurement	Successful tenderer	Contract price in EUR excl. VAT
1	Reconstruction of wastewater collector from Ozo Str. to wastewater pumping station at Upės Str. 15	UAB Požeminės linijos	749,485.00
2	Reconstruction of d 400 mm wastewater culvert through Nėris between Goštauto Str. and Žvėrynas	Per Aarsleff A/S	258,000.00
3	Renovation of water supply networks in Grigiškės, Salininkai and Trakų Vokė	UAB KRS	1,190,000.00
4	Reconstruction of self-drainage wastewater networks in Vilnius	UAB KRS	1,480,000.00
5	Construction of water supply and wastewater disposal networks in Šnipiškės between Ozo Str., Žalgirio Str. and Maišiagala Str. (the northern part) in Vilnius	UAB Gensera	377,700.00



6	Construction of water supply and wastewater networks in Naujininkai eldership: Pumpurų, Alytaus, Merkinės, Tyzenhauzų, Perlojos, Varėnos, J. Bielinio, Butrimonių, Tarpkalnio, Riešutų, Jotvingių, Lenkų, Konduktorių, Panevėžio, Vaivorykštės, Alšėnų, Iešmininkų and Pabarės Streets in Vilnius	UAB Instita	1,678,799.65
7	Development of water supply and wastewater networks in SB Aušra	UAB Šiaulių plentas	288,400.00
8	Development of water supply and wastewater disposal networks in Plukių Str., Pienių Str., Šalpusnių Str., Pelynų Str., Žvaigždikių Str., Šilagėlių Str., Viksvų Str., Purienių Str., Vėdrynų Str., Samanų Str., Nakvišių Str., Barsukynės Str., Antakalnis eldership, Vilnius	UAB Gensera	1,477,700.00
9	Development of water supply and wastewater disposal networks in Geležinė, Raguvos, Sukilėlių, Slėnio, Ribiškių, Didžioji Streets, Rasos eldership, Vilnius	UAB Mikludava	415,420.00
10	Development of water supply and wastewater networks in Giedros Str., Kregždžių Str., Vanagų Str. (Antakalnis)	UAB KRS	500,999.00
11	Construction of water preparation plants in Naujoji Vilnia	UAB Statovita	2,443,601.00
12	Kalnėnai water preparation plants	UAB Inti	478,095.00
13	Maintenance services for reconstruction and development of water and wastewater networks, VRJ	Preliminarios sutartys su trimis tiekėjais UAB Pro Bonus, UAB Statybų inžinerinės paslaugos ir UAB Infrastruktūros inžinerija	195,000.00
14	Construction of water improvement plants (Zadvarninkai)	UAB Gensera	1,173,300.00
15	FIDIC, maintenance and administration services (Švenčionys)	UAB Sweco Lietuva	15,950.00

## INVESTMENTS

In order to ensure availability of water supply and wastewater treatment services to residents as well as their compliance with quality, environmental and health requirements, the Company constantly invests in the development and modernisation of infrastructure. More than EUR 6 million was invested in infrastructure development and modernisation in 2018.

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

Financing from EU funds for the project No. 05.3.2-APVA-R-014-01-0009 "Renovation and development of drinking water supply and wastewater management system in Švenčionys district" was allocated by order of the

Minister of Environment of 14 December 2017. Project funds total at EUR 1,480.9 thousand, with allocated financing from EU funds of 49.97% or EUR 740.1 thousand, and funds of the project promoter (the company) and the partner (Švenčionys district municipality) (50.3%) or EUR 740.8 thousand.

#### EU-funded infrastructure development projects

Components	New networks being built, km			New residents being connected		Served residents
		Water supply networks	Wastewater networks	To new water supply networks	To new wastewater networks	
Development of water supply and wastewater networks (11 objects)	Vilnius	25.151	30.95	3,432	3,559	
Construction of water improvement equipment – 2 objects						22,117
Development of water supply and wastewater networks in Švenčionėliai		1.17	2.52	100	150	
Construction of water preparation facilities in Švenčionys district						3,000
Šalčininkai water preparation facilities*						6,700

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

#### EU-funded infrastructure reconstruction projects

Components	Networks being built, reconstructed, km			Residents served
		Water supply networks	Wastewater networks	
Reconstruction of water supply and wastewater networks (8 objects)	Vilnius	8.971	13.3	
Reconstruction of Vilnius wastewater treatment plant				532,220
Reconstruction of Švenčionys wastewater treatment plant				2,468

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

Development projects	2017	2018	2019	2020	2021
In Vilnius city	9.6	967.1	9,025.7	2.5	-
In Švenčionys district	6.0	254.2	1,020.5	215.6	-
Total for infrastructure development projects	15.6	1,221.3	10,046.2	218.1	-

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

Reconstruction projects	2017	2018	2019	2020	2021
In Vilnius city	14.3	1,712	5,322.6	8,899.0	10,040.0
In Švenčionys district	-	15,88	250.6	3,906.3	
In Šalčininkai district					74.2
Total for infrastructure development projects	14.3	1,727.9	5,6573.2	12,805.3	

### Works planned in EU-funded projects

Components	Networks being built, reconstructed, km		Residents served
	Water supply networks	Wastewater networks	
Reconstruction of water supply and wastewater networks ( 8 objects)	Vilnius	8.971	13.3
Reconstruction of Vilnius wastewater treatment plant			
Reconstruction of Švenčionys wastewater treatment plant			
			532,220
			2,468

### Infrastructure reconstruction projects funded from own funds

Infrastructure renovation works	Strategic action plan and actual in 2018		
	SAP 2018	2018 execution (thousand EUR)	Completion %
Renovation of wellfields and wells, drilling new wells	260.0	351.9	135.3%
Works of restoration of water supply networks and wells, repair and replacement of fittings	770.0	521.9	67.7%
Works of restoration of wastewater networks and wells, repair and replacement of fittings	708.0	939	132.6%
Works of restoration of wastewater stations	75.0	268.9	358.5%
Development of wastewater and water station SCADA system, renovation of el. equipment	238.5	327.0	137.1%
Renovation of wastewater treatment and sludge management facilities	1,142.0	556.1	48.7%
<b>Total reconstruction projects from own funds</b>	<b>3,193.5</b>	<b>2,964.8</b>	<b>92.8%</b>

In 2019, it is planned to invest and complete development and reconstruction projects funded by EU, for which purchases were made in 2018 (refer to table above in Public procurement section, EU-funded procurement procedures completed in 2018).

In 2019, there will be invested from own funds to development of block networks, selected based on infrastructure development ratings of 2018 – (Block networks of water supply and wastewater SB "Troleibusas ir SB "Kūryba", block networks of wastewater SB "Energija", block networks of wastewater SB "Tabakas", block networks of water supply and wastewater SB "Jeruzale", block networks of water supply and wastewater in Piliakalnio street, Nemenčinė, Vilnius dist.). Other essential investments – renovation of stations of wastewater, renovation of infrastructure of water supply and wastewater, renovation of vehicles (vehicles with special equipment to clean network of wastewater (hydrodynamic vehicle), multifunctional M1-class vehicles and brigade vans), new meter-reading devices with capability of data reading in distance.

# RISK AND CONTINGENCY FACTORS AND THEIR MANAGEMENT

## RISK MANAGEMENT POLICY

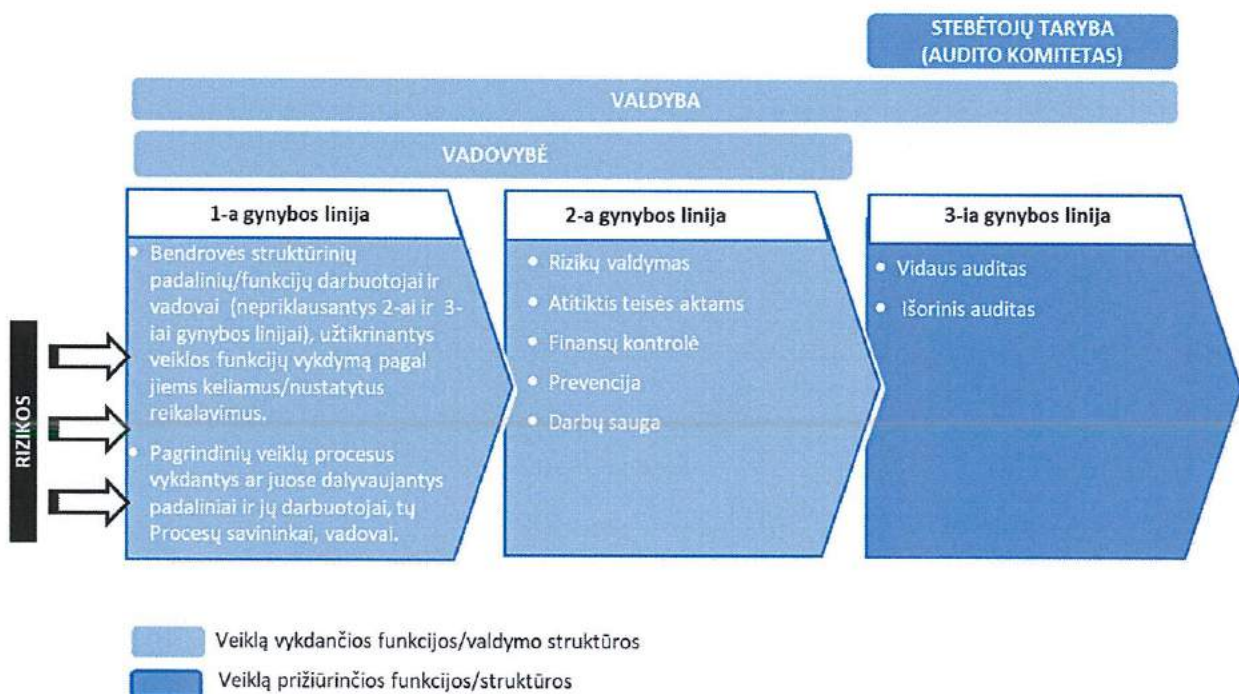
The Company's risk management system is based on the principles of European standard EN 15975-2:2013 prepared by COSO (Committee of Sponsoring Organisation of Treadway Commission), ERM (Enterprise Risk Management) and CEN (European Committee for Standardisation).

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

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

## RISK MANAGEMENT AND CONTROL MODEL

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



Risk management and control model scheme.

## MAIN RISK TYPES AND THEIR MANAGEMENT

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

### 1. Technological (production) risks:

- 1.1. discharge of wastewater into the environment;
- 1.2. top (A) level accidents in wastewater networks;
- 1.3. fulfilment of assumed liabilities in the implementation of EU co-funded projects.

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

#### TECHNOLOGICAL (PRODUCTION) RISK MANAGEMENT

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

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

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

- 1) plans water and wastewater network development and puts effort in the implementation of these projects;
- 2) ensures continuous monitoring of projects for the development of networks implemented using EU and Company funds and adoption of prompt decisions related to the implementation of these projects;
- 3) carries out planned actions and ensures their monitoring in order to fulfil contractual obligations related to the connection of new customers to the Company's networks.

#### MANAGEMENT OF RISKS OF PROVISION OF SERVICES TO CUSTOMERS

In the provision of services to customers, the Company continually expands its existing customer base and strengthens and continuously improves processes of payment collection and debt management in order to improve the collection of fees for the provided services. These efforts led to the increase of the amount of water provided by the Company in 2018 by about 4% and wastewater treatment services grew by 3%. In order to ensure the requirements of metrological inspection, the Company carries out continuous monitoring of the implementation of objectives for the replacement of water meters and their metrological inspection. In order to provide high-quality customer connection to the networks, the Company has been:

- 1) improving the process of connections of new customers to the Company's networks;
- 2) checking customer satisfaction with the quality of the services provided by the Company.

## MANAGEMENT OF BUSINESS (OPERATING) RISKS

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

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

The Legal Unit is responsible for legal compliance risk management. Its representatives: a) regularly monitor the changes in legislation and submit proposals for amending legal acts and comments to draft legal acts; b) introduce respective changes to heads of respective divisions of the Company in a timely manner; c) participate in the decision-making process of the Company's management, also in the process of preparation of internal legal acts and contracts with third parties.

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

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

## SHARES

On 31 December 2017, share capital of the Company comprised of 3,890,326 ordinary shares with the nominal value of EUR 28.96 per share.

On 31 December 2018, share capital of the Company comprised of 3,992,258 ordinary shares with the nominal value of EUR 28.96 per share.

On 31 December 2018, share capital of the Company was fully paid up. The Company has not acquired its own shares.

On 31 December 2018, the Company's shareholders were:

	31/12/2018	
	Number of held shares	Share of ownership, %
Vilnius city municipality	3,772,442	944.939
Vilnius district municipality	80,483	20.160
Švenčionys district municipality	83,45	20.903
Šalčininkai district municipality	55,883	13.998
	<b>3,992,258</b>	<b>100.00</b>

## PERSONNEL MANAGEMENT

### EMPLOYEES

On 31 December 2018, there were 655 employees working in the Company.

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

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, 24% worked in the customer service area, and the remaining 18% engaged in support activities.

According to data of 31 December 2018, 46% of the Company's employees had a university degree and 20% held a vocational training degree. The average length of service of employees in the Company was 12 years in 2018, and as many as 211 (32%) employees worked in Vilniaus vandenys for 20 years or more. The Company appreciates and respects its long-time experienced employees.

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

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

On 6 October 2017, a Gender Equality and Diversity Policy has been adopted by the Company, which ensures gender equality and diversity in the organization. Any discrimination of gender, race, nationality, language, origin, social position, religion, beliefs or views, membership in a political party or association, age, sexual orientation, disability or ethnicity is strongly condemned.

### ORGANISATIONAL CULTURE

Formation of value-based organisational culture, thus also increasing emotional rewards for employees, is one of strategic objectives of the Company. Its foundation was laid back in 2016, when the vision, mission and values of the Company were approved in joint discussions between employees and management. The Company promotes RESPONSIBILITY for own actions and the environment, OPEN communication with customers, colleagues, partners and the public, and PROACTIVITY in solving problems, finding the best and sustainable solutions.

Values and organisational culture were consistently fostered in 2018 in the implementation of measures important to employees:

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

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

## EMPLOYEE PERFORMANCE MANAGEMENT

Employee performance management is one of the most important methods of management and efficient governance of the Company, which helps spread the organisation's goals and build a positive relationship between managers and employees, allows employees to voice their expectations and achieve better performance results at the same time. In 2018, 81% of the Company's employees have taken part in performance management process.

## TRAINING

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

2912\* employees took part in trainings in 2018 (12% more than in 2017): 1519 (32% more than in 2017) attended mandatory trainings, 825 in general trainings (28% less than in 2017) and 568 (86% more than in 2017) professional trainings. All employees of the Company have been trained on the subject of occupational safety and health as well as fire safety.

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

In 2018, employees of Vilnius vandenys spent a total of 31,162 hours in trainings, i.e. twice as much was spent in 2017. One employee received 47.5 hours of training per year.

EUR 130 is designated for trainings of one employee per year, placing a special focus on occupational safety, prevention of professional diseases and employee performance management, as planned.

180 (66% more than in 2017) employees participated in the programme on occupational safety, also for training the employer or employer representative on occupational safety and health-related issues, 588 (250% more than in 2017) employees took part in civil safety training, 131 (23% less than in 2017) in fire safety trainings, and 26 (36% more than in 2017) in emergency management trainings.

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

In order to ensure good atmosphere in the team, high priority is given to the adaptation of new colleagues. In order to involve them in the Company's life as soon as possible and provide them with all the necessary information about the functioning of the Company, the Company started holding know-the-Company days for new employees. During 2018, 3 such events took place at the Company, which were attended by 89 new employees.

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



In 2018, 47 employees of the Company climbed up the career ladder: 22 advanced vertically and 25 horizontally.

Being open and responsible, the Company creates conditions for students of universities and vocational schools to acquire practical skills - 8 students had internship in various divisions of the Company in 2018, while 2 of them stayed in the Company for further work (in divisions of Communication and Water supply stations)

## COLLECTIVE AGREEMENT

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

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

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

## WORKS COUNCIL

Implementing the requirements of Labour Code, in February 2018, Works Council has been elected and comprised of 11 members.

## OCCUPATIONAL SAFETY AND HEALTH

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

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

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

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

In 2018, celebrating the World Day for Safety and Health at Work, Production Service employees has continued with their action "DIRBKIME SAUGIAI". The employees had the opportunity to test their knowledge in the field of safety and health at work.

## Statistics of accidents

Distribution of accidents by their consequences	2018			2017			2016		
	Accident at work	On the way*	Incident	Accident at work	On the way*	Incident	Accident at work	On the way*	Incident
Minor	3	3		3	1	2	1	3	
Major									
Lethal									
Total:	3	3		3	1	2	1	3	
<b>Overall</b>	<b>6</b>			<b>6</b>			<b>4</b>		

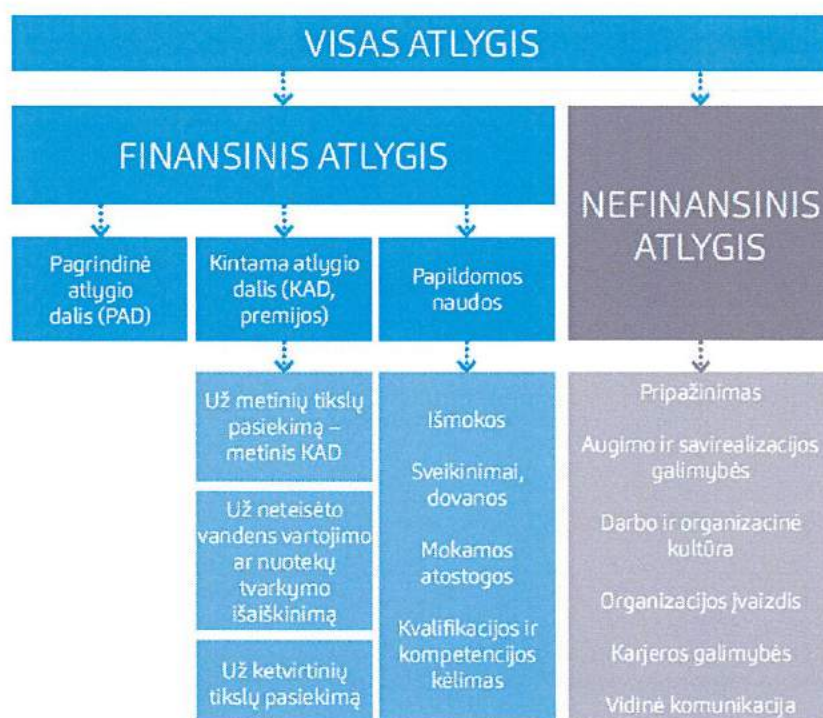
\* On the way - accident on the way to/ from work.

## REMUNERATION SYSTEM

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

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

Package of employees' remuneration is consisted of financial and no less important non-financial remuneration.



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

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

- The level of job position determined according to the Company's delegated responsibility and required qualification;
- Salary paid for the specific job position level in the market, which we check by participating in the Lithuanian remuneration market research each year;
- Funds which Vilniaus vandenys allocates for remuneration according to the salary budget approved each year;
- Work results, initiative and value-based approach of employees, which we assess in the course of the performance management process of employees each year.



Financial remuneration consists of the following:

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

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

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

The percentage of achievement of all the individual goals of the employee must be at least 70%; otherwise VRC is not paid. VRC for the achievement of individual goals for managers is calculated in the same manner, however, if a manager does not achieve his individual goals (i.e., achieves less than 70% of his individual goals), he is not paid

VRC for the achieved goals of the Company, even if the Company's goals were achieved. The amount of the VRC is set according to employee category as a percentage of the salary of the last calendar year, calculated over the period worked by the employee.

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

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

Average salary by employee categories:

Employee category	The number of employees	Average salary in 2017	The number of employees	Average salary in 2018
Top management	3	4,285	4	4,583
Middle management	40	1,967	38	2,221
Senior specialists	63	1,372	58	1,585
Specialists	247	970	254	1,036
Workers	310	819	304	794

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.

From 24 July 2017, the CEO of the Company receives a fixed remuneration of EUR 4200 monthly, with taxes. Also, CEO receives a fluctuating monthly remuneration up to 50%, its size depends on the implementation of approved annual goals of the Company and which is set for the upcoming year, having approved the financial statements.

## SOCIAL RESPONSIBILITY

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

Strategic directions of operation include:

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

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

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

## CUSTOMERS

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

The Company has consistently been working in this direction and implementing the necessary changes. In 2018, a special focus was placed on new customers. Vilniaus vandenys consistently improved the key customer service areas, reduced bureaucratic procedures to the customers, simplified processes, invested in electronic self-service development.

A special attention was given to newly connected customers organising their connection works efficiently and appropriately and shortening their connection terms.

The Company's effort to improve customer service was evaluated positively in the annual customer satisfaction survey. Customer satisfaction index of the Company's services and customer service amounted to 70 (3 points higher than the rate of 67 in 2017).

## EMPLOYEES

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

Equal rights are ensured to everyone working in the Company by Gender Equality and Diversity Policy. It seeks that the employees would not be discriminated for their gender, race, nationality, language, origin, social position, religion, beliefs or views, membership in a political party or association, age, sexual orientation, disability or ethnicity.

In November 2018, employee opinion and engagement survey has been conducted for the second time. It was organised by the consulting company "Korn Ferry Hay Group" in accordance with international methodology. As many as 95% of the Company's employees completed the electronic questionnaire and expressed their opinion. This is a very high indicator for a manufacturing company, where about half of employees do not have a personal computerised workplace. The overall engagement index reached 69% and was 13% higher than in 2017, when this survey was carried out for the first time.

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

## THE PUBLIC AND COMMUNITY

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

In 2018, more than 5 thousand students, teachers, business entities and heads of state-governed institutions visited various objects of Vilniaus vandenys (watering-places, wastewater treatment objects, laboratories and

the like). The Company's specialists told the guests about the Company's activity, presented the key processes of water extraction and preparation and wastewater treatment processes and technologies.

The Company contributed to the initiative of the Vilnius city municipality and set up 9 skating rinks in residential areas of the city and the main skating rink in Lukiškių square.

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

This summer, Vilniaus vandenys initiated and funded three drinking water stations in Vingio park so that Vilnius citizens could refresh themselves while spending time outside actively.

Vilniaus vandenys participated in the centenary celebration Dainų šventė and provided the participants of the celebration with drinking water during the concert and rehearsals.

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

Traditionally, in May and September the Company invited residents of Vilnius to visit the historic Liepkalnis and Sireikiškės water storage facilities. More than 6 thousand visitors got acquainted with sources, history and the current situation of water supply in Vilnius. A unique performance was made by choir Liepaičių and composer Juta Pranulytė in one of the Liepkalnis water storage facilities.

In May and October, 46 employees of the Company and employees of the business centre "Duetto" joined the voluntary blood donation campaign of the National Blood Centre, held in the Company's premises.

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

## ENVIRONMENTAL PROTECTION

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

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

In 2018, the Company has signed an agreement, in which all the wastewater sludge, which is obtained after treatment procedures, will be used to fertilize forests. Vilniaus vandenys together with partners participate in circular economy project, which implementation is starting from following year and will last for three years.

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

The Company operates in accordance with the requirements of the integrated quality and environmental management system complying with ISO 14001 and ISO 9001 standards, which shows that the environmental

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

ISO certificate is a certificate from an independent organisation having carried out an assessment of a third party confirming that the Company's quality management system complies with ISO standard requirements. In February 2018, the Swiss capital company "SGS Klaipėda LTD" carried out an audit of the Company and noted that a significant progress was achieved in the area of integrated management, quality and environmental protection, having implemented significant managerial changes and implemented professional and comprehensive management of risks.

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

## MAJOR EVENTS OF 2018

### **4 January 2018**

Based on the decision of the General Meeting of Shareholders, the Company's share capital was increased by the property contribution of the Vilnius district municipality of EUR 195,914.50. A respective change in bylaws was registered in State Enterprise Centre of Registers on 31 January 2018.

### **17 January 2018**

During the meeting of the Board of Supervisors of Vilniaus vandenys, four members of the Board were elected: Andrius Griškevičius, Dangirutis Janušas, Edgaras Dereškevičius and Gediminas Miškinis.

### **1 February 2018**

Average volume of consumed drinking water per capita per month (2.23 m<sup>3</sup>) was changed for customers who do not have individual meters in the territory served by the Company.

### **15 February 2018**

Vilniaus vandenys has finished "amnesty" share. 300 people used it in Vilnius and Vilnius, Švenčionys and Šalčininkai districts. Residents could inform about a self-driven connection to centralised water and wastewater treatment networks with no imposed sanctions. Having provided all the support of the Company's specialists, they would immediately start to legally use the Company's services and the required documents could be arranged within a year.

### **19 February 2018**

A new self-service website has been presented to the Company's customers. It provided the ability to declare the readings of meters conveniently, renew contacts and see payment history. The first step towards a convenient electronic customer service has been taken.

### **28 February 2018**

Vilniaus vandenys were declared the leader of Service sector in a conference Verslo valdymas 2018, held by Verslo žinios.

## **2 March 2018**

For the first time, the Company has elected Works Council. It is an institution within a Company that represents employee concerns and it is comprised of 11 employees of the Company, elected by free votes.

## **8 March 2018**

The Audit Committee of Vilniaus vandenys has been established and its terms and conditions have been defined during the meeting of the Board of Supervisors.

## **10 April 2018**

During the general meeting of shareholders, the Company's share capital was increased by the property contribution of the Vilnius city municipality in the value of EUR 455,390.08. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 7 June 2018.

## **30 April 2018**

During the general meeting of shareholders, the Company's share capital was increased by the property contribution of the Vilnius city municipality in the value of EUR 933,902.08. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 25 June 2018.

## **30 April 2018**

The General Meeting of Shareholders approved the audited Company's financial statements of 2017.

## **2 May 2018**

Vilniaus vandenys renewed the procedures of Vilnius wastewater treatment system reconstruction contractor tender of EUR 25 million and began to review supplier applications.

## **25 May 2018**

After the General Data Protection Regulation has been adopted, the Company tightened the management of customer data. All the information regarding customer data management is published in Vilniaus vandenys Privacy Policy.

## **1 June 2018**

Resident applications to receive funding for residential block connection to water and wastewater networks in 2019, 2020 and 2021 were started to be collected. It is expected to invest EUR 2 million of the Company's funds in project implementation in 2019.

## **2 July 2018**

Vilniaus vandenys signed an agreement of cooperation for 3 years with the entities Pageldynių plantacija and Pramonės energija and Lithuanian Research Centre for Agriculture and Forestry and Swedish University of Agricultural Sciences in a circular economy project "NutriBiomass4LIFE". Vilniaus vandenys committed to transfer all the wastewater slime that occurs after cleaning the wastewater to fertilise energy crops.

## **20 July 2018**

Based on the decision of the Company's Board, Marius Švaikauskas, CEO of Vilniaus vandenys has been elected.



### **31 July 2018**

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

### **3 August 2018**

During the General Meeting of Shareholders, the Company's share capital was increased by the property contribution of the Vilnius city municipality in the value of EUR 15,117.12. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 10 October 2018.

### **25 September 2018**

The second stage of Vilniaus vandenys self-service has been implemented. The opportunity to pay for the services provided in the self-service system has been presented to the customers.

### **1 October 2018**

The contact centre partner Telenordi began to provide services on Vilniaus vandenys customer service telephone line.

### **15 October 2018**

National Commission for Energy Control and Prices endorsed the Company's proposal to reduce the prices of many water supply and wastewater treatment services.

### **23 October 2018**

Vilniaus vandenys were the first of the companies that are governed by the municipality that started to collaborate with Governance Coordination 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.

### **23 October 2018**

During the general meeting of shareholders, the Company's share capital was increased by the property contribution of the Vilnius city and Švenčionys district municipalities in the value of EUR 1,262,627.04. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 3 December 2018.

### **3 December 2018**

The order of payment for the services provided has been renewed. Based on it, the customers have to pay the amount presented in the payment notice and declare the current month readings of meters.

## **SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD**

### **10 January 2019**

During the General Meeting of Shareholders, the Company's share capital was increased by the property contribution of the Vilnius city municipality in the value of EUR 690,985.60. An appropriate amendment to the legislation was registered in the Register of Legal Entities on 20 February 2019.

### **1 February 2019**

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

### **1 February 2019**

Average volume of consumed drinking water per capita per month (2.47 m<sup>3</sup>) was changed for customers who do not have individual meters in the territory served by the Company.

## 1 February 2019

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

## DETAILS AND CONTACT DATA OF THE COMPANY

Name of the Company	Private limited liability company Vilniaus vandenys
Legal form	Private limited liability company
Date of registration	27 March 1991
Register manager	State Enterprise Centre of Registers
Company code	120545849
Registered office address	Spaudos 8-1, LT-01517, Vilnius, Lithuania
Telephone	1889
E-mail	<a href="mailto:info@vv.lt">info@vv.lt</a>
Website	<a href="http://www.vv.lt">www.vv.lt</a>

## CUSTOMER SERVICE DIVISIONS OF THE COMPANY

### Vilnius

Spaudos g. 8-1, Vilnius

I-V 8.00 a.m. – 6.00 p.m.

### Švenčionys

Vidžių g. 7, Švenčionys

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

### Šalčininkai

Lydos g. 34, Milvydų k., Šalčininkų sen., Šalčininkų district municipality

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

### Nemenčinė

Gaukštonių g. 3, Gaukštonių k., Vilnius district municipality

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

### Customer service lines open 24/7

#### 1889

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

#### +370 5 266 4455

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

#### 8 800 10880

Toll-free telephone for registering accidents.

**Vilniaus vandenys UAB**

Independent Auditor's Report, and  
Financial Statements for the  
year ended 31 December 2018

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Register of Legal Entities

## 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 2018, 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 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### Basis for Opinion

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

#### Key Audit Matters

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

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



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### Key audit matters

#### 1. Impairment assessment of property, plant and equipment

Property, plant and equipment amounts to EUR 114.320 thousand in the statement of financial position of the Company as at 31 December 2018. As disclosed in Note 3.22 to the financial statements, the Company performed an annual impairment test of these assets as at 31 December 2018 based on the value in use estimation. The annual impairment test was significant to our audit as it involves management judgment regarding the assumptions used in the underlying cash flows forecasts. Furthermore, the property, plant and equipment represent more than 81% of the total assets of the Company as at 31 December 2018. Based on the outcome of this impairment test, the Company has not recognized an impairment charge.

#### 2. Impairment assessment of trade accounts receivable

As at 31 December 2018 the Company had current trade accounts receivable balance amounting to EUR 3.606 thousand reported in the statement of financial position, part of which was overdue as disclosed in Note 12 of the financial statements. Effective 1 January 2018, the Company adopted IFRS 9 "Financial Instruments", which also resulted in additional impairment amounting to EUR 337 thousand recognized in the opening retained earnings on 1 January 2018. See Notes 3.5, 3.22 and 12 for additional disclosure on IFRS 9 adoption.

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 29% of the total current assets of the Company in the statement of financial position as at 31 December 2018 and high level of management judgment involved in impairment allowance calculation.

### How the matter was addressed in the audit

Among other procedures, we involved a valuation specialist to assist us with the assessment of the impairment model's structure and composition as well as the discount rate used by the management in the impairment test. We also considered other key assumptions used by the management in the estimation of cash flows forecasts for revenue, costs, level of capital expenditure by comparing them to historical performance levels and management's expectations of their development in the future. We tested the sensitivity in the available headroom of the impairment test by considering if a reasonably possible change in assumptions could cause the carrying amount of property, plant and equipment to exceed its recoverable amount. We have also assessed the historical accuracy of the management's estimates. Finally, we have reviewed the adequacy of the Company's disclosures included in Note 3.22 about the assumptions used in the impairment test and the outcome of the test.

Among other procedures, we reviewed whether the existing accounting policy for the estimation of impairment of trade accounts receivable is in accordance with IFRS 9 "Financial Instruments".

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

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

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

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



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### Key audit matters

### How the matter was addressed in the audit

#### **3 Contingent liabilities and provisions relating to legal matters**

As it is disclosed in Note 27 of these financial statements, the Company is involved in legal proceedings and is exposed to potential claims. This matter is significant to our audit because an adverse outcome of these claims and litigations could have a material adverse effect on the financial position, results of operations and cash flows of the Company and it involves significant management's judgment to assess the probable outcomes of the uncertainties and consequently the amount of provisions to be recorded and contingent liabilities to be disclosed in the financial statements.

Among other procedures, our audit procedures included discussions with the management and the Company's internal legal counsel of the basis underlying the management's assessment of the potential outcome of the claims and litigations. We also obtained letters from the external legal counsels of the Company outlining the material contingencies to evaluate the judgment made by the management. We inspected relevant legal correspondence, meeting minutes of the Board and Shareholders and other relevant information to support individual facts and circumstances underlying the management's judgment on provisions and contingent liabilities, as per criteria set in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Furthermore, we have reviewed the adequacy of the disclosure in the financial statements on this matter (Note 27).

#### **Other Information**

Other information consists of the information included in the 2018 Company's Annual Report, including Corporate Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

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

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

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

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

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

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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



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### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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



### 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 3 years.

#### Consistency with the audit report submitted to the audit committee

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

#### Non-audit services

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

Throughout our current audit engagement period, we have not provided any other services except for the audit of the financial statements, the audit of the regulated activity report as required by the legislation and a single general-purpose IFRS training.

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

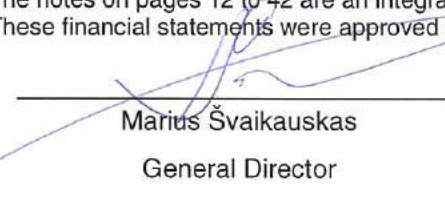
Jonas Akelis  
Auditor's licence  
No. 000003


26 March 2019

**STATEMENT OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME**

	Note	01/01/2018 31/12/2018	01/01/2017 31/12/2017
<b>Revenue</b>			
Revenue from contracts with customers	4	36,982	-
Sales revenue	4	-	39,880
Other revenue	4	26	1,872
<b>Total revenue for the year:</b>		<b>37,008</b>	<b>41,752</b>
Payroll and related expenses	5	(11,085)	(10,711)
Depreciation and amortisation	10,11	(5,463)	(5,055)
Repair and technical maintenance expenses	6	(2,993)	(3,463)
Sludge treatment expenses		(952)	(1,232)
Electricity expenses		(2,907)	(2,957)
Transportation expenses		(768)	(622)
Telecommunication and IT services		(635)	(803)
Tax expenses		(2,600)	(2,490)
Trade and other amounts receivable allowance	12	-	4,711
Impairment losses arising from contracts with customers	12	36	-
Non-current assets write-off expenses		(211)	(64)
Office rent expenses		(259)	(152)
Other expenses	8	(2,761)	(1,778)
<b>Total expenses for the year:</b>		<b>(30,598)</b>	<b>(24,616)</b>
<b>Operating profit (loss)</b>		<b>6,410</b>	<b>17,136</b>
Income from financial activity	8	155	1,299
Financial activity expenses	8	(119)	(320)
<b>Net financial result</b>		<b>36</b>	<b>979</b>
<b>Profit (loss) before tax</b>		<b>6,446</b>	<b>18,115</b>
Income tax (expenses)		(892)	(2,305)
<b>Net profit (loss) for the year</b>		<b>5,554</b>	<b>15,810</b>
<b>Other comprehensive income, net of income tax</b>			
Items that will reclassified subsequently to profit or loss		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>5,554</b>	<b>15,810</b>

The notes on pages 12 to 42 are an integral part of these financial statements, These financial statements were approved and signed on 26 April 2019.

  
Marius Švaikauskas  
General Director

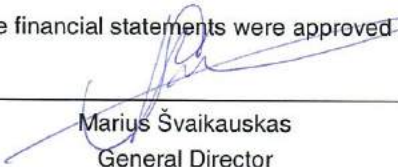
  
Zina Chmieliauskienė  
Head of the Accounting department


## STATEMENT OF FINANCIAL POSITION

	Note	31/12/2018	31/12/2017
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	10	114,320	109,821
Non-current intangible assets	11	549	254
Non-current part of trade and other receivables	12	2,733	5,600
Total non-current assets		117,602	115,675
<i>Current assets</i>			
Inventories		411	980
Trade and other receivables	12	3,607	5,729
Prepaid income tax		343	-
Prepayments, deferred expenses and accrued income	13	-	485
Prepayments and deferred expenses	14	690	-
Contract assets – accrued income	15	295	-
Cash and cash equivalents	16	17,129	12,583
Total current assets		22,475	19,777
<i>Non-current assets held for sale</i>	10	350	-
<b>TOTAL ASSETS</b>		<b>140,427</b>	<b>135,452</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>			
Share capital	17	115,616	112,664
Legal reserve	18	777	426
Retained earnings (deficit)		11,769	8,903
Total equity		128,162	121,993
<i>Liabilities payable after one year</i>			
Borrowings and financial lease obligations	19	1,284	2,141
Deferred tax liabilities	9	493	532
Employee benefits		271	321
Grants		198	-
Other non-current liabilities		482	391
Total liabilities payable after one year		2,728	3,385
<i>Liabilities payable within one year</i>			
Borrowings and financial lease obligations	19	857	857
Trade and other payables	20	3,124	2,507
Advances received		798	1,222
Provisions	27	765	604
Income tax payable		-	1,393
Other current liabilities	21	3,993	3,491
Payables and liabilities within one year		9,537	10,074
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>140,427</b>	<b>135,452</b>

The notes on pages 12 to 42 are an integral part of these financial statements,

These financial statements were approved and signed on 26 April 2019.

  
Marius Švaikauskas  
General Director


  
Zina Chmieliauskienė  
Head of the Accounting department


STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Legal reserve	Retained earnings (losses)	Total equity
<b>Balance as at 1 January 2017</b>		<b>112,195</b>	<b>116</b>	<b>(2,597)</b>	<b>109,714</b>
<b>Comprehensive income</b>					
Net profit		-	-	15,810	15,810
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>15,810</b>	<b>15,810</b>
Increase of share capital by property contributions	17	469	-	-	469
Transfer to reserves	18	-	310	(310)	-
Dividends approved	17	-	-	(4,000)	(4,000)
<b>Balance as at 31 December 2017</b>		<b>112,664</b>	<b>426</b>	<b>8,903</b>	<b>121,993</b>
<b>Balance as at 31 December 2017</b>		<b>112,664</b>	<b>426</b>	<b>8,903</b>	<b>121,993</b>
Difference arising from adoption of IFRS 9	12	-	-	(337)	(337)
<b>Balance as at 1 January 2018</b>		<b>112,664</b>	<b>426</b>	<b>8,566</b>	<b>121,656</b>
<b>Comprehensive income</b>					
Net profit		-	-	5,554	5,554
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>5,554</b>	<b>5,554</b>
Increase of share capital by property contributions	17	2,952	-	-	2,952
Transfer to reserves	18	-	351	(351)	-
Dividends approved	17	-	-	(2,000)	(2,000)
<b>Balance as at 31 December 2018</b>		<b>115,616</b>	<b>777</b>	<b>11,769</b>	<b>128,162</b>

The notes on pages 12 to 42 are an integral part of these financial statements,

These financial statements were approved and signed on 26 April 2019:

  
 Marius Švaikauskas  
 General Director

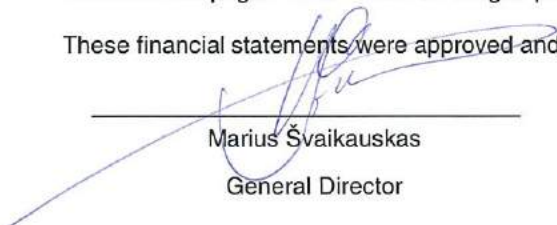
  
 Zina Chmieliauskienė  
 Head of the Accounting department


STATEMENT OF CASH FLOWS

	Note	01/01/2018 31/12/2018	01/01/2017 31/12/2017
<b>Cash flows from (to) operating activities</b>			
Net profit		5,554	15,810
<b>Adjustments for:</b>			
Income tax expenses	9	931	1,594
Depreciation and amortisation	10,11	9,792	9,562
Change in deferred income tax	9	(39)	711
Grants (amortisation)	10	(4,329)	(4,507)
Result from property, plant and equipment disposals and write-offs		195	64
Disposal of non-current assets held for sale		-	(1,285)
Change in allowance of financial assets		-	(25)
Change in allowance of receivables	12	-	(4,686)
Impairment losses arising from contract with customers	12	(36)	-
Change in allowance of inventories		32	(139)
Change in provisions		111	(361)
Interest expenses	8	116	224
Financial income recognised in the statement of profit (loss) and the statement of other comprehensive income	8	(152)	(1,203)
		12,175	15,759
<b>Changes in working capital:</b>			
Decrease (increase) in inventories, prepayments, accrued expenses and accrued income		(59)	(412)
(Increase) decrease in trade and other receivables	12	4,681	6,401
Increase (decrease) in trade and other payables		(86)	(5,498)
Income tax paid		(2,667)	(1,080)
<b>Net cash from operating activities</b>		<b>14,044</b>	<b>15,170</b>
<b>Cash flows from (to) investing activities</b>			
(Acquisition) of property, plant and equipment and intangible assets		(7,795)	(2,872)
Proceeds from disposal of property, plant and equipment and assets held for sale		9	3,900
Loan recovery		-	19
Interest received		192	416
<b>Net cash from (to) investing activities</b>		<b>(7,594)</b>	<b>1,463</b>
<b>Cash flows from (to) financing activities</b>			
(Repayment) of loans and financial lease liabilities		(857)	(19,906)
Interest and similar expenses paid		(120)	(322)
Received grants		1,048	128
Received late payments and penalties		28	794
(Paid) dividends		(2,000)	(4,000)
(Paid) late payment fines and penalties		(3)	(96)
<b>Net cash from (to) financing activities</b>		<b>(1,904)</b>	<b>(23,402)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>4,546</b>	<b>(6,769)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	16	<b>12,583</b>	<b>19,352</b>
<b>Cash and cash equivalents at the end of the period</b>	16	<b>17,129</b>	<b>12,583</b>

The notes on pages 12 to 42 are an integral part of these financial statements,

These financial statements were approved and signed on 26 April 2019.

  
Marius Švaikauskas  
General Director

  
Zina Chmieliauskienė  
Head of the Accounting department

## SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND OTHER NOTES

### 1. General information

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

The principal activities of the Company are the supply of water and wastewater treatment services. Vilniaus Vandeny, 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 2018, the number of private customers of the Company was 247,1 thousand (as at 31 December 2017, 243,1 thousand), legal entities amounted to 7,7 thousand (in 2017, 7,5 thousand). Private customers and legal entities are treated as specified in Drinking-water supply and waste treatment law and pricing methodology. The Company supplies approximately 93 thousand m<sup>3</sup> water per day and collects 109 thousand m<sup>3</sup> and treats approximately 111 thousand m<sup>3</sup> waste water per day. The main goals of the Company are provision of clear water and clean environment for the society. The main activities of the Company are as follows: orientation to the client, efficiency of activity and transparency.

As at 31 December 2018 and 2017, the shareholders of the Company were:

	31/12/2018		31/12/2017	
	Number of shares held	Percentage (%)	Number of shares held	Percentage (%)
Vilnius city municipality	3,772,442	94.49	3,691,509	94.89
Vilnius district municipality	80,483	2.02	73,196	1.88
Švenčionių district municipality	83,450	2.09	69,738	1.79
Šalčininkų district municipality	55,883	1.40	55,883	1.44
	<b>3,992,258</b>	<b>100.00</b>	<b>3,890,326</b>	<b>100.00</b>

In 2018, the Company's share capital has been increased by Vilnius city municipality property contributions of EUR 2,344 thousand, Vilnius district municipality property contributions of EUR 211 thousand and Švenčionys district municipality property contribution of EUR 397 thousand (Note 17).

In 2017, the Company's share capital was increased by Vilnius district municipality contribution, valued EUR 469 thousand (Note 17).

As at 31 December 2018, the number of employees of the Company was 655, an average list number was 648 (as at 31 December 2017, 659 and 643, respectively).

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 not to approve the annual financial statements and request new financial statements to be prepared.

### 2. Application of new and amended International Financial Reporting Standards

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

For the first time, the Company has applied IFRS 9 and IFRS 15. The impact arising due to the application of the new standards is set out below.

In 2018, some other changes and interpretations were applied for the first time, however, they did not have any impact on the Company's financial statements. The Company did not apply any other standards, clarifications or amendments that were issued with early application permitted, though still ineffective.

- **IFRS 9 Financial Instruments:**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

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

The Company applied IFRS 9 prospectively using a modified retrospective method, with an initial application date of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as at 1 January 2018.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Company's financial statements. The following are the changes in the classification of the Company's financial assets:

Trade receivables and other non-current and current financial assets (i.e. loans) classified as Loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured at amortised cost beginning 1 January 2018.

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of IFRS 9 the Company recognised additional impairment on the Company's Trade receivables of EUR 337 thousand, which resulted in a decrease in Retained earnings of EUR 337 thousand as at 1 January 2018.

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed the application of the standard and based on analysis performed and believes there is no significant impact on its profit (loss), other comprehensive income, the Company's financial position and cash flows of the Company's operating, investing and financial activity. Comparative information has not been restated and is further presented under interpretations related to IAS 11 and IAS 18.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Starting 1 January 2018, this standard, based on this method, can be used on all contracts at initial application or to contracts still effective at the date of initial application. The Company has decided to apply this standard to contracts that were still effective on 1 January 2018.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company's management has assessed the application of this amendment and believes that it will not have significant impact on the Company's financial position or results.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Company's management has assessed the application of this amendment and believes that it will not have significant impact on the Company's financial position or results.

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

### • IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Company's management has assessed the application of this clarification and believes that it will not have significant impact on the Company's financial position or results.

### *Standards issued but not yet effective*

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

#### • IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Based on the management's preliminary assessment, the application of this standard will have impact on the Company's financial position of EUR 2,113 thousand as at 1 January 2019, that would include right-of-use assets and corresponding for lease liabilities, accounted at the present value of future payments.

#### • Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

#### • IFRS 9: Prepayment features with negative compensation (Amendments)

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

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

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

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

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



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

### • IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

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

### • IFRS 3: Business Combinations (Amendments)

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

### • IAS 1 Presentational 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. These Amendments have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

The IASB has issued the **Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

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

### • 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.

### 3. Accounting policy

#### 3.1. Statement of compliance

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

#### 3.2. Basis of preparation

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

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

#### Property, plant and equipment

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

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

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

Property received from shareholders free of charge, that is not transferred in a form of property contribution, is accounted as a grant in property 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal, any gain or loss arising on derecognition of the asset is included statement of profit (loss) and other comprehensive income in the year the asset is derecognised. Gains and losses on disposal of property, plant and equipment are calculated on the basis of the income received less the carrying amount of the property sold.

#### Depreciation rates of financial year

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

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

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

Construction in progress is transferred to property, plant and equipment until the relevant assets are completed and are available for their intended use.

#### 3.3. Intangible assets

##### Software and acquired rights

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

##### Other intangible assets

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

### 3. Accounting policy (continued)

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

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

#### 3.4. Impairment of non-financial assets

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

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

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

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

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

#### 3.5. 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.

##### 3.5.1 Financial assets

###### Initial recognition and measurement (starting 1 January 2018)

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.

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. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined 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 assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how the Company manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

###### Subsequent measurement (starting 1 January 2018)

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

- Amortised cost (debt instruments);

### 3. Accounting policy (continued)

- Fair value through OCI with recycling of cumulative gains and losses upon derecognition (debt instruments). The Company did not have such items as at 31 December 2018 and 2017;
- Fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments). The Company did not have such items as at 31 December 2018 and 2017;
- Fair value through profit or loss The Company did not have such items as at 31 December 2018 and 2017.

#### Financial assets at amortised cost (debt instruments) (starting 1 January 2018)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the statement of profit (loss) and other 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 (applied both in 2017 and 2018)

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

- The rights to receive cash flows from the 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, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

#### Impairment of financial assets (starting 1 January 2018)

Other disclosures related to impairment of financial assets are presented in the following notes as well:

- Disclosures on significant assessments and used assumptions are disclosed in Note 3.22;
- Trade receivables, including assets arising from contracts with customers, are disclosed in Notes 12 and 15.

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

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 a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### 3. Accounting policy (continued)

The Company considers a financial asset in default when contractual payments are 90 days past due or 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 written off when there is no reasonable expectation of recovering the contractual cash flows

#### Loans and receivables (until 1 January 2018)

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

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

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

#### Assets carried at amortised cost (until 1 January 2018)

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

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

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

### 3.5.2. Financial liabilities

#### Initial recognition and measurement

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

### 3. Accounting policy (continued)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing 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. Gains or losses arising from financial liabilities held for trade are recognised in the statements of income (loss) and other comprehensive income. As at 31 December 2018 and 2017, the Company did not attribute any financial liabilities to liabilities measured at fair value through profit or loss.

#### Loans and other payables (applied both in 2017 and 2018)

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

Amortised cost is calculated by considering 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 (loss) and other comprehensive income.

More information can be found in Notes 19 and 20.

#### Derecognition (applied both in 2017 and 2018)

Derecognition of a financial liability occurs when it is offset, revoked or terminated. When one existing liability is changed for the debtor with another liability but with significantly different terms, or when the terms of an existing liability are significantly changed, this change is considered as derecognition of the primary liability and an occurrence of a new liability. The difference between the respective balances is recognised in the statement of income (loss) and other comprehensive income.

#### Offsetting of financial instruments (applied both in 2017 and 2018)

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.

### 3.6. Inventories

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

During the inventory counting process, all illiquid inventories are identified, and allowance is formed for them. If the Commission of inventory count states that such stock is no longer suitable for use, a 100% allowance is formed, and for the suitable inventories to be used, an 80% impairment of value is recorded.

### 3.7. Non-current assets held for resale

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

### 3.8. Cash and cash equivalents

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

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

### 3.9. Leases

#### The Company as a lessee

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

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

### **3. Accounting policy (continued)**

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

#### The Company as a lessor

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

#### **3.10. 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 asset-related grants. Grants related to assets reduce cost of acquisition associated tangible assets and recognised as income (respectively reducing related expenses – depreciation of tangible assets) in the periods and in the proportions, which correspond the Company's 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 income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. In 2018, as an associated receiver of support, the Company participated in a project funded by the European Union "NutriBiomass4LIFE". During the project period (2018-2022), received funds are accounted for as grants related to income. As at 31 December 2017, the Company did not hold any grants related to income.

#### **3.11. Employee benefits**

##### Social security expenses

The Company pays social security contributions to the state Social Security Fund (hereinafter Fund) on behalf of its employees based on the defined contribution plan in accordance with local legal requirements. Defined contribution plan 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. Social security contributions are recognised as an expense on an accrual basis and included in payroll expenses. Starting 1 January 2018, the Company pays social security contributions at a rate amounting to 31,18%.

##### Non-current employee benefits

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

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

Current liabilities to employees are not discounted.

#### **3.12. Contingencies**

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

A contingent asset is not recognised in the financial statements.

#### **3.13. Provisions**

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

### 3. Accounting policy (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

#### 3.14. Income tax

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

##### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit (loss) and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period. The standard income tax rate in Lithuania for the Company in the years ended 31 December 2018 and 31 December 2017 is 15%.

For companies operating in Lithuania tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments not designated for hedging. Starting from 1 January 2014 the transferable tax loss cannot cover more than 70% of the taxable profit of the current year. Such carrying forward is disrupted if the Company changes its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself. The losses from disposal of securities and/or derivative financial instruments not designated for hedge can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. As at 31 December 2018 and 2017, the Company did not have any tax losses carried forward.

##### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such deferred assets and liabilities are not 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.

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

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

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

##### Current and deferred tax for the period

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

#### 3.15. Revenue recognition

##### Income from contracts with customers (starting 1 January 2018)

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### 3. Accounting policy (continued)

The Company is in the business of providing 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 has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 4.

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 sales (fixed subscription) price).

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

Assets received free of charge from third parties is 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 comprehensive income in the period, when the asset has been received, because the performance obligation is satisfied when customer is connected to the network.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). The Company typically provides maintenance services for general repairs of defects as required by law. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. As of 31 December 2018 and 2017, 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. Contract asset of accrued revenue is recognised based on variable units of output used by the consumer. As at 31 December the Company has accrued income for last month of the financial year, for which water supply/ wastewater treatment services were provided to the consumers, though they will pay for these services during January of the next financial year.

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 by transferring goods or services 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 see 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 3.5.

#### Contract liabilities – prepayments received

A contract liability is the obligation to transfer goods or services to a customer for which the Company has 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 non-current tangible items. The Company did not incur such expenses as of 31 December 2018 and 2017. Other costs are expensed as incurred because these costs are not expected to be recovered.

#### Revenue recognition (until 1 January 2018)

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.

### 3. Accounting policy (continued)

Revenue is measured at the fair value of the consideration received or receivable net of value-added tax and discounts.

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

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

#### 3.16. Borrowing costs

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

#### 3.17. Foreign currencies

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

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

#### 3.18. Related parties

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

A person or close member of the family is related to reporting company, if the person:

- has control or common control of reporting company;
- has a significant influence on the reporting company; or
- is one of the key management personnel of reporting company or parent company.

The company is related to the reporting company if they meet any of the conditions below:

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

#### 3.19. Fair value evaluation

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

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

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

### 3. Accounting policy (continued)

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 considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company 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.

#### 3.20. Offsetting and comparative figures

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

#### 3.21. Regulated activity

The Company's profitability of regulated services is regulated by the State Prices and Energy Control Commission (VKEKK) by approved methodology for drinking water supply and waste water services pricing. Prices effective during 2018 were determined by the Price setting method 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. According to the efficiency coefficient, amount of services sold, completed investments, electricity, heat, price of technological materials, tax tariffs and changes in salaries, actual return of investments and other factors that do not depend on the Company, base prices were recalculated in 2018 and will come into force on 1 February 2019.

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

#### 3.22. Significant accounting judgments, estimates and assumptions

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

##### 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.

### 3. Accounting policy (continued)

#### Income from contracts with customers

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

- Identifying performance obligations in a bundled sale of different services

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

- Determining the timing of satisfaction of water supply and waste water 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, on December 31 of the reporting year, 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 they will be paid for until the end of January of the next reporting period.

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#### Accounted revenue based on average consumption

The Company provides services to natural and legal persons/customers uninterruptedly, regardless of whether they declare readings or not. In order to represent the Company's revenue as accurately as possible for the services provided and the water consumed, an average consumption for the last 12 months of water and sewage is applied for the customers that do not declare meter-reading results for the ongoing month. The average consumption for business clients is calculating from the amount of water and / or wastewater of 12 months before the reporting month. The average consumption for private clients is calculated from the amount of water and / or wastewater of 12 months before the month when the recalculation of the average consumption. The average consumption for private clients is recalculated at least twice a year.

#### Impairment of receivables (starting 1 January 2018)

The Company uses a provision matrix to calculate ECLs 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 product or geography).

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 (gross domestic product and unemployment rate) are expected to deteriorate, which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are reviewed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 22. The Company does not hold collateral from counterparties 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 following percentages are applied in the calculation of ECLs:

### 3. Accounting policy (continued)

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

For the individual customers of the Company, an individual impairment of receivables can be applied based on the decision of the Company's management. In 2018, an individual impairment has not been applied.

#### Impairment loss of amounts receivable (until 1 January 2018)

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

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

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

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

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

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

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

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

#### Deferred tax assets

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

### 3. Accounting policy (continued)

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

#### Impairment of property, plant and equipment

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

Based on impairment test of property, plant and equipment, no impairment was accounted for property, plant and equipment as at 31 December 2018 and 2017.

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

- An average weighted average of cost of capital (WACC) discount rate (pre-tax) of 7.19%. (8.24 % as at 31 December 2017) is applied in the impairment evaluation model.
- Average WACC of the market used by the management is higher than the one approved by the State Price and Energy Commission. Management believes that in the long-term (starting from the year 2024), it is reasonable to expect that return on investment set by regulator (as well as profitability of the Company) will exceed the currently set regulated level (4.21%) and converge to the market level.
- As at 31 December 2018 and 2017, cash flows occurring after 5 years were forecasted by using a growth rate of 1.5%.
- During the period of 2018–2022 capital investments to property, plant and equipment will consist of EUR 50,448 thousand in total.

The impairment assessment at this stage is highly dependent on the assumptions used in the model. Below is provided sensitivity analysis for key assumptions of impairment assessment as at 31 December 2018 and 2017:

- The increase in the WACC discount rate in 2019 and onwards by 0.5 percentage point would result in an impairment in the amount of EUR 13,225 thousand;
- Additional annual investment in non-current assets amounting to EUR 1,000 thousand in 2019 and onwards would result in an impairment in the amount of EUR 17,803 thousand.

#### 3.23. Subsequent events

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

**COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(all amounts are in EUR thousand unless otherwise stated)

**4. Sales revenue**

	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Provision of water	15,175	-
Wastewater treatment	17,963	-
Services rendered (water supply, wastewater treatment)	-	36,426
Selling fee	2,832	3,162
Drainage	257	292
Income from assets received from third parties free of charge	621	373
Income from commercial work and services	134	198
Net profit from disposal of non-current assets	9	1,285
Income from disposal of inventories	15	16
Other income	2	-
<b>Total</b>	<b>37,008</b>	<b>41,752</b>

The Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Company has decided to apply the standard to contracts that are still effective at 1 January 2018. The comparative information was not restated.

Starting 1 January 2018, the Company attributes income from provision of water, wastewater treatment services, selling fee, drainage, assets received free of charge and commercial work and services (of EUR 36,982 thousand) to revenue from contracts with customers. Income from other activity comprise of disposal of assets, disposal of inventories and other income (of EUR 26 thousand).

In 2018, revenue that was previously included in contract liabilities, i.e. prepayments received, was recognised and as at 31 December 2017 amounted to EUR 242 thousand.

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

Income from assets received free of charge in 2018 and 2017 is comprised of the market value of networks reconstructed, newly built and registered on behalf of the Company funded by real estate developers; the market value is based on the statements of real estate register central data bank.

On 21 February 2017, in a public auction, the Company's premises located in Vilnius downtown, Dominikonų street were sold. The Company „Asgaard Property” acquired them for the initial price of EUR 4,719 million with VAT in an auction taking place at Vilnius city municipality. Net profit from disposal of these premises is EUR 1,285 million.

**5. Payroll and other related expenses**

	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Payroll	8,336	7,951
Change in vacation reserve	140	206
Social security expenses	2,558	2,469
Change in accrued liabilities to employees	51	85
<b>Total</b>	<b>11,085</b>	<b>10,711</b>

**6. Repairs and technical maintenance expenses**

	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Technological materials	884	473
Maintenance materials expenses	423	361
Digging recovery	403	410
Equipment maintenance	481	1,749
System cleaning	278	130
System diagnostics and repair works	200	123
Repair of tools and equipment	18	22
Repair of construction	216	96
Laboratory services (monitoring)	50	36
Topo geodesic photos and legal registration	40	63
<b>Total</b>	<b>2,993</b>	<b>3,463</b>

## 7. Other expenses

	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Customer service expenses	851	549
Heating	223	206
Rent of collectors	173	174
Work safety and special clothes	55	133
Insurance	87	112
Premise cleaning and environment maintenance services	249	110
Trash removal	103	106
Doubtful debts write-off	30	86
Security	48	76
Audit	51	54
Trainings	36	56
Promotion and commerce	39	48
Consultations	2	40
Household-economic expenses	21	19
Office administration expenses	16	18
Representative expenses	6	8
Change in inventory allowance	32	(139)
Other expenses	739	122
<b>Total:</b>	<b>2,761</b>	<b>1,778</b>

In 2018, other expenses comprised of expenses for legal proceedings and other provisions (other than actuarial) of EUR 161 thousand, expenses for legal services of EUR 99 thousand, new customer connection expenses of EUR 96 thousand, certificate of Centre of registers and cadastral cases of EUR 78 thousand, water expenses for technology and own use of EUR 60 thousand, expenses for events to employees of EUR 43 thousand, etc.

## 8. Financial income and expenses

	01/01/2018 31/12/2018	01/01/2017 31/12/2017
<b>Financial income</b>		
Interest income	116	495
Received late payments and penalties	39	804
<b>Total</b>	<b>155</b>	<b>1.299</b>
<b>Financial expenses</b>		
Interest (expenses)	(116)	(224)
(Paid) late payments and penalties	(3)	(96)
<b>Total</b>	<b>(119)</b>	<b>(320)</b>
<b>Financial activities net result</b>	<b>36</b>	<b>979</b>

In 2018, Vilnius city municipality administration interest amounted to EUR 102 thousand, while in 2017, UAB Vilniaus energija interest and default interest amounted to EUR 1,024 thousand.



## 9. Income tax expenses (benefit)

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

	01/01/2018 31/12/2018	01/01/2017 31/12/2017
<b>Profit (loss) before income tax</b>	6,446	18,115
Income tax expenses calculated at statutory tax rate	967	2,717
Expenses not deductible for income tax	167	166
Non-taxable income	(103)	(236)
Tax incentive	(95)	(17)
Correction of prior periods income tax	-	(253)
Previously unrecognised deferred income tax asset recognition	(44)	(72)
<b>Income tax expenses recorded in the statement of profit (loss) and other comprehensive income</b>	<b>892</b>	<b>2,305</b>

Income tax expenses (benefit) are as follows:

	01/01/2018 2018-12 31	01/01/2017 31/12/2017
<b>Income tax expenses</b>		
Current income tax	931	1,594
Deferred income tax expenses (benefit)	(39)	711
<b>Income tax expenses recorded in the statement of profit (loss) and other comprehensive income</b>	<b>892</b>	<b>2,305</b>

Change in deferred tax asset during 2018 and 2017:

	Balance as at 1 January 2017	Income tax (expenses) benefit accounted in profit (loss)	Balance as at 31 December 2017	Income tax (expenses) benefit accounted in profit (loss)	Balance as at 31 December 2018
Accrual for vacation reserve	70	31	101	21	122
Impairment for amounts receivable	870	(703)	167	45	212
Impairment of securities	4	(4)	-	-	-
Non-current employee benefits	121	13	134	8	142
Impairment for inventories	23	(21)	2	5	7
Provisions accrued for boreholes liquidation	1	-	1	(1)	-
Provisions for cadastral measurement and cases recording	8	(3)	5	(1)	4
Financial and tax differences for investment incentive using II method until 2002	(869)	27	(842)	26	(816)
Income accrual	(49)	49	-	-	-
Differences of property, plant and equipment financial and tax depreciation	-	(100)	(100)	(64)	(164)
<b>Deferred tax, net</b>	<b>179</b>	<b>(711)</b>	<b>(532)</b>	<b>39</b>	<b>(493)</b>

As at 31 December 2018, the deferred tax asset is recognised in the statement of financial position to the extent that the Company's management believes that it will be realized in the near future, based on taxable profit.

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

**10. Property, plant and equipment**

	Buildings	Structures	Transmission devices	Machinery and equipment	Vehicles	Other assets	Constructions in progress	Prepayments	Total
<b>Cost</b>									
<b>Balance as at 31 December 2017</b>	<b>32,559</b>	<b>46,019</b>	<b>142,408</b>	<b>28,775</b>	<b>4,954</b>	<b>8,087</b>	<b>277</b>	-	<b>263,079</b>
Acquisitions	4	6	793	365	2	501	2,379	177	4,227
Disposals and write-offs (-)	-	(214)	(271)	(310)	(15)	(320)	(1)	-	(1,131)
Reclassifications from CIP	-	127	1,549	117	-	615	(2,403)	(5)	-
Reclassifications from one tangibles assets group to another	-	-	-	85	(85)	-	-	-	-
<b>Balance as at 31 December 2017</b>	<b>32,563</b>	<b>45,938</b>	<b>144,479</b>	<b>29,032</b>	<b>4,856</b>	<b>8,883</b>	<b>252</b>	<b>172</b>	<b>266,175</b>
<b>Balance as at 1 January 2018</b>	<b>32,563</b>	<b>45,938</b>	<b>144,479</b>	<b>29,032</b>	<b>4,856</b>	<b>8,883</b>	<b>252</b>	<b>172</b>	<b>266,175</b>
Acquisitions	25	15	3,558	745	149	408	5,397	57	10,354
Disposals and write-offs (-)	-	(53)	(349)	(702)	(366)	(270)	(4)	-	(1,744)
Reclassifications from CIP	67	388	1,271	405	-	767	(2,785)	(113)	-
Reclassifications from one tangibles assets group to another	-	(2)	-	2	-	-	-	-	-
<b>Balance as at 31 December 2018</b>	<b>(575)</b>	<b>(99)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(674)</b>
<b>Balance as at 1 January 2018</b>	<b>32,080</b>	<b>46,187</b>	<b>148,959</b>	<b>29,482</b>	<b>4,639</b>	<b>9,788</b>	<b>2,860</b>	<b>116</b>	<b>274,111</b>
<b>Accumulated depreciation</b>									
<b>Balance as at 1 January 2017</b>	<b>11,208</b>	<b>28,621</b>	<b>79,819</b>	<b>21,981</b>	<b>3,264</b>	<b>7,475</b>	-	-	<b>152,368</b>
Charge for the year	456	767	1,897	968	308	641	-	-	5,037
Disposals and write-offs (-)	-	(209)	(209)	(302)	(15)	(316)	-	-	(1,051)
Reclassification to assets held for resale	(1)	(6)	(6)	1,617	(6)	(1,598)	-	-	-
<b>Balance as at 31 December 2017</b>	<b>11,663</b>	<b>29,173</b>	<b>81,501</b>	<b>24,264</b>	<b>3,551</b>	<b>6,202</b>	-	-	<b>156,354</b>
<b>Balance as at 1 January 2018</b>	<b>11,663</b>	<b>29,173</b>	<b>81,501</b>	<b>24,264</b>	<b>3,551</b>	<b>6,202</b>	-	-	<b>156,354</b>
Charge for the year	456	776	2,102	958	284	776	-	-	5,352
Disposals and write-offs (-)	-	(54)	(205)	(698)	(366)	(268)	-	-	(1,591)
Reclassifications from one tangibles assets group to another	-	(1)	-	1	-	-	-	-	-
Transfer to non-current asset held for sale	(260)	(64)	-	-	-	-	-	-	(324)
<b>Balance as at 31 December 2018</b>	<b>11,859</b>	<b>29,830</b>	<b>83,398</b>	<b>24,525</b>	<b>3,469</b>	<b>6,710</b>	-	-	<b>159,791</b>
<b>Net book value as at 31 December 2017</b>	<b>20,900</b>	<b>16,765</b>	<b>62,978</b>	<b>4,768</b>	<b>1,305</b>	<b>2,681</b>	<b>252</b>	<b>172</b>	<b>109,821</b>
<b>Net book value as at 31 December 2018</b>	<b>20,221</b>	<b>16,357</b>	<b>65,561</b>	<b>4,957</b>	<b>1,170</b>	<b>3,078</b>	<b>2,860</b>	<b>116</b>	<b>114,320</b>

**COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 2018**

(all amounts are in EUR thousand unless otherwise stated)

**10. Property, plant and equipment (continued)**

As at 31 December 2018, property, plant and equipment cost was reduced by received grants, related to the assets, which cost was EUR 130,032 thousand (in 2017, EUR 128,774 thousand), and net book value of such assets was EUR 95,648 thousand (EUR 98,718 thousand as at 31 December 2017).

The grants consist of financing received from Structural Funds of the European Union for the development of infrastructure. In 2018 the amount of grants received was EUR 850 thousand (EUR 128 thousand in 2017). Vilnius city municipality transferred assets free of charge of EUR 425 thousand, in 2017, the shareholders did not transfer any assets free of charge. In 2018 grants depreciation expenses were EUR 4,329 thousand (as at 31 December 2017, EUR 4,507 thousand).

In 2018, the amount of assets received from third parties free of charge, accounted for as income and in the statement of profit (loss) and other comprehensive income amounted to EUR 621 thousand (in 2017, EUR 373 thousand).

As at 31 December 2018, property, plant and equipment of the Company with net book value\* of EUR 7,801 thousand (EUR 7,421 thousand as at 31 December 2017) was pledged to banks as a collateral for the loans (Note 19).

Property, plant and equipment of the Company with an acquisition cost\* of EUR 61,146 thousand were fully depreciated as at 31 December 2018 (as at 31 December 2017, EUR 62,092 thousand) but were still in use.

As at 31 December 2018, property, plant and equipment of the Company with net book value\* of EUR 564 thousand during inventory counting was identified as not used in Company's activity (as at 31 December 2017, EUR 274 thousand). The book value\* of a portion of this property, plant and equipment not in use as at 31 December 2018 amounted to EUR 350 thousand and has been transferred to assets held for sale. At the Board meeting occurring on 9 November 2018, the Board members agreed to the Company's assets not in use initial selling prices and the main disposal terms approved by the Company's investment committee.

During the year 2018 and 2017, the Company did not include borrowing cost into the cost of property, plant and equipment as the Company did not have assets, which would meet capitalization criteria.

As at 31 December 2018 and 31 December 2017, the Company had property, plant and equipment with inventory performed, but legally not registered as well as property, plant and equipment with inventory not performed and legally not registered:

	PPE with inventory procedures performed, but legally not registered		PPE with inventory procedures not performed and legally not registered	
	Book value*, thousand	Amount of PPE cards	Book value*, thousand	Amount of PPE cards
Balance value as at 31 December 2017	14,651	1,098	10,811	387
Balance value as at 31 December 2018	9,185	578	9,440	321

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

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

New projects

In December 2016, a new project "Drinking-water supply and waste treatment system renovation and development in Vilnius City" agreement was signed (financed by EU structure funds). Total value of the project is EUR 41,914 thousand. Until 31 December 2018, 22 construction and reconstruction work agreements have been signed, with a total amount suitable for funding of EUR 15,584 thousand and technical maintenance agreements, with a total amount suitable for funding of EUR 167 thousand. Until 31 December 2018, the amount of performed funded work was EUR 3,785 thousand.

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(all amounts are in EUR thousand unless otherwise stated)

**11. Intangible assets**

	Software	Unfinished projects	Total
<b>Balance as at 1 January 2017</b>	1,320	-	1,320
Acquisitions	151	99	250
Reclassifications from UP	44	(44)	
Disposals and write-offs (-)	(245)	-	(245)
<b>Balance as at 31 December 2017</b>	<b>1,270</b>	<b>55</b>	<b>1,325</b>
<b>Balance as at 1 January 2018</b>	<b>1,270</b>	<b>55</b>	<b>1,325</b>
Acquisitions	199	262	461
Reclassifications from UP	262	(262)	-
Write-offs (-)	(286)	(55)	(341)
<b>Balance as at 31 December 2018</b>	<b>1,445</b>	<b>-</b>	<b>1,445</b>
		-	-
<b>Accumulated amortisation</b>			
<b>Balance as at 1 January 2017</b>	<b>1,298</b>	-	<b>1,298</b>
Charge for the year	18	-	18
Write-offs (-)	(245)	-	(245)
<b>Balance as at 31 December 2017</b>	<b>1,071</b>	-	<b>1,071</b>
<b>Balance as at 1 January 2018</b>	<b>1,071</b>	-	<b>1,071</b>
Charge for the year	111	-	111
Write-offs (-)	(286)	-	(286)
<b>Balance as at 31 December 2018</b>	<b>896</b>	<b>-</b>	<b>896</b>
		-	-
<b>Net book value as at 31 December 2017</b>	<b>199</b>	<b>55</b>	<b>254</b>
<b>Net book value as at 31 December 2018</b>	<b>549</b>	<b>-</b>	<b>549</b>

As at 31 December 2018, a part of the non-current intangible assets of the Company with the acquisition value of EUR 765 thousand were fully amortised (EUR 1,056 thousand as at 31 December 2017), but was still in use.

**12. Trade and other receivables**

	31/12/2018	31/12/2017
<b>Trade and other receivables non-current amount</b>		
Trade receivables	2,733	5,600
<b>Total:</b>	<b>2,733</b>	<b>5,600</b>
	31/12/2018	31/12/2017
<b>Trade and other receivables current amount</b>		
Trade receivables	5,017	6,839
Other receivables	3	2
	5,020	6,841
Less: allowance for doubtful receivables	(1,413)	(1,112)
<b>Total</b>	<b>3,607</b>	<b>5,729</b>

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

Trade receivable impairment is calculated from the first month.

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(all amounts are in EUR thousand unless otherwise stated)

**12. Trade and other receivables (continued)**

As at 31 December 2018, the receivable amount from Vilnius city municipality under a tripartite agreement for transfer of requirement rights and offsetting between the Company, UAB Vilniaus energija and Vilnius city municipality administration amounted to EUR 2,733 thousand, in 2017, EUR 7,108 thousand. In December 2018, Vilnius city municipality administration repaid EUR 2,867 thousand before maturity term and a new agreement for payment schedule has been signed, which defined that payments must be transferred in portions starting from 30 September 2020, ending 31 December 2021. As at 31 December 2018, EUR 2,733 thousand has been attributed to non-current receivables, as at 31 December 2017, EUR 5,600 thousand.

Change of allowance for amounts receivable from customers of the Company was as follows:

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

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

The changes of the impairment of the Company's trade receivables and other receivables in 2017 were as follows:

	31/12/2017
<b>Balance at the beginning of the year</b>	<b>5,798</b>
Impairment reversal of the year	9
Recovered impairment	(4,632)
Write-off to bad debts	(63)
<b>Balance at the year-end</b>	<b>1,112</b>

In 2018 and 2017 the change of account receivables allowance is presented in the statement of profit (loss) and other comprehensive income in separate line.

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

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

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

	Trade receivables		Trade receivables past due but not impaired				Total
	neither past due nor impaired	Less than 30 days	31-90 days	91-180 days	181-365 days	More than 365 days	
Vilnius City municipality	7,108	40	-	-	-	-	7,148
Natural persons	447	8	376	328	94	218	1,471
Other legal entities	1,895	735	56	22	-	-	2,708
<b>Total</b>	<b>9,450</b>	<b>783</b>	<b>432</b>	<b>350</b>	<b>94</b>	<b>218</b>	<b>11,327</b>

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(all amounts are in EUR thousand unless otherwise stated)

**13. Prepayments, deferred expenses and accrued income**

	31/12/2017
Deferred expenses	136
Accrued income	268
Accrued interest income	78
Prepayments received	3
<b>Total</b>	<b>485</b>

**14. Prepayments and deferred expenses**

	31/12/2018
Prepayments received	8
Deferred expenses	682
	<b>690</b>

**15. Contract assets – accrued income**

	31/12/2018
Contract assets – accrued income	295
	<b>295</b>

Regarding the requirements of IFRS 15, since 2018, the Company has to disclose accrued income of assets from contracts with customers separately.

**16. Cash and cash equivalents**

	31/12/2018	31/12/2017
Cash at bank	17,036	12,390
Cash in transit	93	193
<b>Total</b>	<b>17,129</b>	<b>12,583</b>

Up to 6 May 2018 and 31 December 2017, OP Corporate bank plc Lithuanian branch account funds and future income to the bank account were pledged to this bank.

**17. Share capital**

During 2017, the Company's share capital was increased by Vilnius district municipality property contribution in value of EUR 469. As at 31 December 2017, the number of shares for property contribution of Vilnius city municipality property contribution comprised 16,189 units. As at 31 December 2017, the Company's share capital amounted to EUR 112,664 thousand. In 2018, the Company's share capital has been increased by shareholder's property contributions with the total amount of EUR 2,952 thousand as follows: Vilnius city municipality property contribution of EUR 2,344 thousand, Vilnius district municipality property contribution of EUR 211 thousand and Švenčionių district municipality property contribution of EUR 937 thousand. In 2018, Vilnius city municipality property contribution comprised of 80,933 units, Vilnius district municipality property contribution comprised of 7,287 units and Švenčionių district municipality property contribution comprised of 3,992,258 ordinary shares with the par value of EUR 28.96 each.

The share capital of the Company was fully paid as at 31 December 2018 and 2017. The Company did not hold its own shares.

On 27 July 2017, during the extraordinary shareholders meeting of Vilniaus vandenys UAB, a decision was made to approve interim dividends to the shareholders amounting to EUR 4 million for a four-month period ended on 30 April 2017 (EUR 1.032488 dividends per share). On 30 April 2018, during the general meeting of the shareholders, a decision to transfer dividends of May – December 2017 amounting to EUR 2 million to shareholders (EUR 0.5141 dividends per share) was made.

**COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 2018**

(all amounts are in EUR thousand unless otherwise stated)

**18. Reserves**

Legal reserve

A Legal reserve is a compulsory reserve under the legislation of the Republic of Lithuania. Annual transfers of no less than 5% of net profit are compulsory until the reserve reaches 10% of share capital. In 2017, with a net profit for four months period, EUR 310 thousand were allocated to the compulsory reserve. As at 31 December 2017, the compulsory reserve amounted to EUR 426 thousand. In 2018, distributing net profit of 8 months of 2017, EUR 351 thousand has been attributed to legal reserve. As at 31 December 2018, legal reserve comprised of EUR 777 thousand.

**19. Borrowings and financial lease obligations**

	31/12/2018	31/12/2017
<b>Non-current borrowings and financial lease obligations</b>		
Non-current borrowings	1,284	2,141
	<u>1,284</u>	<u>2,141</u>
<b>Current borrowings and financial lease obligations</b>		
Current portion of non-current borrowings	857	857
	<u>857</u>	<u>857</u>
<b>Total</b>	<b><u>2,141</u></b>	<b><u>2,998</u></b>

Non-current and current borrowings of the Company include:

Lender	Average interest rate, %	Original currency	Principal amount in original currency	Maturity date	31/12/2018	31/12/2017
Finance Ministry of Republic of Lithuania	4.29	Euro	12,000	01/06/2021	2,141	2,998
			Less: current portion		(857)	(857)
			<b>Non-current borrowings, net of current portion</b>		<b><u>1,284</u></b>	<b><u>2,141</u></b>

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

	31/12/2018	31/12/2017
Within one year	857	857
From one to five years	1,284	2,141
<b>Total</b>	<b><u>2,141</u></b>	<b><u>2,998</u></b>

To secure the fulfilment of financial liabilities to the creditor, the Company's property, plant and equipment with the balance of EUR 7,801 thousand as at 31 December 2018 has been pledged (EUR 7,421 as at 31 December 2017) (Note 10).

During 2017, the Company has repaid a loan to Finance Ministry of Republic of Lithuania in amount of EUR 2,277 thousand, a North Investment Bank loan of EUR 6,759 thousand and an OP Corporate bank plc Lithuanian branch loan of EUR 10,000 thousand before their maturity.

On 6 May 2018, an overdraft agreement with OP Corporate Bank plc Lithuanian branch, that was signed for 2 years, terminated. The amount of overdraft was EUR 10,000 thousand. As at 6 May 2018 and 31 December 2017, the overdraft was not used.

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

**COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 2018**

(all amounts are in EUR thousand unless otherwise stated)

**20. Trade and other payables**

	31/12/2018	31/12/2017
Trade payables for services	932	1,088
Trade payables for repairs	70	89
Trade payables for constructions in progress and reconstruction	385	728
Trade payables for financed by EU funds	963	16
Trade payables for non-current assets	431	248
Trade payables for inventories	343	338
<b>Total</b>	<b>3,124</b>	<b>2,507</b>

**21. Other current liabilities**

	31/12/2018	31/12/2017
Taxes payable	1,404	1,304
Accrual for vacation reserve	810	670
Accrued current liabilities to employees	673	572
Taxes, salaries and social security expenses	289	261
Accrued expenses	223	216
Other liabilities	594	468
<b>Total</b>	<b>3,993</b>	<b>3,491</b>

Other payables are non-interest bearing.

**22. Financial risk management objectives and policies**

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

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

**Interest rate risk**

At the end of the year 2018 and 2017, the Company had a loan and a long-term receivable with fixed interest rate, therefore the Company does not face the risk of interest rate fluctuations.

In 2018 and 2017, the Company did not use derivative financial instruments to manage annual interest rate risk.

**Liquidity risk**

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of overdrafts and committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's liquidity (total current assets / total current liabilities) and quick ((total current assets - inventories) / total current liabilities) ratios as at 31 December 2018 were 2.39 and 2.35, respectively (1.96 and 1.87 as at 31 December 2017).

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

In 2018, the cash flow from operating activities was EUR 13,619 thousand (in 2017, EUR 15,170 thousand). The Company has managed to ensure its continuity – to cover obligations to suppliers, employees, pay taxes, etc. At the date of signing these financial statements the Company's operating cash flow is also positive.



**COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 2018**

(all amounts are in EUR thousand unless otherwise stated)

**22. Financial risk management objectives and policies (continued)**

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

The table below summarizes the maturity profile of the Company's financial liabilities as at 31 December 2018 and 2017 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest bearing borrowings	-	-	891	1,424	-	2,315
Trade and other payables	10	3,114	-	-	-	3,124
Other liabilities	-	22	716	561	-	1,299
<b>Balance as at 31 December 2018</b>	<b>10</b>	<b>3,136</b>	<b>1,607</b>	<b>1,985</b>	<b>-</b>	<b>6,738</b>
Interest bearing borrowings	-	-	891	2,315	-	3,206
Trade and other payables	2	2,505	-	-	-	2,507
Other liabilities	-	45	639	391	-	1,075
<b>Balance as at 31 December 2017</b>	<b>2</b>	<b>2,550</b>	<b>1,530</b>	<b>2,706</b>	<b>-</b>	<b>6,788</b>

**Foreign exchange risk**

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

**Credit risk**

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

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

As at 31 December 2018 and 2017, the Company did not invest available funds into instruments of cash and securities market (deposits, bonds, government securities).

**Fair value of financial instruments**

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

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

The book value of the financial assets and financial liabilities of the Company as at 31 December 2018 and 2017 is approximate to their fair value (3 level).

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

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

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

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(all amounts are in EUR thousand unless otherwise stated)

**22. Financial risk management objectives and policies (continued)**

Categories of financial instruments:

	31/12/2018	31/12/2017
<b>Financial assets</b>		
Cash and cash equivalents	17,129	12,583
Non-current receivables, trade and other receivables carried at amortised cost	6,340	11,329
<b>Financial liabilities</b>		
Carried at amortised cost	5,265	5,505

**Capital management**

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

The Company manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2018 and 2017.

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

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

	31/12/2018	31/12/2017
Total assets	140,432	135,452
Contract liabilities – advances received	(798)	(1,222)
	139,634	134,230
<b>Equity</b>	<b>128,167</b>	<b>121,993</b>
Capital concentration ratio	91.79%	90.88%

**23. Related party transactions**

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

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

	Sales to related parties	Purchases from related parties	Trade receivables from related parties	Trade and other payables to related parties
Shareholders	493	2	2,795	1
Entities controlled by shareholders	6,855	499	700	10
<b>Total</b>	<b>7,348</b>	<b>501</b>	<b>3,495</b>	<b>11</b>

As at 31 December 2018, the receivable from Vilnius city municipality amounted to EUR 2,795 thousand. Sales to AB Vilniaus šilumos tinklai in 2018 amounted to EUR 5,838 thousand.

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

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(all amounts are in EUR thousand unless otherwise stated)

**23. Related party transactions (continued)**

	Sales to related parties	Purchases from related parties	Trade receivables from related parties	Trade and other payables to related parties
Shareholders	557	1	7,149	1
Entities controlled by shareholders	6,005	391	1,331	96
<b>Total</b>	<b>6,562</b>	<b>392</b>	<b>8,480</b>	<b>97</b>

As at 31 December 2017, the receivable from Vilnius city municipality amounted to EUR 7,150 thousand. Sales to AB Vilniaus šilumos tinklai in 2017 amounted to EUR 5,041 thousand.

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

**24. Remuneration of the management and other payments**

As at 31 December 2018 and 2017, the Company's management team comprised 4 people.

	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Key management remuneration	225	268
Social security	70	84
<b>Total</b>	<b>295</b>	<b>352</b>

During the year 2018 Company's management received payment in amount of EUR 12.13 thousand for rent of vehicles (in 2017, EUR 9.78 thousand).

**25. Non-cash transactions**

	01/01/2018 31/12/2018	01/01/2017 31/12/2017
Property, plant and equipment received from shareholders as capital contribution	2,952	469
Non-current assets from shareholders received free of charge	425	-
Non-current assets received from third parties free of charge	621	373

**26. Subsequent events**

Subsequent information about legal procedures is presented in Note 27.

Increase of share capital

Share capital of the Company was increased by the property contribution made by Vilnius district municipality in the amount of EUR 691 thousand and was registered in February 2019.

**27. Commitments and contingencies**

Litigations

The Company has received claims from the following persons:

- Vilnius Regional court is hearing the plaintiff's AS Merko Ehitus branch claim for additional expense payment and extension of maturity, illegal approval and usage of a bank guarantee. The amount of the claim is EUR 60,200 for additional work performed and EUR 93,491 as incurred losses of the plaintiff. On 9 January 2018, the court has ruled to perform an examination of the case. The Court hearing on 8 February 2019 has been postponed. A new court hearing has been set to occur on 9 May 2019. As at 31 December 2018 and as at 31 December 2017, the Company has formed a provision of EUR 153,691 for this claim.

- On 8 December 2016, AB Gražtai has filed a claim to UAB Vilniaus vandenys to recognise a portion of an agreement as invalid and to reorganize restitution; the amount of claim is EUR 40,631. On 24 October 2017, the court of first instance has upheld the claim, UAB Vilniaus vandenys appealed the judgement. During the appellate court hearing that occurred on 13 March 2019, the court has ruled to postpone the decision making and publication. The decision will be heard on 10 April 2019. As at 31 December 2018 and 31 December 2017, the Company has formed a provision of EUR 40,631 for this claim.

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(all amounts are in EUR thousand unless otherwise stated)

**27. Commitments and contingencies (continued)**

•On 30 January 2015, due to the breakage of iron plumbing tube the basement premises of National cancer institute, located at Santariškių str. 1, Vilnius, were flooded. At the place of the accident, the water is distributed by UAB Vilniaus vandenys. On 30 April 2017, Gjensidige has filed a claim that demanded jointly and severally award EUR 114,375 from UAB Vilniaus vandenys and InterRisk Vienna Insurance Group AAS. On 13 June 2017, a revised claim has been filed with the total amount for UAB Vilniaus vandenys to pay EUR 45,430. The court of first instance partly upheld the claim and awarded EUR 27,477 thousand from UAB Vilniaus vandenys. The Company appealed the claim. The appellate court hearing has not yet been appointed. As at 31 December 2017, the Company has formed a provision of EUR 114,375 for this provision. As at 31 December 2018, the provision for this claim has been reduced to EUR 27,477, regarding the ruling of the court of the first instance.

•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 for financial modification of application. UAB Vilniaus vandenys appealed the orders to Vilnius Regional Court. The court of first instance did not uphold the Company's appeal, therefore, appeals have been filed to the Supreme Administrative Court of Lithuania. After the cases are heard, the funded amount of EUR 4,021,761 would be repaid based on the agreements and funding resources will be redistributed, the provision for the modification of funded amounts is not formed. A possible return should not have any impact on the Company's income or losses as its amount of grants would be reduced.

•In June 2017, due to high precipitation, wastewater pumping station located at Upės str. 15 has broken down and the wastewater has flooded to Neris river. Vilnius Region Environmental Protection Department (VREPD) has performed an unplanned periodical inspection in order to examine and evaluate the circumstances of the incident and an inspection act has been documented. Based on preliminary expert calculations, the damage amounted to EUR 245,229.

On 16 May 2018, VREPD has filed a claim to the Company that contained a damage to the environment in the amount of EUR 454,194, calculated under the order No. 471 of the Minister of the Environment of the Republic of Lithuania signed on 9 September 2002 "Method for calculating the environmental damage award". On 26 June 2018, the Company responded to VREPD. The Company disagrees with VREPD evaluation of the accident and believes that the weather conditions agreed with the natural disaster, i.e. heavy rain that directly caused the leakage to Neris river through the emergency pipe. Even though UAB Vilniaus vandenys does not agree with the received claim, it is probable that the damage caused to the environment will have to be compensated. As at 31 December 2017, a provision of EUR 245,229 to repay the damage has been formed. In 2018, the Company additionally formed a provision of EUR 208,895 for the claim of VREPD that as at 31 December 2018 amounted to EUR 454,194.

•On 21 November 2018, UAB Envija ES filed a claim for a unilateral offset to be announced as invalid and for the loan to be extended. The amount of the claim is EUR 59,688. The Company has formed a provision of EUR 59,688 for this claim.

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

	31/12/2017	Accrued 01/01/2018 31/12/2018	Used 01/01/2018 31/12/2018	31/12/2018
Provisions for trial claims	315	60	93	282
Provisions for environmental damage	245	209	-	454
Provisions accumulated for boring liquidation	9	-	9	-
Provisions for cadastre measurement and cases registration	35	1	7	29
<b>Total</b>	<b>604</b>	<b>270</b>	<b>109</b>	<b>765</b>

Commitments under concluded contracts

As at 31 December 2018, the Company's commitments according to the concluded contracts which are not yet recognised in the financial statements amount to EUR 24,814 thousand. As at 31 December 2017, commitments amounted to EUR 3,836 thousand.

Other off-balance sheet commitments and uncertainties

As at 31 December 2018 and 2017, the Company has legally not registered 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.