AB KAUNO ENERGIJA

SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS
FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016,
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS,
AS ADOPTED BY THE EUROPEAN UNION

Confirmation of the persons responsible for the shareholders of the AB Kauno Energija and the Bank of Lithuania

Following the provisions of article 22 of the Law on Securities Market of the Republic of Lithuania and the Regulations of Preparation and Presentation of Periodical and Additional Information, approved by the Board of the Bank of Lithuania, we – General Manager of AB Kauno Energija Rimantas Bakas, Finance Department Director Gintautas Muznikas and Chief Accountant Violeta Staškūnienė hereby approve, that according to our knowledge the AB Kauno Energija interim financial report for a twelve month period ended 31 December 2016 is prepared according to the international Financial Reporting Standards, generally accredited for use in European Union, and satisfies actuality and correctly indicate assets, liabilities, financial state, profit (loss) and cash flows.

General Manager	Rimantas Bakas
Finance Department Director	Gintautas Muznikas
Chief Accountant	Violeta Staškūnienė

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

Statements of Financial Position

		Group		Company	
	Notes	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
ASSETS					
Non-current assets					
Intangible assets	**3**	**114**	**116**	**114**	**116**
Property, plant and equipment	**4**				
Land and buildings		7,916	8,175	7,590	7,832
Structures		85,601	84,833	83,222	84,833
Machinery and equipment		27,420	24,469	23,507	24,472
Vehicles		497	383	448	410
Devices and tools		3,170	2,790	3,159	2,790
Construction in progress and prepayments		1,962	304	1,962	304
Total property, plant and equipment		**126,566**	**120,954**	**119,888**	**120,641**
Non-current financial assets					
Investments into subsidiarys	**1**	-	-	2,764	1,074
Non-current accounts receivable	**5**	-	1	-	1
Other financial assets	**6**	1	1	1	1
Total non-current financial assets		**1**	**2**	**2,765**	**1,076**
Total non-current assets		**126,681**	**121,072**	**122,767**	**121,833**
Current assets					
Inventories and prepayments					
Inventories	**7**	485	289	415	285
Prepayments		772	716	665	716
Total inventories and prepayments		**1,257**	**1,005**	**1,080**	**1,001**
Current accounts receivable	**8**				
Trade receivables	**23;25**	10,117	8,975	10,117	8,975
Other receivables		545	859	527	846
Total accounts receivable		**10,662**	**9,834**	**10,644**	**9,821**
Cash and cash equivalents	**9;23**	6,285	2,531	6,193	2,518
Total current assets		**18,204**	**13,370**	**17,917**	**13,340**
Total assets		**144,885**	**134,442**	**140,684**	**135,173**

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CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

Statements of Financial Position (cont'd)

	Notes	Group		Company	
		As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
EQUITY AND LIABILITIES					
Equity					
Share capital	1	74,476	74,476	74,476	74,476
Legal reserve	10	2,922	2,695	2,922	2,695
Other reserve	10	2,977	713	2,977	713
Retained earnings (deficit)					
Profit for the current year	1	7,233	4,509	4,708	4,528
Profit (loss) for the prior year	1	(313)	(533)	239	-
Total retained earnings (deficit)		**6,920**	**3,976**	**4,947**	**4,528**
Total equity		**87,295**	**81,860**	**85,322**	**82,412**
Liabilities					
Non-current liabilities					
Non-current borrowings	11;23	22,395	19,481	19,559	19,481
Financial lease obligations	12;23	39	35	39	35
Deferred tax liability	21	4,267	3,503	4,459	3,695
Grants (deferred income)	13	17,020	16,761	15,727	16,761
Employee benefit liability	14;25	1,070	585	1,066	585
Other non-current liabilities	23	-	-	1,702	-
Non-current trade liabilities	23	18	26	18	26
Total non-current liabilities		**44,809**	**40,391**	**42,570**	**40,583**
Current liabilities					
Current portion of non-current borrowings and financial lease	11;12;23	3,416	2,436	2,849	2,436
Current borrowings	11;23	-	-	-	-
Trade payables	23	7,188	7,778	7,301	7,777
Payroll-related liabilities		668	604	657	601
Advances received		550	499	550	499
Taxes payable		380	282	334	280
Liabilities payable for companies of the Group	25	34	-	-	-
Current portion of employee benefit liability	14	261	306	261	306
Other current liabilities		284	286	840	279
Total current liabilities		**12,781**	**12,191**	**12,792**	**12,178**
Total liabilities		**57,590**	**52,582**	**55,362**	**52,761**
Total equity and liabilities		**144,885**	**134,442**	**140,684**	**135,173**

(the end)

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		25 January 2017
Finance Department Director	Gintautas Muznikas		25 January 2017
Chief Accountant	Violeta Staškūnienė		25 January 2017

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

Statements of Profit (loss) and other comprehensive income

Group	Notes	2016 IV quarter	2016	2015 IV quarter	2015
Operating revenue					
Sales income	16	21,294	61,178	18,874	60,725
Other operating income	18	126	2,287	144	597
Total income		**21,420**	**63,465**	**19,018**	**61,322**
Expenses					
Fuel and heat acquired		(10,878)	(34,334)	(9,632)	(34,885)
Salaries and social security		(2,330)	(7,522)	(1,855)	(6,639)
Depreciation and amortisation	3;4	(1,637)	(6,205)	(1,522)	(5,890)
Repairs and maintenance		(219)	(726)	(135)	(788)
Write-offs and change in allowance for accounts receivable	5;8	(48)	796	(365)	145
Taxes other than income tax		(412)	(1,485)	(380)	(1,416)
Electricity		(394)	(1,215)	(360)	(1,218)
Raw materials and consumables		(181)	(619)	(181)	(619)
Maintenance of heating and hot water systems		-	-	-	-
Water		(226)	(831)	(207)	(786)
Change in write-down to net realisable value of inventories and non-current assets	7	(17)	15	(541)	(570)
Other expenses	17	(615)	(2,664)	(701)	(2,503)
Other activities expenses	18	(93)	(315)	(127)	(449)
Total expenses		**(17,050)**	**(55,105)**	**(16,006)**	**(55,618)**
Operating profit (losses)		**4,370**	**8,360**	**3,012**	**5,704**
These investments of the parent, subsidiaries and associated companies' shares income	19	-	-	-	-
Other long-term investments and loan income	19	-	-	-	-
Other interest and similar income	19	39	210	63	264
Financial assets and short-term investments Impairment	20	-	-	(27)	(27)
Interest and other similar expenses	20	(162)	(571)	(152)	(776)
Finance cost, net		**(123)**	**(361)**	**(116)**	**(539)**
Profit before income tax		**4,247**	**7,999**	**2,896**	**5,165**
Income tax	21	(766)	(766)	(656)	(656)
Net profit		**3,481**	**7,233**	**2,240**	**4,509**
Basic and diluted earnings per share (EUR)	22	0.08	0.17	0.05	0.11

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		25 January 2017
Finance Department Director	Gintautas Muznikas		25 January 2017
Chief Accountant	Violeta Staškūnienė		25 January 2017

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

Statements of Profit (loss) and other comprehensive income

Company	Notes	2016 IV quarter	2016	2015 IV quarter	2015
Operating revenue					
Sales income	16	21,298	61,187	18,877	60,733
Other operating income	18	93	2,180	121	519
Total income		**21,391**	**63,367**	**18,998**	**61,252**
Expenses					
Fuel and heat acquired		(11,185)	(34,641)	(9,632)	(34,885)
Salaries and social security		(2,294)	(7,486)	(1,855)	(6,639)
Depreciation and amortisation	3;4	(1,533)	(6,107)	(1,522)	(5,890)
Repairs and maintenance		(205)	(711)	(135)	(788)
Write-offs and change in allowance for accounts receivable	5;8	(43)	809	(364)	157
Taxes other than income tax		(406)	(1,479)	(380)	(1,416)
Electricity		(340)	(1,161)	(360)	(1,218)
Raw materials and consumables		(181)	(619)	(181)	(619)
Maintenance of heating and hot water systems		-	-	-	-
Water		(225)	(830)	(207)	(786)
Change in write-down to net realisable value of inventories and non-current assets	7	(17)	15	(541)	(570)
Other expenses	17	(606)	(2,655)	(701)	(2,503)
Other activities expenses	18	(60)	(232)	(100)	(372)
Total expenses		**(17,095)**	**(55,097)**	**(15,978)**	**(55,529)**
Operating profit (losses)		**4,296**	**8,270**	**3,020**	**5,723**
These investments of the parent, subsidiaries and associated companies' shares income	19	-	-	-	-
Other long-term investments and loan income	19	-	-	-	-
Other interest and similar income	19	42	212	63	264
Financial assets and short-term investments Impairment	20	(53)	(204)	(27)	(27)
Interest and other similar expenses	20	(2,397)	(2,806)	(152)	(776)
Finance cost, net		**(2,408)**	**(2,798)**	**(116)**	**(539)**
Profit before income tax		**1,888**	**5,472**	**2,904**	**5,184**
Income tax	21	(764)	(764)	(656)	(656)
Net profit		**1,124**	**4,708**	**2,248**	**4,528**
Basic and diluted earnings per share (EUR)	22	0.03	0.11	0.05	0.11

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		25 January 2017
Finance Department Director	Gintautas Muznikas		25 January 2017
Chief Accountant	Violeta Staškūnienė		25 January 2017

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2014		**74,378**	**2,082**	**521**	**401**	**77,382**
Total comprehensive income		98	-	-	2,269	2,367
Transferred to reserves	10	-	613	713	(1,326)	-
Transferred from reserves	10	-	-	(521)	521	-
Dividends	1	-	-	-	(129)	(129)
Balance as of 30 September 2015		**74,476**	**2,695**	**713**	**1,736**	**79,620**
Total comprehensive income		-	-	-	2,240	2,240
Balance as of 31 December 2015		**74,476**	**2,695**	**713**	**3,976**	**81,860**
Transferred to reserves	10	-	227	2,977	(3,204)	-
Transferred from reserves	10	-	-	(713)	713	-
Dividends	1	-	-	-	(1,798)	(1,798)
Total comprehensive income		-	-	-	3,752	3,752
Balance as of 30 September 2016		**74,476**	**2,922**	**2,977**	**3,439**	**83,814**
Total comprehensive income		-	-	-	3,481	3,481
Balance as of 31 December 2016		**74,476**	**2,922**	**2,977**	**6,920**	**87,295**

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		25 January 2017
Finance Department Director	Gintautas Muznikas		25 January 2017
Chief Accountant	Violeta Staškūnienė		25 January 2017

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

Statement of Changes in Equity

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2014		**74,378**	**2,082**	**521**	**934**	**77,915**
Transferred to reserves	10	-	613	713	(1,326)	-
Transferred from reserves	10	-	-	(521)	521	-
Dividends	1	-	-	-	(129)	(129)
Total comprehensive income		98	-	-	2,280	2,378
Balance as of 30 September 2015		**74,476**	**2,695**	**713**	**2,280**	**80,164**
Total comprehensive income		-	-	-	2,248	2,248
Balance as of 31 December 2015		**74,476**	**2,695**	**713**	**4,528**	**82,412**
Transferred to reserves	10	-	227	2,977	(3,204)	-
Transferred from reserves	10	-	-	(713)	713	-
Dividends	1	-	-	-	(1,798)	(1,798)
Total comprehensive income		-	-	-	3,584	3,584
Balance as of 30 September 2016		**74,476**	**2,922**	**2,977**	**3,823**	**84,198**
Total comprehensive income		-	-	-	1,124	1,124
Balance as of 31 December 2016		**74,476**	**2,922**	**2,977**	**4,947**	**85,322**

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		25 January 2017
Finance Department Director	Gintautas Muznikas		25 January 2017
Chief Accountant	Violeta Staškūnienė		25 January 2017

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

Statements of Cash Flows

	Group		Company	
	2016	**2015**	**2016**	**2015**
Cash flows from (to) operating activities				
Net profit	**7,233**	**4,509**	**4,708**	**4,528**
Adjustments for non-cash items:				
Depreciation and amortisation	7,631	7,134	7,500	7,117
Write-offs and change in allowance for accounts receivable	(792)	(136)	(805)	(148)
Interest expenses	553	650	537	650
Change in fair value of derivatives	18	-	-	-
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	1	43	1	43
(Amortisation) of grants (deferred income)	(1,084)	(866)	(1,044)	(866)
Change in write-down to net realisable value of inventories and non-current assets	(15)	570	(15)	570
Change employee benefit liability	551	141	548	141
Calculation of the value of shares	-	98	-	98
Income tax expenses	766	647	764	647
Change in accruals	78	58	2,354	55
Impairment of investment in subsidiary	-	-	204	-
Elimination of other financial and investing activity results	(210)	(236)	(210)	(236)
Total adjustments for non-cash items:	**7,497**	**8,103**	**9,834**	**8,071**
Changes in working capital:				
(Increase) in inventories	(182)	(261)	(108)	(262)
(Increase) decrease in prepayments	(59)	(115)	51	(105)
(Increase) decrease in trade receivables	(317)	6,378	(307)	6,381
(Increase) in other receivables	278	5,991	292	5,992
(Decrease) increase in other non-current liabilities	(8)	(72)	(8)	(72)
Increase in current trade payables and advances received	(558)	(11,617)	(425)	(11,616)
(Decrease) increase in payroll-related liabilities	(112)	(132)	(103)	(132)
Increase (decrease) in other liabilities to budget	96	267	54	264
Increase (decrease) in other current liabilities	(49)	(229)	(38)	(235)
Total changes in working capital:	**(911)**	**210**	**(592)**	**215**
Net cash flows from operating activities	**13,819**	**12,822**	**13,950**	**12,814**

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CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

	Group		Company	
	2016	2015	2016	2015
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(8,344)	(4,722)	(6,674)	(4,722)
Proceeds from sale of tangible assets	4	121	4	121
Interest received for overdue accounts receivable	210	264	210	264
Penalties received	-	-	-	-
Acquisition of subsidiaries	-	-	(1,894)	-
Decrease of non-current accounts receivable	-	3	-	3
Interest received	-	-	-	-
Net cash (used in) investing activities	**(8,130)**	**(4,334)**	**(8,354)**	**(4,334)**
Cash flows from (to) financing activities				
Proceeds from loans	2,974	9,642	2,974	9,642
(Repayment) of loans	(2,489)	(16,914)	(2,489)	(16,914)
Interest (paid)	(573)	(645)	(557)	(645)
Financial lease (payments)	(60)	(64)	(60)	(64)
Penalties and fines (paid)	-	(28)	-	(28)
Dividends (paid)	(1,797)	(128)	(1,797)	(128)
Received grants	10	1,791	8	1,791
Net cash flows from (used in) financing activities	**(1,935)**	**(6,346)**	**(1,921)**	**(6,346)**
Net (decrease) increase in cash and cash equivalents	**3,754**	**2,142**	**3,675**	**2,134**
Cash and cash equivalents at the beginning of the period	**2,531**	**389**	**2,518**	**384**
Cash and cash equivalents at the end of the period	**6,285**	**2,531**	**6,193**	**2,518**

(the end)

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		25 January 2017
Finance Department Director	Gintautas Muznikas		25 January 2017
Chief Accountant	Violeta Staškūnienė		25 January 2017

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

Notes to the financial statements

1. General information

AB Kauno Energija (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Raudondvario Rd. 84, Kaunas, Lithuania.

AB Kauno Energija consists of the Company's head office and the branch of Jurbarko Šilumos Tinklai.

The Company is involved in heat and hot water supplies, electricity generation and distribution and also in maintenance of manifolds. The Company was registered on 1 July 1997 after the reorganisation of AB Lietuvos Energija. The Company's shares are traded on the Baltic Secondary List of the AB Nasdaq Vilnius.

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

	As of 31 December 2016		As of 31 December 2015	
	Number of shares owned (unit)	Percentage of ownership (per cent)	Number of shares owned (unit)	Percentage of ownership (per cent)
Kaunas city municipality	39,736,058	92.84	39,736,058	92.84
Kaunas district municipality	1,606,168	3.75	1,606,168	3.75
Jurbarkas district municipality	746,405	1.74	746,405	1.74
Other minor shareholders	713,512	1.67	713,512	1.67
	42,802,143	100.00	42,802,143	100.00

All the shares are ordinary shares. The Company owns no shares as at the end of the reporting periods.

According to the Law on the Euro Adoption in the Republic of Lithuania No XII-828 of 17 April 2014 that determines order of adoption of Euro in Lithuania starting from 1 January 2015, the value of one Company's share has been recalculated to 1.74 Euro (on 31 December 2014 it was 1.73772 Euro). Result of recalculation of value of the share is EUR 98 thousand and it is reflected in Expenses of financial and investing activities of Group's and Company's Statements of Profit (loss) and other comprehensive income. Company's Statutes are newly registered on 18 May 2015.

On 23 July 2009 in the Company's Shareholders Meeting it was decided to increase the share capital by issuing 22,700,000 ordinary shares with the par value EUR 1.73772 each. Priority right to acquire issued shares was granted to Kaunas city municipality. The issue price of shares is equal to their nominal value. For this share the Company received a contribution in-kind comprising manifolds in Kaunas city with the value of EUR 39,446 thousand which was established by the independent property valuators under the replacement cost method.

On 17 February 2010 in the Company's Extraordinary Shareholders Meeting it was decided to increase the share capital by EUR 197 thousand (from EUR 74,059 thousand to EUR 74,256 thousand) issuing 113,595 ordinary shares with the par value EUR 1.73772 each. The issue price of shares is equal to their nominal value. A building of a boiler house located in Kaunas city, owned by Kaunas City Municipality, and engineering networks located in Jurbarkas city, owned by Jurbarkas Region Municipality, were received as a non-monetary contribution in kind for these shares. The value of this non-monetary contribution as of the transfer date was determined by independent valuators under the replacement cost method.

It was decided at the Company's Extraordinary meeting of shareholders held on 6 January 2014 to increase Company's authorised capital with EUR 122 thousand from EUR 74,256 thousand to EUR 74,378 thousand by issuing 70,166 ordinary shares at a nominal value of EUR 1.73772, whose emission price is equal to nominal value of the share, enabling Kaunas city municipality to purchase those shares, seeking that Kaunas city municipality would dispose its own heat supply pipeline – heat network, situated in Karaliaus Mindaugo av. 50, Kaunas. A newly issued Company's Statutes were registered on 20 March 2014 after increase of authorised capital.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

All shares were fully paid as of 31 December 2016 and as of 31 December 2015.

On 28 April 2016 the Annual General Meeting of Shareholders has made a decision to pay EUR 1.798 thousand, i.e. at 4.2 cents a share in dividends and EUR 32 thousand tantiemes for the members of the Company's board from the profit of the year 2015. Annual payments are accounted in salaries and social security line of Statements of Profit (loss) and other comprehensive income.

On 28 April 2015 the Annual General Meeting of Shareholders has made a decision to pay EUR 129 thousand, i.e. at 0.3 cents a share in dividends.

The unpaid part of dividends amounting to EUR 2 thousand as of 31 December 2016 (31 December 2015 – EUR 4 thousand) is accounted for in other current liabilities.

On June 23, 2016 the Company signed an agreement with UAB E Energija regarding acquisition of 100 per cent of the shares of UAB Petrašiūnų Katilinė. The agreement became valid from June 30, 2016. The Extraordinary General Meeting of shareholders that has been held on July 29, 2016 approved this agreement. The Company accomplished UAB Petrašiūnų katilinė shares acquisition transaction on October 27, 2016 acquiring block of shares for EUR 1,894 thousand. Group's heat production capacity using biofuel increased at 19.2 MW after this acquisition, thus a reliability of heat supply to consumers increased additionally.

As of 31 December 2016 the Group consists of the Company and the subsidiarys UAB Kauno energija NT and UAB Petrašiūnų katilinė (hereinafter – the Group):

Company	Principal place of business	Share held by the Group	Cost of investment	Writing-off cost of investment reducing the capital	Profit (loss) for the year	Total equity	Main activities
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 per cent	1,074	(151)	(52)	1,225	Rent
UAB Petrašiūnų katilinė	R. Kalantos g. 49, Kaunas	100 per cent	1,894	(53)	44	353	Heat production

Accumulated impairment loss of investment in subsidiary amounted to EUR 204 thousand as of 31 December, 2016 and they were accounted in article of financial activity expenses of Company's profit or loss.

The Company are also involved in maintenance of heating systems.

Legal Regulations
Operations of the Company are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. Starting from 1 January 2008, the Law amending the Heating Law No. X-1329 of 20 November 2007 of the Republic of Lithuania came in to force. Starting from 1 November, 2011 the change in Heating Law came in to force. It determines that heating and hot water systems as well as heat points of blocks of flats must be supervised by the supervisor unrelated to the supplier of heat and hot water, who must be chosen by inhabitants of this block of flats, without reference to ownership of these heat points. This prohibition, provided by the law, is not applied to the maintenance of heating and hot water systems of buildings which appear in populated localities with less than 50,000 inhabitants according to the data of the Lithuanian Department of Statistics, if the municipal council doesn't make a different decision. Starting from November 1, 2011 any expenses, related to maintenance of the heat points are not included in a heat price since that date.

According to the Heating Law of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Price Regulation Commission of Energy Resources (hereinafter the Commission). On 26 February 2004 the Commission granted the Company the heat distribution license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply. On the 14 December 2012 the Commission determined by its decision No. O3-413 a new basic heat rates force components for the period from 1 January 2013 till 31 December 2016.

In 2016 the average number of employees at the Group was 536 (543 employees in 2015). In 2016 the average number of employees at the Company was 523 (540 employees in 2015).

Operational Activity
Group's generation capacities consist of Company's generation capacities and 1 subsidiary boiler-house in Kaunas. Company's generation capacities include Petrašiūnai power plant, 4 boiler-houses in Kaunas integrated network, 7 district boiler-houses in Kaunas district, 1 regional boiler-house in Jurbarkas city, 13 boiler-houses in isolated networks and 27 local gas burned boiler-house in Kaunas city and 8 water heating boiler-houses in Sargėnai catchment.

Total installed heat generation capacities of the Group consist of approx. 587 MW (including 39 MW of condensational economizers) and total power generation capacities of the whole Group consist of approx. 596 MW (including 39 MW of condensational economizers). Total installed heat generation capacities of Company amount to 568 MW (including 39 MW of condensing economizers). Electricity generation capacities amount up to 8.75 MW. 294.8 MW of heat generation capacities (including 16 MW condensing economizer) and 8 MW of electricity generation capacities are located in Petrašiūnai power plant. 29.8 MW of heat generation capacities (including 2.8 MW condensing economizer) are located in Jurbarkas city. Total Company's power generation capacities consist of approx. 577 MW (including 39 MW of condensing economizers).

By selling a part of the assets of the subdivision Kauno Elektrinė to UAB Kauno Termofikacijos Elektrinė (hereinafter – KTE) the Company committed in Heat purchase contract of 31 March 2003 to purchase at least 80 per cent of the annual heat demand of Kaunas integrated heating network. The contract is valid for 15 years from the signing day. It was determined in this contract that heat purchase price from KTE will not increase in 5 years from the day of contract signing. Starting from 1 December 2008 a new basic heat prices for each 4 years period are being approved by the Commission for KTE and for the Company according to valid legal acts.

The Company received an official note on the 13th of April, 2012 confirming the decision of Gazprom OAO to sell its shares to the smaller shareholder "Clement Power Venture Inc.", and the provision, that Gazprom OAO as the main shareholder of KTE must ensure that during the term of Heat Energy Purchase agreement, i. e. until the 30th of March, 2018 it will own the main block of shares and adequate (not less than 51 per cent) number of votes in General meeting of shareholders, is confirmed in heat purchase agreement signed in 2003 between the Company and KTE, Company's Management Board decided on the 10th of July, 2012 to approve the selling of all the shares of Kauno Termofikacijos Elektrinė UAB owned by Gazprom OAO to Clement Power Venture Inc., regularizing terms of change of contracts agreements signed with Kauno Termofikacijos Elektrinė UAB and seeking the best for the Company from this selling. On 13 March 2013 KTE adduced to Company an evidence, i.e. an extract from securities account, saying that ownership of the shares of KTE owned by Gazprom OAO is transferred to Clement Power Venture Inc. since 7 March 2013. The changes of Agreement on Investments and of Heat Energy Purchase Contract of 31 March 2003 which were signed respectively on 13 August 2012 and 28 September 2012, as well as termination of Contract of Guarantee signed between Company and Gazprom OAO on 13 August 2012 came into force since that date. Following changes of Heat Energy Purchase Contract that came into force, Company's obligation to purchase from KTE at least 80 per cent of produced heat, demanded in Kaunas integrated heat supply network was withdrawn. According to changes of Agreement on Investments it was newly agreed and investments objects were intended for a preliminary sum of EUR 101 million as well as detailed schedule of investments implementation for the years 2013 – 2017. Herewith KTE took the obligations from these investments to finance Company's investments in Company's infrastructure in amount of EUR 3 million, which will be fulfilled during the period of 2012 – 2016. KTE obliged to pay 10 per cent forfeit from the value of unfulfilled investments. Notwithstanding agreements reached, on 30 April, 2013 KTE placed a claim to Vilnius Court of Commercial Arbitration. KTE seeks to argue obligations, determined by chapters 2 and 3 of Change of Investments Agreement of 13 August, 2012 by this claim regarding investments in Company heat economy in amount of EUR 3 million and the terms of implementation as well as forfeit (penalties) determined if those investments would not be implemented. According 19th February, 2014 Arbitration decision Company and KTE began negotiations for a peaceful settlement of investment dispute, however on 26th May Company has informed Arbitration court that compromise has not been reached. KTE specified it's claim requisitions in the case, by which alternatively asks Arbitration court to terminate Investment agreement. Arbitration court conjoined this case with the case in which the Company placed a claim seeking that KTE would pay to the Company EUR 0.94 million for inappropriate implementation of its obligations to finance in the years 2012 – 2013 Company's investments according to 31 March 2003 Investment agreement changes, signed on 13 August 2012 and 28 September 2012. The case is still pending and a decision is not taken. As KTE continuously did not implement its obligations, the Company applied to Arbitration on 30 January 2015 with specified requirements to adjudge in addition EUR 652 thousand for non financed Company's investments of the year 2014. Total requirements – EUR 1,593 thousand. On 30 April 2015 KTE offered in written the renewal of negotiations regarding peaceful settlement of the case and the Arbitration continued investigation of the case. Both sides agreed project of peaceful agreement in pursuance of negotiations, considering negotiable guidelines, determined on 11 June, 2015 during the meeting in Kaunas city municipality, in which the Mayor of Kaunas city municipality and Director of Administration took part. On 9 October, 2015 Company's Board decided to approve project of peaceful agreement with KTE regarding termination of Investment agreement of 31 March, 2003 and dismissal of litigation in court. Kaunas City Municipality Council approved by the decision No T-568 of 20 October, 2015 the essential terms of peaceful agreement and dismissal of litigation in court. On 17 December 2015 the Extraordinary General Meeting of Shareholders approved the project of peaceful agreement with KTE. On 28 December 2015 the Company and KTE signed a peaceful agreement. On 4 January 2016 the Company placed the peaceful agreement with KTE for Arbitration approval. Arbitration approved on 29 January 2016 a peaceful agreement concluded between the Company and KTE on 23 December 2015 by which a litigation in case No. 268 regarding noncompliance of Investment agreement of 31 March 2003 was terminated. The litigation continued since April 2013. Following essential terms of peaceful agreement:

- Investment agreement between both sides is being terminated.
- KTE obliges to pay compensation for the Company in amount of EUR 2,317 thousand following this order: KTE immediately acknowledges sum in amount of EUR 1,593 thousand suspended by the Company as a part of the compensation paid by KTE and resigns any claims and the remaining amount EUR 724 thousand KTE obliges to pay to the Company in equal parts yearly until 28 February 2018. First contribution must be paid until 28 February 2016.
- KTE disposes part of Kaunas critical centralized heat supplies infrastructure to the Company for proprietorship as a non-financial compensation, i.e. immovable property (manifolds building and coherent pipelines) as well as part of technological circuit equipment, necessary to the Company (hereinafter together – the Assets).
- The Company leases technological circuit equipment taken from KTE for KTE for the 25 years period, manifolds building – for 15 years period and subleases land for the 15 year period holding the right for bargain regarding additional term until KTE performs its activity and remains able to pay.
- KTE obliges to make certain a proper maintenance and upkeep of the Assets as well as a proper functioning of the whole centralized heat supplies system in so far as it is coherent to the Assets, and the Company holds the right for modernization of manifolds building and other assets taken at the discretion of its own and at its own expenses, not changing their functionality.
- The Company gains the lease right to the part of land plot, coherent with the Assets taken and (or earlier if KTE will not continue cogeneration activities, or later if the sides will agree regarding additional term of lease of manifolds building and of sublease of the land plot) is able to develop this land plot at the discretion of its own according to the legislation after 15 years period.

Strategic Decisions

Estimating conditionally high price of the heat bought from KTE, which owns a main Kaunas heat production source, and seeking to contribute to the international liabilities of Lithuania to increase usage of renewable energy sources in heat production, and to reduce Lithuania's dependence from imported fossil fuel and to provide the heat energy at a competitive price, the Company initiated in the year 2012 a reconstruction projects of existing boiler-houses, fitting them to work on wooden fuel (wooden chips, waste of deforestation, sawdust).

On 8 September, 2015 the Kaunas city council approved corrected Company's investment plan for the years 2012 – 2015, according to which investments in amount of EUR 92.08 million were intended to invest in Company's assets during the period of the years 2012 – 2015. The Company invested EUR 4,981 thousand in the own assets during the year 2015. EUR 46.46 million were invested during the 2012 – 2015 years period in total.

On 24 May, 2016 the Kaunas city council approved corrected Company's investment plan for the year 2016, according to which investments in amount of EUR 44.536 million were intended to invest in Company's assets during the years 2016. The Company invested EUR 6,757 thousand in own assets during the year 2016.

In order to decrease Company's comparable production expenditures and the service fee of reserved power capacity an acquisition of 20 MW capacity gas burned boiler along with 1.5 MW capacities condensational economizer in Petrašiūnai power-plant is performed. Estimated value of the project is approx. EUR 700 thousand. Implementation of the project is scheduled in the year 2017.

In November 2016 the Company signed an outsourcing contract with the winner of tender regarding equipment of four gas burned boilers at capacity 15 MW each along with 1.5 MW capacity condensational economizers in Pergalė boiler-house. Estimated value of continued project amounts to approx. EUR 2.3 million. Implementation of the project is scheduled in the years 2017 – 2018. Activities are divided into two stages. One boiler together with economizer is scheduled to equip on the first stage and on the second stage – the rest three. The second stage can be discontinued due to the changes in Company's needs, financing capabilities and other circumstances.

On September 28, 2016 the installation of gas burned 15 MW capacity boiler along with 1.5 MW capacity condensational economizer instead of old boiler DKVR No. 2 of 9 MW capacity in Company's Šilkas boiler-house has been accomplished. The value of the project is EUR 659 thousand. The new boiler and its new equipment are one of the most effective in town. This increases the reliability of heat production and supply; at the same time reduces Company's comparative heat production expenditures and reduce the service fee of reserve power capacity. This implemented project is a continued result of Company's consistent complex investment policy, focused on increase and expansion of heat production, increase of safety of heat supply and reliability and application of good practice.

National Commission for Energy Control and Prices (hereinafter – Commission) approved on 29 September 2015 Company's corrected Investment Plan in which an instalment of biofuel burned water heating boilers in Jurbarkas boiler-house is scheduled. This project is performed in several stages and it is planned to accomplish in the years 2017 – 2018. A 5 MW heat capacity biofuel burned boiler along with pertinent and auxiliary equipment was installed on the first stage of the project and the operation of it was started in November 2016. Approx. 31% of annual heat demand of Jurbarkas city was produced using this newly installed biofuel boiler during 2016. A heat produced using biofuel will amount up to 70 % in total fuel balance after completion of project. Estimating approx. 25 GWh of heat energy will be produced in Jurbarkas boiler-house per year. The investment of the first stage amounts up to EUR 1,0006 thousand of own funds. The second stage of the project will be implemented if EU Structural Funds support is received. Complex renovation of the boiler-house will be implemented then and additional 3 MW capacity biofuel burned heat production equipment along with pertinent will be installed.

The Company accomplished two big projects of reconstruction of main pipelines of Kaunas heat supply network in three sections the year 2016. 1.4 kilometre of 400 mm diameter main pipeline was reconstructed in two sections in Savanorių av. And a 0.3 kilometre of 400 mm diameter main pipeline was reconstructed in Laimos str., Petrašiūnai. Modern polyurethane isolated pipelines were installed instead of old, obsolete pipelines while reconstructing these mains sections.

The Company signed even 9 agreements with the Lithuanian Business Support Agency (LBSA) regarding European Union Structural Funds support for reconstruction of heat supply networks in the end of the year 2016. Up to EUR 5,827 thousand European Union Structural Funds support will be allocated under these agreements for renovation of Kaunas heat supply networks in the years 2017 – 2018. The support will be allocated under the measure No. 04.3.2-LVPA-K-102 "Modernisation and development of heat supply networks" of the 4 priority "Promoting energy efficiency and production and use of renewable energy" of Operational Programme for the European Union Funds' Investments in 2014-2020. The Company plans to reconstruct main pipelines under signed agreements in Jotvingių str., Šilainiai and Eiguliai catchment, G. Landsbergio – Žemkalnio str,. Kalniečiai catchment, Pramonės av., city centre, P. Lukšio str. and in Akštieji Šančiai catchment. Also, a project in Savanorių av. under one of the agreements signed is already accomplished in the year 2016. The total value of the projects would amount to approx. EUR 11.6 million. A 9.7 km of various diameters main pipelines (up to 900 mm) will be reconstructed in Kaunas. An exceptional project is "Reconstruction of Kaunas city integrated network in Eiguliai catchment". Even 1.4 km long section of 900 mm diameter main pipeline will be reconstructed. A reconstruction of pipelines of so big diameter is particularly difficult.

A heat in operational mode was started to supply to Kaunas Clinical Hospital, situated in Josvainių str. 2 in 2016. Heat supply to this hospital in testing mode was started on December 28, 2015. Hospital's consuming capacity is 6.18 MW. Earlier, a heat for this object was supplied from gas boiler-house, operated by UAB "Litesko". A heat for this object is supplied with no interference for more than a year.

On May 2016 the Company took over heat and hot water supply to three municipal education and training institutions by the initiative of Kaunas city municipality: rowing sport base of Kaunas yachting school Bangpūtys, Kaunas Vaišvydava comprehensive school, and Kaunas special school, situated in Apuolės str. 11. The heating of these institutions was performed from local boiler-houses, burned with coal. The decision on connection of Kaunas special school to the district heating network has been made after assessment of situation and possible need in investments. Heat and hot water supply to this school was started on May 2016. Two pellet burned boilers at capacity of 150 kW and 100 kW at Kaunas Vaišvydava comprehensive school were installed in November 2016. 108 MW of heat were produced with these boilers in the year 2016. A connection of boiler-house to the system of data receiving, monitoring and process management is in progress at the moment. Value of the project is EUR 80 thousand. Rowing sport base is intended to be connected to the gas network.

The certified laboratory of measurement of stationary environment air pollution sources has been launched in June 2016. Probes of quantity of particulates and of gas flow in smoke emitted from boiler houses are performed in this laboratory. The laboratory has the right to perform these measurements in whole Lithuania territory. The Company outsourced this service earlier.

The Company produced a total 583 GWh of heat energy with its own production capacities during the year 2016 (470 GWh of them were produced using biofuel). This is at 11 per cent more than in the year 2015. Usage of biofuel had a significant influence in the heat price reduction for heat and hot water consumers.

The common index of Company's fuel usage during the year 2016 remained the same as in the year 2015 (approx.82 kg_{ne}/MWh), i.e. at more than 10 per cent lower than as compared to the index used in a base heat price accounting.

Though Company's annual technological heat losses in the year 2016 were 233 GWh or at 12 GWh (5 per cent) more, than in the year 2015, however due to the increased production comparative heat losses decreased from 16.73 per cent (in 2015) to 16.35 per cent (in 2016). In comparison with the index (280 GWh) used in a base heat price accounting, approx. 47 GWh of heat were saved.

Intensity of operation of biofuel burned water heating boiler-houses in 2016 amounted to more than 90 per cent.

The Company in cooperation with Kaunas city municipality administration performs accumulation of wooden trunks and branches, which are cut during city clearing. It helps the Company to accumulate fuel reserve and thus ensure uninterrupted and stable process of biofuel supply. The Company acquired biofuel chipper in this order. Acquired mechanism chips branches, stumps and trunks of various trees up to 70 cm diameter. Approx. 80 m^3 of wood can be chipped per hour using this new aggregate. Investment – EUR 430 thousand. Approx.

450 t_{oe} of biofuel were produced with this chipper in 4 months, from the beginning of operation. And there was no need to buy this amount of biofuel in energy resources exchange.

In the year 2016 the Company signed heat selling and purchase agreements with two more independent heat producers (IHP) – UAB "Foksita", which built and started to operate a 34,5 MW heat and 5 MW electric capacity cogeneration power-plant and UAB "SSPC – Taika", which built a 20 MW heat and 5 MW electric capacity cogeneration power-plant. Each of these producers can supply up to 10 per cent of Kaunas integrated network heat demand. Totally the Company purchases heat from eleven IHP. Ten of these producers supply heat produced using biofuel. Total maximum capacity of IHP biofuel boiler-houses amounts to approx. 200 MW.

2. Accounting principles

2.1. Adoption of new and/or amended IFRS

In the current year, the Goup and the Company has adopted all of the new and revised Standarts and Interpretatios issued by the IASB and IFRIC of the IASB as adopted by the EU that are relevant to the Company and the Group operations.

2.2. Statement of Compliance

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and interpretations of them. The standards are issued by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

2.3. Basis of the preparation of financial statements

The financial statements have been prepared on a cost basis, except for certain financial instruments, which are stated at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial year of the Company and other Group companies coincides with the calendar year.

Items included in the financial statements of the Group and the Company are measured using the currency of the primary economic environment in which they operate (the 'functional currency'). The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, Euro (EUR) which is a functional and presentation currency of the Company and its subsidiaries and all values are rounded to the nearest thousands, except when otherwise indicated.

Starting from 1 January 2015 the local currency of the Republic of Lithuania is Euro, the rate of which in regard of other currencies is set daily by European Central Bank. Starting from 2002 till 31 December 2014 local currency was litas which was pegged to Euro at the rate of 3.4528 LTL for 1 Euro and the exchange rates in regard to other currencies was set daily by the Bank of Lithuania.

2.4. Principles of consolidation

Principles of consolidation
The consolidated financial statements of the Group include AB Kauno Energija and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. Consolidated financial statements are prepared on the basis of the same accounting principles applied to similar transactions and other events under similar circumstances.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of Profit (loss) and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Subsidiary is the company which is directly or indirectly controlled by the parent company. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50 per cent of the voting rights of a company's share capital or otherwise has power to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Changes in the Group's ownership interests in existing subsidiaries
Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any

difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.5. Investments in subsidiaries

Investments in subsidiaries in the Company's Statements of Financial Position are recognized at cost. The dividend income from the investment is recognized in the profit (loss).

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a subsidiary. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

2.6. Intangible assets

<u>Intangible assets acquired separately</u>
Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

<u>Derecognition of intangible assets</u>
An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

<u>Licenses</u>
Amounts paid for licenses are capitalised and then amortised over useful life (3 – 4 years).

<u>Software</u>
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 over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits of performance of the existing software systems are recognised as an expense for the period when the restoration or maintenance work is carried out.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

2.7. Accounting for emission rights

The Group and the Company apply a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at nominal amount, as permitted by IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Liabilities for emissions are recognised only as emissions are made (i.e. provisions are never made on the basis of expected future emissions) and only when the reporting entity has made emissions in excess of the rights held.

When applying the net liability approach, the Group and the Company have chosen a system that measures deficits on the basis of an annual allocation of emission rights.

The outright sale of an emission right is recorded as a sale at the value of consideration received. Any difference between the fair value of the consideration received and its carrying amount is recorded as a gain or loss, irrespective of whether this creates an actual or an expected deficit of the allowances held. When a sale creates an actual deficit an additional liability is recognised with a charge to the profit or loss.

2.8. Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's and the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives are reviewed annually to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from the items in property, plant and equipment. Depreciation periods were revised as of 1 September 2008, as further described in Note 2.25.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

	Years
Buildings	15 – 50
Structures and machinery	5 – 70
Vehicles	4 – 10
Equipment and tools	4 – 20

Freehold land is not depreciated.

The Group and the Company capitalizes property, plant and equipment purchases with useful life over one year and an acquisition cost above EUR 144.81.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit or loss in the period in which they are incurred.

Lease hold improvement expenses related to property under rental and/or operating lease agreements which prolong the estimated useful life of the asset are capitalized and depreciated during the term of rental and/or operating lease agreements.

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operation.

2.9. Impairment of property, plant and equipment and intangible assets excluding goodwill

At each statement of financial position date, the Group and 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, Group's and Company's assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of 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 significantly less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased significantly 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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.10. Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

<u>Effective interest rate method</u>
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the

effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL
Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the Statement of Profit (loss) and other comprehensive income.

Available-for-sale financial assets (AFS financial assets)
Available-for-sale financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Group and the Company that are traded in an active market are classified as available-for-sale and are stated at fair value. The Group and the Company also has investments in unlisted shares that are not traded in an active market but that are also classified as available-for-sale financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's and the Company's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Gains or losses are recognized in profit or loss when the asset value decreases or it is amortized.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.
For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

Derecognition of financial assets
A financial asset (or, where applicable a part of a financial asset) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group and the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full withoutmaterial delay to a third party under a "pass through" arrangement; or
- the Group and the Company has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group and the Company has transferred its rights to receive cash flows from an asset and has not transferred substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.11. Derivative financial instruments

The Group and the Company uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the profit (loss) for the period if they do not qualify for hedge accounting.

The fair value of interest rate swap contracts is determined by the reference to market values for similar instruments.

2.12. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs of inventories are determined on a first-in, first-out (FIFO) basis.

The cost of inventories is net of volume discounts and rebates received from suppliers during the reporting period but applicable to the inventories still held in stock.

2.13. Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where 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 some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.14. Cash and cash equivalents

Cash includes cash on hand, cash at banks and cash in transit. 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, cash with banks, cash in transit, deposits held at call with banks, and other short-term highly liquid investments.

2.15. Employee benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

2.16. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.17. Financial liabilities and equity instruments

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Other financial liabilities
Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities
The Group and the Company derecognises financial liabilities when, and only when, the Group's and the Company's obligations are discharged, cancelled or they expire.

2.18. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group and the Company as lessor
Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's and the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's and the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group and the Company as lessee
Assets held under finance leases are initially recognised as assets of the Group and the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's and the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.19. Grants (deferred income)

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group and the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group and the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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. Assets received free of charge are also allocated to this group of grants. The amount of the grants related to assets is recognized as deferred income and is credited to profit or loss in equal annual amounts over the expected useful life of related asset. In the statement of Profit (loss) and other comprehensive income, a relevant expense account is reduced by the amount of grant amortisation.

Assets received free of charge are initially recognised at fair value.

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.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

The balance of unutilised grants is shown in the caption Grants (deferred income) in the balance sheet.

2.20. Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2016 the income tax applied to the Group and the Company is 15 per cent (2015 – 15 per cent).

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. 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 Group and 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 there is a legally enforceable right to set off current tax assets against current tax liabilities and 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 as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

2.21. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. There are no instructions reducing earnings per share, there is no difference between the basic and diluted earnings per share.

2.22. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Revenue from sales of heat energy is recognised based on the bills issued to residential and other customers for heating and heating-up of cold water. The customers are billed monthly according to the readings of heat meters.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:
- the Group and the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group and the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Late payment interest income from overdue receivables is recognised upon receipt.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably).

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's and the Company's policy for recognition of revenue from operating leases is described in Note 2.18.

2.23. Expense recognition

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted for as the amount paid or due, excluding VAT. In those cases when a long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

2.24. Foreign currencies

In preparing the financial statements of the individual entities of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The presentation currency is Euro (EUR). All transactions made in foreign currency are converted into Euros at the official exchange rate determined daily by the European Central Bank. Financial assets and liabilities are converted into Euros at currency rate of creation day of statements of financial state. Gains and losses arising on exchange are included in profit or loss for the period at the moment of its appearance. Income or expenditures arising on exchange when converting financial assets or liabilities into euros are included in profit or loss.

The applicable rates used for principal currencies were as follows:

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As of 31 December 2016				As of 31 December 2015			
1 EUR	=	1.0453	USD	1 EUR	=	1.09260	USD
1 EUR	=	0.8530	GBP	1 EUR	=	0.73799	GBP

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

2.25. Use of estimates in the preparation of financial statements

The preparation of financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies, 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.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statements of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment – useful life
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.

The Group and the Company has considered the actual useful life of property, plant and equipment and increased a depreciation rate for the heating connections from 20 years to 30 years and for the heating stations from 10 years to 15 years respectively starting from 1 September 2008.

Realisable value of inventory
Starting from 2011, the management of the Company forms a 100 per cent adjustment to the net realizable value for inventory bought more than one year ago.

Carrying value of non-current assets received as a contribution in kind
In 2009 a new shares issue was paid by contribution in-kind - manifolds situated in Kaunas city: i.e. market value of assets determined upon their transfer by local qualified valuators using depreciated replacement costs method amounted to EUR 39.446 million.

In 2010 a new shares issue was paid by contribution in-kind: i.e. building – boiler-house situated in Kaunas city and by networks system situated in Jurbarkas city. Market value of assets estimated upon their transfer by local qualified valuators by using depreciated replacement costs method amounted to EUR 0.178 million. Building – boiler-house was sold in March 2015.

In 2014 a new shares issue was paid by contribution in-kind: i.e. networks system situated in Kaunas city. Market value of assets estimated upon their transfer by local qualified valuators by using depreciated replacement costs method amounted to EUR 0.122 million.

As of 31 December 2016 carrying value of total contribution in-kind amounted to EUR 35,613 thousand, including the manifolds, which amounted to EUR 35,366 thousand (31 December 2015: EUR 36,190 thousand and EUR 35,933 thousand respectively).

Allowances for accounts receivable
The Group and the Company makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements.

Deferred Tax Asset
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Litigations
The Group and the Company reviews all legal cases for the end of the reporting period and disclose all relevant information in the Note 24.

2.26. 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 but disclosed when an inflow of economic benefits is probable.

2.27. Subsequent events

Post-balance sheet events that provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

2.28. Offsetting and comparative figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain IFRS specifically require such set-off.

2.29. Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief-operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

The activities of the Group and the Company are organised in one operating segment therefore further information on segments has not been disclosed in these financial statements.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

3. Intangible assets

Amortisation expenses of intangible assets are included in the operating expenses in the statement of Profit (loss) and other comprehensive income.

As of 31 December 2016 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,258 thousand (as of 31 December 2015 – EUR 1,245 thousand) were fully amortised but were still in active use.

4. Property, plant and equipment

The depreciation charge of the Group's and Company's property, plant and equipment as of 31 December 2016 amounts to EUR 6,493 thousand and EUR 6,402 thousand, respectively (as of 31 December 2015 – EUR 6,238 thousand and EUR 6,221 thousand respectively). The amounts of EUR 6,466 thousand and EUR 6,363 thousand (as of 31 December 2015 – EUR 6,201 thousand and EUR 6,201 thousand respectively) were included into operating expenses (under depreciation and amortisation and other expenses lines) in the Group's and the Company's statements of Profit (loss) and other comprehensive income. The remaining amounts were included into other activity expenses.

As of 31 December 2016 part of the property, plant and equipment of the Group with acquisition cost of EUR 51,372 thousand (EUR 42,036 thousand as of 31 December 2015) and the Company – EUR 51,210 thousand were fully depreciated (EUR 41,918 thousand as of 31 December 2015), but were still in active use.

As of 31 December 2016 and as of 31 December 2015 the major part of the Group's and Company's construction in progress consisted of reconstruction and overhaul works of boiler-houses equipment and heat supply networks.

As of 31 December 2016 the sum of the Group and the Company contractual commitments for the acquisition of property, plant and equipment amounted to EUR 15,288 thousand (as of 31 December 2015 – EUR 2,945 thousand).

As of 31 December 2016 property, plant and equipment of the Group with the net book value of EUR 55,788 thousand (EUR 57,556 thousand as of 31 December 2015) and the Company of EUR 51,021 thousand (EUR 57,556 thousand as of 31 December 2015) was pledged to banks as a collateral for loans (Note 11).

The sum of Group's and Company's capitalized interest was equal less than EUR 13 thousand in 2016 (in 2015 –EUR 9 thousand). The capitalization rate varied from 0.95 per cent to 1.29 per cent in 2016 (in 2015 – from 0.15 per cent to 4.51 per cent).

As of 31 December 2016 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 416 thousand in the category Equipment and tools (EUR 152 thousand as of 31 December 2015).

5. Non-current accounts receivable

	Group		Company	
	As of 31 December 2016	**As of 31 December 2015**	**As of 31 December 2016**	**As of 31 December 2015**
Long-term loans granted to the Company's employees	-	1	-	1

Long-term loans granted to the employees of the Company for the period from the year 1997 until December 31, 2017 are non-interest bearing. These loans are accounted for at discounted value as of 31 December 2015 using 3.7 per cent interest rate. In 2015 effect of reversed discounting amounted to EUR 1 thousand (in 2014 – EUR 1 thousand).The reversal of discounting is accounted in the change of depreciation of realisable value of receivables line in the Group's and Company's statements of Profit (loss) and other comprehensive income.

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As of 31 December 2016 and as of 31 December 2015 the repayment term of non-current accounts receivable is not yet due and valuation allowance is not determined.

6. Other financial assets

	Group		Company	
	As of 31 December 2016	**As of 31 December 2015**	**As of 31 December 2016**	**As of 31 December 2015**
Available-for-sale financial assets				
Fair value of shares	1	1	1	1

Financial assets held for sale consists of ordinary shares are unquoted. On 31 December 2015 the decrease of the value of other financial assets by EUR 27 thousand was determined. This decrease is included in Group's and Company's statements of Profit (loss) and other comprehensive income Financial assets and short-term investments Impairment article.

7. Inventories

	Group		Company	
	As of 31 December 2016	**As of 31 December 2015**	**As of 31 December 2016**	**As of 31 December 2015**
Technological fuel	1,120	1,078	1,120	1,078
Spare parts	443	385	443	385
Materials	504	483	434	479
	2,067	1,946	1,997	1,942
Less: write-down to net realisable value of inventory at the end of the period	(1,582)	(1,657)	(1,582)	(1,657)
Carrying amount of inventories	485	289	415	285

As of 31 December 2016 Group's and Company's amounted to EUR 1,582 thousand (as of 31 December 2015 – EUR 1,657 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2016 and for the year 2015 were included into change in write-down to net realisable value of inventories caption in the Group's and the Company's statements of Profit (loss) and other comprehensive income.

8. Current accounts receivable

	Group		Company	
	As of 31 December 2016	**As of 31 December 2015**	**As of 31 December 2016**	**As of 31 December 2015**
Trade receivables, gross	21,372	21,385	21,410	21,433
Less: impairment of doubtful receivables	(11,255)	(12,410)	(11,293)	(12,458)
	10,117	**8,975**	**10,117**	**8,975**

Change in impairment of doubtful receivables in 2016 and 2015 is included into the caption of write-offs and change in allowance for accounts receivables in the Group's and the Company's statements of Profit (loss) and other comprehensive income.

Movements in the allowance for impairment of the Group's and the Company's receivables were as follows:

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	Group	Company
Balance as of 31 December 2014	**12,774**	**12,825**
Additional allowance formed	(233)	(236)
Write-off	(131)	(131)
Balance as of 31 December 2015	**12,410**	**12,458**
Additional allowance formed	(825)	(835)
Write-off	(330)	(330)
Balance as of 31 December 2016	**11,255**	**11,293**

In 2016 the Group and the Company wrote off EUR 330 thousand and EUR 330 thousand of bad debts respectively (in 2015 – EUR 131 thousand and EUR 131 thousand). In 2016 the Group recovered EUR 4 thousand and the Company – EUR 4 thousand (in 2015 the Group and the Company – EUR 9 thousand) of doubtful receivables, which were written off in the previous periods.

The ageing analysis of the Group's net value of trade receivables as of 31 December 2016 and 31 December 2015 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2016	8,312	996	194	153	171	291	10,117
2015	7,225	849	177	175	180	369	8,975

The ageing analysis of the Company's net value of trade receivables as of 31 December 2016 and 31 December 2015 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2016	8,312	996	194	153	171	291	10,117
2015	7,225	849	177	175	180	369	8,975

Trade receivables are non-interest bearing and the payment terms are usually 30 days or agreed individually.

Other Group's and the Company's receivables consisted of:

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Taxes	227	165	220	161
Other receivables	618	961	673	1,021
Less: value impairment of doubtful receivables	(300)	(267)	(366)	(336)
	545	**859**	**527**	**846**

Movements in the allowance for impairment of the Group's and the Company's other receivables were as follows:

	Group	Company
Balance as of 31 December 2014	**173**	**251**
Additional allowance formed	97	88
Write-off	(3)	(3)
Balance as of 31 December 2015	**267**	**336**
Additional allowance formed	33	30
Write-off	-	-
Balance as of 31 December 2016	**300**	**366**

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

As of 31 December 2016 and 31 December 2015 the major part of the Group's and the Company's other receivables consisted of compensations from municipalities for low income families, receivables from sold inventories (metals, heating equipment) and services supplied (maintenance of manifolds and similar services).

The ageing analysis of the Group's net value of other receivables (excluding taxes) as of 31 December 2016 and 31 December 2015 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2016	80	191	23	13	4	7	318
2015	335	170	17	6	3	163	694

The ageing analysis of the Company's net value of other receivables (excluding taxes) as of 31 December 2016 and 31 December 2015 is as follows:

	Other receivables neither past due nor impaired	Other receivables past due but					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2016	69	191	23	13	4	7	307
2015	326	170	17	6	3	163	685

The Group's and the Company's other receivables are non-interest bearing and the payment terms are usually 30 – 45 days.

According to the management opinion, there are no indications as of the reporting date that the debtors will not meet their payment obligations regarding trade receivables and other receivables that are neither impaired nor past due.

9. Cash and cash equivalents

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Cash in transit	396	196	396	196
Cash at bank	5,875	2,328	5,783	2,315
Cash on hand	14	7	14	7
	6,285	2,531	6,193	2,518

The Group's accounts in banks amounting to EUR 4,977 thousand as of 31 December 2016 (31 December 2015 – EUR 1,853 thousand) and the Company's to EUR 4,890 thousand as of 31 December 2016 (31 December 2015 – EUR 1,853 thousand) are pledged as collateral for the loans (Note 11).

10. Reserves

Legal and other reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 per cent of net profit calculated in accordance with IFRS are compulsory until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be distributed as dividends but can be used to cover any future losses.

On 28 April 2015 the Company annulled by the decision of shareholders other reserves (EUR 521 thousand), transferred EUR 613 thousand from retained earnings to legal reserve and EUR 713 thousand to other reserves. Reserves were formed for investments – EUR 413 thousand, for support – EUR 200 thousand and for maintenance of heat units – EUR 100 thousand.

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On 28 April 2016 the Company annulled other reserves (EUR 713 thousand) by the decision of shareholders, transferred EUR 227 thousand from retained earnings to legal reserve and EUR 2,977 thousand to other reserves. The following reserves were formed: EUR 2,435 thousand – for repayment of long term loans, for investments – EUR 472 thousand, EUR 50 thousand – for support and for maintenance of heat units – EUR 20 thousand.

11. Borrowings

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Non-current borrowings	**22,395**	**19,481**	**19,559**	**19,481**
Current portion of non-current borrowings (except leasing which) is disclosed in Note 12)	3,376	2,402	2,809	2,402
Current borrowings (including credit line)	-	-	-	-
Factoring with recourse agreement	-	-	-	-
Current borrowings	**3,376**	**2,402**	**2,809**	**2,402**
	25,771	**21,883**	**22,368**	**21,883**

Terms of repayment of non-current borrowings are as follows:

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
2016	-	2,402	-	2,402
2017	3,376	2,223	2,809	2,223
2018	3,274	2,223	2,707	2,223
2019	3,273	2,223	2,706	2,223
2020	3,035	1,985	2,468	1,985
2021	2,291	1,373	1,724	1,373
2022	2,218	1,366	1,650	1,366
2023	887	674	887	674
2024	674	674	674	674
2025	675	674	675	674
2026	674	674	674	674
2027	674	674	674	674
2028	674	674	674	674
2029	674	674	674	674
2030	674	674	674	674
2031	675	674	675	674
2032	674	674	674	674
2033	674	674	674	674
2034	675	674	675	674
	25,771	21,883	22,368	21,883

Average of interest rates (in per cent) of borrowings weighted outstanding at the year-end were as follows:

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Current borrowings	0.00	0.00	0.00	0.00
Non-current borrowings	0.95	2.58	0.91	2.58

Balance of borrowings (except factoring) at the end of the term in thousands Euro according to borrowings currencies was as follows:

Currency of the loan:	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
EUR	25,771	21,883	22,368	21,883

Group's detailed information on loans as of 31 December 2016:

	Credit institution	Date of contract	Currency	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 31.12.2016 EUR thousand	A part of 2016, EUR thousand
1	Nordea*	22/08/2012	EUR	3,403	3,403	29/04/2022	3,403	567
2	AB DNB Bank	14/11/2007	EUR	576	576	31/12/2016	-	-
3	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,685	94
4	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	693	38
5	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,564	87
6	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	466	133
7	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	712	204
8	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	941	251
9	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	27	8
10	MF Lithuania***	15/01/2014	EUR	793	793	01/12/2034	749	41
11	AB SEB Bank	31/03/2014	LTL	5,400	1,564	15/01/2021	1,050	261
12	MF Lithuania***	31/03/2014	EUR	7,881	7,881	01/12/2034	7,444	413
13	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	37	37
14	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	33	33
15	OP Corporate**	02/12/2015	EUR	4,842	4,842	02/12/2022	4,150	692
16	AB SEB Bank	09/05/2016	EUR	1,000	1,000	30/04/2021	867	200
17	AB SEB Bank	09/05/2016	EUR	579	579	30/04/2023	56	56
18	Nordea*	25/10/2016	EUR	1,894	1,894	29/09/2023	1,894	261
19	AB SEB Bank	22/12/2016	EUR	4,127	4,127	30/11/2024	-	-
							25,771	3,376

* Nordea Bank Finland Plc. Lithuanian branch;
** OP Corporate Bank Plc Lithuanian branch;
*** Ministry of Finance of the Republic of Lithuania.

Company's detailed information on loans as of 31 December 2016:

	Credit institution	Date of contract	Currency	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 31.12.2016 EUR thousand	A part of 2016, EUR thousand
1	AB DNB Bank	14/11/2007	EUR	576	576	31/12/2016	-	-
2	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,685	94
3	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	693	38
4	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,564	87
5	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	466	133
6	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	712	204
7	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	941	251
8	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	27	8
9	MF Lithuania***	15/01/2014	EUR	793	793	01/12/2034	749	41
10	AB SEB Bank	31/03/2014	LTL	5,400	1,564	15/01/2021	1,050	261
11	MF Lithuania***	31/03/2014	EUR	7,881	7,881	01/12/2034	7,444	413
12	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	37	37
13	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	33	33
14	OP Corporate**	02/12/2015	EUR	4,842	4,842	02/12/2022	4,150	692
15	AB SEB Bank	09/05/2016	EUR	1,000	1,000	30/04/2021	867	200
16	AB SEB Bank	09/05/2016	EUR	579	579	30/04/2023	56	56
17	Nordea*	25/10/2016	EUR	1,894	1,894	29/09/2023	1,894	261
18	AB SEB Bank	22/12/2016	EUR	4,127	4,127	30/11/2024	-	-
							22,368	2,809

* Nordea Bank Finland Plc. Lithuanian branch;
** OP Corporate Bank Plc Lithuanian branch;
*** Ministry of Finance of the Republic of Lithuania.

The immovable property (Note 4), bank accounts (Note 9) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

12. Finance lease obligations

The assets leased by the Group and the Company under finance lease contracts mainly consist of vehicles. The terms of financial lease are 3 – 4 years. The finance lease agreement is in EUR.

Future minimal lease payments were:

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Within one year	-	-	-	-
From one to five years	80	70	80	70
Total financial lease obligations	80	70	80	70
Interest	(2)	(2)	(2)	(2)
Present value of financial lease obligations	**78**	**68**	**78**	**68**
Financial lease obligations are accounted for as:				
- current	40	34	40	34
- non-current	38	34	38	34

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13. Grants (deferred income)

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Balance at the beginning of the reporting period	**16,761**	**13,764**	**16,761**	**13,764**
Received during the year	1,343	3,863	10	3,863
Amortisation	(1,084)	(866)	(1,044)	(866)
Balance at the end of the reporting period	**17,020**	**16,761**	**15,727**	**16,761**

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Renovation of Centralised Heat Networks in the Kaunas City by Installing Advanced Technologies (Reconstruction of Heat Supply Networks at V. Krėvės ave. 82 A, 118 H, Kaunas)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 1,738 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 1,692 thousand by 31 December 2016. The project is accomplished.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Modernisation of Kaunas City Integrated Network Centre Main (4T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 1,735 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 1,278 thousand by 31 December 2016. The project is accomplished.

On 15 October 2009 the Group and the Company signed the agreement on the financing and administration of the project "Kaunas City Main Heat Supply Networks 6T at Kuršių St. 49C, Jonavos St. between NA-7 and NA-9 and Networks under the Bridge through the river Neris in the auto-highway Vilnius–Klaipėda near Kaunas city, Complex Reconstruction for the Increase of Reliability by Installing Advanced Technologies", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 676 thousand after terms and conditions of the agreement are fulfilled. The Company received the financial support in the amount of EUR 500 thousand by 31 December 2016. The project is accomplished.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The development of centralized heat supply by building a new heat supply trace (heat supply network from A. Juozapavičiaus ave. 23A to A. Juozapavičiaus ave. 90)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 454 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2016 financing in amount of EUR 413 thousand has been received. The project is accomplished.

On 21 July 2010 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Žaliakalnis main of Kaunas integrated network (4Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 807 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2016 financing in amount of EUR 731 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Dainava area main of Kaunas integrated network (1T)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 452 thousand after terms and conditions of the agreement are fulfilled As of 31 December 2016 financial support in amount of EUR 431 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Aukštieji Šančiai area main of Kaunas integrated network (2Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 469 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2016 financial support in amount of EUR 469 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Vilijampolė area heating network of Kaunas integrated network (9K)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 172 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2016 financial support in amount of EUR 172 thousand has been received. The project is accomplished.

On 21 July 2011 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of Pramonė area main of Kaunas integrated network (1Ž)", according to which the Company will be receiving financing from the European Regional Development Fund in the amount of EUR 579 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2016 financing in amount of EUR 579 thousand has been received. The project is accomplished.

On 22 October 2012 the Group signed the agreement on the financing and administration of the project "Construction of boiler-house in Kaunas, installing two biofuel burned boilers at capacity of 8 MW each together with condensational economizer", according to which the Group will be receiving financing from the European Regional Development Fund in the amount of EUR 1,738 thousand after terms and conditions of the agreement are fulfilled. As of 31 December 2016 financing in amount of EUR 1,333 thousand has been received. The project is accomplished.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Ežerėlis boiler-house equipping it with bio-fuel burned 3.5 MW capacity water boiler", according to which the financing in amount of EUR 519 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 31 December 2016 the Company has got a financial support in amount of EUR 517 thousand. The project is accomplished.

On 16 January 2013 the Group and the Company signed a financing agreement for the project "Reconstruction of Noreikiškės boiler-house equipping it with bio-fuel burned 4 MW capacity water boiler", according to which the financing in amount of EUR 666 thousand is provided for the Company from the funds of LEIF Climate Change Special Program after terms and conditions of the agreement are fulfilled. As of 31 December 2016 the Company has got a financial support in amount of EUR 664 thousand. The project is accomplished.

On 8 July 2013 the Group and the Company signed a financing agreement of the project "Reconstruction of Pergalė boiler-house equipping it with condensational economizer", under which financing in amount of EUR 185 thousand is provided for the Company from Lithuanian Environmental Investment Fund after the terms of agreement are fulfilled. As of 31 December 2016 the Company has got a financial support in amount of EUR 185 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Šilkas boiler-house, changing used fuel to biofuel (stage II)" under which a financing in amount of EUR 1,156 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2016 the Company has got a financial support in amount of EUR 1,154 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Petrašiūnai power plant, changing used fuel to biofuel (stage I)" under which a financing in amount of EUR 1,738 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2016 the Company has got a financial support in amount of EUR 1,523 thousand. The project is accomplished.

On 28 November 2013 the Group and the Company signed agreement of financing of the project "Reconstruction of Inkaras boiler-house, changing used fuel to biofuel" under which a financing in amount of EUR 1,738 thousand is allocated to the Company from Cohesion fund after fulfilling of the terms of agreement. As of 31 December 2016 the Company has got a financial support in amount of EUR 1,738 thousand. The project is accomplished.

On 20 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 4Ž between heat cameras 4Ž–10 and 4Ž–15 Taikos ave." under which a financing in amount of EUR 307 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2016 financial support in amount of EUR 306 thousand has been received. The project is accomplished.

On 20 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 3Ž between heat cameras 3Ž–9 and 3Ž–9–5 A. Baranausko str." under which a financing in amount of EUR 228 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2016 financial support in amount of EUR 208 thousand has been received. The project is accomplished.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Reconstruction of Kaunas main 1Ž between heat cameras 1Ž–7 and 1Ž–8 and between heat cameras 1Ž–10 and 1Ž–12 in Chemijos str." under which a financing in amount of EUR 579 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2016 financial support in amount of EUR 579 thousand has been received. The project is accomplished.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 6Ž" under which a financing in amount of EUR 299 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2016 financial support in amount of EUR 296 thousand has been received. The project is accomplished.

On 31 December 2013 the Group and the Company signed agreement of financing and administration of the project "Modernization of Kaunas integrated network main 5T" under which a financing in amount of EUR 494 thousand is allocated to the Company from European Regional Development Fund after fulfilling of the terms of agreement. As of 31 December 2016 financial support in amount of EUR 494 thousand has been received. The project is accomplished.

On 4 October 2015 the Group and the Company signed an agreement with the Lithuanian Environmental Investments Fund (LEIF) regarding financing for the project "Reconstruction of Šilkas boiler-house, replacing depreciated boiler with the new one" rendering subsidy from the Climate Change Special Programme, under which a financing in amount of EUR 150 thousand is allocated for the Company. As at 31 December 2016 financial support in amount of EUR 150 thousand has been received. The project is accomplished.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 3Ž of Kaunas integrated network", according to which a financing in amount of EUR 450 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 6T of Kaunas integrated network", according to which a financing in amount of EUR 184 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in Eiguliai catchment" according to which a financing in amount of EUR 894 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 1T of Kaunas integrated network", according to which a financing in amount of EUR 967 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

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On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in Kalniečiai catchment" according to which a financing in amount of EUR 905 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The modernisation of main pipeline 4T of Kaunas integrated network", according to which a financing in amount of EUR 447 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of heat supply network built from "Pergalė" boiler-house" according to which a financing in amount of EUR 449 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of Kaunas integrated network in P. Lukšio str.", according to which a financing in amount of EUR 983 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 29 December 2016 the Group and the Company signed the agreement on the financing and administration of the project "The reconstruction of main pipeline 2Ž of Kaunas integrated network", according to which a financing in amount of EUR 548 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

14. Employee benefit liability

According to Lithuanian legislation and the conditions of the collective employment agreement, each employee of the Group and the Company is entitled to 1 - 6 months' salary payment when leaving the job at or after the start of the pension period and , and at the age of 40, 50 or 60 years, and having not less than15 years of work experience in the Company – jubilee gift of the value fixed in the collective employment agreement.

The Group's and the Company's total employee benefit liability is stated below:

	Group		**Company**	
	2016	**2015**	**2016**	**2015**
Employee benefit liability at the beginning of the year	**891**	**885**	**891**	**885**
Paid	(112)	(135)	(112)	(135)
Formed	552	141	548	141
Employee benefit liability at the end of the year	**1,331**	**891**	**1,327**	**891**
Non-current employee benefit liability	1,070	585	1,066	585
Current employee benefit liability	261	306	261	306

During the 2016 total amount of the benefit paid to the employees by the Group amounted to EUR 112 thousand (in 2015 – EUR 135 thousand), and by the Company – EUR 112 thousand (in 2015 – EUR 135 thousand) and are included in the caption of salaries and social security expenses in the Group's and the Company's statements of Profit (loss) and other comprehensive income.

The principal assumptions used in determining pension benefit obligation for the Group's and the Company's plan is shown below:

	As of 31 December 2016	**As of 31 December 2015**
Discount rate	0,31 per cent	4.0 per cent
Employee turnover rate	3,37 per cent	18.9 per cent
Expected average annual salary increases	3.0 per cent	3.0 per cent

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15. Derivative financial instruments

On 16 December 2016, the Group concluded an interest rate swap agreement. For the period from 12 December 2016 to 29 April 2022 the Group set a fixed interest rate at 0,21 % for a floating interest rate at 6-month EURIBOR. The nominal amount of the transaction was EUR 3,403 thousand as at 31 December 2016. Market value of swap agreement as of 31 December 2016 amounted to EUR 34 thousand. 31 December 2015 the Group and Company did not have valid transactions concerning derivative financial instruments.

16. Sales income

The Group's and the Company's activities are heat supplies, maintenance of manifolds, electricity production and other activities. Starting from the year 2010 a part of inhabitants chose the Company as the hot water supplier. Those activities are inter-related, so consequently for management purposes the Group's and the Company's activities are organised as one main segment – heat energy supply. The Group's and the Company's sales income according to the activities are stated below.

	Group		Company	
	2016	**2015**	**2016**	**2015**
Heat supplies	58,004	57,396	58,013	57,404
Hot water supplies	2,611	2,569	2,611	2,569
Maintenance of manifolds	227	226	227	226
Maintenance of heat and hot water systems	10	21	10	21
Electric energy	38	253	38	253
Maintenance of hot water meters	288	260	288	260
	61,178	**60,725**	**61,187**	**60,733**

17. Other expenses

	Group		Company	
	2016	**2015**	**2016**	**2015**
Cash collection expenses	171	207	171	207
Equipment verification and inspection	542	545	542	545
Maintenance of manifolds	394	394	394	394
Debts collection expenses	53	54	53	54
Sponsorship	94	93	94	93
Consulting expenses	110	87	109	87
Customer bills issue and delivery expenses	139	126	139	126
Communication expenses	48	47	48	47
Employees related expenses	108	89	104	89
Insurance	67	75	65	75
Long term assets maintenance and related services	77	70	77	70
Membership fee	78	83	78	83
Transport expenses	137	129	137	129
Advertising expenses	48	43	48	43
Audit expenses	15	20	14	20
Rent of equipment and machinery	13	16	13	16
Other expenses	570	425	569	425
	2,664	**2,503**	**2,655**	**2,503**

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18. Other activities income and expenses

	Group		Company	
	2016	**2015**	**2016**	**2015**
Income from other operating activities				
Miscellaneous services	387	453	280	375
Materials sold	4	37	4	37
Gain from sale of non-current assets	1	68	1	68
Damage compensation	1,835	-	1,835	-
Other	60	39	60	39
	2,287	**597**	**2,180**	**519**
Expenses from other operating activities				
Cost of miscellaneous services	(242)	(268)	(159)	(191)
Cost of materials sold	(1)	(68)	(1)	(68)
Write off of non-current assets	(3)	(84)	(3)	(84)
Loss from sale of non-current assets	-	-	-	-
Other	(69)	(29)	(69)	(29)
	(315)	**(449)**	**(232)**	**(372)**

19. Finance income

	Group		Company	
	2016	**2015**	**2016**	**2015**
Interest from late payment of accounts receivable	210	264	210	264
Fines	-	-	-	-
Impairment of non-current financial assets	-	-	-	-
Bank interest	-	-	-	-
Other	-	-	2	-
	210	**264**	**212**	**264**

20. Finance costs

	2016	**2015**	**2016**	**2015**
Interest on bank loans and overdrafts	(553)	(650)	(537)	(650)
Calculation of the value of shares	-	(98)	-	(98)
Penalties	-	(28)	-	(28)
Long-term financial assets impairment	-	(27)	(204)	(27)
Guarantee commitment formation	-	-	(2,269)	-
SWAP value change	(18)	-	-	-
	(571)	**(803)**	**(3,010)**	**(803)**

21. Income tax

The recorded income tax for the year can be reconciled with the theoretical calculated income tax, which is computed by applying the standard income tax rate to profit before taxes as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
Profit before tax	7,999	5,165	5,472	5,184
Income tax (expenses) calculated at statutory rate	(1,200)	(775)	(821)	(778)
Permanent differences and impact of valuation allowance of deferred income tax asset	434	119	57	122
Income tax (expenses) reported in the statement of comprehensive income	(766)	(656)	(764)	(656)
Effective rate of income tax (percent)	**9.58**	**12.70**	**13.96**	**12.65**

	Group		Company	
	2016	**2015**	**2016**	**2015**
Components of the income tax expense				
Current income tax for the reporting year	(2)	(9)	0	(9)
Deferred income tax (expenses)	(764)	(647)	(764)	(647)
Income tax (expenses) recorded in the statement of comprehensive income	(766)	(656)	(764)	(656)

As of 31 December 2016 and 31 December 2015 deferred income tax asset and liability were accounted for by applying 15 percent rate. All changes in deferred tax are reported in the statement of Profit (loss) and other comprehensive income.

As of 31 December deferred income tax consists of:

	Group		Company	
	2016	**2015**	**2016**	**2015**
Net deferred income tax asset				
Tax loss carried forward	2,842	2,595	2,842	2,595
Accruals	222	151	222	151
The change in value of financial assets	19	4	19	4
Deferred income tax asset	**3,083**	**2,750**	**3,083**	**2,750**
Deferred income tax liability				
Differences of depreciation	(7,323)	(6,222)	(7,323)	(6,222)
Investment relief	(27)	(31)	(27)	(31)
Revaluation of the assets transferred to subsidiary	-	-	(192)	(192)
Deferred income tax liabilities	**(7,350)**	**(6,253)**	**(7,542)**	**(6,445)**
Deferred income tax, net	**(4,267)**	**(3,503)**	**(4,459)**	**(3,695)**

Deferred income tax assets on tax losses carried forward have been recognised in full amount as the Group's and the Company's management believes it will be realised in the foreseeable future, based on taxable profit forecasts.

At 31 December unrecognized deferred tax assets of the Group and the Company consisted of:

	Group		Company	
	2016	**2015**	**2016**	**2015**
Allowance for trade receivables	1,688	1,862	1,694	1,869
Property, plant and equipment depreciation	39	32	39	32
Allowance for other accounts receivable	38	33	50	45
Impairment for the investment into subsidiary	-	-	122	122
Accruals	2	86	2	86
Unrecognized deferred tax asset, net	**1,767**	**2,013**	**1,907**	**2,154**

22. Basic and diluted earnings (loss) per share

Calculations of the basic and diluted earnings per share of the Group are presented below:

	Group		Company	
	2016	**2015**	**2016**	**2015**
Net profit	7,233	4,509	4,708	4,528
Number of shares (thousand), opening balance	42,802	42,802	42,802	42,802
Number of shares (thousand), closing balance	42,802	42,802	42,802	42,802
Average number of shares (thousand)	42,802	42,802	42,802	42,802
Basic and diluted earnings per share (EUR)	**0.17**	**0.11**	**0.11**	**0.11**

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23. Financial assets and liabilities and risk management

Credit risk
The Group and the Company do not have any credit concentration risk, because they work with a large number of customers.

Number of customers	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Individuals	114,455	114,493	114,455	114,494
Other legal entities	2,300	2,159	2,300	2,159
Legal entities financed from municipalities' and state budget	683	591	683	591
	117,438	**117,243**	**117,438**	**117,244**

Trade receivables of the Group and the Company by the customer groups:

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Individuals	8,123	7,370	8,123	7,370
Other legal entities	1,202	934	1,202	934
Legal entities financed from municipalities' and state budget	792	671	792	671
	10,117	**8,975**	**10,117**	**8,975**

Considering trade and other accounts receivables, the terms of which is still not expired and their impairment as of date of financial statements is not determined, according to Management opinion there is no indications that debtors will not fulfil their payment liabilities, because a balance of receivables are controlled constantly. The Group and the Company considers that maximum risk is equal to the sum of receivables from buyers and other receivables, less recognized impairment losses as of the date of balance sheet (note 8).

Cash and cash equivalents in banks, which were evaluated in accordance with long-term borrowing ratings*:

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
AA-	2,202	717	2,110	704
A+	3,510	1,587	3,510	1,587
A	98	6	98	6
Bank with no rating attributed	65	18	65	18
	5,875	**2,328**	**5,783**	**2,315**

*- external credit ratings set by Standart & Poor's agency.

On November 28, 2016 the Company provided guarantee in amount of EUR 3,913 thousand to Nordea Bank AB regarding liabilities of subsidiary UAB "Petrašiūnų Katilinė" to this bank according to credit agreement concluded on August 22, 2012 for the amount of EUR 3,403 thousand. On November 28, 2016 the Company provided guarantee in amount of EUR 95 thousand to Nordea Bank AB regarding liabilities of subsidiary UAB "Petrašiūnų Katilinė" to this bank according to transaction of derivative financial instruments, described in Note 15. Provisions of guarantee liabilities, formed by the Company in amount of EUR 2,269 thousand is included in Company's interest and other similar expenditures line item in the Statement of Profit (loss) and other comprehensive income.

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With respect to other credit risk arising from the other financial assets of the Group and the Company, which comprise cash and cash equivalents and available-for-sale financial investments, the Group's and the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Interest rate risk

All of the borrowings of the Group and the Company, except those loans signed with Ministry of Finance of the Republic of Lithuania, are at variable interest rates. Therefore the Group and the Company faces an interest rate risk. In the year 2016 and 2015 the Group and the Company had not been entered into valid interest rate swap agreements in order to manage variable rate risk.

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

	Increase/decrease in basis points	Effect on income tax
2016		
EUR	50	(8)
EUR	(50)	8
2015		
EUR	50	(7)
EUR	(50)	7

Liquidity risk

The Group's and 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 Group's liquidity (total current assets / total current liabilities) and quick ((total current assets – inventories) / total current liabilities) ratios as of 31 December 2016 were 1.42 and 1.39, respectively (1.10 and 1.07 as of 31 December 2015). The Company's liquidity and quick ratios as of 31 December 2016 were 1.40 and 1.37, respectively (1.10 and 1.07 as of 31 December 2015). As at 31 December 2016 Groups' and Company's net working capital was plius respectively (EUR 5,423 thousand and EUR 5,125 thousand) (as at 31 December 2015 it was also plius – EUR 1,179 thousand and EUR 1,162 thousand).

In order to increase liquidity the Group and the Company implemented the following action plan:

- Considering the current situation the Group and the Company started to reduce its expenses;
- The Company increased heat production in its own effective production sources;
- The new measures of reducing losses in production and supply were implemented;
- The Company seeks to shorten money cycle increasing turnover of purchaser's debts and reducing turnover of debts to suppliers;
- Organized refinance of part of financial liabilities.

Unsecured bank overdraft and bank loan facilities:

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
Amount used	-	-	-	-
Amount unused	2,896	4,344	2,896	4,344
	2,896	**4,344**	**2,896**	**4,344**

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The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2016 and as of 31 December 2015 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	1,106	2,882	13,635	12,637	30,260
Trade payables	7,130	58	18	-	7,206
Balance as of 31 December 2016	**8,236**	**2,940**	**13,653**	**12,637**	**37,466**

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	724	2,260	10,430	12,041	25,455
Trade payables	7,744	34	26	-	7,804
Balance as of 31 December 2015	**8,468**	**2,294**	**10,456**	**12,041**	**33,259**

The table below summarises the maturity profile of the Company's financial liabilities, as of 31 December 2016 and as of 31 December 2015 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	810	2,566	11,274	12,069	26,719
Trade payables	7,243	58	18	-	7,319
Balance as of 31 December 2016	**8,053**	**2,624**	**11,292**	**12,069**	**34,038**

	Less than 3 months	From 4 to 12 months	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	724	2,260	10,430	12,041	25,455
Trade payables	7,743	34	26	-	7,803
Balance as of 31 December 2015	**8,467**	**2,294**	**10,456**	**12,041**	**33,258**

Trade payables
Trade payables of the Group and the Company by supplier groups:

	Group		Company	
	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
For heat purchased	4,375	4,989	4,375	4,989
Contractors	646	399	646	399
Other suppliers	2,185	2,416	2,298	2,415
	7,206	**7,804**	**7,319**	**7,803**

30 day settlement period is set with IHP for purchased heat energy, 60–180 day settlement period – with contractors, 5–30 day settlement period – with other suppliers.

As of 31 December 2016 the Group and the Company had an EUR 53 thousand (31 December 2015 – EUR 1,691 thousand) of overdue trade creditors, out of which an EUR 1,593 thousand as of 31 December 2015 related to legal proceedings with KTE.

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

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

Fair value of financial instruments
The Group and the Company's principal financial instruments accounted for at amortised cost are trade and other current and non-current receivables, trade and other payables, long-term and short-term borrowings. The net book value of these amounts is similar to their fair value.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:
- The carrying amount of current trade accounts receivable, current trade accounts payable, other receivables and other payables and current borrowings approximate their fair value.
- The fair value of trade and other payables, long-term and short-term borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

The Group and the Company's categories of financial instruments:

	Group			**Company**		
Financial assets:	**As of 31 December 2016**	**As of 31 December 2015**	**As of 31 December 2014**	**As of 31 December 2016**	**As of 31 December 2015**	**As of 31 December 2014**
Cash and bank balances	6,285	2,531	389	6,193	2,518	384
Loans and receivables	10,662	9,835	21,746	10,644	9,822	21,735
Financial assets, carried at fair value through profit or loss (level 3 in the fair value hierarchy)	1	1	28	1	1	28
	16,948	**12,367**	**22,163**	**16,838**	**12,341**	**22,147**

	Group			**Company**		
Financial liabilities:	**As of 31 December 2016**	**As of 31 December 2015**	**As of 31 December 2014**	**As of 31 December 2016**	**As of 31 December 2015**	**As of 31 December 2014**
Carried at amortised cost	33,210	29,883	48,786	29,886	29,882	48,784
	33,210	**29,883**	**48,786**	**29,886**	**29,882**	**48,784**

The carrying amounts of financial assets and financial liabilities approximate their fair values.

Capital management
The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

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

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR A TWELVE MONTH PERIOD ENDED 31 DECEMBER 2016 (all amounts are in EUR thousand unless otherwise stated)

The Group and the Company is obliged to upkeep its equity of not less than 50 per cent of its share capital, as imposed by the Law on Companies of Republic of Lithuania. The Group and the Company complies with equity requirements imposed by the Law on Companies of Republic of Lithuania. There were no other externally imposed capital requirements on the Group and the Company.

The Group and the Company monitor capital using debt to equity ratio. Capital includes ordinary shares, reserves, earnings retained attributable to the equity holders of the parent. There is no specific debt to equity ratio target set out by the Group's and the Company's management, however current ratios presented below are treated as sustainable performance indicators: as satisfactory performance indicators and as creditable performance indicators:

	Group		**Company**	
	As of 31 December 2016	**As of 31 December 2015**	**As of 31 December 2016**	**As of 31 December 2015**
Non-current liabilities (including deferred tax and grants (deferred income))	44,809	40,391	42,570	40,583
Current liabilities	12,781	12,191	12,792	12,178
Liabilities	**57,590**	**52,582**	**55,362**	**52,761**
Equity	**87,295**	**81,860**	**85,322**	**82,412**
Debt* to equity ratio (percent)	**65.97**	**64.23**	**64.89**	**64.02**

* Debt contains all non-current (including deferred income tax liability and grants (deferred revenues)) and current liabilities,

Market risk

External risk factors that make influence to the Group's and the Company's main activity: increase in fuel prices, unfavourable law and legal acts of Government and other institutions, decisions of local municipality, decrease of number of consumers, the cycle of activity, environmental requirements.

24. Commitments and contingencies

Litigations

On January 2014 insurance company AB Lietuvos Draudimas placed a claim in amount of EUR 33 thousand in case of damage compensation to UAB Korelita, in which AB Litgrid, UAB DK PZU Lietuva and the Company are defendants. A claimant suffered damage due to a fault in the electrical system. The Company placed a response to the court in which asked to ignore a claim as unfounded. Kaunas District Court rejected a claim on 22 April 2015. A claimant submitted an appeal, but it was left unmet by the decision of Kaunas Regional Court of 29 October 2015 and the decision of Kaunas District Court came into force. Whereas a cassation appeal was not submitted, the decision remained unchanged.

Leasing and construction work purchase arrangements

On 20 December 2010 the Company entered into the lease arrangements with UAB ENG for the real estate. Under this lease arrangement the Company leases to UAB ENG Garliava boiler-house for building of heat production equipment. The Company undertakes obligations to procure heat produced in this equipment. The term of lease is 20 years.

Future liabilities of Group and the Company under valid purchase arrangements as of 31 December 2016 amounted to EUR 18,866 thousand.

25. Related parties transactions

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

In 2016 and 2015 the Group and the Company did not have any significant transactions with the other companies controlled by Kaunas city municipality except for the purchases or sales of the utility services. The services provided to the Kaunas city municipality and the entities controlled by the Kaunas city municipality were executed at market prices.

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In 2016 and 2015 the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by Kaunas city municipality and amounts of receivables from and liabilities to them at the end of the year were as follows:

2016	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	893	3,529	776	179
Jurbarkas city municipality	1	314	22	1

2015	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,010	5,327	873	296
Jurbarkas city municipality	1	325	13	-

The Group's and the Company's as of 31 December 2016 allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 241 thousand (as of 31 December 2015 – EUR 341 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

As at 31 December 2016 and 31 December 2015 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

Petrašiūnų katilinė UAB	**Purchases**	**Sales**	**Receivables**	**Payables**
2016	717	3	4	384
	-	-	-	-

Kauno Energija NT UAB	**Purchases**	**Sales**	**Receivables**	**Payables**
2016	5	13	111	-
2015	6	8	125	-

As at 31 December 2016 the Company has formed a value decrease in amount of EUR 111 thousand (as at 31 December 2015 in amount of EUR 125 thousand) for the receivables from subsidiaries.

<u>Remuneration of the management and other payments</u>
As at 31 December 2016 the Group's and the Company's management team comprised 7 and 4 persons respectively (as at 31 December 2015 – 6 and 4).

	Group		**Company**	
	2016	**2015**	**2016**	**2015**
Key management remuneration	150	175	119	160
Calculated post-employment benefits	11	7	11	7

In the year 2016 and 2015 the management of the Group and the Company did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

26. Post balance sheet events

There was not been after balance events.

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