



**AB KAUNO ENERGIJA**  
SET OF CONSOLIDATED AND PARENT COMPANY'S  
FINANCIAL STATEMENTS  
FOR THE FIRST QUARTER 2017,  
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, Head of Finance Department Gintautas Muznikas and Chief Accountant Violeta Staškūnienė hereby approve, that according to our knowledge the AB Kauno Energija interim financial report for the first quarter 2017, 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

Head of Finance Department

Gintautas Muznikas

Chief Accountant

Violeta Staškūnienė

## Statements of Financial Position

	Notes	Group		Company	
		As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
<b>ASSETS</b>					
<b>Non-current assets</b>					
<b>Intangible assets</b>	<b>3</b>	<b>91</b>	<b>107</b>	<b>91</b>	<b>107</b>
Property, plant and equipment	4				
Land and buildings		9,036	9,290	7,507	7,590
Structures		84,244	84,919	83,538	84,207
Machinery and equipment		26,444	27,420	22,697	23,507
Vehicles		455	497	414	448
Devices and tools		3,026	3,186	3,017	3,175
Construction in progress and prepayments		1,255	974	1,255	974
Investment property		409	299	-	-
<b>Total property, plant and equipment</b>		<b>124,869</b>	<b>126,585</b>	<b>118,428</b>	<b>119,901</b>
Non-current financial assets					
Investments into subsidiarys	1	-	-	2,968	2,968
Non-current accounts receivable		-	-	-	-
Other financial assets		1	1	1	1
<b>Total non-current financial assets</b>		<b>1</b>	<b>1</b>	<b>2,969</b>	<b>2,969</b>
<b>Total non-current assets</b>		<b>124,961</b>	<b>126,693</b>	<b>121,488</b>	<b>122,977</b>
<b>Current assets</b>					
Inventories and prepayments					
Inventories	5	371	486	332	416
Prepayments		337	491	274	384
<b>Total inventories and prepayments</b>		<b>708</b>	<b>977</b>	<b>606</b>	<b>800</b>
Current accounts receivable					
Trade receivables	21;23	9,863	10,117	9,863	10,117
Other receivables		872	1,001	850	984
<b>Total accounts receivable</b>		<b>10,735</b>	<b>11,118</b>	<b>10,713</b>	<b>11,101</b>
Cash and cash equivalents	7;21	12,989	6,285	12,757	6,193
<b>Total current assets</b>		<b>24,432</b>	<b>18,380</b>	<b>24,076</b>	<b>18,094</b>
<b>Total assets</b>		<b>149,393</b>	<b>145,073</b>	<b>145,564</b>	<b>141,071</b>


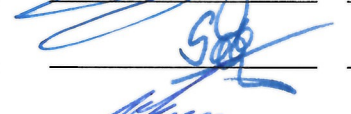

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Statements of Financial Position (cont'd)

	Notes	Group		Company	
		As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	1	74,476	74,476	74,476	74,476
Legal reserve	8	2,922	2,922	2,922	2,922
Other reserve	8	2,977	2,977	2,977	2,977
Retained earnings (deficit)					
Profit for the current year	1	7,758	6,957	7,593	6,901
Profit (loss) for the prior year	1	6,644	(313)	7,140	239
<b>Total retained earnings (deficit)</b>		<b>14,402</b>	<b>6,644</b>	<b>14,733</b>	<b>7,140</b>
<b>Total equity</b>		<b>94,777</b>	<b>87,019</b>	<b>95,108</b>	<b>87,515</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Non-current borrowings	9;21	19,624	19,559	19,624	19,559
Financial lease obligations	10;21	39	39	39	39
Deferred tax liability	19	4,269	4,269	4,461	4,461
Grants (deferred income)	11	17,224	17,469	15,971	16,176
Employee benefit liability	12;23	1,069	1,069	1,066	1,066
Non-current trade liabilities	21	18	18	18	18
<b>Total non-current liabilities</b>		<b>42,243</b>	<b>42,423</b>	<b>41,179</b>	<b>41,319</b>
<b>Current liabilities</b>					
Current portion of non-current borrowings and financial lease	9;10;21	5,416	6,252	2,297	2,849
Current borrowings	9;21	-	-	-	-
Trade payables	21	5,054	7,194	5,160	7,306
Payroll-related liabilities		900	668	873	657
Advances received		306	549	306	549
Taxes payable		81	391	57	343
Derivative financial instruments	13	24	34	-	-
Current portion of employee benefit liability	12	239	262	239	262
Other current liabilities		353	281	345	271
<b>Total current liabilities</b>		<b>12,373</b>	<b>15,631</b>	<b>9,277</b>	<b>12,237</b>
<b>Total liabilities</b>		<b>54,616</b>	<b>58,054</b>	<b>50,456</b>	<b>53,556</b>
<b>Total equity and liabilities</b>		<b>149,393</b>	<b>145,073</b>	<b>145,564</b>	<b>141,071</b>

(the end)




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

General Manager	Rimantas Bakas		24 April 2017
Head of Finance Department	Gintautas Muznikas		24 April 2017
Chief Accountant	Violeta Staškūnienė		24 April 2017

Statements of Profit (loss) and other comprehensive income

Group	Notes	2017 I quarter	2017	2016 I quarter	2016
<b>Operating revenue</b>					
Sales income	16	27,235	27,235	30,390	61,178
Other operating income	18	749	749	1,963	2,288
<b>Total income</b>		<b>27,984</b>	<b>27,984</b>	<b>32,353</b>	<b>63,466</b>
<b>Expenses</b>					
Fuel and heat acquired		(14,300)	(14,300)	(17,148)	(34,334)
Salaries and social security		(1,663)	(1,663)	(1,613)	(6,992)
Depreciation and amortisation	3;4	(1,811)	(1,811)	(1,526)	(6,172)
Repairs and maintenance		(117)	(117)	(76)	(716)
Write-offs and change in allowance for accounts receivable	5;8	(71)	(71)	(429)	797
Taxes other than income tax		(379)	(379)	(375)	(1,496)
Electricity		(406)	(406)	(354)	(1,212)
Raw materials and consumables		(169)	(169)	(144)	(622)
Water		(235)	(235)	(213)	(831)
Change in write-down to net realisable value of inventories and non-current assets	7	(201)	(201)	7	(22)
Other expenses	17	(704)	(704)	(876)	(2,920)
Other activities expenses	18	(86)	(86)	(118)	(306)
<b>Total expenses</b>		<b>(20,142)</b>	<b>(20,142)</b>	<b>(22,865)</b>	<b>(54,826)</b>
<b>Operating profit (losses)</b>		<b>7,842</b>	<b>7,842</b>	<b>9,488</b>	<b>8,640</b>
Other interest and similar income	19	63	63	47	210
Financial assets and short-term investments impairment	20	-	-	-	-
Interest and other similar expenses	20	(147)	(147)	(140)	(574)
<b>Finance cost, net</b>		<b>(84)</b>	<b>(84)</b>	<b>(93)</b>	<b>(364)</b>
<b>Profit before income tax</b>		<b>7,758</b>	<b>7,758</b>	<b>9,395</b>	<b>8,276</b>
Income tax	21	-	-	-	(2)
Deferred tax income (losses)		-	-	-	(766)
<b>Profit for the year</b>		<b>7,758</b>	<b>7,758</b>	<b>9,395</b>	<b>7,508</b>
Employee benefit liability (accumulation)		-	-	-	(551)
<b>Comprehensive income</b>		<b>7,758</b>	<b>7,758</b>	<b>9,395</b>	<b>6,957</b>
<b>Profit for the year attributable to owners of the Company</b>		<b>7,758</b>	<b>7,758</b>	<b>9,395</b>	<b>7,508</b>
<b>Total comprehensive income attributable to owners of the Company</b>		<b>7,758</b>	<b>7,758</b>	<b>9,395</b>	<b>6,957</b>
<b>Basic and diluted earnings per share (EUR)</b>	22	<b>0.18</b>	<b>0.18</b>	<b>0.22</b>	<b>0.16</b>

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




General Manager	Rimantas Bakas		24 April 2017
Head of Finance Department	Gintautas Muznikas		24 April 2017
Chief Accountant	Violeta Staškūnienė		24 April 2017



Statements of Profit (loss) and other comprehensive income

Company	Notes	2017 I quarter	2017	2016 I quarter	2016
<b>Operating revenue</b>					
Sales income	16	27,241	27,241	30,394	61,188
Other operating income	18	716	716	1,934	2,181
<b>Total income</b>		<b>27,957</b>	<b>27,957</b>	<b>32,328</b>	<b>63,369</b>
<b>Expenses</b>					
Fuel and heat acquired		(14,792)	(14,792)	(17,148)	(34,641)
Salaries and social security		(1,625)	(1,625)	(1,613)	(6,953)
Depreciation and amortisation	3;4	(1,615)	(1,615)	(1,526)	(6,074)
Repairs and maintenance		(110)	(110)	(76)	(711)
Write-offs and change in allowance for accounts receivable	5;8	(64)	(64)	(427)	810
Taxes other than income tax		(373)	(373)	(375)	(1,490)
Electricity		(356)	(356)	(354)	(1,159)
Raw materials and consumables		(165)	(165)	(144)	(619)
Water		(235)	(235)	(213)	(830)
Change in write-down to net realisable value of inventories and non-current assets	7	(201)	(201)	7	(22)
Other expenses	17	(689)	(689)	(876)	(2,907)
Other activities expenses	18	(59)	(59)	(87)	(231)
<b>Total expenses</b>		<b>(20,284)</b>	<b>(20,284)</b>	<b>(22,832)</b>	<b>(54,827)</b>
<b>Operating profit (losses)</b>		<b>7,673</b>	<b>7,673</b>	<b>9,496</b>	<b>8,542</b>
Other interest and similar income	19	53	53	47	213
Financial assets and short-term investments impairment	20	-	-	-	-
Interest and other similar expenses	20	(133)	(133)	(140)	(541)
<b>Finance cost, net</b>		<b>(80)</b>	<b>(80)</b>	<b>(93)</b>	<b>(328)</b>
<b>Profit before income tax</b>		<b>7,593</b>	<b>7,593</b>	<b>9,403</b>	<b>8,214</b>
Income tax	21	-	-	-	1
Deferred tax income (losses)		-	-	-	(766)
<b>Profit for the year</b>		<b>7,593</b>	<b>7,593</b>	<b>9,403</b>	<b>7,449</b>
Employee benefit liability (accumulation)		-	-	-	(548)
<b>Comprehensive income</b>		<b>7,593</b>	<b>7,593</b>	<b>9,403</b>	<b>6,901</b>
<b>Profit for the year attributable to owners of the Company</b>		<b>7,593</b>	<b>7,593</b>	<b>9,403</b>	<b>7,449</b>
<b>Total comprehensive income attributable to owners of the Company</b>		<b>7,593</b>	<b>7,593</b>	<b>9,403</b>	<b>6,901</b>
<b>Basic and diluted earnings per share (EUR)</b>	22	<b>0.18</b>	<b>0.18</b>	<b>0.22</b>	<b>0.16</b>

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

General Manager	Rimantas Bakas		24 April 2017
Head of Finance Department	Gintautas Muznikas		24 April 2017
Chief Accountant	Violeta Staškūnienė		24 April 2017




Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
<b>Balance as of 31 December 2015</b>		<b>74,476</b>	<b>2,695</b>	<b>713</b>	<b>3,976</b>	<b>81,860</b>
Total comprehensive income		-	-	-	9,395	9,395
<b>Balance as of 31 March 2016</b>		<b>74,476</b>	<b>2,695</b>	<b>713</b>	<b>13,371</b>	<b>91,255</b>
Transferred to reserves	10	-	227	2,977	(3,204)	-
Transferred from reserves	10	-	-	(713)	713	-
Dividends	1	-	-	-	(1,798)	(1,798)
Total comprehensive income		-	-	-	(2,438)	(2,438)
<b>Balance as of 31 December 2016</b>		<b>74,476</b>	<b>2,922</b>	<b>2,977</b>	<b>6,644</b>	<b>87,019</b>
Total comprehensive income		-	-	-	7,758	7,758
<b>Balance as of 31 March 2017</b>		<b>74,476</b>	<b>2,922</b>	<b>2,977</b>	<b>14,402</b>	<b>94,777</b>

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
<b>Balance as of 31 December 2015</b>		<b>74,476</b>	<b>2,695</b>	<b>713</b>	<b>4,528</b>	<b>82,412</b>
Total comprehensive income		-	-	-	9,403	9,403
<b>Balance as of 31 March 2016</b>		<b>74,476</b>	<b>2,695</b>	<b>713</b>	<b>13,931</b>	<b>91,815</b>
Transferred to reserves	10	-	227	2,977	(3,204)	-
Transferred from reserves	10	-	-	(713)	713	-
Dividends	1	-	-	-	(1,798)	(1,798)
Total comprehensive income		-	-	-	(2,502)	(2,502)
<b>Balance as of 31 December 2016</b>		<b>74,476</b>	<b>2,922</b>	<b>2,977</b>	<b>7,140</b>	<b>87,515</b>
Total comprehensive income		-	-	-	7,593	7,593
<b>Balance as of 31 March 2017</b>		<b>74,476</b>	<b>2,922</b>	<b>2,977</b>	<b>14,733</b>	<b>95,108</b>

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

General Manager	Rimantas Bakas		24 April 2017
Head of Finance Department	Gintautas Muznikas		24 April 2017
Chief Accountant	Violeta Staškūnienė		24 April 2017

Statements of Cash Flows

	Group		Company	
	2017 I quarter	2016 I quarter	2017 I quarter	2016 I quarter
<b>Cash flows from (to) operating activities</b>				
Comprehensive income	<b>7,758</b>	<b>9,395</b>	<b>7,593</b>	<b>9,403</b>
<b>Adjustments for non-cash items:</b>				
Depreciation and amortisation	2,212	1,883	1,969	1,879
Write-offs and change in allowance for accounts receivable	73	431	66	429
Interest expenses	147	140	133	140
Change in fair value of derivatives	(10)	-	-	-
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	(2)	-	(2)	-
(Amortisation) of grants (deferred income)	(305)	(261)	(265)	(261)
Change in write-down to net realisable value of inventories and non-current assets	201	(7)	201	(7)
Change employee benefit liability	-	-	-	-
Calculation of the value of shares	-	-	-	-
Income tax expenses	-	-	-	-
Change in accruals	10	11	8	11
Impairment of investment in subsidiary	-	-	-	-
Elimination of other financial and investing activity results	(53)	(47)	(53)	(47)
<b>Total adjustments for non-cash items:</b>	<b>2,273</b>	<b>2,150</b>	<b>2,057</b>	<b>2,144</b>
<b>Changes in working capital:</b>				
(Increase) decrease in inventories	(86)	(67)	(117)	(68)
(Increase) decrease in prepayments	154	267	110	273
(Increase) decrease in trade receivables	144	(3,044)	149	(3,044)
(Increase) decrease in other receivables	175	(43)	182	(39)
(Decrease) increase in other non-current liabilities	-	-	-	-
(Decrease) increase in current trade payables and advances received	(2,383)	(1,764)	(2,389)	(1,765)
(Decrease) increase in payroll-related liabilities	205	210	193	202
Increase (decrease) in other liabilities to budget	(310)	(205)	(286)	(202)
Increase (decrease) in other current liabilities	54	(36)	54	(35)
<b>Total changes in working capital:</b>	<b>(2,047)</b>	<b>(4,682)</b>	<b>(2,104)</b>	<b>(4,678)</b>
<b>Net cash flows from operating activities</b>	<b>7,984</b>	<b>6,863</b>	<b>7,546</b>	<b>6,869</b>




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	Group		Company	
	2017 I quarter	2016 I quarter	2017 I quarter	2016 I quarter
<b>Cash flows from (to) the investing activities</b>				
(Acquisition) of tangible and intangible assets	(477)	(407)	(477)	(407)
Proceeds from sale of tangible assets	2	-	2	-
Interest received for overdue accounts receivable	53	47	53	47
Penalties received	-	-	-	-
Acquisition of subsidiaries	-	-	-	-
Decrease of non-current accounts receivable	-	-	-	-
Interest received	-	-	-	-
<b>Net cash (used in) investing activities</b>	<b>(422)</b>	<b>(360)</b>	<b>(422)</b>	<b>(360)</b>
<b>Cash flows from (to) financing activities</b>				
Proceeds from loans	187	20	187	20
(Repayment) of loans	(949)	(524)	(665)	(524)
Interest (paid)	(137)	(121)	(123)	(121)
Financial lease (payments)	(10)	(11)	(10)	(11)
Penalties and fines (paid)	-	-	-	-
Dividends (paid)	-	-	-	-
Received grants	51	-	51	-
<b>Net cash flows from (used in) financing activities</b>	<b>(858)</b>	<b>(636)</b>	<b>(560)</b>	<b>(636)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>6,704</b>	<b>5,867</b>	<b>6,564</b>	<b>5,873</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>6,285</b>	<b>2,531</b>	<b>6,193</b>	<b>2,518</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>12,989</b>	<b>8,398</b>	<b>12,757</b>	<b>8,391</b>

(the end)

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

General Manager	Rimantas Bakas		24 April 2017
Head of Finance Department	Gintautas Muznikas		24 April 2017
Chief Accountant	Violeta Staškūnienė		24 April 2017

## 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. Data on the Company are collected and stored in the Register of Legal Entities.

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 are also involved in maintenance of heating systems. 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 March 2017 and of 31 December 2016 the shareholders of the Company were as follows:

	As of 31 March 2017		As of 31 December 2016	
	Number of shares owned (unit)	Percentage of ownership (percent)	Number of shares owned (unit)	Percentage of ownership (percent)
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. All shares were fully paid As of 31 March 2017 and as of 31 December 2016.

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.

Responding to changes in competition in Kaunas heat production sector, the Company signed an agreement with UAB E-Energija on 23 June 2016 regarding purchase of 100 % of shares of UAB Petrašiūnų Katilinė. The agreement became valid on 30 June 2016. On 29 July 2016 the agreement was approved on the extraordinary meeting of shareholders. On 27 October 2016 the Company accomplished transaction of acquisition of UAB Petrašiūnų Katilinė, acquiring block of shares for EUR 1,894 thousand. This acquisition is a result of consistent planning of development of production capacities. 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 March 2017 the Company and the subsidiarys UAB Kauno Energija NT and UAB Petrašiūnų Katilinė represent the Group (hereinafter – the Group):

Company	Principal place of business	Share held by the Group	Cost of investment	Profit (loss) for the year	Total equity	Main activities
UAB Kauno energija NT	Savanorių Ave. 347, Kaunas	100 percent	1,074	(2)	1,223	Rent
UAB Petrašiūnų katilinė	R. Kalantos g. 49, Kaunas	100 percent	1,894	262	615	Heat production

### Legal Regulations

Operations of the Company are regulated by the Heating Law No. IX-1565 of 20 May 2003 of the Republic of Lithuania. 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).

In 2017 the average number of employees at the Group was 527 (536 employees in 2016). In 2017 the average number of employees at the Company was 514 (523 employees in 2016).

### 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 28 local 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. 34.8 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).

The Company accomplished the last (of three) investment litigation with Kauno Termofikacijos Elektrinė (hereinafter – KTE), after Vilnius Court of Commercial Arbitration approved on 29 January 2016 a peaceful agreement concluded on 28 December 2015. Following the terms of agreement the sides agreed to terminate Investment agreement of 31 March 2003, KTE taking obligations to pay compensation for the Company in amount of EUR 2.3 million. The Company has got EUR 0.24 million during the first quarter 2017 (EUR 1.8 million during 2016), which is disclosed in Note 16, the rest EUR 0.24 million is subject to pay by KTE until 28 February 2018. As an additional non-financial compensation according the terms of peaceful agreement KTE disposed to the Company a part of Kaunas centralized heat supplies infrastructure (manifolds building and coherent pipelines, as well as part of technological circuit equipment, necessary to the Company) and the rights of lease of land plot, coherent to the assets disposed. The Company leased out to KTE a technological circuit equipment taken from it 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. This juridical litigation with KTE continued from April 2013 and the litigations regarding a non-compliance of investments – from the year 2009. The Company is awarded and has got from KTE in total more than EUR 3.6 million of forfeit in 2011 and 2013 regarding a non-compliance of investment obligations.

In 2012 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 a reconstruction projects of existing boiler-houses, fitting them to work on wooden fuel (wooden chips, waste of deforestation, sawdust).

The Company makes investments estimating economic situation, competition and financing possibilities. Investment plans are approved by shareholders, and regulated and controlled by National Commission for Energy Control and Prices. The Company invested EUR 628 thousand in own assets in 2017, and EUR 6,761 thousand in 2016.

## **2. Accounting principles**

### **2.1. Adoption of new and/or amended IFRS**

In the current year, the Group and the Company has adopted all of the new and revised Standards and Interpretations 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 percent 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 indicators of impairment in 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**

### Intangible assets acquired separately

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.

### Derecognition of intangible assets

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.

### Licenses

Amounts paid for licenses are capitalised and then amortised over useful life (3 – 4 years).

### Software

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



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

	<b>Years</b>
Buildings	15 – 50
Structures	15 – 70
Machinery and equipment	5 – 20
Vehicles	4 – 10
Equipment and tools	3 – 16

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.

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 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. The Group and the Company has one cash-generating unit for heating business.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been 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.

### Effective interest rate method

The effective interest rate 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 profit or loss.

#### 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 without material 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.

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. Actuarial gains and losses are included in Other comprehensive income.

## **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.

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 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 2017 the income tax applied to the Group and the Company was 15 percent (2016 - 15 percent).

### 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, 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 above.

### 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:

As of 31 March 2017				As of 31 December 2016			
1 EUR	=	1.0737	USD	1 EUR	=	1.04530	USD
1 EUR	=	0.8618	GBP	1 EUR	=	0.85300	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.

##### *Property, plant and equipment - fair value measurements and valuation processes*

Some of the Group's assets are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation, if necessary.

##### *Realisable value of inventory*

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

##### *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 22.

## **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.

### **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 March 2017 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,260 thousand (as of 31 December 2016 – EUR 1,258 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 in the first quarter 2017 amounts to EUR 1,891 thousand and EUR 1,689 thousand, respectively (as of 31 December 2016 – EUR 6,451 thousand and EUR 6,370 thousand respectively). The amounts of EUR 1,873 thousand and EUR 1,677 thousand (as of 31 December 2016 – EUR 6,433 thousand and EUR 6,330 thousand respectively) the depreciation expenses were included into the expenses in statements of Profit (loss) and other comprehensive income, the remaining amounts 18 thousand and EUR 12 thousand (as of 31 December 2016 – EUR 18 thousand and EUR 40 thousand) were included into other activity expenses in statements of Profit (loss) and other comprehensive income.

As of 31 March 2017 part of the property, plant and equipment of the Group with acquisition cost of EUR 51,518 thousand (EUR 51,372 thousand as of 31 December 2016) and the Company – EUR 51,355 thousand were fully depreciated (EUR 51,210 thousand as of 31 December 2016), but were still in active use.

As of 31 March 2017 and as of 31 December 2016 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 March 2017 the sum of the Group and the Company contractual commitments for the acquisition of property, plant and equipment amounted to EUR 14,314 thousand (as of 31 December 2016 – EUR 15,288 thousand).

As of 31 March 2017 property, plant and equipment of the Group with the net book value of EUR 55,586 thousand (EUR 55,788 thousand as of 31 December 2016) and the Company of EUR 50,965 thousand (EUR 51,021 thousand as of 31 December 2016) was pledged to banks as a collateral for loans (Note 9).

The sum of Group's and Company's capitalized interest was equal to EUR 3 thousand in 2017 (in 2016 – EUR 10 thousand). The capitalization rate varied from 0.93 percent to 1.03 percent in 2017 (in 2016 – from 0.95 percent to 1.29 percent).

As of 31 March 2017 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 169 thousand in the category Equipment and tools (EUR 416 thousand as of 31 December 2016).

The Group and The Company use assets in their operations, acquired by leasing. The acquisition cost of this asset was EUR 136 thousand at March 31 2017 (EUR 136 thousand in 2016 respectively), and the net book value respectively EUR 106 thousand and 112 thousand. Unpaid part of it is disclosed in Note 10.

## 5. Inventories

	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
Technological fuel	1,115	1,187	1,078	1,120
Spare parts	455	446	453	444
Materials	585	435	585	434
	<u>2,155</u>	<u>2,068</u>	<u>2,116</u>	<u>1,998</u>
Less: write-down to net realisable value of inventory at the end of the period	(1,784)	(1,582)	(1,784)	(1,582)
Carrying amount of inventories	<u>371</u>	<u>486</u>	<u>332</u>	<u>416</u>

As of 31 March 2017 Group's and Company's amounted to EUR 1,784 thousand (as of 31 December 2016 – EUR 1,582 thousand) write-down to net realisable value of inventories. Changes in the Write-down to net realisable value of inventories for the 2017 and for the year 2016 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.

## 6. Current accounts receivable

	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
Trade receivables, gross	21,109	21,372	21,142	21,410
Less: impairment of doubtful receivables	(11,246)	(11,255)	(11,279)	(11,293)
	<u>9,863</u>	<u>10,117</u>	<u>9,863</u>	<u>10,117</u>

Change in impairment of doubtful receivables in 2017 and 2016 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.

Impairment of doubtful receivables assessed on the basis of historical experience, using the following percentages:

	Amount not past due	Amounts past due					More than 360 days	More than 720 days
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days		
2017	5%	20%	50%	60%	80%	90%	100%	
2016	5%	20%	50%	60%	80%	90%	100%	

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

	Group	Company
<b>Balance as of 31 December 2015</b>	<u>12,410</u>	<u>12,458</u>
Additional allowance formed	(825)	(835)
Write-off	(330)	(330)
<b>Balance as of 31 December 2016</b>	<u>11,255</u>	<u>11,293</u>
Additional allowance formed	110	105
Write-off	(119)	(119)
<b>Balance as of 31 March 2017</b>	<u>11,246</u>	<u>11,279</u>

In 2017 the Group and the Company wrote off EUR 119 thousand and EUR 119 thousand of bad debts respectively (in 2016 – EUR 330 thousand and EUR 330 thousand). In 2017 the Group recovered EUR 2 thousand and the Company – EUR 2 thousand (in 2016 the Group and the Company – EUR 5 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 March 2017 and 31 December 2016 is as follows:

	Trade receivables not past due	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2017	7,254	1,750	473	135	63	188	9,863
2016	8,312	996	194	153	171	291	10,117

The ageing analysis of the Company's net value of trade receivables As of 31 March 2017 and 31 December 2016 is as follows:

	Trade receivables not past due	Trade receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2017	7,254	1,750	473	135	63	188	9,863
2016	8,312	996	194	153	171	291	10,117

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 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
Taxes	150	228	150	221
Other receivables	985	1,073	1,027	1,129
Less: value impairment of doubtful receivables	(263)	(300)	(327)	(366)
	<b>872</b>	<b>1,001</b>	<b>850</b>	<b>984</b>

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

	Group	Company
<b>Balance as of 31 December 2015</b>	<b>267</b>	<b>336</b>
Additional allowance formed	33	30
Write-off	-	-
<b>Balance as of 31 December 2016</b>	<b>300</b>	<b>366</b>
Additional allowance formed	(37)	(39)
Write-off	-	-
<b>Balance as of 31 March 2017</b>	<b>263</b>	<b>327</b>

As of 31 March 2017 and 31 December 2016 the Group's and the Company's other receivables amounted receivable from state taxes, 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 March 2017 and 31 December 2016 is as follows:

	Other receivables not past due	Other receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2017	204	24	465	17	5	7	722
2016	535	191	23	13	4	7	773

The ageing analysis of the Company's net value of other receivables (excluding taxes) As of 31 March 2017 and 31 December 2016 is as follows:

	Other receivables not past due	Other receivables past due					Total
		Less than 60 days	60 - 150 days	151 - 240 days	241 - 360 days	More than 360 days	
2017	182	24	465	17	5	7	700
2016	525	191	23	13	4	7	763

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.

## 7. Cash and cash equivalents

	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
Cash in transit	300	396	300	396
Cash at bank	12,682	5,875	12,450	5,783
Cash on hand	7	14	7	14
	<b>12,989</b>	<b>6,285</b>	<b>12,757</b>	<b>6,193</b>

The Group's accounts in banks amounting to EUR 11,636 thousand As of 31 March 2017 (31 December 2016 – EUR 4,977 thousand) and the Company's to EUR 11,409 thousand As of 31 March 2017 (31 December 2016 – EUR 4,890 thousand) are pledged as collateral for the loans (Note 9).

## 8. Reserves

### Legal and other reserves

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

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

## 9. Borrowings

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



	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
<b>Non-current borrowings:</b>	<b>19,623</b>	<b>19,559</b>	<b>19,623</b>	<b>19,559</b>
Payable in 2 to 5 years	9,669	9,605	9,669	9,605
Payable in more than 5 years	9,954	9,954	9,954	9,954
Current portion of non-current borrowings (except leasing which) is disclosed in Note 10)	5,386	6,212	2,267	2,809
	<b>25,009</b>	<b>25,771</b>	<b>21,890</b>	<b>22,368</b>

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

	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
Current borrowings	0.00	0.00	0.00	0.00
Non-current borrowings	2.33	2.27	2.44	2.44

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 31.03.2017 EUR thousand	A part of 2017, EUR thousand
1	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,591	-
2	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	654	-
3	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,564	87
4	Nordea*	22/08/2012	EUR	3,403	3,403	29/04/2022	3,119	3,119
5	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	433	100
6	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	660	153
7	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	878	188
8	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	26	6
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	985	196
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	127	73
13	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	82	72
14	OP Corporate**	02/12/2015	EUR	4,842	4,842	02/12/2022	3,977	519
15	AB SEB Bank	09/05/2016	EUR	2,896	2,896	08/05/2017	-	-
16	AB SEB Bank	09/05/2016	EUR	1,000	1,000	30/04/2021	817	150
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	1,847	213
19	AB SEB Bank	22/12/2016	EUR	4,127	4,127	30/11/2024	-	-
							<b>25,009</b>	<b>5,386</b>

\* 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:

	<b>Credit institution</b>	<b>Date of contract</b>	<b>Currency</b>	<b>Currency sum, thousand</b>	<b>Sum EUR thousand</b>	<b>Term of maturity</b>	<b>Balance as of 31.03.2017 EUR thousand</b>	<b>A part of 2017, EUR thousand</b>
1	MF Lithuania***	09/04/2010	EUR	2,410	2,410	15/03/2034	1,591	-
2	MF Lithuania***	26/10/2010	EUR	807	807	15/03/2034	654	-
3	MF Lithuania***	02/09/2011	EUR	1,672	1,672	01/09/2034	1,564	87
4	AB SEB Bank	03/06/2013	LTL	2,760	799	30/06/2020	433	100
5	AB SEB Bank	03/06/2013	LTL	4,240	1,228	30/06/2020	660	153
6	AB SEB Bank	10/09/2013	LTL	5,200	1,506	30/09/2020	878	188
7	Nordea*	27/09/2013	LTL	1,300	377	30/09/2020	26	6
8	MF Lithuania***	15/01/2014	EUR	793	793	01/12/2034	749	41
9	AB SEB Bank	31/03/2014	LTL	5,400	1,564	15/01/2021	985	196
10	MF Lithuania***	31/03/2014	EUR	7,881	7,881	01/12/2034	7,444	413
11	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	127	73
12	AB SEB Bank	09/03/2015	EUR	579	579	28/02/2022	82	72
13	OP Corporate**	02/12/2015	EUR	4,842	4,842	02/12/2022	3,977	519
14	AB SEB Bank	09/05/2016	EUR	2,896	2,896	08/05/2017	-	-
15	AB SEB Bank	09/05/2016	EUR	1,000	1,000	30/04/2021	817	150
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	1,847	213
18	AB SEB Bank	22/12/2016	EUR	4,127	4,127	30/11/2024	-	-
							<b>21,890</b>	<b>2,267</b>

\* 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 7) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

## 10. 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 years. The finance lease agreement is in EUR.

Future minimal lease payments were:

	<b>Group</b>		<b>Company</b>	
	<b>As of 31 March 2017</b>	<b>As of 31 December 2016</b>	<b>As of 31 March 2017</b>	<b>As of 31 December 2016</b>
Within one year	31	41	31	41
From one to five years	39	39	39	39
Total financial lease obligations	70	80	70	80
Interest	(2)	(2)	(2)	(2)
<b>Present value of financial lease obligations</b>	<b>68</b>	<b>78</b>	<b>68</b>	<b>78</b>
Financial lease obligations are accounted for as:				
- current	30	40	30	40
- non-current	38	38	38	38

## 11. Grants (deferred income)

	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
<b>Balance at the beginning of the reporting period</b>	<b>17,469</b>	<b>16,761</b>	<b>16,176</b>	<b>16,761</b>
Received during the year	60	1,798	60	465
Amortisation	(305)	(1,090)	(265)	(1,050)
<b>Balance at the end of the reporting period</b>	<b>17,224</b>	<b>17,469</b>	<b>15,971</b>	<b>16,176</b>

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 March 2017 financing in amount of EUR 1,333 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. As of 31 March 2017 EUR 450 thousand are accounted in Group's and Company's other receivables line.

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. The Company received the financial support in the amount of EUR 2 thousand by 31 March 2017.

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. The Company received the financial support in the amount of EUR 13 thousand by 31 March 2017.

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. The Company received the financial support in the amount of EUR 12 thousand by 31 March 2017.

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. The Company received the financial support in the amount of EUR 15 thousand by 31 March 2017.

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. The Company received the financial support in the amount of EUR 5 thousand by 31 March 2017.

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. The Company received the financial support in the amount of EUR 7 thousand by 31 March 2017.

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. The Company received the financial support in the amount of EUR 5 thousand by 31 March 2017.

## 12. 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 at the age of 40, 50 or 60 years, and having not less than 15 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	
	2017	2016	2017	2016
<b>Employee benefit liability at the beginning of the year</b>	<b>1,331</b>	<b>891</b>	<b>1,328</b>	<b>891</b>
Paid	(23)	(111)	(23)	(111)
Formed	-	551	-	548
<b>Employee benefit liability at the end of the year</b>	<b>1,308</b>	<b>1,331</b>	<b>1,305</b>	<b>1,328</b>
Non-current employee benefit liability	1,069	1,069	1,066	1,066
Current employee benefit liability	239	262	239	262

During the 2017 total amount of the benefit paid to the employees by the Group amounted to EUR 23 thousand (in 2016 – EUR 111 thousand), and by the Company – EUR 23 thousand (in 2016 – EUR 111 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 March 2017	As of 31 December 2016
Discount rate	0.31 percent	0.31 percent
Employee turnover rate	3.37 percent	3.37 percent
Expected average annual salary increases	3.0 percent	3.0 percent

## 13. 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 3,119 thousand as at 31 March 2017. Market value of swap agreement As of 31 March 2017 amounted to EUR 24 thousand (31 December 2016 – EUR 34 thousand).

## 14. 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	
	2017	2016	2017	2016
Heat supplies	26,347	58,004	26,353	58,013
Hot water supplies	746	2,611	746	2,611
Maintenance of manifolds	63	228	63	228
Maintenance of heat and hot water systems	2	9	2	10
Electric energy	-	38	-	38
Maintenance of hot water meters	77	288	77	288
Sale of an emission right	-	-	-	-
	<b>27,235</b>	<b>61,178</b>	<b>27,241</b>	<b>61,188</b>

#### 15. Other expenses

	Group		Company	
	2017	2016	2017	2016
Cash collection expenses	42	171	42	171
Equipment verification and inspection	130	542	130	542
Maintenance of manifolds	99	394	99	394
Debts collection expenses	24	54	24	54
Sponsorship	3	94	3	94
Consulting expenses	1	109	1	109
Customer bills issue and delivery expenses	36	139	36	139
Communication expenses	14	48	13	48
Employees related expenses	34	89	34	89
Insurance	49	67	47	65
Long term assets maintenance and related services	17	77	17	77
Membership fee	14	78	14	78
Transport expenses	44	137	44	137
Advertising expenses	6	48	6	48
Audit expenses	-	14	-	14
Rent of equipment and machinery	4	14	4	14
Other expenses	187	845	175	834
	<b>704</b>	<b>2,920</b>	<b>689</b>	<b>2,907</b>

#### 16. Other activities income and expenses

	Group		Company	
	2017	2016	2017	2016
<b>Income from other operating activities</b>				
Miscellaneous services	108	387	75	280
Materials sold	375	4	375	4
Gain from sale of non-current assets	2	1	2	1
Damage compensation	241	1,835	241	1,835
Other	23	61	23	61
	<b>749</b>	<b>2,288</b>	<b>716</b>	<b>2,181</b>
<b>Expenses from other operating activities</b>				
Cost of miscellaneous services	(72)	(236)	(45)	(161)
Cost of materials sold	-	(1)	-	(1)
Write off of non-current assets	-	-	-	-
Other	(14)	(69)	(14)	(69)
	<b>(86)</b>	<b>(306)</b>	<b>(59)</b>	<b>(231)</b>

## 17. Other interest and similar income

	Group		Company	
	2017	2016	2017	2016
Interest from late payment of accounts receivable	53	210	53	210
Other	-	-	-	3
Change in fair value of derivative financial instruments	10	-	-	-
	<b>63</b>	<b>210</b>	<b>53</b>	<b>213</b>

## 18. Financial assets and short-term investments impairment, interest and other similar expenses

	Group		Company	
	2017	2016	2017	2016
Interest on bank loans and overdrafts	(147)	(557)	(133)	(541)
Calculation of the value of shares	-	-	-	-
Penalties	-	-	-	-
Long-term financial assets impairment	-	-	-	-
Change in fair value of derivative financial instruments	-	(17)	-	-
	<b>(147)</b>	<b>(574)</b>	<b>(133)</b>	<b>(541)</b>

## 19. Income tax

As of 31 March 2017 and 31 December 2016 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.

## 20. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2017	2016	2017	2016
Net profit	7,758	6,957	7,593	6,901
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
<b>Basic and diluted earnings per share (EUR)</b>	<b>0.18</b>	<b>0.16</b>	<b>0.18</b>	<b>0.16</b>

## 21. 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 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
Individuals	114,536	114,455	114,536	114,455
Other legal entities	2,315	2,300	2,315	2,300
Legal entities financed from municipalities' and state budget	688	683	688	683
	<b>117,539</b>	<b>117,438</b>	<b>117,539</b>	<b>117,438</b>

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

	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
Individuals	7,475	8,123	7,475	8,123
Other legal entities	962	1,202	962	1,202
Legal entities financed from municipalities' and state budget	1,426	792	1,426	792
	<b>9,863</b>	<b>10,117</b>	<b>9,863</b>	<b>10,117</b>

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 6).

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

	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
AA-	5,626	2,202	5,394	2,110
A+	6,975	3,510	6,975	3,510
A	5	98	5	98
Bank with no rating attributed	76	65	76	65
	<b>12,682</b>	<b>5,875</b>	<b>12,450</b>	<b>5,783</b>

\*- 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 13.

With respect to 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. As of 31 March 2017 and 31 December 2016 the Group had valid interest rate swap agreement in order to manage variable rate risk, described in Note 13.

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.

	<u>Increase/decrease in basis points</u>	<u>Effect on income tax</u>
<b>2017</b>		
EUR	50	(8)
EUR	(50)	8
<b>2016</b>		
EUR	50	(8)
EUR	(50)	8

#### 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 March 2017 were 1.97 and 1.94, respectively (1.18 and 1.14 as of 31 December 2016). The Company's liquidity and quick ratios As of 31 March 2017 were 2.60 and 2.56, respectively (1.48 and 1.44 as of 31 December 2016). As of 31 March 2017 Groups' and Company's net working capital was plus respectively (EUR 12,059 thousand and EUR 14,799 thousand) (as at 31 December 2016 it was also plus – EUR 2,749 thousand and EUR 5,857 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.

Unsecured bank overdraft and bank loan facilities:

	<b>Group</b>		<b>Company</b>	
	<u>As of 31 March 2017</u>	<u>As of 31 December 2016</u>	<u>As of 31 March 2017</u>	<u>As of 31 December 2016</u>
Amount used	-	-	-	-
Amount unused	2,896	2,896	2,896	2,896
	<b>2,896</b>	<b>2,896</b>	<b>2,896</b>	<b>2,896</b>

The table below summarises the maturity profile of the Group's financial liabilities As of 31 March 2017 and as of 31 December 2016 based on contractual undiscounted payments (scheduled payments including interest):

	<u>Less than 3 months</u>	<u>Less than 1 year</u>	<u>2 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Interest bearing loans and borrowings	998	4,812	11,337	12,069	29,216
Trade payables	5,040	14	18	-	5,072
<b>Balance as of 31 March 2017</b>	<b>6,038</b>	<b>4,826</b>	<b>11,355</b>	<b>12,069</b>	<b>34,288</b>
	<u>Less than 3 months</u>	<u>Less than 1 year</u>	<u>2 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Interest bearing loans and borrowings	431	5,718	11,274	12,069	29,492
Trade payables	7,136	58	18	-	7,212
<b>Balance as of 31 December 2016</b>	<b>7,567</b>	<b>5,776</b>	<b>11,292</b>	<b>12,069</b>	<b>36,704</b>



The table below summarises the maturity profile of the Company's financial liabilities As of 31 March 2017 and as of 31 December 2016 based on contractual undiscounted payments (scheduled payments including interest):

	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	715	1,976	11,337	12,069	26,097
Trade payables	5,146	14	18	-	5,178
<b>Balance as of 31 March 2017</b>	<b>5,861</b>	<b>1,990</b>	<b>11,355</b>	<b>12,069</b>	<b>31,275</b>

	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years	Total
Interest bearing loans and borrowings	135	2,566	11,274	12,069	26,044
Trade payables	7,248	58	18	-	7,324
<b>Balance as of 31 December 2016</b>	<b>7,383</b>	<b>2,624</b>	<b>11,292</b>	<b>12,069</b>	<b>33,368</b>

#### Trade payables

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

	Group		Company	
	As of 31 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
For heat purchased	2,934	4,375	2,934	4,375
Contractors	343	649	343	649
Other suppliers	1,795	2,188	1,901	2,300
	<b>5,072</b>	<b>7,212</b>	<b>5,178</b>	<b>7,324</b>

30 day settlement period is set with independent heat producers for purchased heat energy, 90–180 day settlement period – with contractors, 5–30 day settlement period – with other suppliers.

As of 31 March 2017 the Group and the Company had an EUR 17 thousand (31 December 2016 – EUR 55 thousand) of overdue trade creditors.

#### 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 assets and liabilities

The Group and the Company's principal financial assets and liabilities 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 price at which the financial assets or liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction at the measurement date. 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 assets and liabilities:

- 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 non-current borrowings and trade accounts receivable 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		
	As of 31 March 2017	As of 31 December 2016	As of 31 December 2015	As of 31 March 2017	As of 31 December 2016	As of 31 December 2015
Financial assets:						
Cash and bank balances	12,989	6,285	2,531	12,757	6,193	2,518
Loans and receivables	10,735	11,118	9,835	10,713	11,101	9,822
Financial assets, carried at fair value through profit or loss (level 3 in the fair value hierarchy)	1	1	1	1	1	1
	<b>23,725</b>	<b>17,404</b>	<b>12,367</b>	<b>23,471</b>	<b>17,295</b>	<b>12,341</b>
Financial liabilities:						
Carried at amortised cost	30,307	33,216	29,883	27,270	29,891	29,882
	<b>30,307</b>	<b>33,216</b>	<b>29,883</b>	<b>27,270</b>	<b>29,891</b>	<b>29,882</b>

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, and return capital to shareholders. No changes were made in the objectives, policies or processes of capital management As of 31 March 2017 and 31 December 2016.

The Group and the Company is obliged to upkeep its equity of not less than 50 percent 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 March 2017	As of 31 December 2016	As of 31 March 2017	As of 31 December 2016
Non-current liabilities (including deferred tax and grants (deferred income))	42,243	42,423	41,179	41,319
Current liabilities	12,373	15,631	9,277	12,237
Liabilities	<b>54,616</b>	<b>58,054</b>	<b>50,456</b>	<b>53,556</b>
Equity	<b>94,777</b>	<b>87,019</b>	<b>95,108</b>	<b>87,515</b>
Debt* to equity ratio ( percent)	<b>57.63</b>	<b>66.71</b>	<b>53.05</b>	<b>61.20</b>

\* 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.

## 22. Commitments and contingencies

#### 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 March 2017 amounted to EUR 20,224 thousand.

## 23. 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 2017 and 2016 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. The Kaunas City Municipality related party list can be found here: <http://senas.kaunas.lt/index.php?299473330>.

In 2017 and 2016 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:

<b>2017</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	264	2,441	1,128	183
Jurbarkas city municipality	-	198	126	-
<b>2016</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	972	5,241	777	181
Jurbarkas city municipality	1	314	22	1

The Group's and the Company's As of 31 March 2017 allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 302 thousand (as of 31 December 2016 – EUR 241 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

As at 31 March 2017 and 31 December 2016 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

<b>UAB Petrašiūnų Katilinė</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
<b>2017</b>	920	1	-	245
<b>2016</b>	717	3	4	384

<b>UAB Kauno Energija NT</b>	<b>Purchases</b>	<b>Sales</b>	<b>Receivables</b>	<b>Payables</b>
<b>2017</b>	1	5	104	-
<b>2016</b>	5	13	111	-

As at 31 December 2016 the Company has formed a value decrease in amount of EUR 104 thousand (as at 31 December 2016 in amount of EUR 111 thousand) for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 31 March 2017 the Group's and the Company's management team comprised 7 and 4 persons respectively (as at 31 December 2016 – 7 and 4).

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Key management remuneration	38	150	32	119
Calculated post-employment benefits	11	11	11	11

In the year 2017 and 2016 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.

**24. Business Combinations**

As described in Note 1, in October 2016 the Company has acquired 100 percent UAB Petrašiūnų Katilinė shares for EUR 1,894 thousand. The Company's management has assessed the fair value of acquired assets, liabilities and contingent liabilities and accounted for this acquisition, based on the purchase price allocation.

The Company's management performed internal valuation to determine the fair value of the long term assets acquired by comparing production costs of similar boilers. The Company's management identified bio fuel boilers with similar technical characteristics and evaluation of the model was based on recent market transactions data. The Company's management estimated that purchased the 1 MW boiler price equals the market with similar characteristics 1 MW boilers installation costs.

As UAB Petrašiūnų Katilinė was purchased in 27 October 2016, financial reporting purposes, the acquisition date is 30 September 2016.

The acquired assets and liabilities

Fair and carrying value of the acquired assets and liabilities at the acquisition date (the Group became the controlling unit) were as follows (100 percent):

	<b>Fair value</b>	<b>Carrying value</b>
Property, plant and equipment	6,494	4,909
Inventories and prepayments	19	19
Current accounts receivable	6	6
Cash	188	188
	<b>6,707</b>	<b>5,122</b>
Borrowings	3,419	3,419
Trade payables	19	19
Other non current liabilities	1,334	1,334
Other current liabilities	41	41
	<b>4,813</b>	<b>4,813</b>
<b>The fair value of the identifiable net assets</b>	<b>1,894</b>	<b>309</b>
Attributable to shareholders of the Company	1,894	309

The difference between the price paid and the acquired assets, liabilities and contingent liabilities to fair value at the acquisition date were as follows:

The real assets acquired and liabilities and contingent liabilities is	1,894
The purchase price	1,894
Cash	(188)
<b>The purchase price, net of cash acquired</b>	<b>1,706</b>

UAB Petrašiūnų Katilinė supplied all goods and services to the Company in 2017 and 2016. In 2017 Expenditures of UAB Petrašiūnų Katilinė decreased the expenditures of the Group by EUR 170 thousand (expenditures of fuel and energy purchased decreased by EUR 492 thousand, and expenditures of depreciation and all other expenditures increased by EUR 322 thousand), in 2016 – EUR 46 thousand (expenditures of fuel and energy purchased decreased by EUR 307 thousand, and expenditures of depreciation and all other expenditures increased by EUR 261 thousand) respectively.

## **25. Post balance sheet events**

There was not been after balance events.

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