



AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS
FOR THE I QUARTER 2018,
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 24 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 I quarter 2018, 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

		Group		Company	
	Notes	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
ASSETS					
Non-current assets					
Intangible assets	3	998	56	875	56
Property, plant and equipment	4				
Land and buildings		8,729	8,857	7,221	7,307
Structures		89,448	89,857	88,819	89,213
Machinery and equipment		23,677	24,594	20,446	21,233
Vehicles		599	648	576	620
Devices and tools		3,111	3,223	3,105	3,216
Construction in progress and prepayments		3,130	2,487	3,130	2,487
Investment property		285	282	-	-
Total property, plant and equipment		128,979	129,948	123,297	124,076
Non-current financial assets					
Investments into subsidiaries	1;5	-	-	1,908	1,908
Loans to the subsidiaries	5	-	-	60	60
Other financial assets		1	1	1	1
Total non-current financial assets		1	1	1,969	1,969
Total non-current assets		129,978	130,005	126,141	126,101
Current assets					
Inventories and prepayments					
Inventories	6	1,539	1,429	1,509	1,342
Prepayments		358	450	301	406
Total inventories and prepayments		1,897	1,879	1,810	1,748
Current accounts receivable					
Trade receivables	22;24	12,736	9,993	12,736	9,993
Other receivables	24	885	671	858	649
Total accounts receivable		13,621	10,664	13,594	10,642
Cash and cash equivalents	8;22	14,031	6,610	13,914	6,511
Total current assets		29,549	19,153	29,318	18,901
Total assets		159,527	149,158	155,459	145,002




(cont'd on the next page)

Statements of Financial Position (cont'd)

		Group		Company	
	Notes	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
EQUITY AND LIABILITIES					
Equity					
Share capital	1	74,476	74,476	74,476	74,476
Legal reserve	9	3,267	3,267	3,267	3,267
Other reserve	9	100	100	100	100
Retained earnings (deficit)					
Profit for the current year	1	8,579	6,861	8,386	6,046
Profit (loss) for the prior year	1	11,500	4,639	11,181	5,135
Total retained earnings (deficit)		20,079	11,500	19,567	11,181
Total equity		97,922	89,343	97,410	89,024
Liabilities					
Non-current liabilities					
Non-current borrowings	10;22	20,598	18,676	20,598	18,676
Lease obligations	11;22	1,132	185	1,007	185
Deferred tax liability	20	4,869	4,869	5,104	5,104
Grants (deferred income)	12	19,217	19,509	18,126	18,377
Employee benefit liability	13;24	931	864	926	859
Non-current trade liabilities	22	10	10	10	10
Total non-current liabilities		46,757	44,113	45,771	43,211
Current liabilities					
Current portion of non-current borrowings and financial lease	10;11;22	5,383	6,144	2,829	3,308
Current borrowings	10;22	-	-	-	-
Trade payables	22	7,407	7,183	7,485	7,154
Payroll-related liabilities		1,013	800	982	785
Advances received		334	475	334	475
Taxes payable		130	375	99	353
Derivative financial instruments	14.22	15	16	-	-
Current portion of employee benefit liability	13	247	406	247	406
Other current liabilities		319	303	302	286
Total current liabilities		14,848	15,702	12,278	12,767
Total liabilities		61,605	59,815	58,049	55,978
Total equity and liabilities		159,527	149,158	155,459	145,002

(the end)


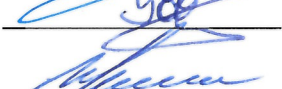

The accompanying notes are an integral part of these financial statements.

General Manager	Rimantas Bakas		25 April 2018
Head of Finance Department	Gintautas Muznikas		25 April 2018
Chief Accountant	Violeta Staškūnienė		25 April 2018

Statements of Profit (loss) and other comprehensive income

Group	Notes	2018 I quarter	2018	2017 I quarter	2017
Operating revenue					
Sales income	15	32,662	32,662	27,235	59,680
Other operating income	17	382	382	749	1,150
Total income		33,044	33,044	27,984	60,830
Expenses					
Fuel and heat acquired		(17,985)	(17,985)	(14,300)	(31,271)
Salaries and social security		(1,692)	(1,692)	(1,663)	(7,734)
Depreciation and amortization	3;4	(1,768)	(1,768)	(1,811)	(7,363)
Repairs and maintenance		(153)	(153)	(117)	(920)
Write-offs and change in allowance for accounts receivable	7	(550)	(550)	(71)	833
Taxes other than income tax		(416)	(416)	(379)	(1,539)
Electricity		(423)	(423)	(406)	(1,195)
Raw materials and consumables		(138)	(138)	(169)	(639)
Water		(283)	(283)	(235)	(1,003)
Change in write-down to net realizable value of inventories and non-current assets	6	3	3	(201)	906
Other expenses	16	(700)	(700)	(704)	(2,725)
Other activities expenses	17	(81)	(81)	(86)	(368)
Total expenses		(24,186)	(24,186)	(20,142)	(53,018)
Operating profit (losses)		8,858	8,858	7,842	7,812
Other interest and similar income	18	50	50	63	267
Financial assets and short-term investments impairment	19	-	-	-	-
Interest and other similar expenses	19	(144)	(144)	(147)	(563)
Finance cost, net		(94)	(94)	(84)	(296)
Profit before income tax		8,764	8,764	7,758	7,516
Income tax	20	-	-	-	(30)
Deferred tax income (losses)	20	-	-	-	(600)
Profit for the year		8,764	8,764	7,758	6,886
Employee benefit liability (accumulation)	13	(185)	(185)	-	(25)
Comprehensive income		8,579	8,579	7,758	6,861
Profit for the year attributable to owners of the Company		8,764	8,764	7,758	6,886
Total comprehensive income attributable to owners of the Company		8,579	8,579	7,758	6,861
Basic and diluted earnings per share (EUR)	21	0.20	0.20	0.18	0.16

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


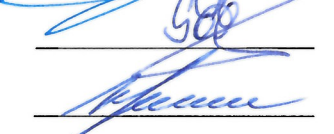
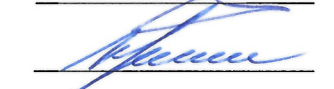
General Manager	Rimantas Bakas		25 April 2018
Head of Finance Department	Gintautas Muznikas		25 April 2018
Chief Accountant	Violeta Staškūnienė		25 April 2018

Statements of Profit (loss) and other comprehensive income

Company	Notes	2018 I quarter	2018	2017 I quarter	2017
Operating revenue					
Sales income	15	32,670	32,670	27,241	59,692
Other operating income	17	349	349	716	1,022
Total income		33,019	33,019	27,957	60,714
Expenses					
Fuel and heat acquired		(18,468)	(18,468)	(14,792)	(32,087)
Salaries and social security		(1,653)	(1,653)	(1,625)	(7,591)
Depreciation and amortization	3;4	(1,621)	(1,621)	(1,615)	(6,754)
Repairs and maintenance		(151)	(151)	(110)	(863)
Write-offs and change in allowance for accounts receivable	7	(544)	(544)	(64)	859
Taxes other than income tax		(409)	(409)	(373)	(1,513)
Electricity		(367)	(367)	(356)	(1,050)
Raw materials and consumables		(135)	(135)	(165)	(630)
Water		(283)	(283)	(235)	(1,001)
Change in write-down to net realizable value of inventories and non-current assets	6	3	3	(201)	906
Other expenses	16	(685)	(685)	(689)	(2,663)
Other activities expenses	17	(52)	(52)	(59)	(259)
Total expenses		(24,365)	(24,365)	(20,284)	(52,646)
Operating profit (losses)		8,654	8,654	7,673	8,068
Other interest and similar income	18	49	49	53	248
Financial assets and short-term investments impairment	19	-	-	-	(1,060)
Interest and other similar expenses	19	(132)	(132)	(133)	(511)
Finance cost, net		(83)	(83)	(80)	(1,323)
Profit before income tax		8,571	8,571	7,593	6,745
Income tax	20	-	-	-	(33)
Deferred tax income (losses)	20	-	-	-	(643)
Profit for the year		8,571	8,571	7,593	6,069
Employee benefit liability (accumulation)	13	(185)	(185)	-	(23)
Comprehensive income		8,386	8,386	7,593	6,046
Profit for the year attributable to owners of the Company		8,571	8,571	7,593	6,069
Total comprehensive income attributable to owners of the Company		8,386	8,386	7,593	6,046
Basic and diluted earnings per share (EUR)	21	0.20	0.20	0.18	0.14

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

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




	25 April 2018
	25 April 2018
	25 April 2018

Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2016		74,476	2,922	2,977	6,644	87,019
Total comprehensive income		-	-	-	7,758	7,758
Balance as of 31 March 2017		74,476	2,922	2,977	14,402	94,777
Transferred to reserves	9	-	345	100	(445)	-
Transferred from reserves	9	-	-	(2,977)	2,977	-
Dividends	1	-	-	-	(4,537)	(4,537)
Total comprehensive income		-	-	-	(897)	(897)
Balance as of 31 December 2017		74,476	3,267	100	11,500	89,343
Total comprehensive income		-	-	-	8,579	8,579
Balance as of 31 March 2018		74,476	3,267	100	20,079	97,922

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2016		74,476	2,922	2,977	7,140	87,515
Total comprehensive income		-	-	-	7,593	7,593
Balance as of 31 March 2017		74,476	2,922	2,977	14,733	95,108
Transferred to reserves	9	-	345	100	(445)	-
Transferred from reserves	9	-	-	(2,977)	2,977	-
Dividends	1	-	-	-	(4,537)	(4,537)
Total comprehensive income		-	-	-	(1,547)	(1,547)
Balance as of 31 December 2017		74,476	3,267	100	11,181	89,024
Total comprehensive income		-	-	-	8,386	8,386
Balance as of 31 March 2018		74,476	3,267	100	19,567	97,410

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

General Manager	Rimantas Bakas		25 April 2018
Head of Finance Department	Gintautas Muznikas		25 April 2018
Chief Accountant	Violeta Staškūnienė		25 April 2018

Statements of Cash Flows




	Group		Company	
	2018 I quarter	2017 I quarter	2018 I quarter	2017 I quarter
Cash flows from (to) operating activities				
Comprehensive income	8,579	7,758	8,386	7,593
Adjustments for non-cash items:				
Depreciation and amortization	2,193	2,212	2,001	1,969
Write-offs and change in allowance for accounts receivable	551	73	545	66
Interest expenses	144	147	132	133
Change in fair value of derivatives	(1)	(10)	-	-
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	-	(2)	-	(2)
(Amortization) of grants (deferred income)	(334)	(305)	(293)	(265)
Change in write-down to net realizable value of inventories and non-current assets	(3)	201	(3)	201
Change employee benefit liability	185	-	185	-
Changes in the value of the lease	1	-	-	-
Income tax expenses	-	-	-	-
Change in accruals	9	10	-	8
Impairment of investment in subsidiary	-	-	-	-
Elimination of other financial and investing activity results	(49)	(53)	(49)	(53)
Total adjustments for non-cash items:	2,696	2,273	2,518	2,057
Changes in working capital:				
(Increase) decrease in inventories	(107)	(86)	(164)	(117)
(Increase) decrease in prepayments	92	154	105	110
(Increase) decrease in trade receivables	(3,308)	144	(3,304)	149
(Increase) decrease in other receivables	(287)	175	(280)	182
(Decrease) increase in other non-current liabilities	-	-	-	-
(Decrease) increase in current trade payables and advances received	83	(2,383)	190	(2,389)
(Decrease) increase in payroll-related liabilities	(64)	205	(80)	193
Increase (decrease) in other liabilities to budget	(245)	(310)	(254)	(286)
Increase (decrease) in other current liabilities	1	54	9	54
Total changes in working capital:	(3,835)	(2,047)	(3,778)	(2,104)
Net cash flows from operating activities	7,440	7,984	7,126	7,546

(cont'd on the next page)

	Group		Company	
	2018 I quarter	2017 I quarter	2018 I quarter	2017 I quarter
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(1,199)	(477)	(1,199)	(477)
Proceeds from sale of tangible assets	1	2	1	2
Interest received for overdue accounts receivable	49	53	49	53
Acquisition of subsidiaries	-	-	-	-
Decrease of non-current accounts receivable	-	-	-	-
Loans granted	-	-	-	-
Net cash (used in) investing activities	(1,149)	(422)	(1,149)	(422)
Cash flows from (to) financing activities				
Proceeds from loans	2,245	187	2,245	187
(Repayment) of loans	(1,078)	(949)	(794)	(665)
Interest (paid)	(134)	(137)	(122)	(123)
Lease (payments)	(32)	(10)	(32)	(10)
Penalties and fines (paid)	-	-	-	-
Dividends (paid)	-	-	-	-
Received grants	129	51	129	51
Net cash flows from (used in) financing activities	1,130	(858)	1,426	(560)
Net (decrease) increase in cash and cash equivalents	7,421	6,704	7,403	6,564
Cash and cash equivalents at the beginning of the period	6,610	6,285	6,511	6,193
Cash and cash equivalents at the end of the period	14,031	12,989	13,914	12,757

(the end)

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

General Manager	Rimantas Bakas		25 April 2018
Head of Finance Department	Gintautas Muznikas		25 April 2018
Chief Accountant	Violeta Staškūnienė		25 April 2018

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.

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 2018 and of 31 December 2017 the shareholders of the Company were as follows:

	As of 31 March 2018		As of 31 December 2017	
	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 2018 and as of 31 December 2017.

On 28 April 2017 the Annual General Meeting of Shareholders has made a decision to pay EUR 4,537 thousand, i.e. at 10.6 cents a share in dividends from the profit of the year 2016.

As of 31 March 2018 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	1,330	(6)	1,081	Rent
UAB Petrašiūnų Katilinė	R. Kalantos g. 49, Kaunas	100 percent	1,894	244	580	Heat production

Legal Regulations

According to the Heating Law of the Republic of Lithuania, the Company's activities are licensed and regulated by the State Price Regulation Commission of Energy Resources (hereinafter the Commission). On 26 February 2004 the Commission granted the Company the heat distribution license. The license has indefinite maturity, but is subject to meeting certain requirements and may be revoked based on the respective decision of the Commission. The Commission also sets price cap for the heat supply. On the 14 December 2012 the Commission determined by its decision No. 03-413 a new basic heat rates force components for the period from 1 January 2013 till 31 December 2016. As at 31 March 2018 basic heat rate for the period is not approved by the Commission.

In 2018 the average number of employees at the Group was 499 (522 employees in 2017). In 2018 the average number of employees at the Company was 487 (509 employees in 2017).

1. General information (cont'd)

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 607 MW (including 41 MW of condensational economizers) and total power generation capacities of the whole Group consist of approx 616 MW (including 41 MW of condensational economizers). Total installed heat generation capacities of Company amount to 588 MW (including 41 MW of condensing economizers). Electricity generation capacities amount up to 8.75 MW. 314.6 MW of heat generation capacities (including 17.8 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. 597 MW (including 41 MW of condensing economizers).

The Company accomplished the last (of three) investment litigation with UAB 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 2017 (EUR 1.8 million during 2016), which is disclosed in Note 17, the rest EUR 0.24 million is subject paid by KTE on 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.

The Company makes investments estimating economic situation, competition and financing possibilities. Investment plans are approved by shareholders, and regulated and controlled by Commission. The Company invested EUR 1,027 thousand in own assets in 2018, and EUR 12,390 thousand in 2017.

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.

The amounts shown in these financial statements are measured and presented in the local currency of the Republic of Lithuania, Euro (EUR) (rounded to the nearest thousands, except when otherwise indicated), which is a functional and presentation currency of the Group.

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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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.

2. Accounting principles (cont'd)

2.4. Principles of consolidation (cont'd)

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 IFRS 9 Financial Instruments 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 Statement of profit (loss) and Other Comprehensive Income.

The indicators of impairment in IFRS 9 are applied to determine whether it is necessary to recognize 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 recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized 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. Calculation of amortization is discontinued as of the first day of the next month after the disposal of asset or when the whole acquisition cost is expensed or reclassified as a part of other asset. 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 capitalized and then amortized over useful life (3 – 4 years).

Software

The costs of acquisition of new software are capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortized 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 recognized as an expense for the period when the restoration or maintenance work is carried out.

2. Accounting principles (cont'd)

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 recognized 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 recognized 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:

	Years
Buildings	15 – 50
Investment property	50 – 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 leases are depreciated over their expected useful lives on the same basis as owned assets.

2. Accounting principles (cont'd)

2.8. Property, plant and equipment (cont'd)

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 Statements 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 (hereafter – FVTPL), held-to-maturity financial assets, loans and receivables or available-for-sale assets, as appropriate. All purchases and sales of financial assets are recognized on the trade date. When financial assets are recognized 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.

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

The Company initially recognizes loans and receivables on the date when they are originated. All other financial assets are initially recognized on the trade date.

Effective interest rate method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 *Financial Instruments* 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.

Held-to-maturity financial assets

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. The effective interest rate is determined as the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

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.

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

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.

The Group and the Company 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.

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 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 reorganization; 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 derecognized 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.

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

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 recognized to the extent of the Company's continuing involvement in the asset.

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 recognized 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. Accounting principles (cont'd)

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 capitalization.

All other borrowing costs are recognized 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 amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized 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 derecognizes financial liabilities when, and only when, the Group's and the Company's obligations are discharged, cancelled or they expire.

2. Accounting principles (cont'd)

2.17. Lease

The Group and the Company is a lessee

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Interest rate implicit in the lease is the rate of interest that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The carrying amount of the lease liability is measured on an amortised cost basis using effective interest rate method being the discount rate used to discount the lease payments. Interest expense related to lease liability is allocated over the lease term and recognised in profit or loss.

At initial recognition right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and restoration costs estimate.

Subsequently a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise tools and small items of office furniture.

2.19. Grants (deferred income)

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group and the Company recognizes 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 recognized as deferred revenue in the Statements 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 amortization.

2. Accounting principles (cont'd)

2.19. Grants (deferred income) (cont'd)

Assets received free of charge are initially recognized 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 recognized 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 unutilized 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 2018 the income tax applied to the Group and the Company was 15 percent (2017 - 15 percent).

Deferred tax

Deferred tax is recognized 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 recognized 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 Statements 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 realized, 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.

2. Accounting principles (cont'd)

2.20. Income tax (cont'd)

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized 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 recognized 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 recognized net of VAT and discounts.

Revenue from sales of heat energy is recognized 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 recognized 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 recognized upon receipt.

Dividend revenue from investments is recognized 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 recognized 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 leases is described in Note 2.18. above.

2. Accounting principles (cont'd)

2.23. Expense recognition

Expenses are recognized 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.

Exchange differences are recognized 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 recognized 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 (3, 4 notes).

2. Accounting principles (cont'd)

2.25. Use of estimates in the preparation of financial statements (cont'd)

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 (Notes 3, 4).

Investments to subsidiaries – impairment losses

For assessment of recoverability of investment into subsidiaries the Company management estimates the recoverable amount of the investment by discounting the future cash flows of the subsidiaries to their present value using weighted average capital cost rate (WACC) that reflects current market assessment of the time value of money (Note 5).

Realizable value of inventory

Starting from 2011, the management of the Company forms a 100 percent adjustment to the net realizable value for inventory, (from 2017 except for technological fuels) bought more than one year ago (Note 6).

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 (Note 7).

Deferred Tax Asset

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies (Note 20).

Fair value of financial instruments

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.

A number of the Company's accounting policies and disclosures require determination of fair value, for both financial and non-financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models as appropriate.

Fair value hierarchy

The base for determination of fair values of financial assets and liabilities, traded in the active markets, are the market prices and prices determined by brokers. Fair value of all other financial instruments is determined using other valuation methods.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2. Accounting principles (cont'd)**2.25. Use of estimates in the preparation of financial statements (cont'd)**

If the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognized transfers between the fair value hierarchy from the end of the reporting period in which the change occurred. Below listed are financial assets and financial liabilities:

The tables below present the residual and fair value of financial assets and financial liabilities, including their levels according to the fair value hierarchy.

The Group and the Company's categories of financial instruments as of 31 March 2018:

Group	Carrying amount	Fair value hierarchy level			All in:
		Level 1	Level 2	Level 3	
Other financial assets	1	-	-	1	1
Trade receivables	12,736	-	-	12,736	12,736
Other receivables	885	-	-	-	-
Cash and cash equivalents	14,031	-	-	-	-
Non-current borrowings and financial lease obligations	(27,113)	-	-	(27,113)	(27,113)
Trade payables	(7,417)	-	-	-	-
Derivative financial instruments	(15)	-	(15)	-	(15)
Other current liabilities	(319)	-	-	-	-
		-	(15)	(14,376)	(14,391)

Company	Carrying amount	Fair value hierarchy level			All in:
		Level 1	Level 2	Level 3	
Other financial assets	1	-	-	1	1
Loans to entities of the entities group	60	-	-	-	-
Trade receivables	12,736	-	-	12,736	12,736
Other receivables	858	-	-	-	-
Cash and cash equivalents	13,914	-	-	-	-
Non-current borrowings and financial lease obligations	(24,434)	-	-	(24,434)	(24,434)
Trade payables	(7,495)	-	-	-	-
Other current liabilities	(302)	-	-	-	-
		-	-	(11,697)	(11,697)

The Group and the Company's categories of financial instruments as of 31 December 2017:

Group	Carrying amount	Fair value hierarchy level			All in:
		Level 1	Level 2	Level 3	
Other financial assets	1	-	-	1	1
Trade receivables	9,993	-	-	-	-
Other receivables	671	-	-	-	-
Cash and cash equivalents	6,610	-	-	-	-
Non-current borrowings and financial lease obligations	(25,005)	-	-	(25,005)	(25,005)
Trade payables	(7,193)	-	-	-	-
Derivative financial instruments	(16)	-	(16)	-	(16)
Other current liabilities	(303)	-	-	-	-
		-	(16)	(25,004)	(25,020)

2. Accounting principles (cont'd)

2.25. Use of estimates in the preparation of financial statements (cont'd)

Company	Carrying amount	Fair value hierarchy level			All in:
		Level 1	Level 2	Level 3	
Other financial assets	1	-	-	1	1
Loans to entities of the entities group	60	-	-	-	0
Trade receivables	9,993	-	-	-	-
Other receivables	649	-	-	-	-
Cash and cash equivalents	6,511	-	-	-	-
Non-current borrowings and financial lease obligations	(22,169)	-	-	(22,169)	(22,169)
Trade payables	(7,164)	-	-	-	-
Other current liabilities	(286)	-	-	-	-
		-	-	(22,168)	(22,168)

2.26. Contingencies

Contingent liabilities are not recognized 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 recognized 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 organized in one operating segment in Kaunas city, Kaunas district and Jurbarkas city, 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 2018 the book value of the intangible assets of the Group increased by EUR 953 thousand, the Company – respectively EUR 828 thousand.

As of 31 March 2018 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,304 thousand (as of 31 December 2017 – EUR 1,303 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 2018 amounts to EUR 1,841 thousand and EUR 1,691 thousand respectively (as of 31 December 2017 – EUR 7,751 thousand and EUR 7,101 thousand respectively). The amounts of EUR 1,786 thousand and EUR 1,682 thousand (as of 31 December 2017 – EUR 7,641 thousand and EUR 7,010 thousand respectively) the depreciation expenses were included into the expenses in statements of Profit (loss) and other comprehensive income, the remaining amounts EUR 55 thousand and EUR 9 thousand (as of 31 December 2017 – EUR 110 thousand and EUR 91 thousand) were included into other activity expenses in statements of Profit (loss) and other comprehensive income.

The management of the Group and the Company, having assessed the internal and external features, has estimated impairment decrease for the property, plant and equipment in amount of EUR 24 thousand during 2017.

As of 31 March 2018 part of the property, plant and equipment of the Group with acquisition cost of EUR 54,444 thousand (EUR 51,275 thousand as of 31 December 2017) and the Company – EUR 54,399 thousand were fully depreciated (EUR 51,230 thousand as of 31 December 2017), but were still in active use.

As of 31 March 2018 and as of 31 December 2017 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 2018 the sum of the Group and the Company contractual commitments for the acquisition of property, plant and equipment amounted to EUR 9,361 thousand (as of 31 December 2017 – EUR 8,070 thousand).

As of 31 March 2018 property, plant and equipment of the Group with the net book value of EUR 52,655 thousand (EUR 52,225 thousand as of 31 December 2017) and the Company of EUR 48,607 thousand (EUR 48,036 thousand as of 31 December 2017) was pledged to banks as a collateral for loans (Note 10).

The sum of Group's and Company's capitalized interest was equal to EUR 8 thousand in 2018 (in 2017 – EUR 31 thousand). The capitalization rate varied from 0.93 percent to 1.10 percent in 2018 (in 2017 – from 0.93 percent to 1.09 percent).

As of 31 March 2018 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 240 thousand in the category Equipment and tools (EUR 241 thousand as of 31 December 2017).

The Group and The Company use assets in their operations, acquired by leasing. The acquisition cost of this asset was EUR 358 thousand at March 31 2018 (EUR 358 thousand in 2017 respectively), and the net book value respectively EUR 280 thousand and EUR 308 thousand. Unpaid part of it is disclosed in Note 11. The management of the Group and the Company did not determine impairment decrease after evaluating the internal and external features.

5. Investments in subsidiaries and loans to the subsidiaries

Investment to subsidiaries	As of 31 March 2018			As of 31 December 2017		
	Acquisition costs	Impairment	Net book value	Acquisition costs	Impairment	Net book value
UAB Kauno Energija NT	1,330	(258)	1,072	1,330	(258)	1,072
UAB Petrašiūnų Katilinė	1,894	(1,058)	836	1,894	(1,058)	836
Total	3,224	(1,316)	1,908	3,224	(1,316)	1,908

• The management of the Company used valuation reports prepared by an independent appraiser UAB korporacija „Matininkai“ to determine recoverable amount of the investments in UAB Kauno Energija NT. Valuation date was 31 August 2017. The independent appraiser used asset-based approach (adjusted balance sheet method) to determine recoverable amount of investments. As a result of valuation, the Company recognized additional impairment loss amounting to EUR 2 thousand.

• Impairment test for investments in UAB Petrašiūnų Katilinė was performed according to IAS 36. The value of shares is determined on a basis of the cash flows generated according to projections made for 5 years with terminal value component. The calculation includes change of net working capital and net debt. Discounting of cash flows is based on the weighted average capital cost rate (WACC). The calculated weighted average capital cost rate is 8.0 %.

As a result of impairment tests performed as at 31 December 2017, the impairment allowance of EUR 1,058 thousand was recognized to UAB Petrašiūnų Katilinė.

Calculation of the recoverable amount is particularly sensitive to the WACC. The table below shows possible impairment of the investment in UAB Petrašiūnų Katilinė, if the actual income remains as currently forecasted and if the WACC rates, used for impairment test would 9 % or 10 %.

WACC base	Additional impairment losses
9 %	444
10 %	785

Loans to the subsidiaries

The Company granted the turnover loan in amount of EUR 60 thousand to the subsidiary UAB Petrašiūnų Katilinė. The loan bears 6-month EURIBOR plus 1.2 % interest rate. The maturity date of the loan is 31 December, 2019. The outstanding balance of the loan was accounted for as the loans to entities of the entities group in the Company's statements of financial position of the Company.

6. Inventories

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Technological fuel	1,187	1,182	1,158	1,096
Spare parts	550	466	550	466
Materials	451	433	450	432
	2,188	2,081	2,158	1,994
Less: write-down to netrealizable value of inventory at the end of the period	(649)	(652)	(649)	(652)
Carrying amount of inventories	1,539	1,429	1,509	1,342

As of 31 March 2018 Group's and Company's amounted to EUR 649 thousand (as of 31 December 2017 – EUR 652 thousand) write-down to net realizable value of inventories. Changes in the Write-down to net realizable value of inventories for the 2018 and for the year 2017 were included into change

in write-down to net realizable value of inventories caption in the Group's and the Company's statements of Profit (loss) and Other Comprehensive Income.

7. Current accounts receivable

Change in impairment of doubtful receivables in 2018 and 2017 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.

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Trade receivables, gross	23,193	20,005	23,208	20,024
Less: impairment of doubtful receivables	(10,457)	(10,012)	(10,472)	(10,031)
	12,736	9,993	12,736	9,993

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

	Group 11,255	Company 11,293
Balance as of 31 December 2016		
Additional allowance formed	(830)	(849)
Write-off	(413)	(413)
Balance as of 31 December 2017	10,012	10,031
Additional allowance formed	565	561
Write-off	(120)	(120)
Balance as of 31 March 2018	10,457	10,472

In 2018 the Group and the Company wrote off EUR 120 thousand and EUR 120 thousand of bad debts respectively (in 2017 – EUR 413 thousand and EUR 413 thousand). In 2018 the Group recovered EUR 1 thousand and the Company – EUR 1 thousand (in 2017 the Group and the Company – EUR 6 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 2018 and 31 December 2017 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	
2018	10,214	1,842	346	98	59	177	12,736
2017	8,381	760	150	144	138	420	9,993

The ageing analysis of the Company's net value of trade receivables As of 31 March 2018 and as of 31 December 2017 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	
2018	10,214	1,842	346	98	59	177	12,736
2017	8,381	760	150	144	138	420	9,993

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

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

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Taxes	-	-	-	-
Other receivables	1,174	974	1,204	1,011
Less: value impairment of doubtful receivables	(289)	(303)	(346)	(362)
	885	671	858	649

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

	Group	Company
Balance as of 31 December 2016	300	366
Additional allowance formed	3	(4)
Write-off	-	-
Balance as of 31 December 2017	303	362
Additional allowance formed	(14)	(16)
Write-off	-	-
Balance as of 31 March 2018	289	346

As of 31 March 2018 and 31 December 2017 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 2018 and as of 31 December 2017 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	
2018	677	17	161	15	7	8	885
2017	499	123	20	18	2	9	671

The ageing analysis of the Company's net value of other receivables (excluding taxes) As of 31 March 2018 and 31 December 2017 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	
2018	650	17	161	15	7	8	858
2017	477	123	20	18	2	9	649

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.

8. Cash and cash equivalents

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Cash in transit	666	428	666	428
Cash at bank	13,365	6,180	13,248	6,081
Cash on hand	-	2	-	2
	14,031	6,610	13,914	6,511

The Group's accounts in banks amounting to EUR 6,813 thousand as of 31 March 2018 (as of 31 December 2017 – EUR 4,815 thousand) and the Company's to EUR 6,721 thousand as of 31 March 2018 (as of 31 December 2017 – EUR 4,749 thousand) are pledged as collateral for the loans (Note 10).

8. ReservesLegal 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, 2017 the Company annulled other reserves (EUR 2,977 thousand) by the decision of shareholders, EUR 345 thousand transferred from retained earnings to legal reserve and EUR 100 thousand to other reserves. Reserve was formed for support – EUR 100 thousand.

9. Borrowings

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

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Non-current borrowings:	20,594	18,676	20,594	18,676
Payable in 2 to 5 years	11,775	10,207	11,775	10,207
Payable in more than 5 years	8,819	8,469	8,819	8,469
Current portion of non-current borrowings (except leasing which) is disclosed in Note 11)	5,277	6,028	2,725	3,192
	25,871	24,704	23,319	21,868

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

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Current borrowings	-	-	-	-
Non-current borrowings	2.18	2.25	2.29	2.39

According to loan agreement signed between Luminor Bank AB and the Group's subsidiary UAB Petrašiūnų Katilinė on 22 August 2012 m., the subsidiary has to comply with following covenants: equity capital ratio (including support granted by the Lithuanian Business Support Agency) at least 40 %, DSCR not less than 1.3, and total financial debt to EBITDA ratio should be not more than 3.5 in 2017 and not more than 3.0 in later years.

UAB Petrašiūnų Katilinė does not comply with financial ratios determined by the bank. As a result, the carrying amount of loan as at 31 March 2018 (EUR 2,552 thousand) and as at 31 December 2017 (EUR 2,836 thousand) is accounted under the current portion of non-current borrowings and financial lease

caption of the Group's Statements of Financial Position. The Company has provided a guarantee to the bank for this loan, as it is described in Note 23.

Group's detailed information on loans as of 31 March 2018:

	Credit institution	Date of contract	Effective interest rate	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 31.03.2018 EUR thousand	A part of 2018, EUR thousand
1	MF Lithuania*	09/04/2010	3.948	2,410	2,410	15/03/2034	1,497	-
2	MF Lithuania*	26/10/2010	3.948	807	807	15/03/2034	616	-
3	MF Lithuania*	02/09/2011	4.123	1,672	1,672	01/09/2034	1,478	87
4	Luminor**	22/08/2012	1.179	3,403	3,403	29/04/2022	2,552	2,552
5	AB SEB Bank	03/06/2013	1.42	2,760	799	30/06/2020	300	99
6	AB SEB Bank	03/06/2013	1.32	4,240	1,228	30/06/2020	456	154
7	AB SEB Bank	10/09/2013	1.78	5,200	1,506	30/09/2020	627	189
8	Luminor**	27/09/2013	1.92	1,300	377	30/09/2020	18	6
9	MF Lithuania*	15/01/2014	3.36	793	793	01/12/2034	707	42
10	AB SEB Bank	31/03/2014	1.73	5,400	1,564	15/01/2021	724	196
11	MF Lithuania*	31/03/2014	3.342	7,881	7,881	01/12/2034	7,030	414
12	AB SEB Bank	09/03/2015	1.63	579	579	28/02/2022	391	73
13	AB SEB Bank	09/03/2015	1.63	579	579	28/02/2022	243	72
14	OP Corporate***	02/12/2015	0.98	4,842	4,842	02/12/2022	3,285	518
15	AB SEB Bank	09/05/2016	0.94	459	459	30/04/2023	389	57
16	AB SEB Bank	09/05/2016	0.96	1,000	1,000	30/04/2021	617	150
17	AB SEB Bank	09/05/2016	0.94	579	579	30/04/2023	491	72
18	Luminor**	25/10/2016	1.12	1,894	1,894	29/09/2023	1,563	213
19	AB SEB Bank	22/12/2016	0.79	4,127	4,127	30/11/2024	2,887	383
20	AB SEB Bank	26/07/2017	-	697	697	30/07/2024	-	-
21	Danske Bank A/S	18/12/2017	-	2,340	2,340	18/12/2024	-	-
							25,871	5,277

* Ministry of Finance of the Republic of Lithuania,

**Luminor bank AB,

*** OP Corporate Bank Plc Lithuanian branch.

AB SEB Bankas has determined to the Company to be in compliance with the quarterly net financial debt / EBITDA ratio, which must not exceed 4.5. According to loan agreement between the Company and OP Corporate Bank Plc Lithuanian branch, the Company's own capital ratio (equity/total assets), shall not be lower than 35 %. The Company complied with financial covenants as at 31 March 2018 and 31 December 2017.

There are certain restrictions prescribed in the loan agreements. The Company cannot distribute dividends, issue or/and obtain new loans, provide charity, sell or rent pledged assets without banks written consent. The written consents were received from banks.

The immovable property (Note 4), bank accounts (Note 8) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

Company's detailed information on loans as of 31 March 2018:

	Credit institution	Date of contract	Effective interest rate	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 31.03.2018 EUR thousand	A part of 2018, EUR thousand
1	MF Lithuania*	09/04/2010	3.948	2,410	2,410	15/03/2034	1,497	-
2	MF Lithuania*	26/10/2010	3.948	807	807	15/03/2034	616	-
3	MF Lithuania*	02/09/2011	4.123	1,672	1,672	01/09/2034	1,478	87
4	AB SEB Bank	03/06/2013	1.42	2,760	799	30/06/2020	300	99
5	AB SEB Bank	03/06/2013	1.32	4,240	1,228	30/06/2020	456	154
6	AB SEB Bank	10/09/2013	1.78	5,200	1,506	30/09/2020	627	189
7	Luminor**	27/09/2013	1.92	1,300	377	30/09/2020	18	6
8	MF Lithuania*	15/01/2014	3.36	793	793	01/12/2034	707	42
9	AB SEB Bank	31/03/2014	1.73	5,400	1,564	15/01/2021	724	196
10	MF Lithuania*	31/03/2014	3.342	7,881	7,881	01/12/2034	7,030	414
11	AB SEB Bank	09/03/2015	1.63	579	579	28/02/2022	391	73
12	AB SEB Bank	09/03/2015	1.63	579	579	28/02/2022	243	72
13	OP Corporate***	02/12/2015	0.98	4,842	4,842	02/12/2022	3,285	518
14	AB SEB Bank	09/05/2016	0.94	459	459	30/04/2023	389	57
15	AB SEB Bank	09/05/2016	0.96	1,000	1,000	30/04/2021	617	150
16	AB SEB Bank	09/05/2016	0.94	579	579	30/04/2023	491	72
17	Luminor**	25/10/2016	1.12	1,894	1,894	29/09/2023	1,563	213
18	AB SEB Bank	22/12/2016	0.79	4,127	4,127	30/11/2024	2,887	383
19	AB SEB Bank	26/07/2017	-	697	697	30/07/2024	-	-
20	Danske Bank A/S	18/12/2017	-	2,340	2,340	18/12/2024	-	-
							23,319	2,725

* Ministry of Finance of the Republic of Lithuania, **Luminor bank AB, *** OP Corporate Bank Plc Lithuanian branch.

10. Lease obligations

Change in accounting policies

The Company and the Group has adopted IFRS 16 Leases retrospectively from 1 January 2018, as permitted under the specific transition provisions in the standard. Comparatives for the 2017 financial year have therefore not been restated.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 January 2018. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January was 3.35 %.

The associated rights-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statements of Financial Position sheet as at 31 December 2017. On 1 January 2018 the Group intangible assets increased by EUR 960 thousand, the Company – respectively EUR 835 thousand, the Group non-current liabilities increased by EUR 943 thousand, the Company – respectively EUR 818 thousand and the Group and the Company trade and other payables increased by EUR 17 thousand. The Group and the Company the net impact on retained earnings on 1 January 2018 was EUR 0 thousand.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

	Group EUR thousand, 2018	Company EUR thousand, 2018
Operating lease commitments disclosed as at 31 December 2017	2,143	1,877
Discounted operating lease commitments using, incremental borrowing rate of 3.35 %	960	835
Add: finance lease liabilities recognised as at 31 December 2017	297	297
(Less): short-term leases recognised on a straight-line basis as expense	-	-
(Less): low-value leases recognised on a straight-line basis as expense	-	-
(Less): contracts reassessed as service agreements	-	-
Add/(less): adjustments as a result of a different treatment of extension and termination options	-	-
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	-	-
Lease liability recognised as at 1 January 2018	1,257	1,132

The assets leased by the Group and the Company under lease contracts mainly consist of vehicles and land. The terms of vehicles lease are 3 – 4 years, land – 26 – 84 years. The finance lease agreement is in EUR. Future minimal lease payments were:

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Within one year	134	122	128	122
After one year	2,339	185	2,079	185
Total lease obligations	2,473	307	2,207	307
Interest	(1,239)	(10)	(1,100)	(10)
Present value of lease obligations	1,234	297	1,107	297
Lease obligations are accounted for as:				
- current	106	116	104	116
- non-current	1,128	181	1,003	181

11. Grants (deferred income)

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Balance at the beginning of the reporting period	19,509	17,469	18,377	16,176
Received during the period	42	3,284	42	3,284
Amortization	(334)	(1,244)	(293)	(1,083)
Balance at the end of the reporting period	19,217	19,509	18,126	18,377

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. The Company received the financial support in the amount of EUR 450 thousand by 31 March 2018. 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 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 2018.

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 889 thousand by 31 March 2018, including EUR 39 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 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 70 thousand by 31 March 2018.

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 888 thousand by 31 March 2018, including EUR 110 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 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 441 thousand by 31 March 2018.

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. The Company received the financial support in the amount of EUR 265 thousand by 31 March 2018, including EUR 1 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 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 457 thousand by 31 March 2018, including EUR 2 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 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 272 thousand by 31 March 2018, including EUR 5 thousand are accounted in Group's and Company's other receivables line.

On 22 August 2017 the Company together with partners applied for funding under Horizon 2020 (Horizon 2020), the EU's largest research and innovation program. The project code name FLEXCHX (Flexible Combined Production of Power, Heat and Transport Fuels from Renewable Energy Sources). The essence of the project is to ensure that biomass plants can operate full load all year round. The goal of the project is to

develop a flexible energy production process that could be used in future for various energy sources in Europe to achieve high efficiency at the lowest cost. The European Commission was asked EUR 4.5 million support. Project Coordinator is VTT – Finnish Applied Research Institute, partners: Enerstena UAB, Lithuanian Energy Institute, German Airspace Centre, Neste and technology companies from Germany, Finland and the United Kingdom.

On 28 February 2018 the Company and 9 other European companies and research institutions with the Innovation and Network Program Institution (INEA), which manages infrastructure and research programs in the EU transport, energy and telecommunications sectors, signed a financing agreement that will provide financial support to the Company for participation in an international research project “Flexible Combined Production of Power, Heat and Transport Fuels from Renewable Energy Sources” (FLEXCHX). The Company received the financial support in the amount of EUR 42 thousand by 31 March 2018.

13. 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	
	2018	2017	2018	2017
Employee benefit liability at the beginning of the year	1,270	1,331	1,265	1,328
Paid	(277)	(86)	(277)	(86)
Formed	185	25	185	23
Employee benefit liability at the end of the year	1,178	1,270	1,173	1,265
Non-current employee benefit liability	931	864	926	859
Current employee benefit liability	247	406	247	406

For calculation of the non-current employee benefits, the Group and the Company evaluated an impact of the mortality level in Lithuania, the discount rate, the retirement age, age and turnover of employees, growth of remuneration and inflation and other factors. Actuarial gain or loss related to the mentioned liabilities are presented under Employee benefit liability (accumulation) line in Statements of other comprehensive income as well as under Non-current employee benefit liability and current portion of employee benefit liability in the Statements of Financial Position.

During the 2018 total amount of the benefit paid to the employees by the Group amounted to EUR 277 thousand (in 2017 – EUR 86 thousand), and by the Company – EUR 277 thousand (in 2017 – EUR 86 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 2018	As of 31 December 2017
Discount rate	1.1205 percent	1.099 percent
Employee turnover rate	3.37 percent	3.37 percent
Expected average annual salary increases	1.5 percent	1.5 percent

14. Derivative financial instruments

On 16 December 2016, the Group has entered into interest rate SWAP agreement. According to the agreement, the Group pays to the bank a fixed interest rate (0.21 %), while the bank pays to the Group a variable interest rate of 6 months EURIBOR. The nominal amount of the transaction was EUR 2,552 thousand as at 31 March 2018. This derivative instrument is recognized at fair value calculated by the bank as at 31 March 2018 –

EUR 15 thousand (31 December 2017 – EUR 16 thousand). The accrued interest and change in the fair value at 2018 and 2017 are recognized in the Statement of Profit (loss) and Other Comprehensive Income under the financial activity account, as according to management's decision, financial instrument is not held for hedging.

15. 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	
	2018	2017	2018	2017
Heat supplies	31,520	56,084	31,528	56,096
Hot water supplies	975	2,981	975	2,981
Maintenance of hot water meters	100	355	100	355
Maintenance of manifolds	63	250	63	250
Maintenance of heat and hot water systems	4	10	4	10
Electric energy	-	-	-	-
	32,662	59,680	32,670	59,692

16. Other expenses

	Group		Company	
	2018	2017	2018	2017
Equipment verification and inspection	144	542	144	541
Other expenses	191	402	180	361
Maintenance of manifolds	98	396	98	396
Sponsorship	2	287	2	287
Cash collection expenses	49	180	49	180
Customer bills issue and delivery expenses	23	117	23	117
Transport expenses	22	116	21	116
Debts collection expenses	12	102	12	102
Long term assets maintenance and related services	24	95	24	95
Employees related expenses	29	83	29	83
Membership fee	16	81	16	81
Consulting expenses	24	72	24	72
Insurance	38	68	36	60
Communication expenses	14	54	13	53
Advertising expenses	12	54	12	54
Audit expenses	-	52	-	41
Rent of equipment and machinery	2	24	2	24
	700	2,725	685	2,663

17. Other activities income and expenses

The Group and the Company rents real estate, supplies, technical water, provide services of maintenance of heating equipment, transportation services. The compensation received from KTE is described in Note 1.

	Group		Company	
	2018	2017	2018	2017
Income from other operating activities				
Materials sold	-	408	-	408
Miscellaneous services	110	375	77	259
Damage compensation	242	241	242	241
Other	30	111	30	111
Gain from sale of non-current assets	-	15	-	3
	382	1,150	349	1,022
Expenses from other operating activities				
Cost of miscellaneous services	(75)	(258)	(46)	(149)
Other	(6)	(104)	(6)	(104)
Write off of non-current assets	-	(4)	-	(4)
Cost of materials sold	-	(2)	-	(2)
	(81)	(368)	(52)	(259)

18. Other interest and similar income

	Group		Company	
	2018	2017	2018	2017
Interest from late payment of accounts receivable	49	249	49	248
Change in fair value of derivative financial instruments	1	18	-	-
Other	-	-	-	-
	50	267	49	248

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

	Group		Company	
	2018	2017	2018	2017
Interest	(144)	(563)	(132)	(511)
Impairment of non-current financial assets	-	-	-	(1,060)
Change in fair value of derivative financial instruments	-	-	-	-
	(144)	(563)	(132)	(1,571)

20. Income tax

In 2018 and 2017 deferred income tax asset and liability were accounted for by applying 15 percent rate. All changes in deferred tax are reported in the Group's and the Company's the statement of Profit (loss) and other comprehensive income.

21. Basic and diluted earnings (loss) per share

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

	Group		Company	
	2018	2017	2018	2017
Net profit	8,764	6,886	8,571	6,069
Number of shares (thousand), opening balance	42,802	42,802	42,802	42,802
Number of shares (thousand), closing balance	42,802	42,802	42,802	42,802
Average number of shares (thousand)	42,802	42,802	42,802	42,802
Basic and diluted earnings per share (EUR)	0.20	0.16	0.20	0.14

22. 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.

Customers

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Private persons	114,878	114,843	114,878	114,843
Other legal entities	2,385	2,381	2,385	2,381
Legal entities financed from municipalities' and state budget	690	678	690	678
	117,953	117,902	117,953	117,902

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

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Private persons	9,259	7,950	9,259	7,950
Other legal entities	1,516	1,186	1,516	1,186
Legal entities financed from municipalities' and state budget	1,961	857	1,961	857
	12,736	9,993	12,736	9,993

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 7).

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

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
AA-	8,567	2,716	8,450	2,617
A+	4,711	3,350	4,711	3,350
A	32	60	32	60
Bank with no rating attributed	55	54	55	54
	13,365	6,180	13,248	6,081

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

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(1, 3, 6 and 12 month EURIBOR). Therefore the Group and the Company faces an interest rate risk. As of 31 March 2018 and as of 31 December 2017 the Group had valid

interest rate swap agreement to Luminor Bank AB credit EUR thousand 3,403 of 22 August 2012 in order to manage variable rate risk, described in Note 14.

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>
2018		
EUR	60	(9)
EUR	(60)	9
2017		
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 2018 were 1.99 and 1.89 respectively (1.22 and 1.13 as of 31 December 2017). The Company's liquidity and quick ratios as of 31 March 2018 were 2.39 and 2.26 respectively (1.48 and 1.38 as of 31 December 2017). As of 31 March 2018 Groups' and Company's net working capital was plus respectively (EUR 14,701 thousand and EUR 17,040 thousand) (as of 31 December 2017 it was also plus – EUR 3,454 thousand and EUR 6,137 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:

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Amount used	-	-	-	-
Amount unused	3,000	3,000	3,000	3,000
	3,000	3,000	3,000	3,000

The table below summarises the maturity profile of the Group's financial liabilities as of 31 March 2018 and as of 31 December 2017 based on contractual undiscounted payments (scheduled payments including interest):

Financial liabilities	Carrying amount	Contractual cash flows	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years
Borrowings and lease obligations	27,113	(32,158)	(1,189)	(4,691)	(13,690)	(12,588)
Trade payables	5,668	(5,668)	(5,643)	(15)	(10)	-
Payables to contractors	1,749	(1,749)	(1,749)	-	-	-
Derivative financial instruments	15	(15)	(15)	-	-	-
Balance as of 31 March 2018	34,545	(39,590)	(8,596)	(4,706)	(13,700)	(12,588)

Financial liabilities	Carrying amount	Contractual cash flows	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years
Borrowings and financial lease obligations	25,005	(28,836)	(3,774)	(2,901)	(11,892)	(10,269)
Trade payables	5,444	(5,444)	(5,375)	(59)	(10)	-
Payables to contractors	1,749	(1,749)	(1,749)	-	-	-
Derivative financial instruments	16	(16)	(16)	-	-	-
Balance as of 31 December 2017	32,214	(36,045)	(10,914)	(2,960)	(11,902)	(10,269)

The table below summarises the maturity profile of the Company's financial liabilities as of 31 March 2018 and as of 31 December 2017 based on contractual undiscounted payments (scheduled payments including interest):

Financial liabilities	Carrying amount	Contractual cash flows	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years
Borrowings and lease obligations	24,434	(29,270)	(898)	(2,355)	(13,670)	(12,347)
Trade payables	5,746	(5,746)	(5,721)	(15)	(10)	-
Payables to contractors	1,749	(1,749)	(1,749)	-	-	-
Balance as of 31 March 2018	31,929	(36,765)	(8,368)	(2,370)	(13,680)	(12,347)

Financial liabilities	Carrying amount	Contractual cash flows	Less than 3 months	Less than 1 year	2 to 5 years	More than 5 years
Borrowings and lease obligations	22,169	(25,992)	(930)	(2,901)	(11,892)	(10,269)
Trade payables	5,415	(5,415)	(5,346)	(59)	(10)	-
Payables to contractors	1,749	(1,749)	(1,749)	-	-	-
Balance as of 31 December 2017	29,333	(33,156)	(8,025)	(2,960)	(11,902)	(10,269)

Trade payables

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

	Group		Company	
	As of 31 March 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
For heat purchased	4,023	3,740	4,439	3,976
Contractors	157	1,749	157	1,749
Other suppliers	3,237	1,704	2,899	1,439
	7,417	7,193	7,495	7,164

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 2018 the Group and the Company had an EUR 55 thousand (as of 31 December 2017 – EUR 16 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.

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 2018 and as of 31 December 2017.

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 2018	As of 31 December 2017	As of 31 March 2018	As of 31 December 2017
Non-current liabilities (including deferred tax and grants (deferred income))	46,757	44,113	45,771	43,211
Current liabilities	14,848	15,702	12,278	12,767
Liabilities	61,605	59,815	58,049	55,978
Equity	97,922	89,343	97,410	89,024
Debt* to equity ratio (percent)	62.91	66.95	59.59	62.88

* 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.

23. Commitments and contingenciesLeasing and construction work purchase arrangements

Future liabilities of the Group and the Company under valid purchase arrangements as of 31 December 2017 amounted to EUR 17,803 thousand.

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.

On 29 January 2016 the Company let out a part of industrial assets to KTE as it is described in Note 1.

Guarantees

On November 28, 2016 the Company provided guarantee in amount of EUR 3,913 thousand to Luminor 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 Finland Plc regarding liabilities

of subsidiary UAB Petrašiūnų Katilinė to this bank according to transaction of derivative financial instruments, described in Note 14. Carrying amount of the loan amount to EUR 2,552 thousand.

24. 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 2018 and 2017 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://www.kaunas.lt/administracija/struktura-ir-kontaktai/pavaldzios-imones-ir-istaigos/>.

In 2018 and 2017 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:

2018	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	307	3,474	1,631	232
Jurbarkas city municipality	52	271	150	2
2017	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,144	4,755	960	239
Jurbarkas city municipality	1	391	120	-

The Group's and the Company's As of 31 March 2018 allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 331 thousand (as of 31 December 2017 – EUR 271 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

As at 31 March 2018 and as at 31 December 2017 the Company's transactions with the subsidiaries and the balances at the end of the year were as follows:

UAB Petrašiūnų Katilinė	Purchases	Sales	Receivables	Payables
2018	1,141	2	60	416
2017	1,813	2	60	236
UAB Kauno Energija NT	Purchases	Sales	Receivables	Payables
2018	1	7	80	-
2017	5	10	90	-

As at 31 December 2017 the Company has formed a value decrease in amount of EUR 80 thousand (as at 31 December 2017 in amount of EUR 90 thousand) for the receivables from subsidiaries.

Remuneration of the management and other payments

As at 31 March 2018 the Group's and the Company's management team comprised 5 and 2 persons respectively (as at 31 December 2017 – 7 and 4).

	Group		Company	
	2018	2017	2018	2017
Key management remuneration	52	195	41	161
Calculated post-employment benefits	6	21	5	20

In the year 2018 and 2017 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.

25. 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.

UAB Petrašiūnų Katilinė supplied all goods and services to the Company in 2018 and 2017. In I quarter 2018 Expenditures of UAB Petrašiūnų Katilinė decreased the expenditures of the Group by EUR 214 thousand (expenditures of fuel and energy purchased decreased by EUR 483 thousand, and expenditures of depreciation and all other expenditures increased by EUR 269 thousand), in I quarter 2017 – decreased by EUR 176 thousand (expenditures of fuel and energy purchased decreased by EUR 492 thousand, and expenditures of depreciation and all other expenditures increased by EUR 316 thousand) respectively.

26. Post balance sheet events

There were no events that would have a significant impact on the financial statements or require a disclosure occurred subsequent to the reporting date.
