AB KAUNO ENERGIJA

CONDENSED INTERIM SET OF CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE 12 MONTH PERIOD, ENDED 31 DECEMBER 2019, PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, AS ADOPTED BY THE EUROPEAN UNION

(UNAUDITED)

Management's Statement to the Shareholders of AB Kauno Energija and the Bank of Lithuania

Pursuant to Article 24 of the Law on Securities of the Republic of Lithuania and to Information Disclosure Rules approved by the decision of the Board of the Bank of Lithuania, we, the management of AB Kauno Energija - Vaidas Šleivys, the Director of Production and Interim Director General, Edmundas Damanskis, Chief Finance Officer, and Inga Šliačkuvienė, Chief Accountant, confirm that, to the best of our knowledge, the interim financial statements for the 12 month period of 2019 have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and give a true and fair view of the Company's assets and liabilities, its financial position, profit (loss) and cash flows.

Director of Production, and Interim Director General	Vaidas Šleivys
Chief Finance Officer	Edmundas Damanskis
Chief Accountant	Inga Šliačkuvienė

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed Interim Statements of Financial Position

		Group		Company	
	Notes	As of 31 December 2019	As of 31 December 2018	As of 31 December 2019	As of 31 December 2018
ASSETS					
Non-current assets					
Intangible assets		**72**	**22**	**71**	**22**
Property, plant and equipment	**6**				
Land and buildings		7,570	8,087	6,300	6,677
Structures		100,344	88,762	99,826	88,181
Machinery and equipment		19,992	21,053	17,675	18,214
Vehicles		399	460	387	448
Devices and tools		2,340	2,888	2,337	2,885
Construction in progress and prepayments		7,359	3,588	7,360	3,588
Investment property		419	439	166	172
Total property, plant and equipment		**138,423**	**125,277**	**134,051**	**120,165**
Right-of-use assets	**4**	**1,283**	**-**	**1,073**	**-**
Non-current financial assets					
Investments into subsidiaries		-	-	2,064	2,064
Loans to the group companies		-	-	-	-
Other financial assets		1	1	1	1
Total non-current financial assets		**1**	**1**	**2,065**	**2,065**
Total non-current assets		**139,779**	**125,300**	**137,260**	**122,252**
Current assets					
Inventories and prepayments					
Inventories	**7**	1,581	1,584	1,522	1,516
Prepayments		1,156	1,259	1,097	1,187
Total inventories and prepayments		**2,737**	**2,843**	**2,619**	**2,703**
Amounts receivable within one year		-	-	-	-
Trade receivables	**8**	8,150	10,188	8,150	10,188
Loans to the group companies	**17**	-	-	443	443
Other receivables	**8**	759	969	730	938
Total accounts receivable		**8,909**	**11,157**	**9,323**	**11,569**
Cash and cash equivalents	**11**	2,219	8,761	1,940	8,673
Assets held for sale		57	205	57	205
Total current assets		**13,922**	**22,966**	**13,939**	**23,150**
Total assets		**153,701**	**148,266**	**151,199**	**145,402**

(*continued on the next page*)

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed Interim Statements of Financial Position (continued)

	Notes	Group As of 31 December 2019	Group As of 31 December 2018	Company As of 31 December 2019	Company As of 31 December 2018
EQUITY AND LIABILITIES					
Equity					
Share capital	**1**	74,476	74,476	74,476	74,476
Legal reserve	**12**	7,447	6,435	7,447	6,435
Other reserve	**12**	2,900	100	2,900	100
Retained earnings (deficit)					
Profit for the current year		507	3,963	278	4,414
Profit (loss) for the prior year		4,074	4,993	4,206	4,674
Total retained earnings (deficit)		**4,581**	**8,956**	**4,484**	**9,088**
Total equity		**89,404**	**89,967**	**89,307**	**90,099**
Payable amounts and liabilities					
Amounts payable after one year and oter long-term liabilities					
Non-current financial liabilities	**9**	17,684	19,257	16,550	17,556
Financial lease obligations		1,262	81	1,050	81
Deferred tax liability		5,467	5,458	5,684	5,693
Grants and subsidies		25,522	18,235	24,713	17,265
Employee benefit liability		570	704	562	698
Non-current trade liabilities		42	2	41	2
Total non-current liabilities		**50,547**	**43,737**	**48,600**	**41,295**
Current liabilities					
Current portion of non-current borrowings and financial lease	**9**	4,744	4,483	4,175	3,916
Current borrowings		-	-	-	-
Trade payables		6,898	7,650	7,107	7,751
Employment-related liabilities		694	790	672	771
Advances received		551	877	551	877
Taxes payable		448	392	402	357
Derivative financial instruments	**10**	12	16	-	-
Current portion of employee benefit liability		149	155	148	154
Interest liabilities		-	-	-	-
Accruals and deferred income		148	137	131	120
Other current liabilities		106	62	106	62
Total current liabilities		**13,750**	**14,562**	**13,292**	**14,008**
Total liabilities		**64,297**	**58,299**	**61,892**	**55,303**
Total equity and liabilities		**153,701**	**148,266**	**151,199**	**145,402**

(*the end*)

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

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed Interim Statements of Profit (Loss) and Other Comprehensive Income

Group	Notes	2019 IV quarter	2019	2018 IV quarter	2018
Revenue					
Sales income	**13**	16,245	54,650	19,575	61,316
Other operating income		155	819	139	1,299
Total operating income		**16,400**	**55,469**	**19,714**	**62,615**
Expenses					
Fuel and heat acquired		(9,503)	(32,893)	(11,789)	(36,267)
Salaries and social security		(1,612)	(6,958)	(1,676)	(7,281)
Depreciation and amortization		(1,978)	(7,117)	(1,706)	(6,972)
Repairs and maintenance		(325)	(1,000)	(261)	(1,084)
Change in impairment of accounts receivable	**8**	319	641	285	785
Taxes other than income tax		(449)	(1,687)	(435)	(1,563)
Electricity		(362)	(1,274)	(359)	(1,145)
Raw materials and consumables		(143)	(545)	(165)	(568)
Water		(281)	(1,079)	(292)	(1,081)
Change in net realisable value and impairment of non-current assets	**7**	162	42	143	113
Other operating expenses	**14**	(647)	(2,279)	(619)	(2,289)
Other activities expenses		(83)	(352)	(93)	(380)
Total expenses		**(14,902)**	**(54,501)**	**(16,967)**	**(57,732)**
Operating profit (losses)		**1,498**	**968**	**2,747**	**4,883**
Other interest and similar income		44	214	53	237
Impairment financial assets and short-term investments		-	-	-	-
Interest and other similar expenses		(97)	(484)	(108)	(553)
Finance cost, net		**(53)**	**(270)**	**(55)**	**(316)**
Profit before income tax		**1,445**	**698**	**2,692**	**4,567**
Corporate income tax		-	-	19	19
Deferred tax income (losses)		(10)	(10)	(584)	(584)
Net profit (loss) of the reporting period		**1,435**	**688**	**2,127**	**4,002**
Employee benefit liability (accumulation), which will be reclassified subsequently to profit or loss when specific conditions are met		(62)	(181)	148	(39)
Comprehensive income		**1,373**	**507**	**2,275**	**3,963**
Net profit (loss) of the reporting period attributable to net owners of the Company		**1,435**	**688**	**2,127**	**4,002**
Total comprehensive income attributable to owners of the Company		**1,373**	**507**	**2,275**	**3,963**
Basic and diluted earnings per share (EUR)	**15**	**0.03**	**0.02**	**0.05**	**0.09**

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

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed Interim Statements of Profit (Loss) and Other Comprehensive Income

Company	Notes	2019 IV quarter	2019	2018 IV quarter	2018
Revenue					
Sales income	**13**	16,248	54,659	19,578	61,328
Other operating income		129	709	109	1,181
Total operating income		**16,377**	**55,368**	**19,687**	**62,509**
Expenses					
Fuel and heat acquired		(9,912)	(34,176)	(12,002)	(36,999)
Salaries and social security		(1,552)	(6,799)	(1,636)	(7,141)
Depreciation and amortization		(1,837)	(6,552)	(1,566)	(6,390)
Repairs and maintenance		(319)	(966)	(258)	(1,067)
Change in impairment of accounts receivable	**8**	323	645	372	807
Taxes other than income tax		(442)	(1,661)	(426)	(1,536)
Electricity		(304)	(1,115)	(331)	(1,017)
Raw materials and consumables		(139)	(533)	(162)	(559)
Water		(281)	(1,077)	(293)	(1,080)
Change in net realisable value and impairment of non-current assets	**7**	162	42	143	113
Other operating expenses	**14**	(630)	(2,227)	(608)	(2,243)
Other activities expenses		(63)	(270)	(64)	(265)
Total expenses		**(14,994)**	**(54,689)**	**(16,831)**	**(57,377)**
Operating profit (losses)		**1,383**	**679**	**2,856**	**5,132**
Other interest and similar income		41	214	58	239
Impairment financial assets and short-term investments		-	-	156	156
Interest and other similar expenses		(89)	(445)	(101)	(511)
Finance cost, net		**(48)**	**(231)**	**113**	**(116)**
Profit before income tax		**1,335**	**448**	**2,969**	**5,016**
Corporate income tax		-	-	19	19
Deferred tax income (losses)		9	9	(584)	(584)
Net profit (loss) of the reporting period		**1,344**	**457**	**2,404**	**4,451**
Employee benefit liability (accumulation), which will be reclassified subsequently to profit or loss when specific conditions are met		(61)	(179)	148	(37)
Comprehensive income		**1,283**	**278**	**2,552**	**4,414**
Net profit (loss) of the reporting period attributable to net owners of the Company		**1,344**	**457**	**2,404**	**4,451**
Total comprehensive income attributable to owners of the Company		**1,283**	**278**	**2,552**	**4,414**
Basic and diluted earnings per share (EUR)	**15**	**0.03**	**0.01**	**0.06**	**0.10**

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

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed Interim Statement of Changes in Equity

Group	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2017		**74,476**	**3,267**	**100**	**11,500**	**89,343**
Transferred to reserves		-	3,168	100	(3,268)	-
Transferred from reserves		-	-	(100)	100	-
Dividends		-	-	-	(3,339)	(3,339)
Net profit (loss) of the reporting period		-	-	-	1,875	1,875
Other comprehensive income		-	-	-	(187)	(187)
Balance as of 30 September 2018		**74,476**	**6,435**	**100**	**6,681**	**87,692**
Net profit (loss) of the reporting period		-	-	-	2,127	2,127
Other comprehensive income		-	-	-	148	148
Balance as of 31 December 2018		**74,476**	**6,435**	**100**	**8,956**	**89,967**
Transferred to reserves	**12**	-	1,012	2,900	(3,912)	-
Transferred from reserves	**12**	-	-	(100)	100	-
Dividends	**1**	-	-	-	(1,070)	(1,070)
Net profit (loss) of the reporting period		-	-	-	(747)	(747)
Other comprehensive income		-	-	-	(119)	(119)
Balance as of 30 September 2019		**74,476**	**7,447**	**2,900**	**3,208**	**88,031**
Net profit (loss) of the reporting period		-	-	-	1,435	1,435
Other comprehensive income		-	-	-	(62)	(62)
Balance as of 31 December 2019		**74,476**	**7,447**	**2,900**	**4,581**	**89,404**

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

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed Interim Statement of Changes in Equity

Company	Notes	Share capital	Legal reserve	Other reserve	Retained earnings (accumulated deficit)	Total
Balance as of 31 December 2017		**74,476**	**3,267**	**100**	**11,181**	**89,024**
Transferred to reserves		-	3,168	100	(3,268)	-
Transferred from reserves		-	-	(100)	100	-
Dividends		-	-	-	(3,339)	(3,339)
Net profit (loss) of the reporting period		-	-	-	2,047	2,047
Other comprehensive income		-	-	-	(185)	(185)
Balance as of 30 September 2018		**74,476**	**6,435**	**100**	**6,536**	**87,547**
Net profit (loss) of the reporting period		-	-	-	2,404	2,404
Other comprehensive income		-	-	-	148	148
Balance as of 31 December 2018		**74,476**	**6,435**	**100**	**9,088**	**90,099**
Result of changes in accounting policies		-	-	-	-	-
Transferred to reserves	**12**	-	1,012	2,900	(3,912)	-
Transferred from reserves	**12**	-	-	(100)	100	-
Dividends	**1**	-	-	-	(1,070)	(1,070)
Net profit (loss) of the reporting period		-	-	-	(887)	(887)
Other comprehensive income		-	-	-	(118)	(118)
Balance as of 30 September 2019		**74,476**	**7,447**	**2,900**	**3,201**	**88,024**
Net profit (loss) of the reporting period		-	-	-	1,344	1,344
Other comprehensive income		-	-	-	(61)	(61)
Balance as of 31 December 2019		**74,476**	**7,447**	**2,900**	**4,484**	**89,307**

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

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed Interim Statements of Cash Flows

		Group		Company	
	Notes	**2019**	**2018**	**2019**	**2018**
Cash flows from (to) operating activities					
Comprehensive income		**507**	**3,963**	**278**	**4,414**
Adjustments for non-cash items:					
Depreciation and amortization		8,821	8,665	8,076	7,905
Change in impairment of accounts receivable	**8**	(642)	(780)	(645)	(807)
Interest expenses		485	541	445	499
Change in fair value of derivatives	**10**	(4)	-	-	-
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares		(266)	2	(266)	2
(Amortization) of grants		(1,337)	(1,327)	(1,176)	(1,165)
Change in net realisable value and impairment of non-current assets	**7**	(42)	(113)	(42)	(113)
Change employee benefit liability		181	34	179	32
Changes in the value of the lease		-	-	-	-
Corporate income tax expense		9	589	(9)	589
Change in accruals		(56)	(8)	(48)	(16)
Impairment of investment in subsidiary		-	-	-	(156)
Elimination of other financial and investing activity results		(210)	(225)	(214)	(227)
Total adjustments for non-cash items:		**6,939**	**7,378**	**6,300**	**6,543**
Changes in working capital:					
(Increase) decrease in inventories	**7**	19	(129)	11	(148)
(Increase) decrease in prepayments		103	(809)	90	(781)
(Increase) decrease in trade receivables	**8**	2,697	575	2,697	597
(Increase) decrease in other receivables	**8**	197	(530)	198	(516)
(Decrease) increase in non-current trade payables		40	(8)	39	(8)
(Decrease) increase in trade payables and advances received		(682)	467	(574)	597
(Decrease) increase in employment-related liabilities		(389)	(428)	(392)	(432)
Increase (decrease) in tax payable		56	17	45	4
Increase (decrease) in received prepayments		(396)	402	(396)	402
Increase (decrease) in other current liabilities		44	(5)	44	3
Total changes in working capital:		**1,689**	**(448)**	**1,762**	**(282)**
Net cash flows from operating activities		**9,135**	**10,893**	**8,340**	**10,675**

(*continued on the next page*)

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed Interim Statements of Cash Flows (continued)

		Group		Company	
	Notes	**2019**	**2018**	**2019**	**2018**
Cash flows from (to) the investing activities					
Acquisition of property, plant, equipment and intangible assets		(22,021)	(4,052)	(22,019)	(4,052)
Proceeds from sale of property, plant and equipment		508	3	508	3
Interest received for overdue accounts receivable		210	237	214	239
Loans granted		-	-	-	(383)
Net cash flows from investing activities		**(21,303)**	**(3,812)**	**(21,297)**	**(4,193)**
Cash flows from (to) financing activities					
Proceeds from loans		3,306	2,943	3,306	2,943
(Repayment) of loans		(4,567)	(4,116)	(4,000)	(3,549)
Interest (paid)		(551)	(586)	(520)	(543)
Lease payments		(112)	(116)	(112)	(116)
Penalties and fines (paid)		-	(12)	-	(12)
Dividends paid		(1,070)	(3,338)	(1,070)	(3,338)
Received grants		8,620	295	8,620	295
Net cash flows from (used in) financing activities		**5,626**	**(4,930)**	**6,224**	**(4,320)**
Net (decrease) increase in cash and cash equivalents		**(6,542)**	**2,151**	**(6,733)**	**2,162**
Cash and cash equivalents at the beginning of the period	**11**	**8,761**	**6,610**	**8,673**	**6,511**
Cash and cash equivalents at the end of the period	**11**	**2,219**	**8,761**	**1,940**	**8,673**

(*the end*)

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

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

Condensed interim explanatory notes to 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 about the Company is 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 involved maintenance of manifolds. The Company are also involved in maintenance of heating systems. The Company was registered on 1 July 1997 after the reorganization of AB Lietuvos Energija, the Company code 235014830. The Company's shares are traded on the Baltic Secondary List of the AB Nasdaq Vilnius Stock Exchange.

As of 31 December 2019 and as of 31 December 2018, the shareholders of the Company were as follows:

	As of 31 December 2019		As of 31 December 2018	
	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

The authorised share capital of AB Kauno Energija is in the amount of EUR 74.475.728,82 and it is divided into 42,802,143 ordinary nominal shares with the par value of 1.74 euros. As of 31 December 2019 and 31 December 2018, the Company did not hold any own shares. All shares were fully paid as of 31 December 2019 and as of 31 December 2018.

On 26 April 2019 the Annual General Meeting of Shareholders has made a decision to pay EUR 1,070 thousand, i.e. at 2.5 cents a share in dividends from the profit of the year 2018.
On 26 April 2018 the Annual General Meeting of Shareholders has made a decision to pay EUR 3,339 thousand, i.e. at 7.8 cents a share in dividends from the profit of the year 2017.

As of 31 December 2019, the Company and the subsidiaries UAB Kauno Energija NT and UAB Petrašiūnų Katilinė comprise 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	2	1,068	Rent
UAB Petrašiūnų Katilinė	R. Kalantos st. 49, Kaunas	100 percent	1,894	389	631	Heat production

As of 31 December 2019, the average number of employees in the Group was 418 (468 employees as of 31 December 2018). As of 31 December 2019, the average number of employees at the Company was 403 (456 employees as of 31 December 2018).

1. General information (continued)

Legal Regulations

According to the Law on Heat Industry of the Republic of Lithuania, the Company's activities are licensed and regulated by the National Commission for Energy Control and Prices (hereinafter the Commission). On 26 February 2004, the Commission granted the Company the heat supply 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 13 September 2018, the Commission adopted a decision No. 03E-283, by which new heating price components have been determined for the Company for the period till 30 September 2021.

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 26 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 672 MW (including 47 MW of condensational economizers) and total power generation capacities of the whole Group consist of approx 681 MW (including 47 MW of condensational economizers). Total installed heat generation capacities of Company amount to 653 MW (including 47 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 662 MW (including 47 MW of condensing economizers).

2. Basis of the preparation of financial statements

Condensed interim financial statements of the Company and the Group for the twelve months ended 2019 December 31 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and applied to interim financial reporting (International Accounting Standard (IAS) 34 Interim Financial Reporting). This unaudited financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

These financial statements do not include all the information required to prepare a complete set of consolidated and separate financial statements. However, the selected explanatory notes are included to clarify events and transactions that are material to the understanding of changes in the financial position and financial performance of the Group and the Company.

The financial year of the Company coincides with the calendar year.

As of 1 January 2019, the Company and the Group has adopted IFRS 16 *Leases* for the first time. For more information on the impact of changes in accounting policies on the Group's and the Company's financial statements, see Note 4.

All other accounting policies used in preparing the condensed interim financial information are the same as those applied for the preparation of the annual financial statements for 2018.

Management of the Company approved these interim financial statements on 24 January 2020.

3. Use of estimates and judgements for preparation of financial statements

The preparation of the financial statements in accordance with IFRS as adopted by the EU, requires management to make judgements, estimates on assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The principal future assumptions and other significant sources of estimation uncertainty at the interim financial reporting date that pose a significant risk that may require a significant adjustment to the carrying amounts of assets or liabilities for the next financial year are the same as those described in the last annual separate and consolidated financial statements. Except for new assumptions and estimates related to lease accounting under IFRS 16, which is described in more detail in Note 4.

4. Changes in accounting policies

Except as set out below, the accounting policies used to prepare these interim condensed financial statements are the same as those described in the last separate and consolidated financial statements.

The Group and the Company has adopted IFRS 16 Leases as of 1 January 2019. The comparative information for 2018 were not adjusted. Other new standards that came into force as of 1 January 2019 do not have material effect of the financial statements of the Group and the Company.

IFRS 16 replaces IAS 17 *Leases* and related interpretations. IFRS 16 introduces a single lease accounting model in the statement of financial position. The lessee recognizes the right-of-use assets that represent its right to use the underlying asset and the lease liability that reflects its obligation to pay the lease payments.

On initial recognition of IFRS 16, the Group elected to use a modified retrospective approach. Accordingly, the comparative information has not been recalculated and in these financial statements is presented in accordance with IAS 17 and related interpretations of standards.

Lease definition

Until 1 January 2019, when signing contracts, the Group and the Company assessed whether the contract meets the definition of a lease in accordance with IFRIC 4 *Determining whether an arrangement contains a lease*.
From 1 January 2019, upon the conclusion of the contract, an assessment of whether the contract is a lease or contains a lease is made on the basis of the new definition. Under IFRS 16, a contract is a lease or contains a lease, if it grants the right to control the use of the identified asset for a specified period in return for consideration.

At inception or on reassessment of a contract that contains a lease component, the Group and the Company allocate the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group and the Company is a lessee, the Group and the Company have elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

4. Changes in accounting policies (continued)

The Group and the Company – as a lessee

As a lessee, the Group and the Company previously classified leases as operating or finance leases based on the assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group and the Company recognise right-of-use assets and lease liabilities for most leases - i.e. these leases are on-balance sheet.

The Group and the Company present right-of-use assets in 'property, plant and equipment' (as at 31 December 2019: 1,283 thousand EUR and 1,073 thousand EUR, respectively).

Recognized lease liabilities in the statement of financial position are presented under the current part of lease (finance leases) and long-term financial liabilities and leasing (financial leases) items.

Significant accounting policies

The Group and the Company recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated

depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's and the Company‘s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group and the Company have applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group and the Company are reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Group and the Company classified property leases as operating leases under IAS 17. These included land and vehicles.

For leases classified as operating leases under IAS 17. lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's and the Company‘s incremental borrowing rate as at 1 January 2019.

The right-of-use assets are valued at an amount equal to the lease liability adjusted for the amount of any prepaid or accrued lease payments. The Group and the Company applied this approach to all leases.

The Group and the Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

4. Changes in accounting policies (continued)

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group's and Company's assets under finance leases consist of vehicles. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 at the application date of the new policy.

The Group and the Company – as a lessor

The Group and the Company have reassessed the classification of lease and sublease where they act as a lessor. The Group and the Company lease out its investment property, including right-of-use assets. The Group has classified these leases as operating leases. The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. The Group is not required to make any adjustments on

transition to IFRS 16 for leases in which it acts as a lessor. The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

The Group and the Company do not have any sublease contracts.

Impacts on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets, including investment property, and additional lease liabilities. These liabilities were stated at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the Group at 1 January 2019. The incremental borrowing rate of the Group applied for discounting the lease payments as at 1 January 2019 was 3.58 %.

As a result of initially applying IFRS 16 in relation to the leases that were previously classified as operating leases, the Group and the Company recognised 990 thousand EUR and 819 thousand EUR of right-of-use assets (including investment property), 990 thousand EUR and 819 thousand EUR of lease liabilities, respectively.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the 12 months ended 31 December 2019, the Group recognised 36 thousand EUR of depreciation charges and 33 thousand EUR of interest costs from these leases. The Company recognised 32 thousand EUR of depreciation charges and 26 thousand EUR of interest costs from these leases.

5. Fair value determination

On the initial recognition, the transaction price of the acquired asset or liability, assumed in the exchange transaction for a specific asset or liability, is the price paid for the acquisition of the asset or the receipt of the liability (acquisition cost). For comparison, the fair value of an asset or liability is the price that would be received on the sale of the asset or paid on disposal of the liability (sale / disposal price).

If the Company initially estimates its asset or liability at fair value and the transaction price is different from its fair value, the difference is recognized as a gain or loss unless otherwise stated in IFRSs.

The fair value measurement is based on the assumption that the transaction for the sale of the asset or disposal of the liability will be effected either:

– in the underlying asset or liability market, or

5. Fair value determination (continued)

– where there are no core markets, the most favourable market for a particular asset or commitment.

When there are no directly observable variables available to the Company on the valuation day, i. e. the quoted prices (unadjusted) in the active markets for identical assets or liabilities are measured at fair value using the directly monitored variables. Adjusted variables are:

– prices declared for similar assets or liabilities in active markets;
– prices declared for identical or similar assets or liabilities in markets that are not active markets;
– variables other than quoted prices are monitored for a specific asset or liability;
– market-validated variables.

When there are no observable (directly or indirectly) variables, the fair value is determined by the non-observable variables that the Group and the Company create using valuation techniques.

The fair value of a non-financial asset takes into account the ability of the market participant to generate economic benefits by utilizing the specific asset to the maximum and best or by selling it to another market participant that will use it to the maximum and best.

The fair value of the liability reflects the impact of the inactivity risk. The risk of inactivity includes, among other things, the credit risk of the entity itself. In determining the fair value of a liability, an entity shall measure the impact of its credit risk (financial position) and other factors that may affect the likelihood that the liability will or will not be settled.

The Group and the Company must increase the use of relevant observable variables and reduce the use of unobserved variables to achieve fair value measurement - to calculate the price at which the liability or equity instrument would be transferred under a legally settled transaction between market participants on the value determination day at the prevailing market conditions.

The assets and liabilities that are measured at fair value in the statement of financial position or the fair value of which is not determined, but the information about which is disclosed, are classified by the Group and the Company according to the fair value hierarchy, where the variables are divided into three levels, depending on their availability:

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, available for the Company as at the value determination day;
– 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).

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

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

6. Property, plant and equipment

During the 12 months period of the year 2019, non-current assets acquired by the Group and the Company amounted to 22,014 and 22,012 thousand EUR, the carrying amount of the disposals amounted to 243 thousand EUR.

As at 31 December 2019, depreciation of the Group‘s and the Company‘s property, plant and equipment amounts to 7,430 thousand EUR and 6,847 thousand EUR, respectively (at 31 December 2018: 7,302 thousand EUR and 6,704 thousand EUR, respectively). The Group‘s and the Company‘s depreciation charges of 7,367 thousand EUR and 6,803 thousand EUR (at 31 December 2018: 7,244 thousand EUR and 6,662 thousand EUR) were included in the operating expenses in the statements of Profit (loss) and Other Comprehensive Income. The remaining depreciation costs of 63 thousand EUR and 44 thousand EUR (at 31 December 2018: 58 thousand EUR and 42 thousand EUR) are stated under other activity expenses in the statements of Profit (loss) and Other Comprehensive Income.

The management of the Group and the Company, having assessed the internal and external features, has not determined an additional impairment of property, plant and equipment in 2019 (recognised 42 thousand EUR of additional impairment during 2018). During the 12 months period of the year 2019, the management of the Group and the Company reversed the impairment of 26 thousand EUR (129 thousand EUR – during 2018).

As of 31 December 2019, part of the property, plant and equipment of the Group with acquisition cost of 56,556 thousand EUR (55,102 thousand EUR as of 31 December 2018) and the Company – EUR 56,443 thousand EUR were fully depreciated (54,945 thousand EUR as of 31 December 2018), but were still in active use.

As of 31 December 2019 and as of 31 December 2018, the major part of the Group’s and the Company’s construction in progress consisted of reconstruction and overhaul works of boiler-houses equipment and heat supply networks.

As of 31 December 2019, property, plant and equipment of the Group with the carrying amount of 54,723 thousand EUR (49,624 thousand EUR as of 31 December 2018) and the Company of 51,655 thousand EUR (46,005 thousand EUR as of 31 December 2018) was pledged to banks to secure the loans.

7. Inventories

	Group		Company	
	As of 31 December 2019	**As of 31 December 2018**	**As of 31 December 2019**	**As of 31 December 2018**
Technological fuel	1,156	1,358	1,097	1,291
Spare parts	622	415	622	415
Materials	413	437	413	436
	2,191	**2,210**	**2,132**	**2,142**
Less: write-down to the net realisable value of inventory at the end of the period	(610)	(626)	(610)	(626)
Carrying amount of inventories	**1,581**	**1,584**	**1,522**	**1,516**

Revaluation of the Group‘s and the Company‘s inventories to net realisable value as at 31 December 2019 amounted to 610 thousand EUR (at 31 December 2018: 626 thousand EUR). Change in the revaluation of the inventories to net realisable value in the Group‘s and the Company‘s statements of Profit (Loss) and Other Comprehensive Income is included in the change of impairment of the realisable value of inventories and the value of property, plant and equipment.

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

8. Current accounts receivable

	Group		Company	
	As of 31 December 2019	As of 31 December 2018	As of 31 December 2019	As of 31 December 2018
Trade receivables, gross	15,401	18,734	15,403	18,736
Less: expected credit losses	(7,251)	(8,546)	(7,253)	(8,548)
	8,150	**10,188**	**8,150**	**10,188**

Change in the impairment of doubtful receivables as at 31 December 2019 and 31 December 2018 is included in the caption of write-offs and change in allowance for accounts receivables in the Group’s and the Company’s statements of Profit (loss) and Other Comprehensive Income. Impairment of doubtful receivables is estimated based on the expected credit losses.

Change in expected credit losses of the Group’s and the Company’s receivables were as follows:

	Group	Company
Balance as of 31 December 2017	**10,012**	**10,031**
Expected credit losses recognised	(770)	(787)
Write-off	(696)	(696)
Balance as of 31 December 2018	**8,546**	**8,548**
Expected credit losses recognised	(659)	(659)
Write-off	(636)	(636)
Balance as of 31 December 2019	**7,251**	**7,253**

Analysis of the Group‘s net trade receivables as at 31 December 2019 and 31 December 2018:

	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	
2019	6,949	462	47	46	73	573	8,150
2018	8,670	611	74	65	115	653	10,188

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

8. Current accounts receivable (continued)

Analysis of the Company's net trade receivables as at 31 December 2019 and 31 December 2018:

	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	
2019	6,949	462	47	46	73	573	8,150
2018	8,670	611	74	65	115	653	10,188

Trade receivables of the Group and the Company are interest-free and their settlement is normally 30 days or agreed on individual basis.

As of 31 December 2019 and 31 December 2018, the Group's and the Company's other receivables included taxes receivable from the state budget, compensations from municipalities for low income families, receivables for sold inventories (metal scrap, heating equipment) and services supplied (maintenance of manifolds and similar services).

Other receivables of the Group and the Company:

	Group		Company	
	As of 31 December 2019	As of 31 December 2018	As of 31 December 2019	As of 31 December 2018
Taxes	439	490	439	490
Other receivables	630	772	652	795
Less: expected credit losses	(310)	(293)	(361)	(347)
	759	**969**	**730**	**938**

Movement in impairment of other receivables of the Group and the Company:

	Group	Company
Balance as of 31 December 2017	**303**	**362**
Expected credit losses recognised	(10)	(15)
Write-off	-	-
Balance as of 31 December 2018	**293**	**347**
Expected credit losses recognised	17	14
Write-off	-	-
Balance as of 31 December 2019	**310**	**361**

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

8. Current accounts receivable (continued)

The ageing analysis of the Group's other receivables (excluding receivable taxes) as of 31 December 2019 and as of 31 December 2018 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	
2019	221	54	19	10	8	8	320
2018	380	65	15	8	5	6	479

The ageing analysis of the Company's other receivables (excluding receivable taxes) as of 31 December 2019 and as of 31 December 2018 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	
2019	192	54	19	10	8	8	291
2018	349	65	15	8	5	6	448

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

As to trade receivables and other receivables that are neither impaired nor past due, the management opinion is that there are no indications as of 31 December 2019, that the debtors will not meet their obligations.

9. Financial liabilities

All loans of the Group and the Company are accounted for and repaid in euros. Repayment terms of non-current loans are as follows:

	Group		Company	
	As of 31 December 2019	As of 31 December 2018	As of 31 December 2019	As of 31 December 2018
Non-current borrowings:	**17,684**	**19,257**	**16,550**	**17,556**
Payable in 2 to 5 years	10,943	11,780	9,809	10,079
Payable in more than 5 years	6,741	7,477	6,741	7,477
Current portion of non-current borrowings	4,585	4,272	4,018	3,705
	22,269	**23,529**	**20,568**	**21,261**

9. Financial liabilities (continued)

Detailed information on the loans of the Group as of 31 December 2019:

	Credit institution	Date of contract	Effective interest rate	Sum EUR thousand	Term of maturity	Balance as of 31/12/2019 EUR thousand	A Qart of 2020, EUR thousand
1	MF Lithuania*	2010/04/09	1.017	2,410	2034/03/15	1,404	93
2	MF Lithuania*	2010/10/26	0.917	807	2034/03/15	577	38
3	MF Lithuania*	2011/09/02	0.332	1,672	2034/09/01	1,304	87
4	Luminor**	2012/08/22	1.107	3,403	2022/04/29	1,701	567
5	AB SEB Bank	2013/06/03	1.42	799	2020/06/30	67	67
6	AB SEB Bank	2013/06/03	1.32	1,228	2020/06/30	98	98
7	AB SEB Bank	2013/09/10	1.78	1,506	2020/09/30	188	188
8	Luminor**	2013/09/27	1.92	377	2020/09/30	5	5
9	MF Lithuania*	2014/01/15	3.36	793	2034/12/01	624	41
10	AB SEB Bank	2014/03/31	1.73	1,564	2021/01/15	268	261
11	MF Lithuania*	2014/03/31	3.342	7,881	2034/12/01	6,203	381
12	AB SEB Bank	2015/03/09	1.63	579	2022/02/28	222	97
13	AB SEB Bank	2015/03/09	1.63	579	2022/02/28	74	74
14	OP Corporate***	2015/12/02	0.98	4,842	2022/12/02	2,075	692
15	AB SEB Bank	2016/05/09	0.94	459	2023/04/30	255	77
16	AB SEB Bank	2016/05/09	0.96	1,000	2021/04/30	267	200
17	AB SEB Bank	2016/05/09	0.94	579	2023/04/30	322	97
18	Luminor**	2016/10/25	1.12	1,894	2023/09/29	1,066	284
19	AB SEB Bank	2016/12/22	0.79	4,127	2024/11/30	3,026	720
20	AB SEB Bank	2017/07/26	0.92	697	2024/07/30	546	122
21	Danske Bank A/S	2017/12/18	1.27	2,340	2024/12/18	1,977	396
						22,269	**4,585**

* LR Ministry of Finance; ** Luminor bank AB; *** OP Corporate Bank Plc Lithuanian branch.

According to loan agreement signed between Luminor Bank AB and the Group's subsidiary UAB Petrašiūnų Katilinė on 22 August 2012, 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 3.0. UAB Petrašiūnų Katilinė does not comply with all financial rations as determined by the bank. The mentioned loan is secured by issuing a guarantee to the bank as described in Note 16.

9. Financial liabilities (continued)

Detailed information on the loans of the Company as of 31 December 2019:

	Credit institution	Date of contract	Effective interest rate	Sum EUR thousand	Term of maturity	Balance as of 31/12/2019 EUR thousand	A Qart of 2020, EUR thousand
1	MF Lithuania*	2010/04/09	1.017	2,410	2034/03/15	1,404	93
2	MF Lithuania*	2010/10/26	0.917	807	2034/03/15	577	38
3	MF Lithuania*	2011/09/02	0.332	1,672	2034/09/01	1,304	87
4	AB SEB Bank	2013/06/03	1.42	799	2020/06/30	67	67
5	AB SEB Bank	2013/06/03	1.32	1,228	2020/06/30	98	98
6	AB SEB Bank	2013/09/10	1.78	1,506	2020/09/30	188	188
7	Luminor**	2013/09/27	1.92	377	2020/09/30	5	5
8	MF Lithuania*	2014/01/15	3.36	793	2034/12/01	624	41
9	AB SEB Bank	2014/03/31	1.73	1,564	2021/01/15	268	261
10	MF Lithuania*	2014/03/31	3.342	7,881	2034/12/01	6,203	381
11	AB SEB Bank	2015/03/09	1.63	579	2022/02/28	222	97
12	AB SEB Bank	2015/03/09	1.63	579	2022/02/28	74	74
13	OP Corporate***	2015/12/02	0.98	4,842	2022/12/02	2,075	692
14	AB SEB Bank	2016/05/09	0.94	459	2023/04/30	255	77
15	AB SEB Bank	2016/05/09	0.96	1,000	2021/04/30	267	200
16	AB SEB Bank	2016/05/09	0.94	579	2023/04/30	322	97
17	Luminor**	2016/10/25	1.12	1,894	2023/09/29	1,066	284
18	AB SEB Bank	2016/12/22	0.79	4,127	2024/11/30	3,026	720
19	AB SEB Bank	2017/07/26	0.92	697	2024/07/30	546	122
20	Danske Bank A/S	2017/12/18	1.27	2,340	2024/12/18	1,977	396
						20,568	**4,018**

* LR Ministry of Finance; ** Luminor bank AB; *** OP Corporate Bank Plc Lithuanian branch.

AB SEB Bankas has determined that the Company must comply 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 equity ratio (equity/total assets), shall not be lower than 35 %. The Company complied with financial covenants as at 31 December 2019 and 31 December 2018.

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 immovable property (Note 6), bank accounts (Note 11) and land lease right of the Group and the Company were pledged as collateral for the borrowings.

10. Derivative financial instruments

On 16 December 2016, the Group entered into an 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 value of the transaction was 1,701 thousand EUR as at 31 December 2019. This derivative instrument is recognized at fair value calculated by the bank as at 31 December 2019 – 12 thousand EUR (31 December 2018 –15 thousand EUR).

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11. Cash and cash equivalents

	Group		Company	
	As of 31 December 2019	**As of 31 December 2018**	**As of 31 December 2019**	**As of 31 December 2018**
Cash in transit	148	154	148	154
Cash at bank	2,071	8,607	1,792	8,519
Cash on hand	-	-	-	-
	2,219	**8,761**	**1,940**	**8,673**

The Group's accounts in banks amounting to EUR 1,039 thousand as of 31 December 2019 (as of 31 December 2018 – EUR 2,332 thousand) and the Company's to EUR 804 thousand as of 31 December 2019 (as of 31 December 2018 – EUR 2,255 thousand) are pledged as collateral for the loans (Note 9).

12. Reserves

Legal and other reserves
A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 percent of net profit 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 26 April 2019, the Company's shareholders took a decision to cancel other reserves (EUR 100 thousand) and to transfer EUR 1,012 thousand from retained earnings to the legal reserve and EUR 2,900 thousand to other reserves. A reserve of EUR 50 thousand was established for sponsorship purposes. A reserve of EUR 2,850 thousand was established for investments.
On 26 April 2018, the Company's shareholders took a decision to cancel other reserves (EUR 100 thousand) and to transfer EUR 3,168 thousand from retained earnings to the legal reserve and EUR 100 thousand to other reserves. A reserve of EUR 100 thousand was established for sponsorship purposes.

13. 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 activity of the Group and the Company is seasonal because the major part of sales income is earned during the heating season, which starts in October and ends in April.

The Group's and the Company's sales income according to the activities are stated below.

Group	**2019**	**2018**
Heat supplies	49,712	57,387
Hot water supplies	3,228	3,260
Maintenance of hot water meters	422	408
Maintenance of manifolds	251	250
Maintenance of heat and hot water systems	12	11
Sale of emission allowances	1,025	-
	54,650	**61,316**

Condensed Consolidated and Separate Financial Statements of the Company for 12 months period, ended 31 December 2019 (in thousand EUR, if not stated otherwise)

13. Sales income (continued)

Company	**2019**	**2018**
Heat supplies	49,721	57,399
Hot water supplies	3,228	3,260
Maintenance of hot water meters	422	408
Maintenance of manifolds	251	250
Maintenance of heat and hot water systems	12	11
Sale of emission allowances	1,025	-
	54,659	**61,328**

Sales income by user groups:

Group	**2019**	**2018**
Residents	41,195	46,511
Other users	6,208	5,949
Budgetary organizations financed from the state budget	3,963	4,774
Budgetary organizations financed from municipal budgets	2,734	3,343
Institutions funded by Territorial Health Insurance funds	286	371
Industrial users	264	368
	54,650	**61,316**

Company	**2019**	**2018**
Residents	41,195	46,511
Other users	6,217	5,961
Budgetary organizations financed from the state budget	3,963	4,774
Budgetary organizations financed from municipal budgets	2,734	3,343
Institutions funded by Territorial Health Insurance funds	286	371
Industrial users	264	368
	54,659	**61,328**

14. Other expenses

Other expenses include:

	Group		Company	
	2019	2018	2019	2018
Equipment verification and inspection	212	406	211	404
Maintenance of manifolds	383	381	383	381
Cash collection expenses	176	195	176	195
Expenses of ash utilization	160	145	144	127
Information technology expenses	114	132	114	132
Consulting expenses	87	124	87	124
Employees related expenses	139	102	139	102
Customer bills issue and delivery expenses	93	98	93	98
Membership fee	89	84	89	84
Maintenance of long term assets and related services	64	76	64	76
Transport expenses	63	70	63	69
Debts collection expenses	96	60	96	60
Insurance	64	56	56	48
Communication expenses	40	51	39	50
Advertising expenses	55	44	55	44
Audit expenses	39	44	34	44
Rent of equipment and machinery	9	16	9	16
Sponsorship	1	5	1	5
Other expenses	395	200	374	184
	2,279	**2,289**	**2,227**	**2,243**

15. Basic and diluted earnings per share

Calculation of the basic and diluted earnings per share of the Group is as follow:

	Group		Company	
	2019	2018	2019	2018
Net profit (loss) of the reporting period	688	4,002	457	4,451
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)	**0.02**	**0.09**	**0.01**	**0.10**

16. Commitments and contingencies

On June 22, 2019, the Company placed a claim for the Kaunas Clinics (Kauno Klinikos) of the Lithuanian University of Health Sciences (hereinafter referred to as Kaunas Clinics) to pay compensation in amount of EUR 5,120,680 for heat reserve capacity ensured by the Company to Kaunas clinics starting from the year 2010 until May 2019. Kaunas Clinics did not agree with the claim. The company has placed a lawsuit against Kaunas Clinics regarding judgement of unpaid compensation for heat reserve power. The case is pending at first instance.

The Company has placed a claim to the Lithuanian branch of AAS BTA Baltic Insurance Company seeking payment of the insurance surety amount. The amount of the claim is EUR 30,000. The case is pending at first instance.

Leasing and construction work purchase arrangements
Future liabilities of the Group and the Company under valid purchase arrangements as of 31 December 2019, amounted to 34,692 thousand EUR.

Guarantees
On 28 November 2016, the Company provided a guarantee in an amount of EUR 3,913 thousand to Luminor bank AB regarding the liabilities of the subsidiary UAB Petrašiūnų Katilinė to this bank according to credit agreement concluded on 22 August 2012, for the amount of EUR 3,403 thousand. On 28 November 2016, the Company provided guarantee in amount of EUR 95 thousand to Nordea Bank AB (publ) regarding liabilities of subsidiary UAB Petrašiūnų Katilinė to this bank according to transaction of derivative financial instruments, described in Note 10. As of 31 December 2019, the carrying amount of the loan is 1,701 thousand EUR.

17. 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.

As of 31 December 2019 and 31 December 2018, 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.

A list of companies related to the Municipality of Kaunas can be found here: http://www.kaunas.lt/administracija/struktura-ir-kontaktai/pavaldzios-imones-ir-istaigos/.

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17. Related parties transactions (continued)

As of 31 December 2019 and 31 December 2018, the Group's and the Company's transactions with Jurbarkas city municipality, Kaunas city municipality and the entities, financed and controlled by the Municipality of Kaunas and their amounts receivable and payable at the end of the year were as follows:

31 December 2019	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,225	4,111	695	225
Jurbarkas city municipality	14	266	6	1

31 December 2018	**Purchases**	**Sales**	**Receivables**	**Payables**
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	1,228	5,520	951	237
Jurbarkas city municipality	-	465	40	2

Sales include amounts of compensations for deprived people for housing heating costs, cold and hot water and also wastewater costs.

As of 31 December 2019, the Group's and the Company's allowance for overdue receivables from entities financed and controlled by municipalities amounted to 257 thousand EUR (as of 31 December 2018 – EUR 265 thousand). The amounts outstanding are unsecured and will be settled in cash. No guarantees on receivables have been received.

As of 31 December 2019 and as of 31 December 2018, the Company's transactions with the subsidiaries and the inter-company balances at the end of the year were as follows:

UAB „Petrašiūnų katilinė“	**Purchases**	**Sales**	**Receivables**	**Payables**
31 December 2019	2,398	10	443	432
31 December 2018	1,957	5	443	456

UAB „Kauno energija NT“	**Purchases**	**Sales**	**Receivables**	**Payables**
31 December 2019	5	10	58	-
31 December 2018	5	11	64	-

Receivables from UAB Petrašiūnų Katilinė comprise a loan granted. There was no provision established for expected credit losses on the loan granted.

As of 31 December 2019, the Company has determined an impairment in amount of 58 thousand EUR (as of 31 December 2018, in amount of 64 thousand EUR) for the receivables from subsidiaries.

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Remuneration of the management and other payments

As of 31 December 2019, the Group's and the Company's management team comprised 3 and 1 persons, respectively (as of 31 December 2018 – 3 and 1).

	Group		**Company**	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Key to management remuneration	66	169	40	128
Calculated post-employment benefits to management	1	3	-	1

In the year 2019 and 2018, 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.

18. Subsequent events

On January 8, 2020 AB Kauno Energija and UAB Fortum Heat Lietuva concluded an agreement regarding purchase of Palemonas district heating economy in Kaunas, according to which AB Kauno Energija purchases a boiler-house and heat supply network along with related equipment from UAB Fortum Heat Lietuva and starts heat supply activities in this neighbourhood from February 1, 2020.

There were no other events after the reporting date that could materially impact or be disclosed in the financial statements.