



AB KAUNO ENERGIJA
SET OF CONSOLIDATED AND PARENT COMPANY'S
FINANCIAL STATEMENTS
FOR THE 9 MONTHS 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 23 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 9 months 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 of AB Kauno Energija Rimantas Bakas, Head of Finance Department Gintautas Muznikas and Chief Accountant Violeta Staškūnienė this financial reports approved on 2018 October 24.

General Manager

Rimantas Bakas

Head of Finance Department

Gintautas Muznikas

Chief Accountant

Violeta Staškūnienė

Statements of Financial Position

		Group		Company	
	Notes	As of 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
ASSETS					
Non-current assets					
Intangible assets	3	989	56	865	56
Property, plant and equipment	4				
Land and buildings		8,435	8,857	7,011	7,307
Structures		88,942	89,857	88,345	89,213
Machinery and equipment		21,910	24,594	18,940	21,233
Vehicles		502	648	490	620
Devices and tools		2,956	3,223	2,952	3,216
Construction in progress and prepayments		3,273	2,487	3,273	2,487
Investment property		291	282	-	-
Total property, plant and equipment		126,309	129,948	121,011	124,076
Non-current financial assets					
Investments into subsidiaries	1;5	-	-	1,908	1,908
Loans to the subsidiaries	5	-	-	264	60
Other financial assets		1	1	1	1
Total non-current financial assets		1	1	2,173	1,969
Total non-current assets		127,299	130,005	124,049	126,101
Current assets					
Inventories and prepayments					
Inventories	6	1,593	1,429	1,564	1,342
Prepayments		400	450	338	406
Total inventories and prepayments		1,993	1,879	1,902	1,748
Current accounts receivable					
Trade receivables	7				
Trade receivables	22;24	2,182	9,993	2,182	9,993
Other receivables	24	707	671	673	649
Total accounts receivable		2,889	10,664	2,855	10,642
Cash and cash equivalents	8;22	10,446	6,610	10,402	6,511
Total current assets		15,328	19,153	15,159	18,901
Total assets		142,627	149,158	139,208	145,002

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Statements of Financial Position (cont'd)

		Group		Company	
	Notes	As of 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
EQUITY AND LIABILITIES					
Equity					
Share capital	1	74,476	74,476	74,476	74,476
Legal reserve	9	6,435	3,267	6,435	3,267
Other reserve	9	100	100	100	100
Retained earnings (deficit)					
Profit for the current year	1	1,688	6,861	1,862	6,046
Profit (loss) for the prior year	1	4,993	4,639	4,674	5,135
Total retained earnings (deficit)		6,681	11,500	6,536	11,181
Total equity		87,692	89,343	87,547	89,024
Liabilities					
Non-current liabilities					
Non-current borrowings	10;22	21,311	18,676	21,311	18,676
Lease obligations	11;22	1,142	185	1,018	185
Deferred tax liability	20	4,869	4,869	5,104	5,104
Grants (deferred income)	12	18,558	19,509	17,548	18,377
Employee benefit liability	13;24	933	864	926	859
Non-current trade liabilities	22	19	10	13	10
Total non-current liabilities		46,832	44,113	45,920	43,211
Current liabilities					
Current portion of non-current borrowings and lease	10;11;22	3,548	6,144	1,275	3,308
Current borrowings	10;22	-	-	-	-
Trade payables	22	2,484	7,183	2,449	7,154
Payroll-related liabilities		930	800	908	785
Advances received		532	475	532	475
Taxes payable		50	375	48	353
Derivative financial instruments	14.22	12	16	-	-
Current portion of employee benefit liability	13	132	406	132	406
Other current liabilities		415	303	397	286
Total current liabilities		8,103	15,702	5,741	12,767
Total liabilities		54,935	59,815	51,661	55,978
Total equity and liabilities		142,627	149,158	139,208	145,002

(the end)

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

Statement of Profit (loss) and other comprehensive income

Group	Notes	2018 III quarter	2018 I-III quarter	2017 III quarter	2017 I-III quarter
Operating revenue					
Sales income	15	3,527	41,741	4,001	39,314
Other operating income	17	314	1,160	111	1,006
Total income		3,841	42,901	4,112	40,320
Expenses					
Fuel and heat acquired		(2,934)	(24,478)	(2,612)	(21,135)
Salaries and social security		(1,576)	(5,605)	(1,733)	(5,844)
Depreciation and amortization	3;4	(1,746)	(5,266)	(1,688)	(5,126)
Repairs and maintenance		(368)	(823)	(276)	(602)
Write-offs and change in allowance for accounts receivable	7	365	500	394	845
Taxes other than income tax		(333)	(1,128)	(360)	(1,107)
Electricity		(166)	(786)	(181)	(838)
Raw materials and consumables		(113)	(403)	(113)	(421)
Water		(246)	(789)	(240)	(708)
Change in write-down to net realizable value of inventories and non-current assets	6	27	(30)	185	(102)
Other expenses	16	(354)	(1,670)	(589)	(1,945)
Other activities expenses	17	(133)	(287)	(67)	(246)
Total expenses		(7,577)	(40,765)	(7,280)	(37,229)
Operating profit (losses)		(3,736)	2,136	(3,168)	3,091
Other interest and similar income	18	65	184	63	199
Financial assets and short-term investments impairment	19	-	-	-	-
Interest and other similar expenses	19	(154)	(445)	(138)	(426)
Finance cost, net		(89)	(261)	(75)	(227)
Profit before income tax		(3,825)	1,875	(3,243)	2,864
Income tax	20	-	-	-	-
Deferred tax income (losses)	20	-	-	-	-
Net profit (loss) of the reporting period		(3,825)	1,875	(3,243)	2,864
Employee benefit liability (accumulation)	13	(1)	(187)	6	59
Comprehensive income		(3,826)	1,688	(3,237)	2,923
Net profit(loss) of the reporting period attributable to owners of the Company		(3,825)	1,875	(3,243)	2,864
Total comprehensive income attributable to owners of the Company		(3,826)	1,688	(3,237)	2,923
Basic and diluted earnings per share (EUR)	21	(0.09)	0.04	(0.08)	0.07

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

Statement of Profit (loss) and other comprehensive income

Company	Notes	2018 III quarter	2018 I-III quarter	2017 III quarter	2017 I-III quarter
Operating revenue					
Sales income	15	3,528	41,750	4,001	39,322
Other operating income	17	286	1,072	85	920
Total income		3,814	42,822	4,086	40,242
Expenses					
Fuel and heat acquired		(2,933)	(24,997)	(2,628)	(21,744)
Salaries and social security		(1,554)	(5,505)	(1,701)	(5,736)
Depreciation and amortization	3;4	(1,599)	(4,824)	(1,549)	(4,642)
Repairs and maintenance		(360)	(809)	(241)	(547)
Write-offs and change in allowance for accounts receivable	7	313	435	402	866
Taxes other than income tax		(328)	(1,110)	(354)	(1,088)
Electricity		(160)	(686)	(168)	(732)
Raw materials and consumables		(112)	(397)	(112)	(415)
Water		(246)	(787)	(239)	(706)
Change in write-down to net realizable value of inventories and non-current assets	6	27	(30)	185	(102)
Other expenses	16	(349)	(1,635)	(579)	(1,902)
Other activities expenses	17	(105)	(201)	(41)	(170)
Total expenses		(7,406)	(40,546)	(7,025)	(36,918)
Operating profit (losses)		(3,592)	2,276	(2,939)	3,324
Other interest and similar income	18	61	181	64	185
Financial assets and short-term investments impairment	19	-	-	(2)	(2)
Interest and other similar expenses	19	(144)	(410)	(126)	(387)
Finance cost, net		(83)	(229)	(64)	(204)
Profit before income tax		(3,675)	2,047	(3,003)	3,120
Income tax	20	-	-	-	-
Deferred tax income (losses)	20	-	-	-	-
Net profit (loss) of the reporting period		(3,675)	2,047	(3,003)	3,120
Employee benefit liability (accumulation)	13	-	(185)	6	60
Comprehensive income		(3,675)	1,862	(2,997)	3,180
Net profit(loss) of the reporting period attributable to owners of the Company		(3,675)	2,047	(3,003)	3,120
Total comprehensive income attributable to owners of the Company		(3,675)	1,862	(2,997)	3,180
Basic and diluted earnings per share (EUR)	21	(0.09)	0.05	(0.07)	0.07

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

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
Transferred to reserves	9	-	345	100	(445)	-
Transferred from reserves	9	-	-	(2,977)	2,977	-
Dividends	1	-	-	-	(4,537)	(4,537)
Profit (loss) not recognised in the profit (loss) account		-	-	-	59	59
Net profit (loss) of the reporting period		-	-	-	2,864	2,864
Balance as of 30 September 2017		74,476	3,267	100	7,562	85,405
Profit (loss) not recognised in the profit (loss) account		-	-	-	(84)	(84)
Net profit (loss) of the reporting period		-	-	-	4,022	4,022
Balance as of 31 December 2017		74,476	3,267	100	11,500	89,343
Transferred to reserves	9	-	3,168	100	(3,268)	-
Transferred from reserves	9	-	-	(100)	100	-
Dividends	1	-	-	-	(3,339)	(3,339)
Profit (loss) not recognised in the profit (loss) account		-	-	-	(187)	(187)
Net profit (loss) of the reporting period		-	-	-	1,875	1,875
Balance as of 30 September 2018		74,476	6,435	100	6,681	87,692

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

Statement of Changes in Equity

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
Transferred to reserves	9	-	345	100	(445)	-
Transferred from reserves	9	-	-	(2,977)	2,977	-
Dividends	1	-	-	-	(4,537)	(4,537)
Profit (loss) not recognised in the profit (loss) account		-	-	-	60	60
Net profit (loss) of the reporting period		-	-	-	3,120	3,120
Balance as of 30 September 2017		74,476	3,267	100	8,315	86,158
Profit (loss) not recognised in the profit (loss) account		-	-	-	(83)	(83)
Net profit (loss) of the reporting period		-	-	-	2,949	2,949
Balance as of 31 December 2017		74,476	3,267	100	11,181	89,024
Result of changes in accounting policies		-	-	-	(17)	(17)
Balance as of 31 December 2017		74,476	3,267	100	11,164	89,007
Transferred to reserves	9	-	3,168	100	(3,268)	-
Transferred from reserves	9	-	-	(100)	100	-
Dividends	1	-	-	-	(3,339)	(3,339)
Profit (loss) not recognised in the profit (loss) account		-	-	-	(185)	(185)
Net profit (loss) of the reporting period		-	-	-	2,064	2,064
Balance as of 30 September 2018		74,476	6,435	100	6,536	87,547

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

Statements of Cash Flows

	Group		Company	
	2018 I-III quarter	2017 I-III quarter	2018 I-III quarter	2017 I-III quarter
Cash flows from (to) operating activities				
Comprehensive income	1,688	2,923	1,862	3,180
Adjustments for non-cash items:				
Depreciation and amortization	6,537	6,335	5,962	5,715
Write-offs and change in allowance for accounts receivable	(497)	(841)	(432)	(862)
Interest expenses	433	426	398	387
Change in fair value of derivatives	(4)	(14)	-	-
Loss (profit) from sale and write-off of property, plant and equipment and value of the shares	-	1	-	1
(Amortization) of grants (deferred income)	(999)	(912)	(877)	(791)
Change in write-down to net realizable value of inventories and non-current assets	30	102	30	102
Change employee benefit liability	187	1	185	-
Changes in the value of the lease	-	-	-	-
Income tax expenses	-	-	-	-
Change in accruals	9	23	88	22
Impairment of investment in subsidiary	-	-	-	2
Elimination of other financial and investing activity results	(168)	(185)	(168)	(185)
Total adjustments for non-cash items:	5,528	4,936	5,186	4,391
Changes in working capital:				
(Increase) decrease in inventories	(151)	(96)	(209)	(119)
(Increase) decrease in prepayments	50	105	68	28
(Increase) decrease in trade receivables	8,275	8,091	8,290	8,107
(Increase) decrease in other receivables	(245)	723	(313)	744
(Decrease) increase in other non-current liabilities	9	3	3	3
(Decrease) increase in current trade payables and advances received	(4,642)	(3,486)	(4,648)	(3,671)
(Decrease) increase in payroll-related liabilities	(258)	138	(269)	124
Increase (decrease) in other liabilities to budget	(325)	(324)	(305)	(282)
Increase (decrease) in other current liabilities	-	3	8	3
Total changes in working capital:	2,713	5,157	2,625	4,937
Net cash flows from operating activities	9,929	13,016	9,673	12,508

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	Group		Company	
	2018 I-III quarter	2017 I-III quarter	2018 I-III quarter	2017 I-III quarter
Cash flows from (to) the investing activities				
(Acquisition) of tangible and intangible assets	(2,872)	(10,036)	(2,872)	(10,036)
Proceeds from sale of tangible assets	2	2	2	2
Interest received	180	185	180	185
Acquisition of subsidiaries	-	-	-	-
Decrease of non-current accounts receivable	-	1	-	1
Loans granted	-	-	(288)	(40)
Net cash (used in) investing activities	(2,690)	(9,848)	(2,978)	(9,888)
Cash flows from (to) financing activities				
Proceeds from loans	2,942	1,606	2,942	1,606
(Repayment) of loans	(2,903)	(2,503)	(2,336)	(1,936)
Interest (paid)	(284)	(283)	(252)	(244)
Lease (payments)	(98)	(34)	(98)	(34)
Penalties and fines (paid)	(12)	-	(12)	-
Dividends (paid)	(3,338)	(4,535)	(3,338)	(4,535)
Received grants	290	1,939	290	1,939
Net cash flows from (used in) financing activities	(3,403)	(3,810)	(2,804)	(3,204)
Net (decrease) increase in cash and cash equivalents	3,836	(642)	3,891	(584)
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	10,446	5,643	10,402	5,609

(the end)

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

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

	As of 30 September 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 30 September 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.

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 30 September 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	(16)	1,071	Rent
UAB Petrašiūnų Katilinė	R. Kalantos st. 49, Kaunas	100 percent	1,894	(101)	235	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 13 September 2018 the Commission determined by its decision No. 03E-283 a new basic heat rates force components for the period till 30 September 2021.

1. General information (cont'd)

In 2018 the average number of employees at the Group was 466 (522 employees in 2017). In 2018 the average number of employees at the Company was 454 (509 employees in 2017).

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 2.28 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 until 2016.

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 2,928 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.

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVTPL);
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition;
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

See Notes 2.10. and 2.17. for further details on the impact of the change in accounting policy on the Group's and the Company's financial statements.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

2. Accounting principles (cont'd)

2.1. Adoption of new and/or amended IFRS (cont'd)

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The Group and the Company have early adopted IFRS 16 Leases issued in January 2016 with a date of initial application of 1 January 2018. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group and the Company have early adopted IFRS 16 Leases with the date of initial application of 1 January 2018, as the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows. See Note 11 for further details on the impact of the change in accounting policy on the Group's and the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Share-based Payments – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows:

- the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification;
- the liability is derecognised upon the modification;
- the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date; and

2. Accounting principles (cont'd)

2.1. Adoption of new and/or amended IFRS (cont'd)

- the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Transfers of Investment Property - Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach).

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). (2) In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard - IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2018). The improvements impact three standards:

- The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5;
- IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose;
- The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment – by – investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method.

Management has assessed the influence of the Standard when applied and considers that it will not have significant influence on the Group's and the Company's financial statements.

Standards, interpretations and amendments that have not been endorsed by the European Union and that have not been early adopted by the Group/Company.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

2. Accounting principles (cont'd)

2.1. Adoption of new and/or amended IFRS (cont'd)

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group and the Company are currently assessing the impact of the new standard on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards:

- IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business;
- Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa;
- The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits;
- The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.

The Group and the Company are currently assessing the impact of the new standard on its financial statements.

Other standards, interpretations and amendments that have not been endorsed by European Union and that have not been early adopted by the Group/Company:

- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28;
- Insurance Contracts – IFRS 17;
- Prepayment Features with Negative Compensation – Amendments to IFRS 9;
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28;
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19;
- Amendments to References to the Conceptual Framework in IFRS Standards.

The Company and the Group are currently assessing the impact of these amendments on their financial statements.

There are no other new or amended standards and interpretations that are not yet effective and that may have a material impact for the Group/Company.

2. Accounting principles (cont'd)

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.

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. Accounting principles (cont'd)

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 IAS 36 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.

2.7. 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.

2. Accounting principles (cont'd)

2.7. Accounting for emission rights (cont'd)

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.

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. Accounting principles (cont'd)

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

Accounting policies applied until 1 January 2018

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.

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.

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

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.

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

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 39 *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.

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

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

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.

Accounting policies applied from 1 January 2018

From 1 January 2018, the Group and the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group and the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- FVOCI – debt investment;
- FVOCI – equity investment; or
- FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group and the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group and the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery of amounts due.

	Group	Company
Opening retained earnings - IAS 39	11,500	11,181
Increase in provision for financial instruments	-	17
Increase in deferred tax assets relating to impairment provisions	-	-
Adjustment to retained earnings from adoption of IFRS 9 (statement of changes in equity)	-	17
Opening retained earnings - IFRS 9	11,500	11,164

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The table below lists the old valuation groups in accordance with IAS 39 and the new valuation groups according to IFRS 9 for each financial asset class of the Group and the Company at 1 January 2018.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasurement	New carrying amount under IFRS 9
Trade receivables	Loans and receivables	Amortised cost	9,993	-	9,993
Other receivables			671	-	671
Cash and cash equivalents *			6,610	-	6,610
Other financial assets	Financial asset held at fair value through profit/loss	At fair value though profit/loss	1	-	1
Total financial assets:			17,275	-	17,275

* Major amounts of cash is hold in the banks and financial institutions with a Standards & Poor's rating not lower than A+, the impact of adoption of IFRS 9 has not had a significant effect on the remeasurement and valuation of the Group's and the Company's cash and cash equivalents.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasurement	New carrying amount under IFRS 9
Trade receivables	Loans and receivables	Amortised cost	9,993	-	9,993
Other receivables			649	-	649
Loans to group entities			60	(17)	43
Cash and cash equivalents *			6,511	-	6,511
Other financial assets	Financial asset held at fair value through profit/loss	At fair value though profit/loss	1	-	1
Total financial assets:			17,214	(17)	17,197

Groups of financial assets for ECL (expected credit loss) measurement purposes as at 30 September 2018 the Group and the Company has two groups of financial instruments:

- trade receivables and other receivables for which lifetime ECL is calculated using simplified approach described below in paragraph Measurement of ECL – Trade receivables,
- other financial assets measured at amortized cost (includes loans granted). 12-month ECL is calculated for these financial assets if no significant increase in credit risk is identified, or lifetime ECL if significant increase in credit risk is identified. General individual assessment model is applied for ECL calculation, described below in paragraph Measurement of ECL – other financial assets measured at amortised cost.

Measurement of significant increase in credit risk

The Group and the Company measures the probability of default upon initial recognition of a financial asset and at each balance sheet date considers whether there has been a significant increase in credit risk since the initial

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

recognition. To assess whether there is a significant increase in credit risk the Group and the Company compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The following indicators are assessed when analysing whether significant increase in credit risk has occurred:

- significant changes in internal credit rating (described below in paragraph "Other financial assets measured at amortised cost");
- significant change in external credit rating (if available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the client's ability to meet its obligations;
- actual or expected significant changes in the operating results of a client.

According to the overdue debt recovery statistical data of the Group and the Company the Management believes that the credit risk has not increased significantly since initial recognition even if the contractual payments are more than 30 days past due.

Write-off policy

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan and the Group does not possess any collateral or other means of recovery. After write-off the Group continues to engage in enforcement activity with attempt to recover the receivable due. Any recoveries are recognised as a gain in profit/loss.

Measurement of ECL- trade receivables and other receivables

The Group and the Company apply the simplified approach for calculation of lifetime expected credit losses using the provision matrix for all trade receivables and other receivables. To measure the expected credit losses using provision matrix, trade receivables are split into separate pools, based on shared credit risk characteristics. Receivables in each pool are grouped according to payment delay days and loss rates are applied to each delay group. The loss rates are calculated using statistical recovery information from the last 3 years (when available) and adjusted if considered necessary taking into account forward looking information. The table below shows expected credit loss information calculated for the Group and the Company according to each delay group. As trade receivables usually do not include any collateral or other credit enhancements, expected loss rate equals probability of default.

Trade receivables:

		Past due						
	Not past due	1-60 days	61-150 days	151-240 days	241-330 days	331-690 days	More than 691 days	Total
2018								
Group								
Expected loss rate %	5	20	50	60	80	90	100	
Gross carrying amount	1,403	223	253	784	395	1,528	6,720	11,306
Loss allowance provision	70	45	127	471	316	1,375	6,720	9,124
Company								
Expected loss rate %	5	20	50	60	80	90	100	
Gross carrying amount	1,403	223	253	784	395	1,528	6,720	11,306
Loss allowance provision	70	45	127	471	316	1,375	6,720	9,124

2. Accounting principles (cont'd)

2.10. Financial assets (cont'd)

Lifetime expected credit loss is calculated for trade receivables applying the simplified approach and they are classified in Stage 2 in line with requirements of IFRS9.

Measurement of ECL - other financial assets measured at amortised cost

Other financial assets at amortised cost include loans to related.

The Group and the Company uses individual assessment model for determining ECL for other financial assets. The Group uses five categories of internal credit rating (category 1 being least risky and category 5 – defaulted), which reflect credit risk of financial assets. Other financial assets are assigned to a certain category using a combination of these indicators:

- EBITDA margin;
- liquidity ratio;
- equity ratio;
- debt ratio.

Expected changes in macroeconomic situation is incorporated as part of the internal rating model. The Group's management reviews key macroeconomic indicators for the markets where Group's debtors are operating and determines if there are expected significant changes that would effect ECL. If management determines that there are no such significant expected changes in macroeconomic variables, ECL based on historical information is used.

The Group's and the Company's loss allowance provision as at 30 September 2018 for other financial assets measured at amortised cost is determined as follows:

Internal credit rating	Expected credit losses (%)	Basis for recognition of expected credit loss provision	Gross carrying amount	Loss allowance provision
3	24	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime	348	84

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. Accounting principles (cont'd)

2.13. Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

2.14. Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash with banks, cash in transit, deposits held at call with banks, and other short-term highly liquid investments.

2.15. Employee benefits

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

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

2.16. Borrowing costs

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

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

2. Accounting principles (cont'd)

2.17. Financial liabilities and equity instruments (cont'd)

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.

Classification of financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial liabilities as at 1 January 2018.

Financial liabilities	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasurement	New carrying amount under IFRS 9
Trade payables			7,193	-	7,193
Financial liabilities	Other financial liabilities	Financial liabilities	24,704	-	24,704
Finance lease liabilities		measured at amortised cost	297	-	297
Other payables			303	-	303
Derivative financial instruments	Financial liability held at fair value through profit/loss	At fair value though profit/loss	16	-	16
Total financial liabilities:			32,513	-	32,513

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial liabilities as at 1 January 2018.

2. Accounting principles (cont'd)

2.17. Financial liabilities and equity instruments (cont'd)

Financial liabilities	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Remeasurement	New carrying amount under IFRS 9
Trade payables			406	-	406
Financial liabilities	Other financial liabilities	Financial liabilities	21,868	-	21,868
Finance lease liabilities		measured at amortised cost	297	-	297
Other payables			303	-	303
Total financial liabilities:			22,874	-	22,874

2.18. Lease

Accounting policies applied until 1 January 2018

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

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

The Group and the Company as lessee

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

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

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

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

Accounting policies applied from 1 January 2018

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.

2. Accounting principles (cont'd)

2.18. Leasing (cont'd)

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.

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. Accounting principles (cont'd)

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.

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. Accounting principles (cont'd)

2.22. Revenue recognition

The Group and the Company recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, excluding value added tax, discounts and rebates. The Group and the Company recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer—a contract is an agreement between two or more parties that creates enforceable rights and obligations.

Step 2: Identify the performance obligations in the contract—a contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately.

Step 3: Determine the transaction price—the transaction price is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount of customer consideration, but it may sometimes include variable consideration or consideration in a form other than cash. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component and for any consideration payable to the customer.

Step 4: Allocate the transaction price to the performance obligations in the contract—an entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation—an entity recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time or over time.

The Group and the Company recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The Group and the Company base their estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised using the methods outlined below:

Revenue from sales of heat energy

Revenue from sales of heat energy 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 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

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

2. Accounting principles (cont'd)

2.22. Revenue recognition (cont'd)

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Financing component

The Group and the Company do not have and do not expect to have contracts in which the period between the provision of goods or services and the payment of the customer would exceed one year. For this reason, the Group and the Company do not separately account the financing component.

Other revenue

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.

Adoption of IFRS 15

On 1 January 2018, the Group and the Company adopted IFRS 15 (Revenue from Contracts with Customers), interpretations of which are mandatory for future accounting periods from 1 January 2018.

Revenue recognition criteria

Until 1 January 2018, the Group recognised revenue in accordance with IAS 18 (Revenue), which requires that revenue is recognized when it is "probable that future economic benefit will flow" to the Group.

IFRS 15 requires that revenue is recognised at the "transaction price" when certain contractual obligations are met but with any "variable consideration" elements of the price recognised when it is "highly probable" that there will be no reversal of that revenue. There are no material differences in revenue policy and estimation methodology compared to the IAS 18 policy.

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.

2. Accounting principles (cont'd)

2.24. Foreign currencies (cont'd)

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).

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).

2. Accounting principles (cont'd)

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

Allowances for accounts receivable

Accounting policies applied until 1 January 2018

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).

Accounting policies applied from 1 January 2018

The Group and the Company recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost: trade receivable, loans, other receivable and accrued revenue.

Loss allowances for trade receivables, loans and contract assets are always measured at an amount equal to lifetime ECL, all other financial assets with no significant increase in credit risk are measured as 12-month ECL, with significant increase in credit risk – lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group and the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group and the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and Company's historical experience and informed credit assessment and including forward-looking information.

For more detailed information about ECL modules used by the Group and the Company and significant increase in credit risk details see Note 2.10.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The loss allowance is charged to profit or loss and is recognised in operating expenses as impairment-related expenses.

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

2. Accounting principles (cont'd)

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

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).

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 30 September 2018:

Group	Carrying amount	Fair value hierarchy level			
		Level 1	Level 2	Level 3	All in:
Other financial assets	1	-	-	1	1
Trade receivables	2,182	-	-	2,182	2,182
Other receivables	707	-	-	-	-
Cash and cash equivalents	10,446	-	-	-	-
Non-current borrowings and lease obligations	(26,001)	-	-	(26,001)	(26,001)
Trade payables	(2,503)	-	-	-	-
Derivative financial instruments	(12)	-	(12)	-	(12)
Other current liabilities	(415)	-	-	-	-
		-	(12)	(23,818)	(23,830)

Company	Carrying amount	Fair value hierarchy level			
		Level 1	Level 2	Level 3	All in:
Other financial assets	1	-	-	1	1
Loans to entities of the entities group	264	-	-	264	264
Trade receivables	2,182	-	-	2,182	2,182
Other receivables	673	-	-	-	-
Cash and cash equivalents	10,402	-	-	-	-
Non-current borrowings and lease obligations	(23,604)	-	-	(23,604)	(23,604)
Trade payables	(2,462)	-	-	-	-
Other current liabilities	(397)	-	-	-	-
		-	-	(21,157)	(21,157)

2. Accounting principles (cont'd)

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

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)

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 30 September 2018 the book value of the intangible assets of the Group increased by EUR 981 thousand, the Company – respectively EUR 856 thousand.

As of 30 September 2018 part of the non-current intangible assets of the Group and the Company with the acquisition cost of EUR 1,285 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 5,489 thousand and EUR 5,036 thousand respectively (as of 31 December 2017 – EUR 7,751 thousand and EUR 7,101 thousand respectively). The amounts of EUR 5,448 thousand and EUR 5,008 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 41 thousand and EUR 28 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 43 thousand during the 9 months of 2018 (EUR 24 thousand – during 2017 year).

As of 30 September 2018 part of the property, plant and equipment of the Group with acquisition cost of EUR 54,091 thousand (EUR 51,275 thousand as of 31 December 2017) and the Company – EUR 54,046 thousand were fully depreciated (EUR 51,230 thousand as of 31 December 2017), but were still in active use.

As of 30 September 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 30 September 2018 the sum of the Group and the Company contractual commitments for the acquisition of property, plant and equipment amounted to EUR 23,677 thousand (as of 31 December 2017 – EUR 8,070 thousand).

As of 30 September 2018 property, plant and equipment of the Group with the net book value of EUR 51,328 thousand (EUR 52,225 thousand as of 31 December 2017) and the Company of EUR 47,571 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 23 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 30 September 2018 the Group and the Company accounted for assets, not yet ready for use, amounting to EUR 336 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 280 thousand at September 30 2018 (EUR 358 thousand in 2017 respectively), and the net book value respectively EUR 228 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

- 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.

Investment to subsidiaries	As of 30 September 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

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 348 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. As of 30 September 2018 amounted to EUR 84 thousand depreciation of this loan, which were included into the caption of write-offs and change in allowance for accounts receivables in the Company's statements of Profit (loss) and Other Comprehensive Income.

6. Inventories

	Group		Company	
	As of 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Technological fuel	1,160	1,182	1,131	1,096
Spare parts	488	466	488	466
Materials	584	433	584	432
	2,232	2,081	2,203	1,994
Less: write-down to netrealizable value of inventory at the end of the period	(639)	(652)	(639)	(652)
Carrying amount of inventories	1,593	1,429	1,564	1,342

As of 30 September 2018 Group's and Company's amounted to EUR 639 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 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Trade receivables, gross	11,302	20,005	11,306	20,024
Less: impairment of doubtful receivables	(9,120)	(10,012)	(9,124)	(10,031)
	2,182	9,993	2,182	9,993

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

	Group	Company
Balance as of 31 December 2016	11,255	11,293
Additional allowance formed	(830)	(849)
Write-off	(413)	(413)
Balance as of 31 December 2017	10,012	10,031
Additional allowance formed	(464)	(479)
Write-off	(428)	(428)
Balance as of 30 September 2018	9,120	9,124

In 2018 the Group and the Company wrote off EUR 428 thousand and EUR 428 thousand of bad debts respectively (in 2017 – EUR 413 thousand and EUR 413 thousand). In 2018 the Group recovered EUR 3 thousand and the Company – EUR 3 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 30 September 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	1,333	178	126	313	79	153	2,182
2017	8,381	760	150	144	138	420	9,993

The ageing analysis of the Company's net value of trade receivables As of 30 September 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	1,333	178	126	313	79	153	2,182
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 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Taxes	584	-	577	-
Other receivables	393	974	421	1,011
Less: value impairment of doubtful receivables	(270)	(303)	(325)	(362)
	707	671	673	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	(33)	(37)
Write-off	-	-
Balance as of 30 September 2018	270	325

As of 30 September 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 30 September 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	71	22	11	9	2	8	123
2017	499	123	20	18	2	9	671

The ageing analysis of the Company's net value of other receivables (excluding taxes) As of 30 September 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	44	22	11	9	2	8	96
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 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Cash in transit	148	428	148	428
Cash at bank	10,298	6,180	10,254	6,081
Cash on hand	-	2	-	2
	10,446	6,610	10,402	6,511

The Group's accounts in banks amounting to EUR 3,641 thousand as of 30 September 2018 (as of 31 December 2017 – EUR 4,815 thousand) and the Company's to EUR 3,613 thousand as of 30 September 2018 (as of 31 December 2017 – EUR 4,749 thousand) are pledged as collateral for the loans (Note 10).

9. Reserves

Legal and other reserves

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

On 28 April, 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.

On 26 April, 2018 the Company annulled other reserves (EUR 100 thousand) by the decision of shareholders, EUR 3,168 thousand transferred from retained earnings to legal reserve and EUR 100 thousand to other reserves. Reserve was formed for support – EUR 100 thousand.

10. Borrowings

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

	Group		Company	
	As of 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Non-current borrowings:	21,261	18,676	21,261	18,676
Payable in 2 to 5 years	12,259	10,207	12,259	10,207
Payable in more than 5 years	9,002	8,469	9,002	8,469
Current portion of non-current borrowings (except leasing which is disclosed in Note 11)	3,482	6,028	1,213	3,192
	24,743	24,704	22,474	21,868

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

	Group		Company	
	As of 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Current borrowings	-	-	-	-
Non-current borrowings	2.20	2.25	2.30	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 30 September 2018 (EUR 2,269 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 30 September 2018:

Credit institution	Date of contract	Effective interest rate	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 30.09.2018 EUR thousand	A part of 2018, EUR thousand
MF Lithuania*	09/04/2010	3.948	2,410	2,410	15/03/2034	1,497	-
MF Lithuania*	26/10/2010	3.948	807	807	15/03/2034	616	-
MF Lithuania*	02/09/2011	4.123	1,672	1,672	01/09/2034	1,391	-
Luminor**	22/08/2012	1.179	3,403	3,403	29/04/2022	2,269	2,269
AB SEB Bank	03/06/2013	1.42	2,760	799	30/06/2020	233	33
AB SEB Bank	03/06/2013	1.32	4,240	1,228	30/06/2020	353	51
AB SEB Bank	10/09/2013	1.78	5,200	1,506	30/09/2020	502	63
Luminor**	27/09/2013	1.92	1,300	377	30/09/2020	15	2
MF Lithuania*	15/01/2014	3.36	793	793	01/12/2034	707	42
AB SEB Bank	31/03/2014	1.73	5,400	1,564	15/01/2021	594	65
MF Lithuania*	31/03/2014	3.342	7,881	7,881	01/12/2034	7,030	414
AB SEB Bank	09/03/2015	1.63	579	579	28/02/2022	342	24
AB SEB Bank	09/03/2015	1.63	579	579	28/02/2022	195	24
OP Corporate***	02/12/2015	0.98	4,842	4,842	02/12/2022	2,940	173
AB SEB Bank	09/05/2016	0.94	459	459	30/04/2023	351	20
AB SEB Bank	09/05/2016	0.96	1,000	1,000	30/04/2021	517	50
AB SEB Bank	09/05/2016	0.94	579	579	30/04/2023	442	24
Luminor**	25/10/2016	1.12	1,894	1,894	29/09/2023	1,421	71
AB SEB Bank	22/12/2016	0.79	4,127	4,127	30/11/2024	2,631	127
AB SEB Bank	26/07/2017	1	697	697	30/07/2024	697	30
Danske Bank A/S	18/12/2017	-	2,340	2,340	18/12/2024	-	-
OP Corporate***	17/05/2018	-	10,070	10,070	30/04/2023	-	-
						24,743	3,482

* 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 30 September 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 30 September 2018:

Credit institution	Date of contract	Effective interest rate	Currency sum, thousand	Sum EUR thousand	Term of maturity	Balance as of 30.09.2018 EUR thousand	A part of 2018, EUR thousand
MF Lithuania*	09/04/2010	3.948	2,410	2,410	15/03/2034	1,497	-
MF Lithuania*	26/10/2010	3.948	807	807	15/03/2034	616	-
MF Lithuania*	02/09/2011	4.123	1,672	1,672	01/09/2034	1,391	-
AB SEB Bank	03/06/2013	1.42	2,760	799	30/06/2020	233	33
AB SEB Bank	03/06/2013	1.32	4,240	1,228	30/06/2020	353	51
AB SEB Bank	10/09/2013	1.78	5,200	1,506	30/09/2020	502	63
Luminor**	27/09/2013	1.92	1,300	377	30/09/2020	15	2
MF Lithuania*	15/01/2014	3.36	793	793	01/12/2034	707	42
AB SEB Bank	31/03/2014	1.73	5,400	1,564	15/01/2021	594	65
MF Lithuania*	31/03/2014	3.342	7,881	7,881	01/12/2034	7,030	414
AB SEB Bank	09/03/2015	1.63	579	579	28/02/2022	342	24
AB SEB Bank	09/03/2015	1.63	579	579	28/02/2022	195	24
OP Corporate***	02/12/2015	0.98	4,842	4,842	02/12/2022	2,940	173
AB SEB Bank	09/05/2016	0.94	459	459	30/04/2023	351	20
AB SEB Bank	09/05/2016	0.96	1,000	1,000	30/04/2021	517	50
AB SEB Bank	09/05/2016	0.94	579	579	30/04/2023	442	24
Luminor**	25/10/2016	1.12	1,894	1,894	29/09/2023	1,421	71
AB SEB Bank	22/12/2016	0.79	4,127	4,127	30/11/2024	2,631	127
AB SEB Bank	26/07/2017	1	697	697	30/07/2024	697	30
Danske Bank A/S	18/12/2017	-	2,340	2,340	18/12/2024	-	-
OP Corporate***	17/05/2018	-	10,070	10,070	30/04/2023	-	-
						22,474	1,213

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

11. 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	Company
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 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Within one year	68	122	63	122
After one year	2,393	185	2,133	185
Total lease obligations	2,461	307	2,196	307
Interest	(1,257)	(10)	(1,120)	(10)
Present value of lease obligations	1,204	297	1,076	297
Lease obligations are accounted for as:				
- current	66	116	62	116
- non-current	1,138	181	1,014	181

12. Grants (deferred income)

	Group		Company	
	As of 30 September 2018	As of 31 December 2017	As of 30 September 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	48	3,284	48	3,284
Amortization	(999)	(1,244)	(877)	(1,083)
Balance at the end of the reporting period	18,558	19,509	17,548	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 30 September 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 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 30 September 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 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 30 September 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 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 30 September 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 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 30 September 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 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 30 September 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 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 30 September 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 30 September 2018.

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 30 September 2018.

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 30 September 2018.

On 9 March 2018 the Group and the Company signed the agreement on the financing and administration of the project "Installation up to 1 MW biofuel burned boiler in Noreikiškės boiler-house", according to which a

financing in amount of EUR 147 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018 the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 1T", according to which a financing in amount of EUR 1,083 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018 the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 1Ž and 7Ž", according to which a financing in amount of EUR 968 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018 the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 4T", according to which a financing in amount of EUR 1,427 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018 the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 5T", according to which a financing in amount of EUR 2,288 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018 the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 8K", according to which a financing in amount of EUR 609 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018 the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of Kaunas city main 8Ž and 9Ž", according to which a financing in amount of EUR 996 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

On 23 May 2018 the Group and the Company signed the agreement on the financing and administration of the project "Reconstruction of district heating networks of Kaunas city in Chemijos and Medvėgalio streets", according to which a financing in amount of EUR 2,489 thousand is allocated to the Company from the European Regional Development Fund after terms and conditions of the agreement are fulfilled.

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 I-III quarter	2017	2018 I-III quarter	2017
Employee benefit liability at the beginning of the year	1,270	1,331	1,265	1,328
Paid	(392)	(86)	(392)	(86)
Formed	187	25	185	23
Employee benefit liability at the end of the year	1,065	1,270	1,058	1,265
Non-current employee benefit liability	933	864	926	859
Current employee benefit liability	132	406	132	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 392 thousand (in 2017 – EUR 86 thousand), and by the Company – EUR 392 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 30 September 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 2,269 thousand as at 30 September 2018. This derivative instrument is recognized at fair value calculated by the bank as at 30 September 2018 – EUR 12 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 I-III quarter	2017	2018 I-III quarter	2017
Heat supplies	38,867	56,084	38,876	56,096
Hot water supplies	2,374	2,981	2,374	2,981
Maintenance of hot water meters	304	355	304	355
Maintenance of manifolds	188	250	188	250
Maintenance of heat and hot water systems	8	10	8	10
Electric energy	-	-	-	-
	41,741	59,680	41,750	59,692

16. Other expenses

	Group		Company	
	2018 I-III quarter	2017	2018 I-III quarter	2017
Equipment verification and inspection	318	542	316	541
Other expenses	330	402	305	361
Maintenance of manifolds	287	396	287	396
Sponsorship	5	287	5	287
Cash collection expenses	150	180	150	180
Customer bills issue and delivery expenses	35	117	35	117
Transport expenses	55	116	53	116
Debts collection expenses	38	102	38	102
Long term assets maintenance and related services	64	95	64	95
Employees related expenses	72	83	72	83
Membership fee	68	81	68	81
Consulting expenses	73	72	73	72
Insurance	48	68	42	60
Communication expenses	39	54	39	53
Advertising expenses	36	54	36	54
Audit expenses	44	52	44	41
Rent of equipment and machinery	8	24	8	24
	1,670	2,725	1,635	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 I-III quarter	2017	2018 I-III quarter	2017
Income from other operating activities				
Materials sold	393	408	393	408
Miscellaneous services	273	375	185	259
Damage compensation	242	241	242	241
Other	252	111	252	111
Gain from sale of non-current assets	-	15	-	3
	1,160	1,150	1,072	1,022
Expenses from other operating activities				
Cost of miscellaneous services	(195)	(258)	(109)	(149)
Other	(28)	(104)	(28)	(104)
Write off of non-current assets	-	(4)	-	(4)
Cost of materials sold	(64)	(2)	(64)	(2)
	(287)	(368)	(201)	(259)

18. Other interest and similar income

	Group		Company	
	2018 I-III quarter	2017	2018 I-III quarter	2017
Interest from late payment of accounts receivable	180	249	180	248
Change in fair value of derivative financial instruments	4	18	-	-
Other	-	-	1	-
	184	267	181	248

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

	Group		Company	
	2018 I-III quarter	2017	2018 I-III quarter	2017
Interest	(433)	(563)	(398)	(511)
Impairment of non-current financial assets	-	-	-	(1,060)
Penalties	(12)	-	(12)	-
	(445)	(563)	(410)	(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 I-III quarter	2017	2018 I-III quarter	2017
Net profit	1,875	6,886	2,047	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)	0.04	0.16	0.05	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 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Private persons	115,109	114,843	115,109	114,843
Other legal entities	2,446	2,381	2,446	2,381
Legal entities financed from municipalities' and state budget	667	678	667	678
	118,222	117,902	118,222	117,902

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

	Group		Company	
	As of 30 September 2018	As of 31 December 2017	As of 30 September 2018	As of 31 December 2017
Private persons	1,951	7,950	1,951	7,950
Other legal entities	143	1,186	143	1,186
Legal entities financed from municipalities' and state budget	88	857	88	857
	2,182	9,993	2,182	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 30	As of 31	As of 30	As of 31
	September 2018	December 2017	September 2018	December 2017
AA-	7,898	2,716	7,854	2,617
A+	2,205	3,350	2,205	3,350
A	144	60	144	60
Bank with no rating attributed	51	54	51	54
	10,298	6,180	10,254	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 30 September 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.

	Increase/decrease in basis points	Effect on income tax
2018		
EUR	50	(8)
EUR	(50)	8
2017		
EUR	50	(8)
EUR	(50)	8

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities as of 30 September 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	26,001	(30,702)	(3,689)	-	(14,191)	(12,822)
Trade payables	2,292	(2,292)	(2,273)	-	(19)	-
Payables to contractors	211	(211)	(211)	-	-	-
Derivative financial instruments	12	(12)	(12)	-	-	-
Balance as of 30 September 2018	28,516	(33,217)	(6,185)	-	(14,210)	(12,822)

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 30 September 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	23,604	(28,161)	(1,408)	-	(14,172)	(12,581)
Trade payables	2,251	(2,251)	(2,238)	-	(13)	-
Payables to contractors	211	(211)	(211)	-	-	-
Balance as of 30 September 2018	26,066	(30,623)	(3,857)	-	(14,185)	(12,581)

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)

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 30 September 2018 were 1.89 and 1.70 respectively (1.22 and 1.13 as of 31 December 2017). The Company's liquidity and quick ratios as of 30 September 2018 were 2.64 and 2.37 respectively (1.48 and 1.38 as of 31 December 2017). As of 30 September 2018 Groups' and Company's net working capital was plus respectively (EUR 7,225 thousand and EUR 9,418 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.

Trade payables

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

	Group		Company	
	As of 30	As of 31	As of 30	As of 31
	September 2018	December 2017	September 2018	December 2017
For heat purchased	646	3,740	646	3,976
Contractors	361	1,749	361	1,749
Other suppliers	1,496	1,704	1,455	1,439
	2,503	7,193	2,462	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 30 September 2018 the Group and the Company had an EUR 19 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 30 September 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 30	As of 31	As of 30	As of 31
	September 2018	December 2017	September 2018	December 2017
Non-current liabilities (including deferred tax and grants (deferred income))	46,832	44,113	45,920	43,211
Current liabilities	8,103	15,702	5,741	12,767
Liabilities	54,935	59,815	51,661	55,978
Equity	87,692	89,343	87,547	89,024
Debt* to equity ratio (percent)	62.65	66.95	59.01	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 contingencies

Leasing 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 25.285 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 AB (publ) 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 mount to EUR 2,269 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 I-III quarter	Purchases	Sales	Receivables	Payables
Kaunas city municipality and entities financed and controlled by Kaunas city municipality	855	3,866	328	205
Jurbarkas city municipality	11	355	1	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	14	391	120	-

The Group's and the Company's As of 30 September 2018 allowance for overdue receivables from entities financed and controlled by municipalities amounted to EUR 260 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 30 September 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 I-III quarter	1,434	4	1	-
2017	1,813	2	60	236
UAB Kauno Energija NT	Purchases	Sales	Receivables	Payables
2018 I-III quarter	4	8	67	-
2017	5	10	90	-

As at 31 December 2017 the Company has formed a value decrease in amount of EUR 67 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 30 September 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 I-III quarter	2017	2018 I-III quarter	2017
Key management remuneration	140	195	107	161
Calculated post-employment benefits	8	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 the I-III quarters 2018 expenditures of UAB Petrašiūnų Katilinė increased the expenditures of the Group by EUR 198 thousand (expenditures of fuel and energy purchased decreased by EUR 519 thousand, and expenditures of depreciation and all other expenditures increased by EUR 717 thousand), in the I-III quarters 2017 – increased by EUR 214 thousand (expenditures of fuel and energy purchased decreased by EUR 609 thousand, and expenditures of depreciation and all other expenditures increased by EUR 823 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.
