



# INTERIM REPORT 2017 FIRST-HALF

**CONSOLIDATED INTERIM REPORT OF THE COMPANY AND THE GROUP**

1 January 2017 – 30 June 2017

# Table of Contents

## **Interim Report of the Company and the Group**

About the Group and the Company	<b>6</b>
The most significant events for the first-half of 2017	<b>10</b>
Analysis of the Group's Financial and Operating Results	<b>13</b>
Overview of the Company's and the Group's operations	<b>23</b>
Corporate Responsibility	<b>29</b>
Corporate Governance	<b>31</b>
Basic information about the Company and the Group	<b>40</b>



## Key financial indicators of the Lietuvos Energija group (1)

		H1 2017	H1 2016	Δ, EUR	Δ, %
Revenue	EUR million	539,0	579,6	-40,6	-7,0%
Purchase of electricity, gas, fuel and related services	EUR million	373,6	375,9	-2,3	-0,6%
Operating expenses	EUR million	61,2	67,4	-6,2	-9,2%
EBITDA	EUR million	99,4	126,8	-27,4	-21,6%
EBITDA margin	%	18,4%	21,9%		
Adjusted EBITDA (2)	EUR million	120,2	114,9	5,3	4,6%
Adjusted EBITDA margin	%	22,3%	19,8%		
Net profit	EUR million	52,1	67,1	-15,0	-22,4%
Net profit margin	%	9,7%	11,6%		
Net profit (adjusted) (2)	EUR million	64,8	48,8	16,0	32,9%
Net profit (adjusted) margin	%	12,0%	8,4%		
Investments (3)	EUR million	82,4	133,7	-51,3	-38,4%
		At 30 Jun 2017	At 31 Dec 2016	Δ, EUR	Δ, %
Total assets	EUR million	2 320,5	2 432,2	-111,7	-4,6%
Equity	EUR million	1 309,6	1 319,5	-9,9	0,8%
Borrowings	EUR million	457,7	494,4	-36,7	-7,4%
Net debt	EUR million	353,9	315,8	38,1	12,1%
Return on equity (ROE)	%	9,9%	10,3%		
Equity ratio	%	56,4%	54,3%		
Net debt / 12-month EBITDA	times	1,51	1,24		
Net debt / Equity	%	27,0%	23,9%		
Assets turnover ratio	times	0,457	0,453		
Current liquidity	times	0,828	1,046		
Working capital	EUR million	124,0	145,4	-21,4	-14,7%
Working capital / Revenue	%	11,7%	13,2%		

(1) Financial indicators presented in the table include amounts from discontinued operations. Discontinued operations include Group's companies Duomenų Logistikos centras and Energetikų mokymo centras related with Group's non-core activities that are going to be transferred. The detailed amounts are presented in Note 12 of the consolidated and company's condensed interim financial information.

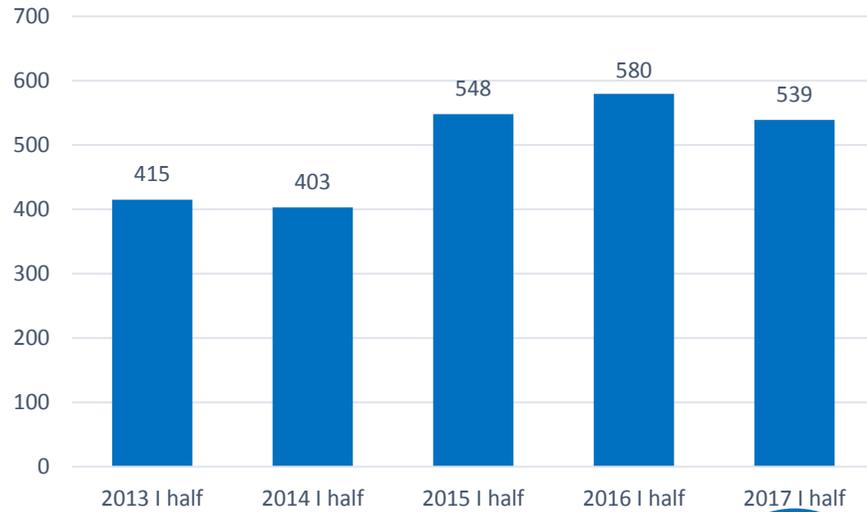
(2) In H1 of 2016 report adjustments for EBITDA and net profit resulting from temporary regulatory differences for ESO, Litgas and LDT were not made due to data collected only from beginning of 2016. The amounts in the table includes these adjustments.

(3) Investments amount presented in the table includes investment of EUR 62.7 million to wind power parks, this amount reflects the increase in The Group's property, plant and equipment.



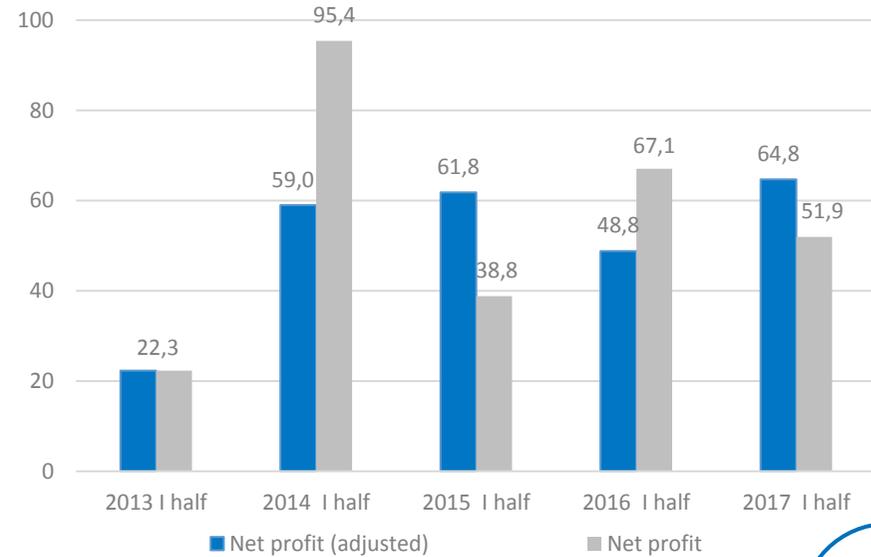
„Income of Lietuvos Energija Group reduced **by 7% due** to reduced electricity and gas transmission and distribution prices to consumers.

↓7%



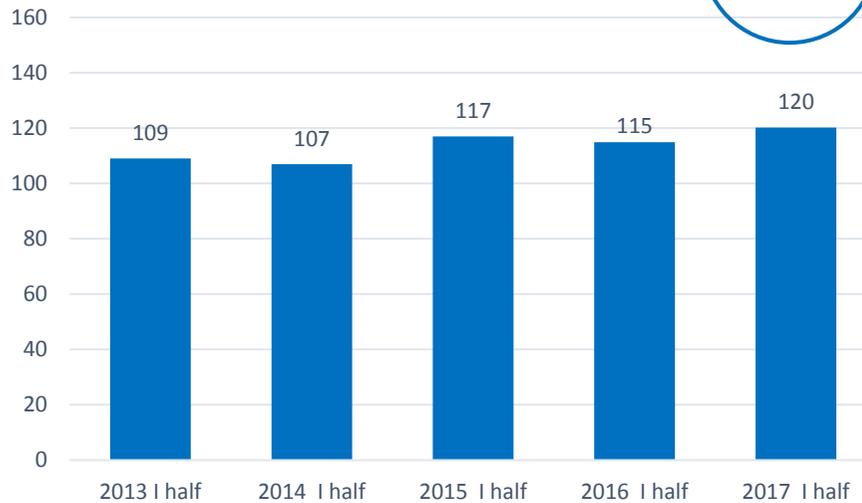
Lietuvos Energija Group's net adjusted profit grew by 33% up to **EUR 64,8 million**. Return on Equity was **9,9%**.

9,9%



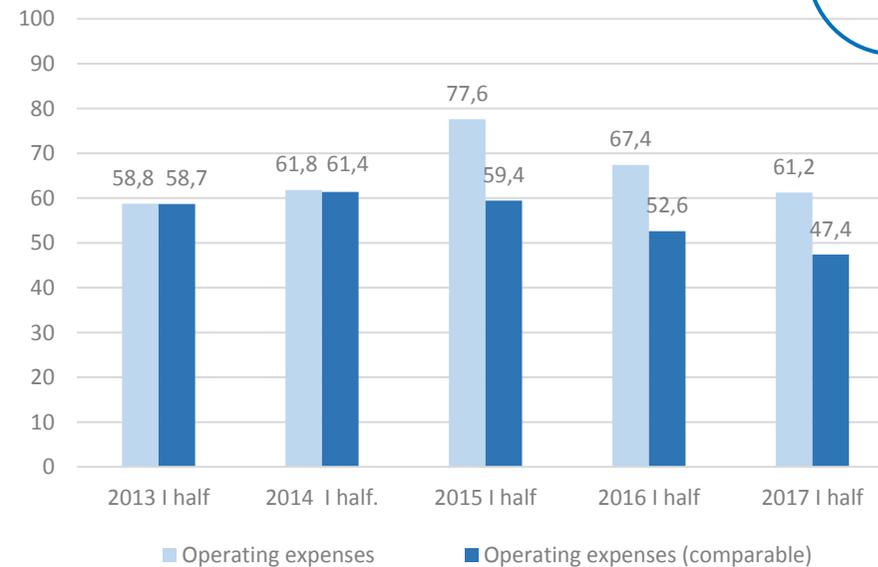
Adjusted EBITDA of Lietuvos Energija Group grew by **EUR 5,3 million**, mostly due to better EBITDA results of electricity generation and the Group's reduced operating costs.

↑15%



Operating costs of Lietuvos Energija reduced by **EUR 6,2 million** due to more efficient activities.

↓19%



Comparative costs - operating costs not associated with new businesses since 2013. Financial data is provided in million EUR.





# THE COMPANY AND THE GROUP

# About the Group and the Company

The Lietuvos Energija group is one of the largest state-owned groups of energy companies in the Baltic countries. The main activities of the Group include the generation and supply of electricity and heat, trading and distribution of electricity, trading and distribution of natural gas, as well as the servicing and development of the energy sector. The rights and obligations of the shareholder of the Lietuvos Energija group are implemented by the Ministry of Finance of the Republic of Lithuania.

The Lietuvos Energija group with about 4700 employees manages and operates the key energy generation capacities of Lithuania that ensure the security of energy supply, a distribution network covering the entire territory of the country, and provides services to almost 1.6 million of consumers across Lithuania, offers electricity supply services to consumers abroad, operates gas distribution pipelines in the length of 8.5 thousand km, supplies gas to 570 thousand consumers, implements development projects of strategic value and pursues the objective set forth in the National Energy Strategy. During the first-half of 2017 0,61 TWh of electricity were generated and 4,62 TWh of electricity were transmitted to consumers and 4,00 TWh of natural gas were transported via gas distribution pipelines.

The parent company of the Group – Lietuvos Energija, UAB (hereinafter – Lietuvos Energija or the Company) is responsible for transparent management and coordination of activities of the whole Group, improvement of the efficiency in order to ensure competitive services for consumers, and for socially responsible creation of long-term value for its shareholders. The Company analyses the activities of the Group, represents the Group, implements rights and obligations of the shareholder, establishes operational guidelines and rules, and coordinates the activities in the areas of production, commerce, finance, law, strategy and development, human resources, risk management, audit, technology, communication and others.



0,61 TWh of electricity generated



4,62 TWh of electricity distributed



4,00 TWh of natural gas distributed



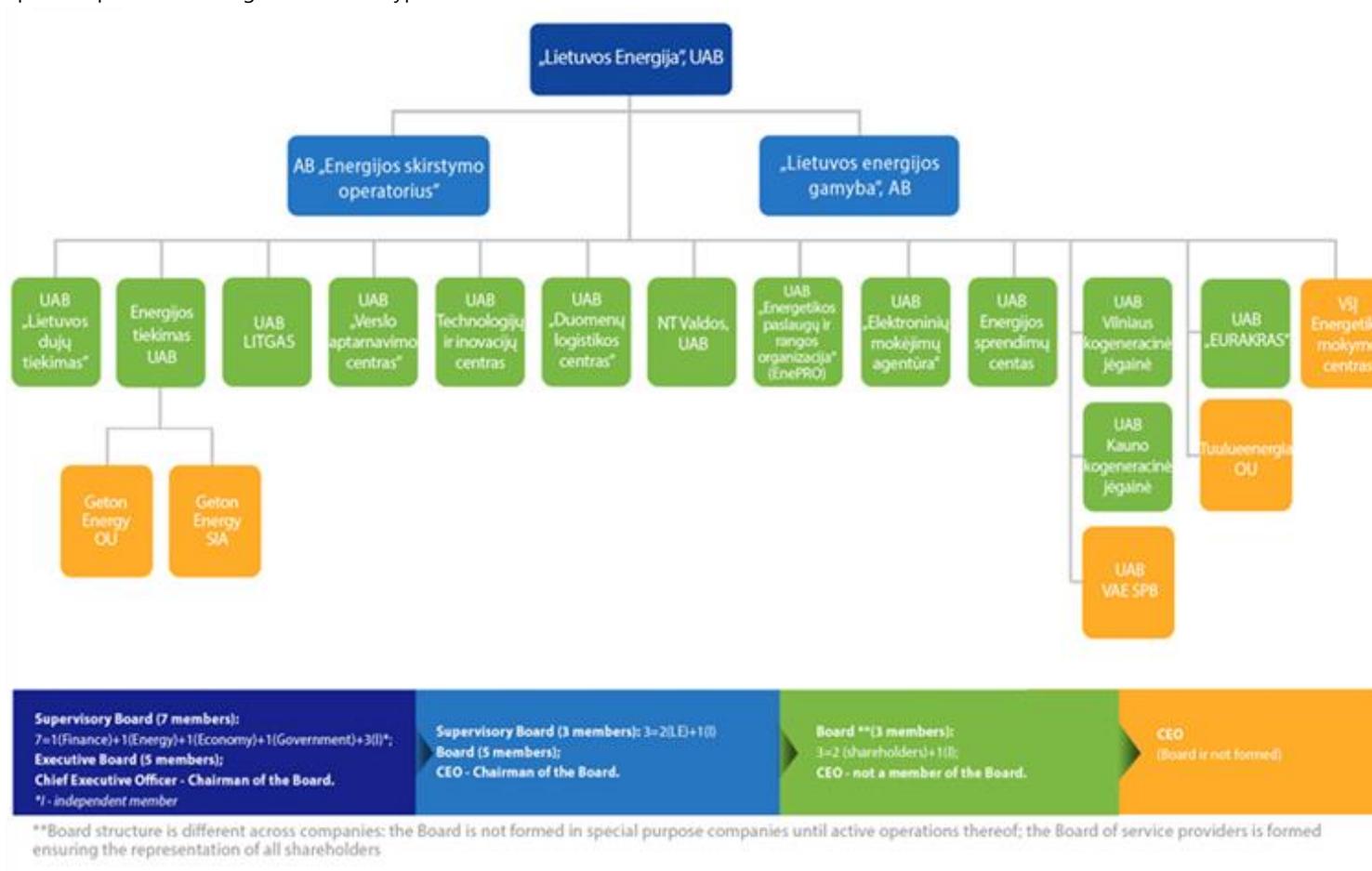
More than 1,6 million customers served



# Structure of the Group

At the reporting date, the Lietuvos Energija group consisted of 21 companies: the parent Company and 20 directly and indirectly controlled companies and establishments. The main business activities of the Group are the generation of electricity and heat, transmission trading, distribution and supply, trade in natural gas and its distribution. Activities of the Group's companies servicing these main types of business activities

comprise ITT, real estate, transport, repair and construction of energy facilities, professional development of employees, public procurement, accounting, administration of employment relationships and other services. The organisational chart of the Group effective from 30 June 2017 is presented below.



# The Group's strategy



The main goal of the strategy of the Lietuvos Energija group is to **double the value of the Group and to become the highest-value energy company in the Baltic countries by 2020**. This value is perceived as a sustainable balance of three components: return on assets, improvement of competitiveness and responsibility towards employees, society and environment.

The Group's return on assets is increased through the development – by diversifying activities, indulging in new and economically feasible projects and activities, acquiring enterprises, ensuring the efficiency of daily operations and achieving the goals set by the shareholder. The Group will reinforce the country's competitiveness by ensuring a stable supply of electricity and natural gas, offering new products and promoting rational use of electricity and natural gas. The Group assumes responsibility towards society and its employees, proactively implements environmental requirements and ensures the continuity and improvement of skills

### **The main strategic directions of the Group**

**Ensuring quality services to consumers.** The care is taken to achieve better servicing of consumers, develop electronic (time-saving) and new services responding to the needs of consumers, increase consumer choices and guarantee the reliability of generation, distribution and supply of electricity and of distribution and supply of natural gas.

**Diversifying the operations.** The diversification includes implementation of investment projects in the sectors of electricity, heat and natural gas. The projects increase the competitiveness of the Group and the national economy at large as well as the country's

energy independence, optimisation of the production and trading portfolio, development of new activities by extending the value chain of the Lietuvos Energija group. These goals will be achieved using the available resources and infrastructure, investing in the creation of new infrastructure and effective governance, as well as through acquisitions.

**Enhancing the efficiency of operations.** The efficiency is pursued in the main activities of the Group, as well as in the provision of support functions, management of assets and other resources across all Group companies. In order to achieve higher efficiency, the management and control system of the Group companies is integrated by setting the common principles of business management, division, coordination and control of responsibilities. Efficiency improvement measures covering all Group companies or identical or very similar activities at the individual company level are also continued. Active sharing of best practices between companies is promoted and sought.

**Building new organisational culture.** A modern, effective and dynamic organisation is being created operating on the basis of common values, developing in a consistent and targeted manner the required competences and successors for key employees, and offering internal environment which encourages the involvement of employees.



# The most significant events for the first-half of 2017

## 2017 January

2 January . LITGAS, by cooperating with LDT, rendered the LNG filling services in Klaipėda LNG terminal for the first small scale LNG carrier “Coral Energy” to which about 15 thousand cubic m of LNG were transhipped that are carried to one of the small terminals in the Baltic Sea.

17 January. VKJ signed an agreement with AF-Consult company that will provide the engineer’s services provided for in FIDIC contract of works

20 January. Ignas Pranskevičius was appointed as a Board member of ESO company and Director of the Service Bureau.

## 2017 February

2 February. By further purifying its activities, Lietuvos Energija started the sale of EMC.

8 February. NTV announced a public auction of real estate offering to acquire 29 objects which total value is EUR 17.8 million.

24 February. LITGAS Company optimizes the schedule of prescribed supply of LNG cargo in 2017. This will enable to earn up to EUR 1 million. By this amount, maintenance costs of the natural gas infrastructure will be directly reduced for business and residents.

## 2017 March

1 March. Seeking to diversity the available debt portfolio, Lietuvos Energija announced of its plan to distribute in the market up to EUR 200 million worth debentures. The funds received will be invested by Lietuvos Energija into the green energy projects.

17 March. KKJ concluded agreements on equipment supply and designing, procurement, and construction management services (EPCM) for a new energy plant.

## 2017 April

4 April. ESO company is the first in the Baltic States that launched trials of the smart joint – electricity and gas – accounting. The Company installed smart remote-sensing devices that transmit energy consumption data to ESO accounting system for 50 households in Vilnius using electricity and natural gas.

26 April. Vilnius authorities allowed to build a co-generation plant - Vilnius Council approved a cooperation agreement among the municipality, VŠT, and Lietuvos Energija laying down that TECa co -3 holding should take it over by 1 October, and approved bigger height of the energy plant.



## May 2017

May 9. The Environmental Protection Agency approved the report on the environmental impact assessment and gave a green light to the wind power plant park at Kruonis HAE.

May 16. Notice to proceed to the VKJ contractors.

May 31. KKJ signed the project funding contract with Swedbank providing the credit.

May 31. The NCCP approved the new natural gas distribution price effective as of July 1. Higher efficiency in the performance of ESO allowed reduction of the price by 5-6 per cent in all seven

## June 2017

June 1. The price of the capacity increase service for ESO business and private customers decreased by 19 per cent.

June 5. A subsidiary of Energijos Tiekimas registered in Poland under the name Geton Energy.

June 26. Lietuvos dujų tiekimas signed a contract with an American company Cheniere Marketing International and acquired a shipment of liquified natural gas

June 27. A credit rating company *Standard & Poor's* assigned one of the highest credit ratings –BBB+ with stable outlook to Lietuvos energija.

## July 2017 (beyond the reporting period)

July 10. Lietuvos energija successfully placed on the market a EUR 300 million worth 10 years' duration bond issue, the highest value and longest maturity issue of bonds ever offered by a Lithuanian company.

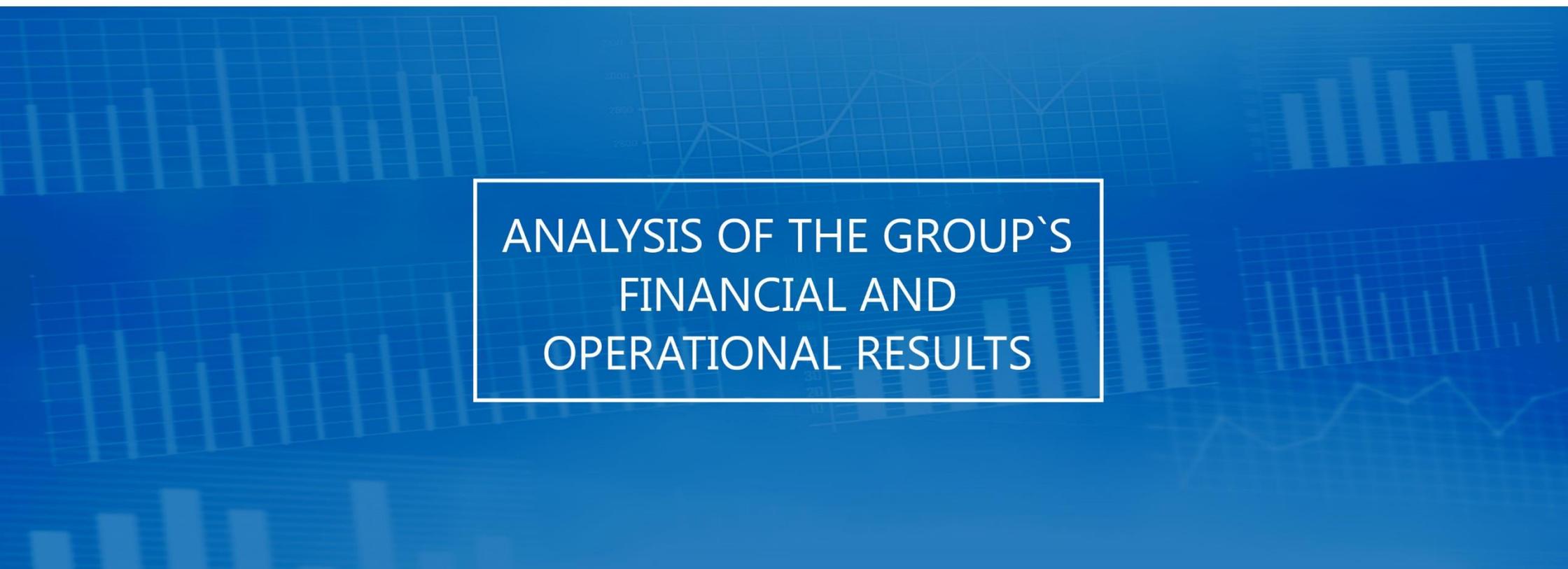
July 25. Lietuvos energija completed the preparatory process and signed the fund incorporation agreement. The management of the Innovations Fund and the development of the operations of the energy start-ups accelerator were entrusted to a highly experienced international team Contrarian Ventures which was selected from among five teams

## August 2017 (beyond the reporting period)

August 7. Lietuvos energija and Litgrid signed an agreement with Telia Lietuva regarding the sale of Duomenų logistikos centras.

August 14. Lietuvos energija successfully finalised the sale of a PE Energetikų mokymo centras (EMC), one of the largest providers of certification services for energy workers, their professional development and consulting activities. The EMC shareholder rights were acquired by the PE Kauno Virpstas, the buyer that offered the best price.



The background of the slide is a solid blue color with a faint, semi-transparent pattern of various financial charts and graphs, including bar charts and line graphs, scattered across the surface.

# ANALYSIS OF THE GROUP'S FINANCIAL AND OPERATIONAL RESULTS

# Analysis of the Group's financial and operating results

Key performance indicators		H1 2017	H1 2016	Δ, +/-	Δ, %
<b>Electric energy</b>					
Generated electricity	TWh	0.61	0.69	-0.08	-11.6%
Generated electricity using renewable energy sources	TWh	0.30	0.26	0.04	15.4%
Distributed electricity via medium and low voltage networks networks,	TWh	4.62	4.49	0.13	2.9%
Public and guaranteed supply	TWh	1.63	1.60	0.03	1.9%
Distributed to customers to independent suppliers	TWh	2.99	2.89	0.10	3.5%
Sales in the retail market	TWh	0.79	0.79	0.00	0.0%
Number of newly connected customers	pcs.	12,884	12,571	313	2.5%
Duration of connection of new customers (average)	calendar days	50.83	71.43	-20.60	-28.8%
<b>Electricity supply quality indicators</b>					
SAIDI, min. (incl. force majeure)	(min.)	63.79	114.93	51.14	44.5%
SAIFI, units (incl. force majeure)	pc.	0.60	0.66	-0.06	-9.1%
Technological costs in the distribution network	%	5.44%	5.82%		
<b>Gas</b>					
Distributed volume of gas	TWh	4.00	3.93	0.07	1.8%
Volume of gas sold	TWh	5.77	5.99	-0.22	-3.7%
Volume of gas purchased	TWh	5.74	5.57	0.17	3.1%
Volume of LNG purchased	TWh	1.66	3.48	-1.82	-52.3%
Volume of natural gas purchased	TWh	4.08	2.09	1.99	95.2%
Number of newly connected customers	pc.	5,633	1,671	3,962	237.1%
Duration of connection of new customers (average)	calendar days	177.41	171.91	5.50	3.2%
<b>Gas supply quality indicators</b>					
SAIDI, min. (incl. force majeure)	(min.)	0.195	0.356	-0.16	-45.2%
SAIFI, units (incl. force majeure)	pc.	0.002	0.005	-0.003	-60.0%
Technological costs in the distribution network	%	1.98%	2.16%		-8.3%

The main reason influencing electricity consumption is country's gross domestic product. Growth of country's gross domestic product caused rise in the volume of electricity distribution 2.9 per cent or 0.13 TWh, as compared to the previous year. The distribution of electric energy to independent customers was growing insignificantly up by 3.5 per cent, 0.1 TWh as compared with the previous year, and the public and guaranteed energy supply volumes remained at a similar level – 1.63 TWh (1.9 per cent).



During H1 2017, the generation of electric energy at Kaunas Algirdas Brazauskas' Hydroelectric Power Plant increased by 0.039 TWh or 19 per cent, as compared with the respective period in the previous year. The principal reason for the development was the increase in the level water in the Nemunas River caused by the flood in the early spring and a fairly rainy beginning of this summer.

The production volumes of the Kruonis HAE decreased – 0.228 TWh generated during H1 2017, a drop on a year-on-year basis (0.271 TWh). The wind parks operating in Estonia and Lithuania generated 0,062 TWh of electric energy, i.e., up by 0.005 TWh or 10 per cent as compared with the respective period in the previous year.

The generation capacities of Elektrėnai combined cycle gas production complex are activated only in view of high electricity price due to disconnections of NordBalt power links or other reasons. The generation of electricity in the combined cycle unit decreased by 50 per cent from 0.156 TWh to 0.078 TWh, because the production capacities were turned on less often compared to respective period in 2016. In January-June 2017, the combined cycle unit was activated in 10 instances and 30 times within the respective period in 2016.

The share of electricity produced from renewable energy resources increased by 15.4 per cent and in H1 2017 accounted for 49 per cent from all LE Group's electricity generation, mostly due to the increased level of water in the Nemunas River.

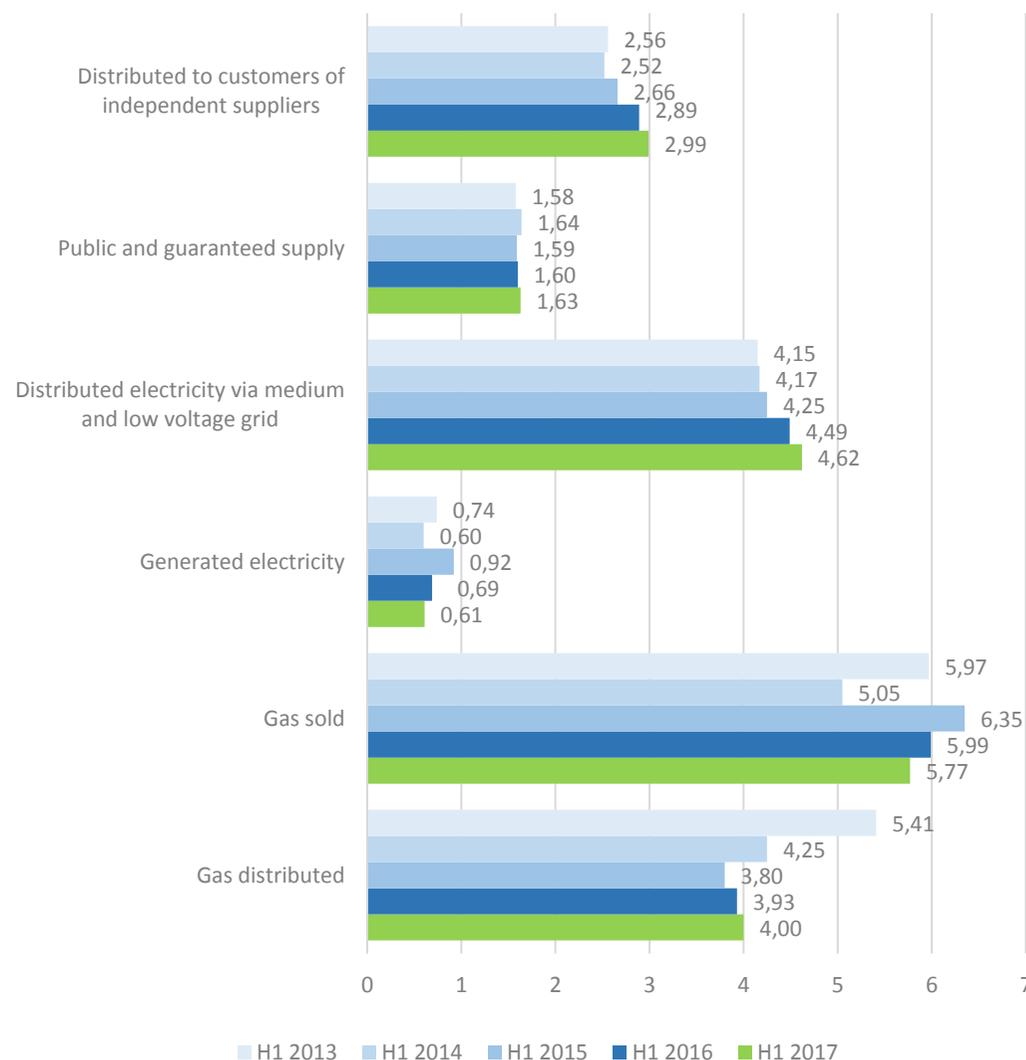
During H1 2017, the technological costs in the electricity distribution grid dropped to 5.44 per cent (H1 2016 – 5.82 per cent). During the reference period, the SAIDI indicator (incl. force majeure impact) decreased and was recorded at 63.79 min. and the SAIFI indicator in H1 2017 was equal to 0.6 times. The improvement in these indicators was due to fewer failures due to weather changes compared to H1 2016.

The volumes of gas distributed by group companies during H1 2017 increased by a mere 1.8 per cent or 0.07 TWh, if compared with H1 2016, mostly because of the increase in gas consumption at heat and electricity production companies due the heating season longer than in 2016. The amount of gas sold by the entities of the Group during H1 2017 decreased by 3.7 per cent. The lower volume of gas sold was mostly influenced by the decrease in sales to regulated energy producers.

Excluding the impact of force majeure, the SAIDI indicator in the gas distribution network decreased during H1 2017 and was recorded at 0.19 min. (0.36 min. in H1 2016), and the SAIFI indicator was around 0.002 units (0.005 units in H1 2016).

During H1 2017, 12,844 new customers were connected to the electricity distribution grid, the number representing an increase by 2.5 percent year-on-year. In the period from January to June 2017, 5,633 new customers were connected to the natural gas distribution grid, i.e., by 3.4 times more than during the same period in 2016. If compared H1 2017 and H1 2016 the average time period for connecting electricity consumers shortened by almost 21 days, for gas consumers lengthened by 6 days.

## Electricity generation, gas and electricity distribution and sale, TWh



# Key Financial Indicators

The financial data all presented in million EUR, unless indicated otherwise.

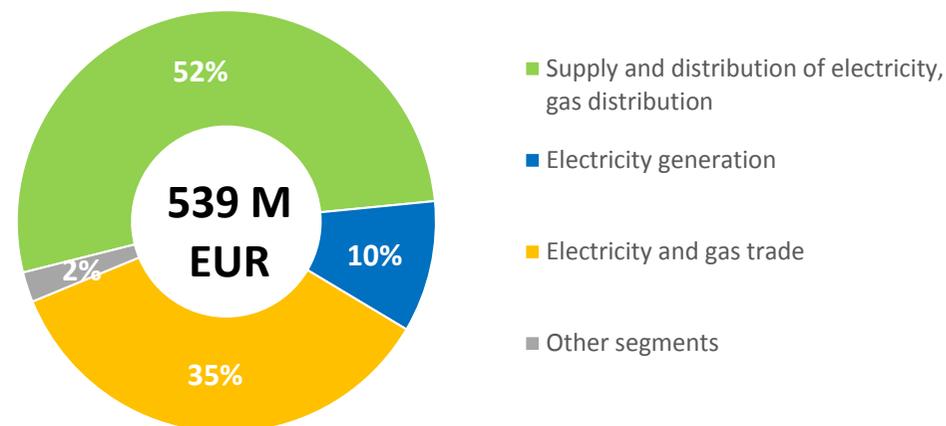
## Revenues

During the six months of 2017, revenue of Lietuvos energija Group decreased by -7 per cent year-on-year or -EUR 40.6 million, and were recorded at EUR 539 million. The principal reasons for the changes in the revenue:

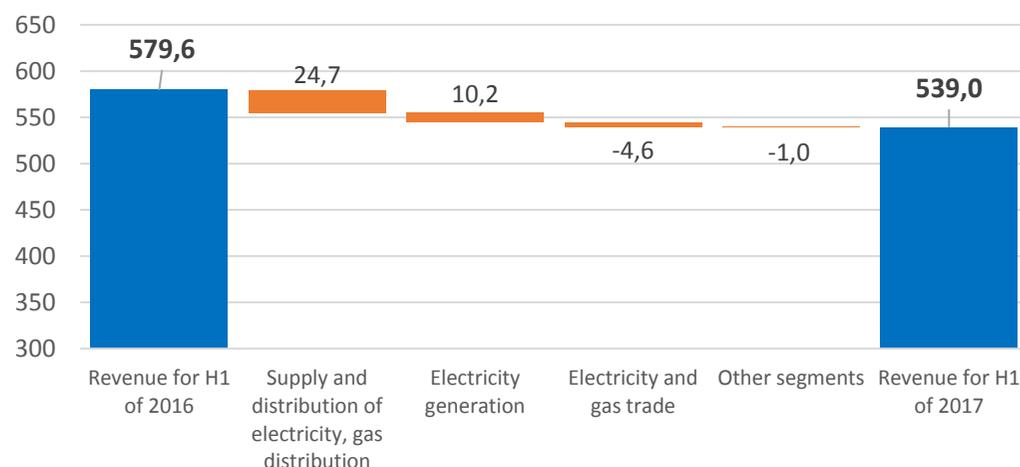
1. The electric energy transmission revenues decreased by EUR 24.75 million, as compared with H1 2016, mostly due to the decrease in the price of electric energy and natural gas price for consumers.
2. The proceeds from generation of electric energy decreased by EUR 10.2 million. The principal reason for the decline in the revenue level was the shrinking volumes in the production of electric energy. Total in the period from January to June 2017 the power plants and the wind farms operated by Group entities produced by 11.6 per cent less electric energy than during the same period in 2016.
3. The proceeds from trade in electric energy and gas also decreased by EUR 4.6 million. The revenues from the sale of gas to residents decreased by EUR 1.5 million due to lower tariffs. The consolidated revenues of the Group from the sale of gas to corporate customers during H1 2017 decreased by EUR 6.5 million, as compared with the same period in the previous year. The decrease in the trade revenues was partly compensated by larger income from trade in electricity in the retail market.

The principal source of income of the Group is the supply and distribution of electric energy and distribution of gas. The income from the segment<sup>1</sup> (EUR 282.2 million during H1 2017) accounted for more than half, i.e. 52 per cent of the total revenues of the Group (53 per cent in H1 2016). Revenues from trade in electricity and gas (EUR 190.1 million in H1 2017) account for 35 per cent of the total revenues (34 per cent in H1 2016). The share of electric energy production in the overall income structure is 10 per cent, as compared to 11 per cent in H1 2016.

The Group's revenue structure for H1 of 2017



Group's revenue dynamics by segment



<sup>1</sup> Information about the Group's operating segments is disclosed in Note 22 "Segment reporting" of the consolidated and company's condensed interim financial information.



## Operating and purchase expenses

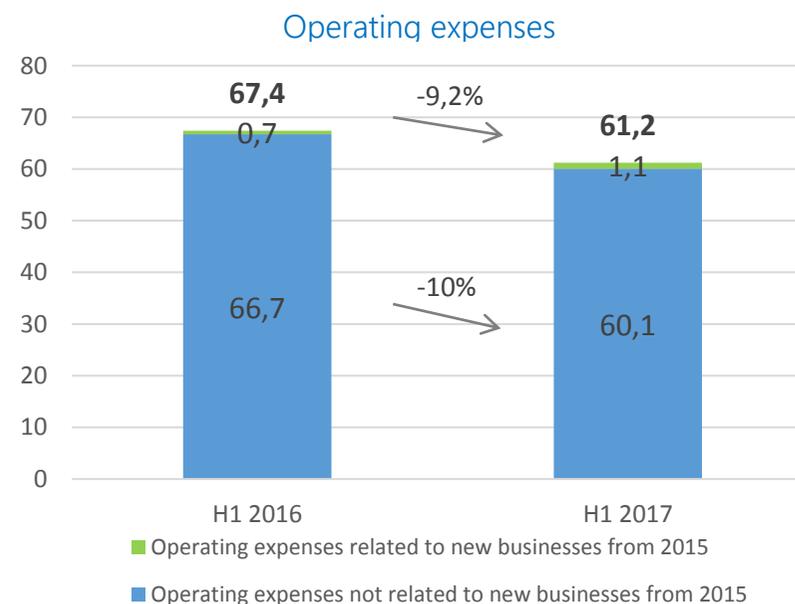
During H1 2017, the operating expenses of the Group accounted for EUR 61.2 million and represented a decrease by 9.2 per cent, if compared year-on-year (EUR -6.2 million). The principal factors that caused the decrease in the operating expenses were the following:

- the remuneration expenses decreased by EUR 3.4 million due to 7 per cent decrease in number of employees;
- a decrease by EUR 1.1 million in the expenses of repair and maintenance of electricity grid and electricity production equipment, and other repair and maintenance expenses due to increasing investments to network and fewer failures;
- also other operating expenses decreased by EUR 0.5 million.

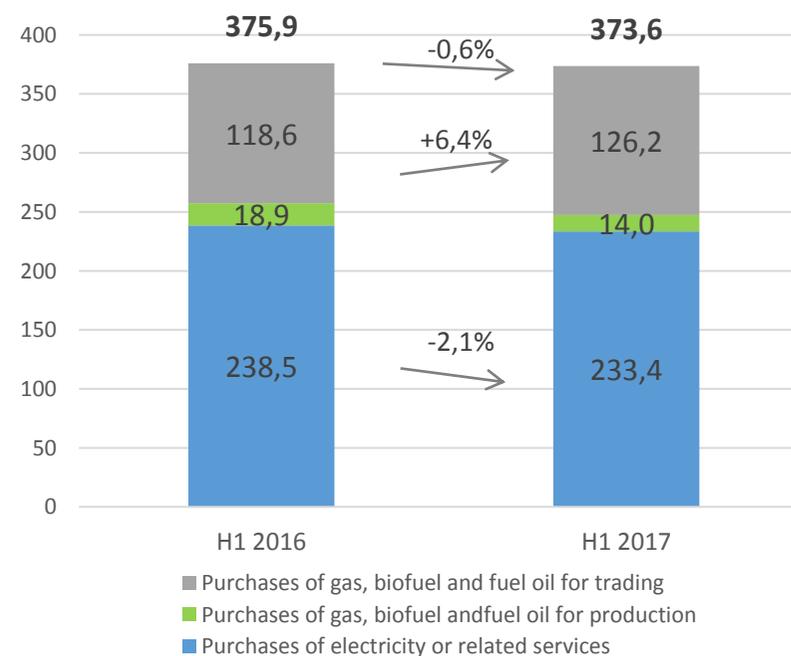
During the reporting period, the Group's expenses for the purchase of electricity, gas, fuel, and associated services decreased as compared with the same period in H1 2016 only marginally by 0.6 per cent, or EUR 2.3 million.

The expenses of purchase of electricity and associated services accounted for EUR 238.5 million or down 2.1 per cent year-on-year.

The expenses of purchases of gas and related services for trading increased by EUR 7.6 million or up by 6.4 per cent year-on-year. The increase was caused mainly by larger gas sale volumes that accordingly increased the expenses related to the purchase of gas for trade.



### Purchase expenses of electricity, gas, fuel and other services



## EBITDA and Net Profit

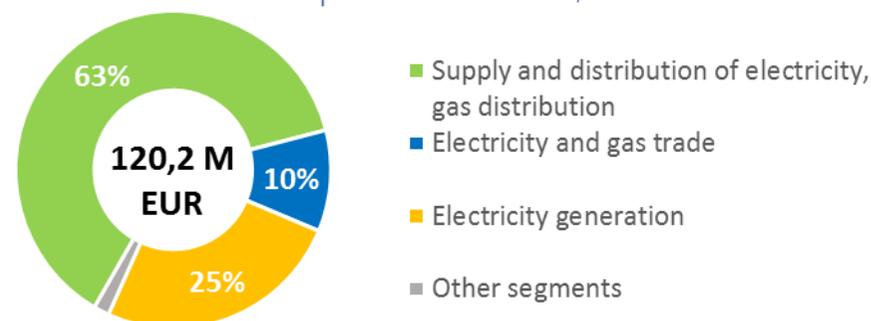
During H1 2017, the adjusted EBITDA of the Group amounted to EUR 120.2 million, i.e., 4.6 per cent or EUR 5.3 million more than in the same accounting period of 2016, when adjusted EBITDA was equal to EUR 114.9 million.

The major contributor to the increase of the Group's adjusted EBITDA was an increase by EUR 5.6 million in the electric energy production EBITDA, as compared with the same period a year ago. The early spring flood and a fairly wet beginning to the summer has raised the level of the Nemunas River significantly and hence larger volumes of water were passing through the aggregates of Kaunas Algirdas Brazauskas' Hydroelectric Power Plant. During H1 2017, the power plant produced 241GW of electric energy, i.e., 19 per cent more than in H1 2016. The other factor that significantly influenced the EBITDA of the electricity production was the decision starting from 2017 not to reduce the revenues of the regulated operations of Lietuvos energijos gamyba due to the regulation of the commercial production profit and in view of the findings of the audit of operations in 2010-2012. The decisions of the National Commission for Energy Control and Prices to reduce the income from the services of ensuring the funds for the public interest obligation services and the reserve capacity reserve securing reduced the EBITDA ratio for H1 2016 by about EUR 11.1 million.

Furthermore, the positive change (+EUR 3.3 million) in the electricity supply and distribution and gas distribution performance was responsible for the increase in the Group's adjusted EBITDA. The difference resulted from the measures applied to enhance the efficiency of the operations, lower operating expenses and other actions.

In H1 2017, the results of trade in electricity and gas was by EUR 5.3 million behind the result of H1 2016. The main reason for the outcome was EBITDA of the trade in electricity that decreased by EUR 3.9 million. This was due to the launch of the NordBalt power link in 2016, which in the course of the year reduced the price in the Lithuanian NordPool exchange price range. Accordingly, the commercial electric energy buyers increased their lower price expectations for 2017. Due to the competition among the suppliers, the profit margin from the electricity supply service was declining.

Group's EBITDA sources, %



	H1 2017	H1 2016	Δ, +/-
<b>Operating profit</b>	<b>56.3</b>	<b>88.5</b>	<b>-32.2</b>
Depreciation and amortisation expenses	43.1	38.3	4.8
Impairment expenses	-0.2	-0.5	0.3
Expenses of revaluation of emission allowances	3.0	7.9	-4.9
Change in the market value of open financial derivative instruments	1.0	0.1	0.9
Write off's of property, plant and equipment, inventories and amounts receivable	2.0	2.1	-0.1
<b>Management's adjustments</b>			
Gas price discount provided by Gazprom (1)	8.6	6.2	2.4
Temporary regulatory differences of LITGAS (2)	7.7	-9.6	17.3
Temporary regulatory differences of ESO (3)	-1.3	-15.7	14.4
Temporary regulatory differences of LDT (4)	0.1	-2.4	2.5
<b>Adjusted EBITDA</b>	<b>120.2</b>	<b>114.9</b>	<b>5.3</b>

(1) Elimination of the costs which, in the opinion of the management, are related to previous periods.

(2) Elimination of the deviation of the actual and regulated income from the assigned supplier and to be used to adjust the future financial results.

(3) Elimination of the effect of the recalculation of the return on investment of the reporting period of the National Commission for Energy Control and Prices, related to the profit earned in preceding periods and exceeding the return on investment authorised by the Commission, and of the profit earned in the reporting period exceeding the return authorised by the Commission.

(4) Elimination of the deviation of the actual and regulated income from supply of gas and to be used to adjust the future financial results.

During H1 2017, Lietuvos energija Group earned EUR 51.9 million in net profit, i.e., down by EUR 15.2 million year-on-year (EUR 67.1 million). The most significant impact upon the results of the net profit for H1 2017, as compared with the previous period, was the decrease in the Group's revenues as a result of lower prices of electricity and gas for customers.

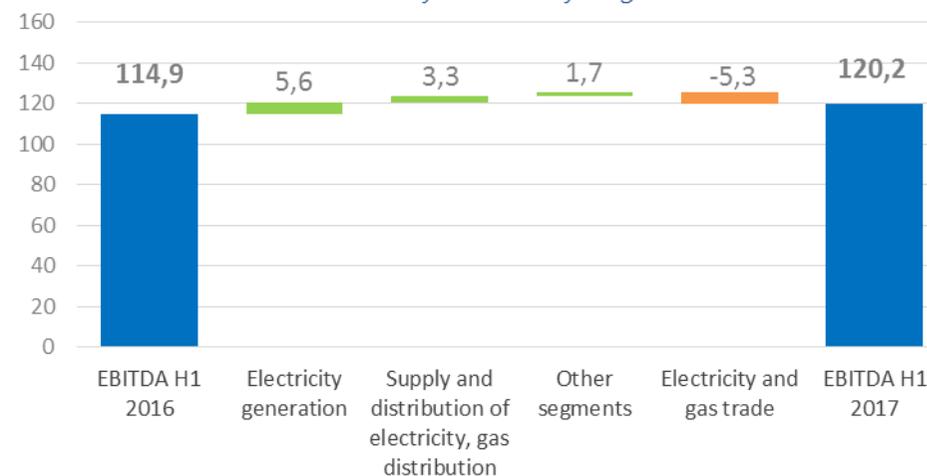
The net profit results for H1 2017 and H1 2016 were significantly affected by the deviation in the actual and regulated income of the assigned supplier of Litgas, as well as the recalculation of regulated income of the Group's companies Elektros skirstymo operatorius and Lietuvos dujų tiekimas according to the procedure set forth by the National Commission for Energy Control and Prices.

Having eliminated the effects as described above, the adjusted net profit for H1 2017 (EUR 64.7 million) increased by 32.2 per cent or EUR 15.9 million, as compared with H1 2016 (EUR 48.8 million). The major impact on the results of operations in H1 2017 compared to H1 2016 was made by following factors:

- Decrease in deferred tax expenses by EUR 9.9 mln.;
- Decrease in Group's operating expenses by EUR 6.2 mln.;
- Reduction of emission allowances revaluation expenses by EUR 4.9 mln. (EUR 3 million in the first half of 2017, EUR 7.9 million in the first half of 2016);
- Increase in Group's depreciation and amortization expenses of EUR 4.8 mln.

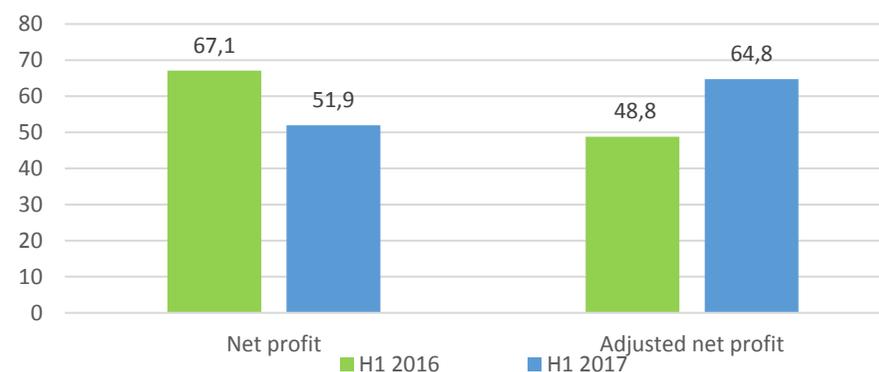
During the reporting period the equity of Lietuvos energija Group decreased by 0.8 per cent or EUR 10 million and as of 30 June 2017 was reported at EUR 309.5 million. As of 31 December 2016, the equity of the Group was worth EUR 1,319.5 million. The Group's equity decreased as a result of the dividends disbursed to the shareholder. During the accounting period the Group disbursed to the final shareholder EUR 59.8 million in dividends for H2 2016. The Group's equity ratio increased in the course of the reporting period and as of 30 June 2017 was recorded a 56.4 per cent (on 31 December 2016 the indicator was 54.3 per cent).

EBITDA dynamics by segment



Net profit adjustments	H1 2017	H1 2016	Δ, +/-
<b>Net profit for the reporting period</b>	<b>52,1</b>	<b>67,1</b>	<b>-15,0</b>
Gas price discount provided by Gazprom	7.3	5.2	2.1
Recalculation of the regulated income of LITGAS (2)	6.5	-8.2	14.7
Recalculation of the regulated income of ESO	-1.1	-13.3	12.2
Recalculation of the regulated income of LDT	0.1	-2.0	2.1
<b>Adjusted net profit result</b>	<b>64,8</b>	<b>48,8</b>	<b>16,0</b>

Group's net and adjusted net profit



## Investment

The Group's investment for H1 2017 accounted for EUR 82.4 million, representing a decline by 38 per cent during the respective period last year. This volume of the investment decreased mostly because the Group acquired the wind farms in H1 2016. Excluding the impact of the wind farms, the investment increased by 16 per cent or EUR 11.4 million, if compared year-on-year, and the major part of the overall investment was allocated to maintaining (47 per cent) and development (25 per cent) of the distribution grid. The investment in construction and reconstruction of the gas system accounted for 14 per cent of the total investment during H1 2017.

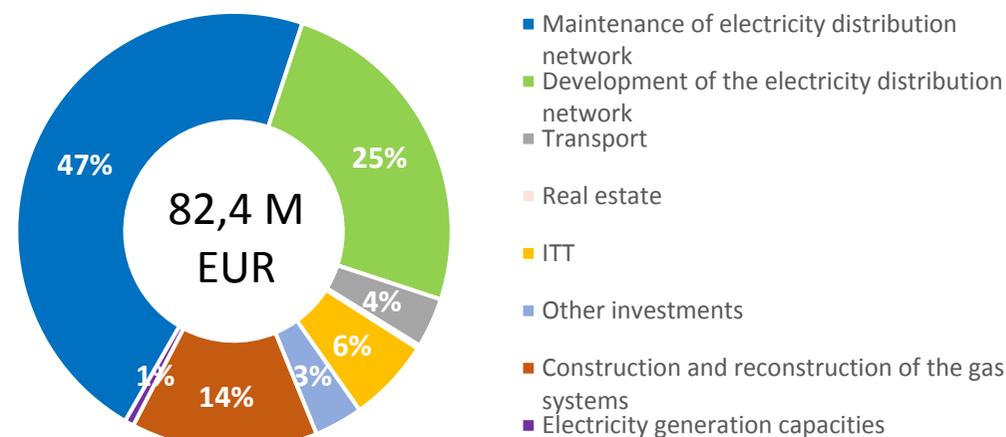
During H1 2017, the investment in maintenance of the electricity distribution network increased by EUR 12.8 million. During H1 2017, the investment by ESO to the upgrading of the electricity distribution network accounted for EUR 38.5 million. The investment in the development of the electricity distribution development in H1 2017 reached EUR 20.6 million. During H1 ESO has built 965 kilometers of underground electrical cables - 41 per cent more than during H1 2016. During H1 2017, the investment by ESO in the construction and reconstruction of the gas systems reached EUR 11.4 million, representing an increase by 2.7 times since H1 2016 when the investment was reported at EUR 4.3 million. During the first six months of 2017 ESO built 156.7 km of distribution pipelines; 35.4 km of gas pipelines were laid during the same period in 2016. As compared to H1 2016, the Group's investment in transport decreased by EUR 6.7 million, as in H1 2016 the Group's company NT Valdos acquired fire vehicles that were leased to public firefighting services. The investment in immovable property decreased by EUR 5.6 million, the main reason for the decrease being the receipt as a property contribution in H1 2016 by the Group's company UAB Kauno kogeneracinė jėgainė the land plot lease rights of EUR 4 million in value.

LESTO published its Investment Plan for 2015–2025 on 3 February 2015. ESO, being the successor of LESTO, intends within the coming decade to carry out major modernisation of the distribution network. Seeking to ensure reliable, safe, and smartly managed services, the Company intends to invest EUR 1.7 billion into the upgrading and renewal of the grid by 2025.

On 13 December 2015, Lietuvos dujos drew up a ten-years' investment plan including an estimation that in the course of the next decade the Company will invest EUR 141.1 million in the grid. Acting as the successor of the national gas company Lietuvos dujos, ESO will be mainly investing in the development of the distribution system, the reconstruction of the distribution gas pipelines, in addition to the modernisation of the remote data collection and management systems.

During H1 2017, the Group's assets decreased by 4.6 per cent or EUR 111.8 million, and as of 30 June 2017 were reported as worth EUR 2,321.2 million. For the purpose of comparison, as of 31 December 2016, the Group's assets were worth EUR 2,432.2 million. The assets of the Group's assets changed mainly due to decreased cash balance after the Group repaid the loans, and paid the trade receivables for gas.

The Group's investment structure in H1 of 2017, %



Dynamics of the Group's investments by sector	H1 2017	H1 2016	Δ, +/-	Δ, %
Maintenance of electricity distribution network	38,6	25,8	12,8	49,6%
Development of the electricity distribution network	20,6	17,2	3,4	19,8%
Construction and reconstruction of the gas systems	11,4	4,3	7,1	165,1%
ITT	5,1	5,0	0,1	2,0%
Transport	3,0	9,7	-6,7	-69,1%
Electricity generation capacities	0,6	1,9	-1,3	-68,4%
Real estate	0,2	5,8	-5,6	-96,6%
Other investments	2,9	1,3	1,6	123,1%
Investment in wind power parks (1)	0,0	62,7	-62,7	-100%
<b>Total:</b>	<b>82,4</b>	<b>133,7</b>	<b>-51,3</b>	<b>-38,4%</b>

(1) The amount of investment in the wind power parks shows the increase in the Group's non-current tangible assets due to the acquisition of the wind power parks.

## Financing

On 30 June 2017, the Group's net debt amounted to EUR 353.9 million, and, as compared to the net debt as of the end of 2016, it increased by 12.1 per cent or EUR +38.1 million. The Group's debts increased mainly due to the decrease of its cash balance.

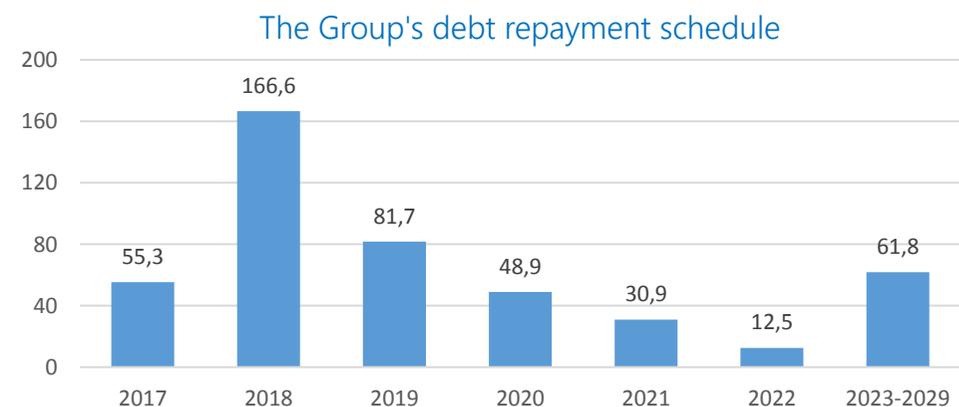
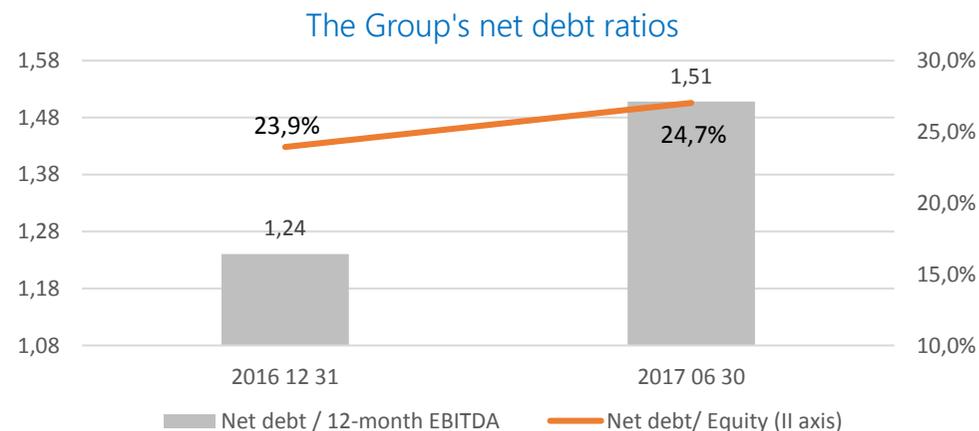
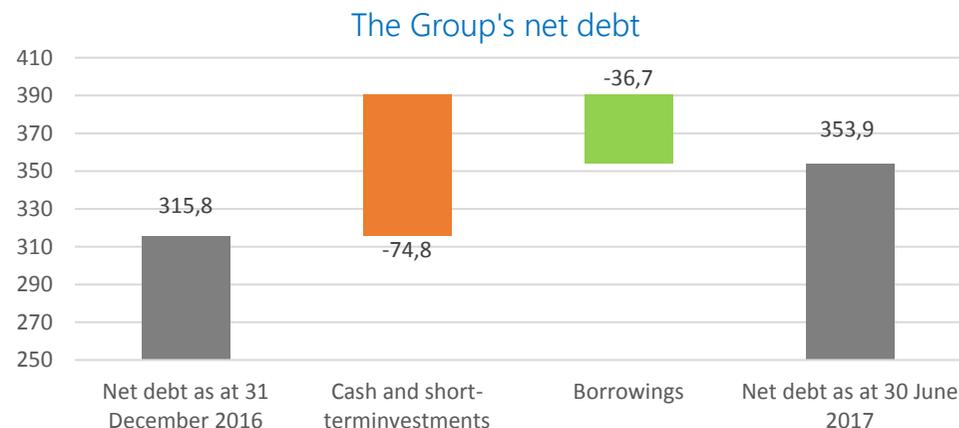
The level of the Group's financial debts decreased during the reporting period by 7.4 per cent or EUR 36.7 million, and at the end of the reporting period amounted to EUR 457.7 million (at the end of 2016 – EUR 494.4 million). As of 30 June 2017, the cash balances and short-term investments of the Group's companies amounted to EUR 103.8 million, i.e., by EUR 74.8 million or 41.9 percent more than at the end of 2016 (EUR 178.6 million). The Group's cash balance decreased after the Group repaid the loans to the bank, defrayed the trade payables for gas, in addition to the investment implemented by the Group.

The ratio of the Group's net debt to its 12 months' EBITDA increased due to the net debt of the Group (1.24 times at the end of 2016 and 1.51 times as of 30 June 2017).

The Group's net debt-to-equity ratio increased from 23.9 per cent at the end of 2016 to 27 per cent at the end of 2016. As of 30 June 2017, the Group's net debt level remains sufficiently low with respect to both the income earned and capital structure.

The Group's current liquidity ratio compared to end of 2016 dropped from 1.05 to 0.86. This was influenced by the decrease in the Group's cash balance. For liquidity management purposes, the Group has concluded credit line agreements with banks. As of 2017 June 30 the Group had undrawn loans of EUR 113 million amount.

The low level of the Group's financial debts and the high level of its equity, profitability of its typical activity testify to a firm and stable financial position of the Group, the Group's financial possibilities to implement the investment necessary to ensure the provision of existing services, implement and finance the acquisition and development of new wind farms, construction of co-generation plants and other projects, as well as ensure a sustainable development of the Group in the future.



## Definitions

Working capital	Current assets – current liabilities (excluding current portion of financial obligations)
EA	Emission allowances
Current liquidity	Current assets at the end of the period / current liabilities at the end of the period
EBITDA	Operating profit (loss) + depreciation and amortization expenses
EBITDA margin	EBITDA / Revenue
Net profit (adjusted)	Net profit + effect of the discount for the gas price to consumers +/- temporary regulatory differences of LNG activity +/- temporary regulatory differences from electricity and gas distribution activity
Net debt	Borrowings - cash and cash equivalents - short-term investments and term deposits - a portion of non-current other financial assets representing investments in debt securities
Net profit margin	Net profit / Revenue
Net profit (adjusted) margin	Net profit (adjusted) / Revenue
Adjusted EBITDA	Profit (loss) before tax + finance costs - finance income - dividends received + depreciation and amortisation expenses + impairment + write-offs of property, plant and equipment, inventories and amounts receivable +/- change in market value of open financial derivative instruments (including EA) + effect of the discount for the gas price to consumers +/- temporary regulatory differences of LNG activity +/- temporary regulatory differences from electricity and gas distribution activity
Adjusted EBITDA margin	Adjusted EBITDA / Revenue
Customers of independent suppliers	Electricity distribution to corporate customers
Return on equity (ROE)	Net adjusted profit (loss) of a respective reporting period restated at annual value / average amount of equity during the reporting period
Equity ratio	Equity at the end of the period / total assets at the end of the period
Assets turnover ratio	Revenue / total assets at the end of the period
SAIDI	Average duration of unplanned interruptions in electricity or gas transmission
SAIFI	Average number of unplanned long interruptions per customer
Operating expenses	Operating expenses, excluding purchase expenses of electricity and related services, gas and fuel oil for production, depreciation and amortisation, impairment expenses (non-current assets, construction in progress, amounts receivable, etc.), expenses of revaluation of property, plant and equipment, write-offs of non-current assets, inventories and amounts receivable and EA revaluation expenses.
Public and guaranteed supply	Electricity distribution to household customers



The image features a blue background with a subtle grid pattern. A white rectangular box is centered on the page, containing the text "RESULTS OF OPERATIONS OF THE GROUP'S COMPANIES" in white, uppercase letters.

RESULTS OF OPERATIONS  
OF THE GROUP'S  
COMPANIES

# Overview of the Company's and the Group's operations

The overview of Lietuvos energija Group performance covers a period from 1 January 2017 until the Report date.

## New Services to Customers

Having divested the non-core activities the performance of Lietuvos energija Group enables the Group companies to focus on the creation of new services, enhancement of the quality and the availability of the services, improvement of customer service, and a further improvement of the service channels.

### Development of Smart Metering

ESO was the first in the Baltic States to test integrated smart accounting of gas and electricity. The Company installed smart devices remotely transmitting energy consumption data to the ESO accounting system in 50 houses using electricity and natural gas in Vilnius. The technological innovations will provide a convenient time-saving instrument to ESO customers, freeing them from recording and declaring the readings. Furthermore, ESO will be supplied with more abundant technical data on the condition of the electricity and gas distribution network it operates and will be able to ensure high quality and convenient services to its customers. The project is part of a pilot project on smart accounting implemented by ESO and engaging 3,000 customers of the Company. All the smart gas meters are installed in the same place as the electricity meters; the location for the meters is selected according to the ESO network parameters, and the customers' habits of using natural gas. The smart electricity and natural gas meters will be installed at ESO customers at no charge and the testing of the smart technologies will last until late 2017. The consumption data from the natural data meters will be transmitted to a smart electricity energy meter by secure wireless communication and will be further transmitted by ESO networks to the data collection systems.

From now on, having installed smart electricity meters, customers of Energijos skirstymo operatorius (ESO) will be able to monitor and analyse the hourly consumption of electricity. The new data analysis tool will provide the customers with a possibility to better understand the electricity consumption habits, change them and thus reduce electricity costs.

Starting from the beginning of the year ESO offered to its customers to acquire a smart electricity meter that will release them from the duty to record the readings manually. Currently, more than 15,000 large entities in Lithuania use smart electricity meters that are also installed in about 1,000 private residences.

### Energy Efficiency Enhancement in Business and the Public Sector

The Lazdijai Regional Municipality is the first in Lithuania to upgrade its entire street lighting system. The company Energijos sprendimų centras will implement the street lighting modernisation project following the ESCO module principles in the municipality. It has been estimated that the new technologies will enable the municipality to save about 60 per cent of the street lighting costs.

About 2,000 obsolete lamps in the Lazdijai Region Municipality will be replaced by modern LED lamps to be monitored by the newly installed lighting control system. Throughout their service life the new LED lamps will save about 7,000 MWh of electric energy. Currently the Regional Municipality's expenses for street lighting and maintenance of the worn-out lamps accounts for about EUR 120,000 per year. Having modernised the street lighting in Lazdijai, Energijos sprendimų centras UAB will also will be in charge of the smooth operations of the facilities throughout the contract period – 10 years, thus the municipality will not incur any operating costs.

ESCO (Energy Service Company) is a business model when a private company invests and implements the most modern energy efficiency tools without the seed investment on the part of the customer and the customer pays to the private company from the funds saved during the contract validity period. The model may be applied for funding of lighting modernisation and energy efficiency enhancement projects implemented at public institutions, commercial or industrial facilities.

## More Convenient Servicing and Faster Connection

Last year the electricity and gas connection operations for residents and businesses were performed much more expediently. According to the data of ESO, last year the average electricity connection term decreased by 20 calendar days (from 78 to 58 days) and gas connection was accelerated by nearly 54 calendar days – from 216 to 162 days. The term for connecting new customers to electricity and gas distribution networks shortened due to the digitalization and automation processes. In particular, the digitalisation of documentation and processes made it possible to shorten the term for connection to the gas network by about 30 calendar days. Besides, the volume of documentation supplied to one customer decreased by about 60 pages. Customers are also offered a



possibility to manage and complete the entire process without any paper documents – via the self-service website [www.manogile.lt](http://www.manogile.lt).

While serving 1.6 million customers in the self-service website ESO introduced a novelty for its private customers; from now on they can readily find out what the electricity price consists of. Having declared their electricity readings and when paying for the electricity consumed, private customers can now see the components of the final payable amount. This price breakdown was introduced seeking to increase the transparency of settlements and provide more detailed information on the pricing of ESO services.

Now residents willing to get connected to the gas pipelines will have much less paper work. From now on they will not even have to arrive to the customer service centre to sign the liability boundaries statement. The process has been significantly facilitated according to the description updated by the Minister of Energy defining the order for connecting private customers to ESO gas distribution network. The boundary statement will be sent by mail and will come into effect automatically. The applicants will have to arrive to the customer service centre only in a very unlikely case that their property boundaries do not coincide with the accounting device.

Starting with the beginning of 2017, ESO will be submitting to its private customers who have acquired premises on the basis of immovable property purchase-sale, swap contracts, or other basis the electric energy purchase-sale service contracts. In case of a change of the owners of the premises the specialists will send the contracts by registered mail and upload them on the customer's account of the self-service portal [www.manogile.lt](http://www.manogile.lt). This innovation will allow the private customers of ESO to save much time, because they will not have to handle the documents. Every month ESO is expected to draw about 6,000 contracts. ESO draws the contracts within one week after the data on the change of the owner are updated at the Centre of Registers. Provided ESO knows the customer's email, the customer will receive an email with a special link by clicking which the customer will login to the self-service [www.manogile](http://www.manogile.lt) and sign the contract.

ESO has been dedicating significant attention to connection of energy producers to the distribution network. At the end of March 2017 ESO for the first time publicly introduced an eight-step incentive measure programme designed to improve the legal regulation of the producing customers. ESO has proposed to abolish the drawing up of preliminary conditions, requirements for development, and production permissions, in some cases waive the requirement for the design, reduce the fee for connection to the network for producing customers, review the requirements for capacity limitations, amend the financial incentives for building solar power plants, divest of control accounting, and allocate the investment required for sustainable integration of power generating customers from the ESO investment plan. Having installed solar power plants, the customers generate electric energy for own needs and are already actively participating

in the exchange process with ESO. Currently, nearly 300 customers in Lithuania use the method produce electricity and another 700 customers have already been issued the preliminary technical conditions.

The Group's company Verslo aptarnavimo centras (VAC) operating Gilė, the centre for servicing electricity and gas customers, is in the process of enhancing the functionalities of the self-service website [www.manogile.lt](http://www.manogile.lt) and the smart app Gilė. Having assessed the new habits of its customers, the Company reorganised the physical customer servicing centre. An increasing number of customers deal any issues related to electricity and gas consumption on the self-service website [www.manogile.lt](http://www.manogile.lt), the Gilė mobile application, or the short customer service phone 1802, without visiting the customer service centre. A survey carried by VAC showed that in exceptional cases (up to 1%), the customers were not able to deal with the problem without having to visit the customer service centre. Currently, the [www.manogile.lt](http://www.manogile.lt) self-service website is accessible at 46 public libraries. If necessary, the employees at the libraries are ready to advise on the use of the website. Customers may also declare the consumption data at the closest Lithuanian post office and currently at 45 post offices throughout the country.

An increasing number of customers choose electronic payment methods and currently, nearly half of Gilė customers pay for the services on-line and part of them have selected to use the Manogile website. During May 2017, the number of customers paying for electricity and gas on the self-service website [www.manogile.lt](http://www.manogile.lt) increased by 13 per cent. (i.e. 12,000 customers). The number of payers for electricity and gas through the "one account" facility increased by 4 per cent (i.e. 1,800 customers). Currently, more than 450,000 customers use the Manogilė website where they can pay for the services of 1,750 suppliers.

The business service centre VAC transposed to the electronic environment also other services: a possibility to declare meter readings, view the payment history, exact rates and tariffs for electricity and natural gas, select payment plans, submit applications, and upload documents.

## Quality Services to Customers

### Better Services through Investing in Electric and Natural Gas Networks

With a view to further improve the quality it provides, during 2017 ESO intends to install 94 smart network facilities and replace about 2,700 km of power lines by underground lines. The modern technologies will enable real-time monitoring of individual parameters or modes, a prompt response to exceptional situations, and faster eliminate any failures in electric facilities. This will ensure better quality of the services to about



100,000 customers of the Company. The projected investment will also improve the voltage quality. The principal reason for the fluctuation of voltage in the electricity distribution grids is excessively long lines connecting customer objects and the transformer stations and too small diameter of the wires on the line. The point is that the current infrastructure of the network that was designed and built back in 1960-1980 does not longer meet modern customers' needs.

At its meeting of May 26, the National Commission for Energy Control and Prices approved the investment of an electricity and natural gas distribution company ESO in the modernisation of the gas distribution network. By 2018, ESO intends to install 14 advanced gas pipeline systems. This will allow increasing the reliability of the gas distribution system and its safety for about 55,000 customers of ESO. The overall project value is EUR 2.1 million, 50 per cent of the investment are intended to be funded from the European Union (EU) structural funds.

### **Simplification of Contract Conclusion**

Since the beginning of this May ESO simplified the procedure for signing contracts with corporate customers. In relation to signing contracts with entities that rent premises for operation, ESO no longer requires a tripartite agreement with the owners of the premises. This facilitates the process and the services required for business are provided faster and more conveniently. Previously, a lessee of the premises for business operations a company could conclude the contracts with ESO regarding the sale-purchase of electricity or the transmission services only having received written consent of the owner of the premises. Last year, ESO signed nearly 4,000 contracts with tripartite agreements with the companies renting premises. No such document is required not from corporate customers.

### **Improved Customer Information on Failures in the Network**

With a view to improving the procedure for informing its customers, ESO introduced an interactive map that in real time publishes the information about the operation of the electricity distribution network. The map demonstrably shows the projected disconnections of the electricity distribution network facilities and notifies of any disruption of electricity supply. The map is accessible at [www.eso.lt/zemelapis](http://www.eso.lt/zemelapis); the map is adapted for use on mobile devices; therefore, the information on the most relevant information about the operation of the power distribution network is available on telephones and tablets. Power disconnections are of two types: routine and emergency disconnections. Routine disconnections are a temporary cessation of power supply when ESO carries out electricity network upgrading or development operations and temporary disconnection of voltage required for the safety of the workers concerned. The failures

in the electricity distribution network occurs due to technical or eternal reasons, for example, activities of unauthorised individuals or natural forces.

## **Diversification of activities**

Diversification of activities of the Group enterprises is one of the main conditions for enhancing the Group value. Until 2020, the Group plans to invest nearly EUR 1 million into different fields: heat sector, building of new co-generation plants, gas supply, and trade using the potential of the LNG terminal, also into renewable energy resources.

### **Development of Innovation**

Lietuvos energija establishes an innovation foundation that will make investments into energy start-ups and entrepreneurial start-up accelerator. Together with the selected international partner team, the foundation under establishment will become the first corporate venture capital fund in the Baltic States. The foundation has planned to invest into start-ups up to EUR 1 million a years, whereas the accelerator should contribute to the development of at least 15 start-ups within three years.

Guided by the good experience of foreign countries, Lietuvos energija sets up an innovation foundation together with professionals who have gained experience in the management of venture capital funds. Management of the innovation foundations and development of the energy start-up accelerator has been entrusted to the team of Contrarian Ventures having a great international experience. This team consists of seven experts from Lithuania, Israel, and Holland, whereas the team will be managed by Rokas Pečiulaitis. The foundation's activity will also cover the accelerator – authors of selected business ideas will be granted access to the experts' consultations, competent professionals of Lietuvos energija, and other resources. Activities of the innovation foundation will start from the stage of selecting the ideas during which adequate business ideas will be sought to be attracted not only from Lithuania, Latvia, and Estonia, but also from other Nordic and Eastern European countries. Teams of selected business ideas that still do not have their own operating prototype of the idea will be able to expect a pre-seed stage investment up to EUR 50 thousand. More advanced teams will be able to expect up to EUR 300 thousand or in exclusive cases a bigger seed-stage investment. It has been planned that the innovation foundation and the new energy start-up accelerator will call for the submission of business ideas already in July of the current year.

### **Digital Transformation**

Seeking to create more convenient services for customers and to enhance operational efficiency, Lietuvos energija has approved a digital transformation strategy LE 4.0. It is



aimed to make the company group an organisation effectively introducing digital technologies in daily work. The strategy document defines several strategic digitalisation directions focused on customer value enhancement by deploying smart services and creating more convenient service. Lietuvos energija staff members will be able to use the available digital tools in a quality way, as well as to deploy the new ones, share knowledge efficiently. Seeking to implement the digital transformation of the company group successfully, three prerequisites are distinguished in the strategy: reliable and real-time accessible data, development of digital abilities, fast IT function. The assurance of these conditions will establish premises for implementing the goals set in the strategy. The digital transformation LE 4.0 will contribute to Lietuvos energija strategic goal to double the Group value by 2020.

### Projects of Cogeneration Plants in Vilnius and Kaunas

Lietuvos energija Group is implementing projects of modern great efficiency cogeneration plants powered by waste and bio-fuel in Vilnius and Kaunas. By generating heat and electricity, the plants will ensure smaller heat production prices for city consumers, also additional generation of local electricity at the competitive price, will solve waste management problems. According to resolution of the Government of the Republic of Lithuania of 28 May 2014, the projects have been recognized as economic projects important for the State. After implementing economic projects important for the State, the price of heat generated in new plants would be lower by approximately 20 percent as compared with the existing alternatives.

The common company Kauno kogeneracinė įėgainė of the state-owned enterprise Lietuvos energija and Fortum ensured financing of EUR 120 million for construction. The company concluded a loan agreement with Swedbank in Lithuania. In the new plant compliant with the most modern environmental and technological requirements, non-recyclable differentiated residual municipal and non-hazardous industrial waste, also sewage sludge will be used for generation of electricity and heat. The plant will be able to resolve not only waste problems in the region, but also to lower heating bills for Kaunas residents. Another project stage is to finish the designing works. The start of construction of the main structures of the plant is planned in autumn of 2017.

Vilnius City Municipality, Vilniaus šilumos tinklai, managing the capital' heat economy, and the state-owned group of energy companies Lietuvos energija concluded a tri-lateral cooperation agreement on which basis it is intended to assign the Vilnius third CHP for EUR 9,935 million to Lietuvos energija. On the basis of this cooperation, Vilniaus šilumos tinklai will be able to acquire up to 5 percent of shares of the Vilnius cogeneration plant that is planned to be built in 2019, if this is approved by the European Commission, the European Investment Bank, and the Competition Council.

### The first LNG Transshipment Transactions

At the beginning of January, the first small volume liquefied natural gas (LNG) carrier Coral Energy sailed into Klaipėda for which LNG transshipment services were provided by LITGAS by cooperating with Lietuvos dujų tiekimas (LDT). This was the first small-volume LNG gas carrier filled in Klaipėda according to the cooperation agreement on small-volume LNG supply signed in September 2016 by LITGAS, Lietuvos dujų tiekimas, and Statoil. 15 thousand cubic meters of LNG were transhipped to Coral Energy.

Besides, in January, the second small-volume LNG cargo was transhipped. It has been calculated that in total these two transactions brought about EUR 220 thousand in revenues for the LNG terminal and the port, as well as increased income of Lietuvos energija Group. At the same time, this activity reduces technological costs of the terminal that are included into the safety constituent of the LNG terminal.

For Lietuvos energija Group, this is an actual beginning of the new activity and one of the strategic directions in the gas trading business.

### Optimisation of the Prescribed Supply Costs

Using the temporary LNG supply-demand imbalance emerged in February and after the significant exceedance the LNG prices over the price of gas purchased by LITGAS in the spot markets, LITGAS optimized the schedule for the supply of prescribed cargoes by diverting a half of the planned cargoes to the market paying a higher price. Instead, this quantity will be acquired in the summer time when LNG prices go down. It has been forecasted that due to the price difference this optimisation will enable to earn up to EUR 1 million. By this amount maintenance costs of the natural gas infrastructure for business and residents will be directly reduced. Annual quantity of LNG necessary for minimum operation of the terminal will not change and will remain approximately 3.8 TWh.

### Wind Farm Project of Kruonis Pumped Storage Plant (PSP)

At the beginning of 2015, complex measurements of wind speed, directions, and other meteorological conditions were completed in the territory of Kruonis PSP enabling to evaluate the primary potential of the land plot for installing a wind farm. Based on positive results of wind measurements, the company initiated preparatory works of installing a wind farm in the territory of Kruonis PSP. By 2017, a study of the impact of Kruonis wind farm on NATURA 2000, a feasibility study on the evaluation of the wind resource and electricity generation volumes, and an environmental impact assessment programme were prepared, and bird and bat monitoring in the territory programme was finished. The most important works in January-June 2017 were associated with the approval procedures of the environmental assessment report. The Environmental



Protection Agency approved the environmental assessment report at the end of April and at the same time lit a green light for the wind farm in Kruonis vicinities. In the exclusive territory with energy production infrastructure where already operate the Kruonis PSP and a solar panels farm has been installed for own needs, it has been planned to build 9 or 10 wind plants. Their total capacity should amount to up to 35 MW. Environmental impact assessment of the planned activity was the last procedure that could be currently initiated by the Company seeking to install a wind farm in the territory of Kruonis PSP.

### Development Abroad

An independent electricity supplier Energijos tiekimas enters the Polish market. On 5 June 2017, a secondary enterprise of Energijos tiekimas under the name of Geton Energy was registered.

The natural gas trading company of Lietuvos dujų tiekimas belonging to the state-owned group of energy companies Lietuvos energija signed the first contracts on natural gas supply with customers in Latvia. Agreements were signed with companies consuming gas and trading in gas. The first quantities of natural gas are planned to be supplied to Latvia within a short time.

### Expansion of Trade

The gas supply and trading company Lietuvos dujų tiekimas signed an agreement with the USA company "Cheniere Marketing International" and acquired a cargo of liquefied natural gas (LNG). Lietuvos dujų tiekimas will store a part of the natural gas acquired at a cheaper price in the summer in Inčukalns natural gas repository in Latvia.

This will be one of the first times in the Baltic States when a supplier of natural gas will apply the customary practice in the Western Europe and will use the possibilities of synergy offered by the world LNG market and natural gas infrastructure in the Baltic States – LNG terminal and gas repository – for commercial purposes.

## Operation Efficiency Enhancement

More efficient activity of the Group ensures sustainable balance between greater profit and return for shareholders, as well as smaller tariffs for consumers. The strategy of Lietuvos energija for the years 2014-2020 foresees enhancing the operational efficiency by applying progressive management practices in the fields of corporate management, activity planning and monitoring, finance, procurements, risk management, and internal audit.

A uniform management and control system, management and control system policy, risk management policy and methodology, integrated planning and monitoring system policy, innovation management policy, and a project management policy and procedure have been implemented and currently developed in the Group. Besides, a process management standard has been approved; a portfolio formation and monitoring procedure is under preparation, etc. A uniform management and control system helps seek efficiency, synergy in activities of the Group companies, as well as implementation of the set goals.

### Further Refinement of Activities

During the sixth auction held at the beginning of June, real estate (RE) not used in activities of the state owned group of energy companies Lietuvos Energija was sold for EUR 0.5 million (including the VAT). In the public auction announced by NT Valdos company belonging to the group of energy companies, 4 objects were successfully realized. In total, 28 objects were offered for sale in the auction. The remaining objects will be repeatedly offered in other auctions. During five public auctions organised in 2016 and 2017, 34 objects were sold for EUR 7.0 million (including the VAT). After it successfully realised no longer used property, Lietuvos energija earned a profit of EUR 0.9 million.

Lietuvos energija has further refined its activity – in February 2017, a sale process of one of the largest in Lithuania public institution Energetikų mokymo centras (EMC) engaged in certification, qualification improvement of power engineers and consulting activity was initiated.

### Old Units no Longer Operated in Elektrėnai

At the end of March 2017, the company finished a project of decommissioning the 1<sup>st</sup> and 2<sup>nd</sup> units of the Elektrėnai complex reserve power plant. After completion of the project for the development of heat production facilities in Elektrėnai, further operation of the 1<sup>st</sup> and 2<sup>nd</sup> units of the power plant that were used for heat generation for residents of Elektrėnai city and industry during the cold season became inexpedient. Therefore, in light of the fact that the price of electricity generated with the units is not competitive in the market, whereas their declining will help to reduce the need for funds for public interest obligation services and the final electricity tariff for consumers at the same time, it was decided to dismantle these old and inefficient 150 MW capacity units of the reserve power plant built in 1962-1965. Thermal insulation of the units, masonry of boilers, equipment, and devices were dismantled and recycled by selling a part of them as metal scrap and the remaining still usable equipment by selling in the market.



In January 2017, a project of dismantling of the 5<sup>th</sup> and 6<sup>th</sup> units of the Elektrėnai complex reserve power plant was started. These units were decommissioned at the beginning of 2016, upon assessing the fact that the price of electricity generated by these units was non-competitive in the market, whereas their declining will help to reduce the final electricity tariff for consumers. The units, each with a capacity of 300 MW, are planned to be dismantled in January 2021. It will be attempted to perform the biggest volume of associated works by the company's employees themselves, whereas income regenerated from the sale of dismantled materials or equipment will be used for covering the project costs.

### **Services for Customers Have Become increasingly Cheaper**

Since June, the rates for getting electricity have changed. Based on data of the electricity and gas distribution company ESO, getting electricity will reduce in price by nearly 15 percent on average, whereas the reduced price of getting electricity will be felt by nearly 16 thousand customers.

The National Commission for Energy Control and Prices (NCECP) approved the new rates for electricity connection to ESO distribution grids at the end of April. According to these rates, customers will pay less by 14-30 per cent for the installation of the permissible power of electrical equipment. The rates for the construction of electricity grids have increased by 7–25 per cent; however, an increase in this rate will be felt by only such private customers for whom more than 120 meters of a new electricity grid will have to be installed or reconstructed.



# Corporate responsibility

Relationships with  
employees and society

Environmental protection

Responsible and  
transparent market  
operations

The Lietuvos Energija group aims to conduct its operations in a responsible manner with a particular regard to corporate social responsibility (CSR). The Group ensures that its operations are based on the principles laid down in the Global Compact, a United Nations initiative. The latter principles define corporate responsibility in the areas of human rights, rights at work, environment, and anti-corruption. The Group is a participant of the Global Compact initiative. The model of responsible business of the Lietuvos Energija group is implemented through targeted and consistent activities in the following areas: relationships with employees and society, environmental protection, and transparent, responsible market operations.

## Environmental protection

In its responsible activities Lietuvos Energija follows the Global Compact principles that also define environmental responsibility and **the social responsibility policies** approved by the Board that provide common CSR directions and principles to be followed by all companies of the Group aiming to create the conduct and standards of socially responsible and sustainably developed business of the Lietuvos Energija group. In its operations the Group seeks to use advanced measures, technologies and processes that help reducing the impact of operations on environment, promoting efficient management and utilisation of resources; it implements activities to reduce costs and waste.

## Work safety and health

Safety of operations is one of the most important priorities of the Lietuvos Energija group. All companies of the Group are required to follow the occupational **safety and health policies**. Top-level managers are responsible for safe and healthy work environment.

## Responsibility and transparency

The Lietuvos Energija group has approved **the zero-tolerance policy against corruption**, which applies to all employees of the Group and interested parties, i.e. contractors, suppliers, consultants, agents and other intermediaries. Persons responsible for the implementation of this policy have been appointed.

## Accountability

For more information on corporate responsibility and initiatives conducted please visit the website indicated:

<http://www.le.lt/en/about-us/408#reports>



## Regular risk assessment

As every year during the performance of the risk assessment for 2017 at the Group areas were identified in which the main risk management measures and initiatives are concentrated and coordinated at the Group level. All other risks specific to individual companies are managed by respective companies. The Risk Management Supervision Committee regularly assesses and reviews the effectiveness of management of these risks. The main risk factors and management policies for 2017 are listed below:

Risk factor	Description	Main risk management policies
<b>Health and safety of employees, residents and contractors</b>	With regard to the principal business activity companies due to a specific character of the activity and nature of works the Company bears an inherent risk of health and safety of employees and residents. This risk remains a priority area for a number of years and the main causes of this risk, in addition to high-risk working environment, include the lack of awareness or experience/knowledge. Although the Group does not directly influence the safety of contractors, however accidents that still occur make the Group take (motivational/disciplinary) measures.	<ul style="list-style-type: none"> <li>• Motivational and disciplinary system for employees and contractors;</li> <li>• External and internal educational activity;</li> <li>• Modern training bases;</li> <li>• Regular control and monitoring of (employees'/contractors') occupational safety.</li> </ul>
<b>Information security (cyber security)</b>	By observing external factors, geopolitical situation the Group understands its strategic importance for the country's security and by cooperating with external establishments and by introducing internal measures it aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime. The relevance of this area is increased by the initiatives carried out by the Group such as digitalisation, which increases the need for high information security requirements due to the transfer of an increasing quantity of operational processes to the information systems.	<ul style="list-style-type: none"> <li>• Improvement of resistance through tests/trainings;</li> <li>• Enhancement of detection/suspension;</li> <li>• Cooperation with external establishments.</li> </ul>
<b>Market changes and competitiveness</b>	Market changes that range from fluctuations in prices of raw materials to strategic initiatives is an inherent risk of the energy sector. The major risk faced by the principal business activity	<ul style="list-style-type: none"> <li>• The diversification policy is applied by the majority of companies</li> </ul>

	<p>companies includes the country's macroeconomic indicators that determine the level of consumption of electricity and gas. The energy sector is also affected by the competitive environment and changes in prices of raw materials. Trade in electricity is quite heavily influenced by new markets that emerged after the launch of the NordBalt and LitPolink interconnections.</p> <p>Companies operating in a competitive environment face traditional market risks that encourage the increase of service quality aiming to retain the existing and attract new clients.</p>	<p>encouraging search for supply of alternative raw materials and ensurance of long-term stability of the Group;</p> <ul style="list-style-type: none"> <li>• Risk management financial instruments and control measures are used in electricity and gas trading activity;</li> <li>• In view of changes in competitive environment the high quality services strategic policy is established for purpose of the market share retention.</li> </ul>
<b>Management of strategic and internal change projects</b>	The implementation of the internal projects on efficiency enhancement, development of new services and other development projects requires specific experience related to the implementation of such projects. The project's success makes a direct impact on the implementation of the Group's strategy, therefore it is very important to ensure their timely implementation and achievement of projected benefit. Besides a high quality project management the project's success is also dependent on external environment and its resulting decisions, therefore the management of stakeholder expectations becomes one of the main project management tasks.	<ul style="list-style-type: none"> <li>• Involvement of a sufficient number of both external and internal experts in project implementation;</li> <li>• Regular monitoring of strategic projects;</li> <li>• External and internal application of transparent and open communication principles.</li> </ul>

In the period of 2017 January-June there were no significant cases of these risks.



## Corporate governance

The aim of the Lietuvos Energija group, with the State of Lithuania as its shareholder, is to ensure effective and transparent operations. In order to achieve this aim, the reorganisation of governance was carried out in 2013, during which the corporate governance of the Group was reorganised and improved.

The new governance structure and model of the Group have been developed on the basis of the most advanced international and national practices, following the recommendations published by the Organisation for Economic Cooperation and Development (OECD), having regard to the Corporate Governance Code of companies listed on the NASDAQ OMX Vilnius exchange, Guidelines on the Governance for State-owned Enterprises recommended by the Baltic Institute of Corporate Governance. The corporate governance model of the power generation companies' group was implemented in observance of the Corporate Governance Guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 (the Guidelines are available at [www.le.lt](http://www.le.lt)).

The primary goal of the corporate governance is to achieve the effect of synergy aligning different activities of the Lietuvos Energija group companies and targeting them at the achievement of the common goals at the Group level.

The Group's governance structure has been formed according to the principles of corporate governance and contributes to their implementation. The Company's shareholder is the State which controls 100% of its shares. The rights and obligations of the shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, which adopts the main decisions relating to the implementation of the ownership rights and obligations.

In 2016, for three consecutive years the Lietuvos Energija group was recognised as the best managed state-owned entity. The analysis was carried out by the Management Coordination Centre which assesses state-owned companies based on different criteria and sets the good governance index.



# Supervisory bodies

## Supervisory Council

The Supervisory Council is a collegial supervisory body provided for in the Articles of Association of the Company and elected by the General Meeting of Shareholders for a term of four years. The Supervisory Council of Lietuvos Energija consists of seven members – natural persons representing the Ministry of Finance, the Ministry of Energy, the Ministry of Economy, the Office of the Government of the Republic of Lithuania, and three independent members. The Chairman is elected from the members of the Supervisory Council. This model of formation of the Supervisory Council complies with the principles of corporate governance. The term of office of the current Supervisory Council is the period from 19 July 2013 to 19 July 2017. The composition of the Supervisory Council functioning at Lietuvos Energija as at 30 June 2017 was as follows\*:



**Šarūnas Kliokys**

(born in 1959)

Chairman, independent member



**Antanas Danys**

(born in 1975)

Independent member



**Dr. Virginijus Lepeška**

(born in 1955)

Independent member



**Tomas Garasimavičius**

(born in 1978)

Member



**Rasa Noreikienė**

(born in 1959)

Member



**Agnė Bagočiutė**

(born in 1977)

Member *(from 26 May 2016)*

<b>Educational background</b>	Vyrautas Magnus University; Baltic Management Institute, Master's degree in Business Administration (EMBA); Vilnius University, Economist's Diploma.	Vilnius University, Master's degree in Business Administration (MBA); Boston College, Bachelor's degree.	Vilnius University, Doctoral degree in Social Sciences.	Creighton University, Master's studies of Political Science; Institute of International Relations and Political Science (IIRPS) of Vilnius University, Master's studies of Political Science; IIRPS of Vilnius University, Bachelor's degree in Political Science.	Kaunas University of Technology, Master's degree in Public Administration; Vilnius University, Lawyer's speciality.	Vilnius University, Bachelor's degree in Public (Economic) Geography; Vilnius University, Master's degree in General Geography and Land-Use Planning.
<b>Workplace, position</b>	Chairman of the Board of Ekonovus UAB; Chairman of the Board Kilimai AB; Member of the Board of the state enterprise Centre of Registers, Member of the Board of the association EUROCHAMBERS, President of the Lithuanian Chamber of Commerce, Industry and Crafts.	Director of Grinvest PTE.LTD; Development Director of Kaštonų Kalva UAB; Member of the Board of Kruonis OU; Chairman of the Board of Neo Finance UAB; Director of Asian Pacific Green Energy Pte. Ltd.; Director of Powerful United Limited; Member of the Board of Misen Enterprises; Member of the Board of Argentum Mobile.	Consultant, Chairman of the Board of Organizacijų Vystymo Centras UAB; Consultant at OVC Mokymai UAB; Advisor to the Chairman of the Board of Vilandra UAB; Advisor to General Manager of AL Holdingas UAB; Member of the Board of the Association Mentor Lietuva; Member of the Board of the public institution Paramos Vaikams Centras; Member of the Commission for the Selection of Candidates for Judge.	Government of the Republic of Lithuania, Advisor to the Prime Minister for Energy.	Ministry of Economy of the Republic of Lithuania; Deputy Minister (until 13 December 2016).	Ministry of Finance of the Republic of Lithuania; Chief Advisor of the Ministry.

\*None of the members of the Supervisory Council has any ownership interest in the capital of the Company or the Group of the companies.



The main functions and responsibilities of the Supervisory Council are as follows: election and removal of the Board Members, supervision of activities of the Board and the CEO, provision of comments to the General Meeting of Shareholders on the Company's strategy, a set of financial statements, appropriation of profit or loss, and annual report. The Supervisory Council also addresses other matters within its competence.

The Supervisory Council is functioning at the Group level, i.e. where appropriate, it addresses the issues related not only to the activities of the Company, but also to the activities of its subsidiaries or the activities of their management and supervisory bodies.

According to the Corporate Governance Guidelines approved by the Ministry of Finance, independent members of the Supervisory Council and the Committees are remunerated for their activities at the Supervisory Council and the Committees. The amount of the remuneration is established by the Ministry of Finance, an institution implementing the rights of the Company's shareholder. In 2016, remuneration paid to the independent members of the Supervisory Council amounted to EUR 12,337 (before tax). Remuneration paid to the independent members of the Committees of the Supervisory Council amounted to EUR 9,513 (before tax).

### Committees of the Supervisory Council

For the purpose of effective fulfilment of its functions and obligations, the Supervisory Council forms the committees. The committees of the Supervisory Board provide their conclusions, opinions and proposals to the Supervisory Council within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Council and at least one member is an independent member.

The following committees have been established at Lietuvos Energija:

- **Risk Management Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Council on the functioning of management and control system in the Group and (or) main risk factors and implementation of risk management or prevention measures;
- **Audit Committee** is responsible for the submission of the objective and impartial conclusions or proposals to the Supervisory Council on the functioning of the audit and control system in the Group;
- **Appointment and Remuneration Committee** is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the Board Members to the Supervisory Council, also for the

assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

Where appropriate, the Company may also form other ad hoc committees (e.g. for addressing specific issues, preparation, supervision or coordination of strategic projects, etc.).

### Audit Committee

Member of the Committee	Number of shares of the Company and the Group companies held	Workplace
<b>Rasa Noreikienė</b> Chair of the Committee	-	Ministry of Economy of the Republic of Lithuania, Vice-Minister (until 13 December 2016)
<b>Danielius Merkinas</b> Independent member	-	General Manager of Nordnet UAB
<b>Aušra Vičkačkienė</b> Member	-	Ministry of Finance of the Republic of Lithuania, Director of the Asset Management Department
<b>Gintaras Adžgauskas</b> Member	-	Director of the Lithuanian Committee of the World Energy Council
<b>Irena Petruškevičienė</b> Independent member	-	Member of Audit Development Committee of the European Commission

#### Main functions of the Committee are as follows:

- to monitor the process of preparation of financial statements of the Company and the Group companies, with a special focus on the relevance and consistency of accounting methods used;
- to monitor the effectiveness of internal controls and risk management systems of the Company and the Group companies, to analyse the need for and relevance of these systems and perform the review of the existing internal control management systems;
- to monitor the adherence to the principles of independence and objectivity by the certified auditor and audit firm, to provide related recommendations, as well as proposals for the selection of an audit firm;



- to monitor the audit performance processes of the Company and the Group companies, to examine the effectiveness of audit and response of the administration to the recommendations provided in the management letter;
- to monitor the effectiveness of the internal audit function of the Company and the Group companies, to analyse the need for and relevance of this function, to provide recommendations on the need for, effectiveness of the internal audit function, and on other internal audit related matters;
- to provide proposals for the internal audit plans of the Company and the Group companies, recommendations for the regulations of the internal audit units of the Company and the Group companies, appointment and dismissal of the head of a structural unit performing the functions of the internal audit, approval of his (her) job description, imposition of incentives and penalties;
- to monitor the compliance of activities of the Company and the Group companies with laws and other legal acts of the Republic of Lithuania, articles of association and operational strategy;
- to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Council;
- to perform other functions related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and in the Corporate Governance Code of companies listed on NASDAQ Vilnius Stock Exchange.

### Risk Management Supervision Committee

Member of the Committee	Number of shares of the Company and the Group companies held	Workplace
<b>Antanas Danys</b> Chairman of the Committee, Independent Member	-	Director of Grinvest PTE.LTD
<b>Raimundas Petrauskas</b> Independent member	-	General Manager of Schmitz Cargobull Baltic UAB
<b>Donatas Kaubrys</b> Independent member	-	Director of Dovirma UAB
<b>Tomas Garasimavičius</b> Member	-	Advisor to the Prime Minister of Lithuania for Energy

#### Main functions of the Committee are as follows:

- to monitor the identification, assessment and management of risks relevant for the accomplishment of goals of the Company and the Group companies;

- to assess the relevance of internal control procedures and risk management measures with respect to the identified risks;
- to assess the status of implementation of risk management measures;
- to monitor the implementation of risk management process;
- to analyse financial possibilities for the implementation of risk management measures;
- to assess the risks and risk management plan of the Company and the Group companies;
- to assess the regular risk identification and assessment cycle;
- to control the establishment of risk registers, analyse their data and provide proposals;
- to monitor the drafting of risk management related internal documents;
- to perform other functions attributed to the competence of the Committee by the Supervisory Council.

### Appointment and Remuneration Committee

Member of the Committee	Number of shares of the Company and the Group companies held	Workplace
<b>Virginijus Lepeška</b> Independent member, Chairman of the Committee (from 14 June 2016)	-	Chairman of the Board of Organizacijų Vystymo Centras UAB
<b>Tomas Garasimavičius</b> Member	-	Advisor to the Prime Minister of Lithuania for Energy Ministry of Finance of the Republic of Lithuania; Chief Advisor of the Ministry
<b>Agnė Bagočiūtė</b> Member (from 14 June 2016)	-	Ministry of Finance of the Republic of Lithuania; Chief Advisor of the Ministry

#### Main functions of the Committee are as follows:

- to assess and provide proposals on the long-term remuneration policy of the Company and Group companies (the main fixed part of the remuneration, performance based remuneration, pension insurance, other guarantees and forms of remuneration, compensations, termination benefits, other parts of the remuneration package), principles of compensation for costs related to the individual's performance;
- to assess and provide proposals on the policy of bonuses of the Company and the Group companies;
- to monitor the compliance of the policy of remunerations and bonuses of the Company and the Group companies with the international practice and good



governance practice recommendations, and provide respective proposals for the improvement of the policy of remunerations and bonuses;

- to provide proposals concerning bonuses upon appropriation of profit (losses) to be appropriated of the Company and the Group companies of the respective financial year;
- to assess the terms and conditions of agreements of the Company and the Group companies with members of management bodies of the Company and the Group companies;
- to assess the procedures of recruitment and selection of candidates to members and senior management of the Company and the Group companies and establishment of the qualification requirements;

- to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Company and the Group companies;
- to supervise how members of management bodies and employees of the Company and Group companies are notified of the professional development possibilities and how they upgrade their skills regularly;
- to supervise and assess the implementation of measures ensuring the continuity of operations of the management bodies and employees of the Company and the Group companies;
- to perform other functions attributed to the competence of the Committee by the Supervisory Council.



## Management bodies

### Board

The Board is a collegial management body provided for in the Articles of Association of the Company. The members of the Board are elected for a term of four years and removed by the Supervisory Council on the proposal of the Appointment and Remuneration Committee. The Board consists of five members and elects from among its members the Chairman of the Board – the Chief Executive Officer of the Company. The members of the Board, acting within their competence, must ensure the proper performance of the Company's activities / supervision of the respective areas at the Group level. The term of office of the current Board is the period from 22 July 2013 to 22 July 2017. The composition of the Board functioning at Lietuvos Energija as at 30 June 2017 was as follows\*:



**Dr Dalius Misiūnas**  
(born in 1978)

Chairman of the Board, CEO



**Ilona Daugėlaitė**  
(born in 1970)

Member of the Board, Organisational Development Director



**Darius Kašauskas**  
(born in 1972)

Member of the Board, Finance and Treasury Director



**Mindaugas Keizeris**  
(born in 1980)

Member of the Board, Strategy and Development Director



**Dominykas Tučkus**  
(born in 1981)

Member of the Board, Production and Services Director from January 2016

### Educational background

Lund University, Doctoral degree in Technological Sciences;  
Lund University, Master's degree in Industrial Electrical Engineering and Automatics;  
Kaunas University of Technology, Bachelor's degree in Electrical Engineering.

Vilnius University, Master's degree in Hydrogeology and Engineering Geology.

ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics;  
ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management;  
Vilnius University, Master's degree in Economics.

Vilnius University, Master's degree in International Business.  
Vilnius University, Bachelor's degree in Business Administration and Management.

L. Bocconi University (Italy), Master's degree in Finance;  
L. Bocconi University (Italy), Bachelor's degree in Business Management and Administration.

### Workplaces, position

Chairman of the Supervisory Council of Energijos Skirstymo Operatorius AB (from Dec 2015);  
Member of the Board of Directors of the Association Eurelectric; President of the Lithuanian Power Association;  
President of the Alumni Association of Kaunas University of Technology;  
Member of the Board of the Sponsorship Fund of Lietuvos Energija (from Oct 2014);  
Member of the Council of the Lithuanian Confederation of Industrialists; Member of the Council for Higher Education;  
Member of the Board of ISM University of Management and Economics;  
Professor-practician at Kaunas University of Technology.

Member of the Supervisory Council of Energijos Skirstymo Operatorius AB (from Dec 2015);  
Chair of the Board of Technologijų ir Inovacijų Centras UAB (from Dec 2013); Chair of the Board of Duomenų Logistikos Centras UAB (until Jan 2016);  
Chair of the Board of Verslo Aptarnavimo Centras UAB (from Jan 2016);  
Member of the Supervisory Council of Elektroninių Mokėjimų Agentūra UAB (from Dec 2015).

Chairman of the Board of NT Valdos UAB (from Dec 2013);  
Chairman of the Board of Verslo Aptarnavimo Centras UAB (until Jan 2016); Chairman of the Board of Elektroninių Mokėjimų Agentūra UAB (from Dec 2015);  
Chairman of the Board of Duomenų Logistikos Centras UAB (from Jan 2016).

Chairman of the Supervisory Council of Lietuvos Energijos Gamyba AB (from Dec 2015);  
Chairman of the Board of Energijos Teikimas UAB (until Feb 2016); Chairman of the Board of LTGAS UAB (until Jan 2016); Member of the Board of Lietuvos Dujų Tiekimas UAB (until Jan 2016); Chairman of the Board of Energetikos Paslaugų ir Rangos Organizacija UAB (from Oct 2015); Chairman of the Board of Vilniaus Kogeneracinė Jėgainė UAB (from Nov 2015); Member of the Board of the Sponsorship Fund of Lietuvos Energija (from March 2016); Member of the Supervisory Council of Elektroninių Mokėjimų Agentūra UAB (from Jan 2016).

Member of the Supervisory Council of Lietuvos Energijos Gamyba AB (from Jan 2016);  
Chairman of the Board of LTGAS UAB (from Jan 2016);  
Member of the Board of Lietuvos Dujų Tiekimas UAB (from Jan 2016);  
Member of the Board of Energijos Tiekimas UAB (from Jan 2016);  
Chairman of the Supervisory Council of Elektroninių Mokėjimų Agentūra UAB (from Jan 2016);  
Member of the Board of Tuuleenergia OU UAB (from Feb 2016);  
Member of the Board of EURAKRAS (from March 2016).

\*None of the members of the Board has any ownership interest in the capital of the Company or the Group of the companies. Activities at the Board are remunerated according to the guidelines set by the company's shareholder.

## Organisational culture and employees

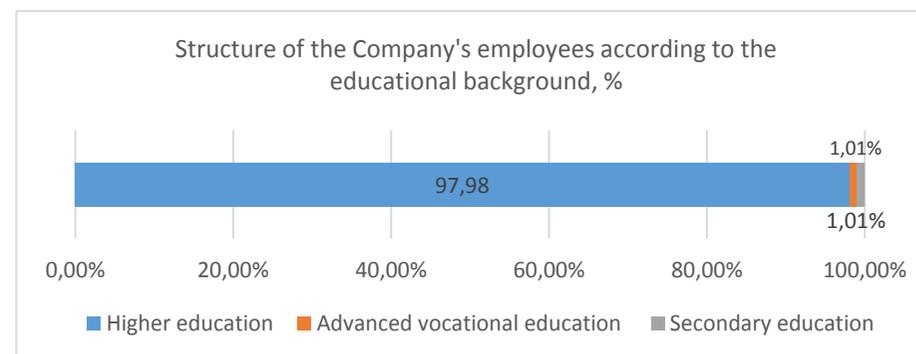
Employees of the Company are the key element in implementing the operational strategy of the Lietuvos Energija group. The aim is to build and maintain the organisational culture based on values that motivate employees to assume responsibility, cooperate, and joint efforts to achieve the best result.

In implementing the objectives set by the shareholder and pursuing a socially responsible business, we aim at attracting and retaining skilled specialists at the Group and creating with them the long-term partnership relationships and joint successful future while ensuring the mutual benefits.

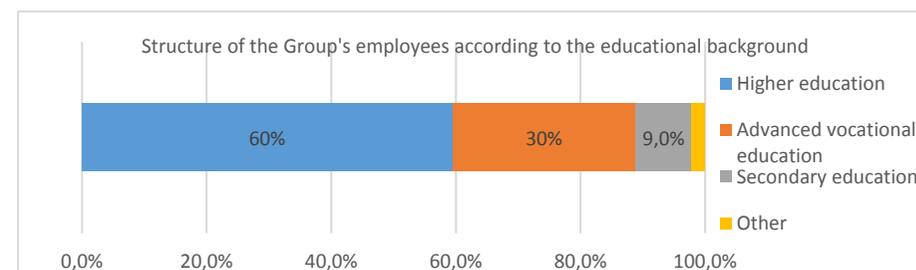
As at 30 June 2017, the Group had 4667<sup>2</sup> employees.

Company	Total number of employees
„Lietuvos energija“, UAB	101
AB „Energijos skirstymo operatorius“	2574
„Lietuvos energijos gamyba“, AB	399
UAB Energetikos paslaugų ir rangos organizacija	557
UAB Technologijų ir inovacijų centras	172
UAB Duomenų logistikos centras	17
Energijos tiekimas UAB	32
UAB „Elektroninių mokėjimų agentūra“	5
NT Valdos, UAB	209
VšĮ Energetikų mokymo centras	69
UAB LITGAS	14
UAB VAE SPB	10
UAB Verslo aptarnavimo centras	447
UAB „Lietuvos dujų tiekimas“	32
UAB Vilniaus kogeneracinė jėgainė	19
UAB Kauno kogeneracinė jėgainė	2
UAB Energijos sprendimų centras	8
<b>Total</b>	<b>4667</b>

As at 30 June 2017, the Company had 101 employees. The total of 97.98% of the Company's employees have higher university education, of whom 4 have doctoral degrees. The Company employs two certified professional project managers (PRINCE2 and PMP), one certified financial analyst (CFA), one certified internal auditor (CIA), one certified fraud examiner (CFE), two certified risk management assurance experts (CRMA), one certified risk management expert (ISO 31000:2009), five employees holding the professional Board Member's qualification of the Baltic Institute of Corporate Governance. The employees are active members of the associations, unions, and academic community (Scientific Council of the Lithuanian Energy Institute, Business Council of Kaunas University, the Supervisory Council of the Lithuanian Energy Institute; Technological Development Committee of the Agency for Science, Innovation and Technology).



The total of 60% of the Group's employees have higher education, of whom 21 have doctoral degrees, 30% of employees have acquired advanced vocational education and 9% have secondary education.



<sup>2</sup> Number of existing contracts



The percentage of men and women employed at the Group is equal to 76,28 % and 23,72%, respectively. The breakdown of managers by gender is similar, i.e. male managers make up 77,01 % and female managers – 22,99 %.

The total wage bill of the Company for January–June 2017 amounted to EUR 1 342 843.

#### Average monthly wage of the Group's employees January – June 2017

Category	Average salary, EUR
Head of the company	7 055
Top-level executives	5 083
Middle-level managers	3 458
Experts, specialists, workers	2 030

30 June 2017 4726 employees were working in the Group. The total wage bill of the Company for January–June 2017 amounted to EUR 29,63 million.

#### Average monthly wage of the Group's employees January – June 2017

Category	Average salary, EUR
Head of the company	4 900
Top-level executives	4 277
Middle-level managers	2 154
Experts, specialists, workers	841

#### Development of the organisation and its culture

Following the reorganisation of the management of the Lietuvos Energija group in 2017 attention was focused on a coordinated development of the organisation, management of human resources, formation of a new organisational culture, enhancement of efficiency of organisation of operations, training of new employees and development and maintenance of competences. At the end of Q1 first time this year day for the new employees of the Lietuvos energija group was held. Around 100 employees attended this event. In the Lietuvos energija Group we have 12 trade unions with which we cooperate in remuneration, additional benefits, structural changes or other issues. Also we discuss on relevant issues regarding Labor Code and are preparing

for implementation of it. We successfully continue career management and rotation structurization processes ( in the Q2 2017 17 employees rotated and 90 did internal career).

#### Development of competences

Each year we organise annual evaluation. In order to receive best results out of it, we introduced updated employee performance management system. Since now we call it GPS. The GPS system helps to reveal each employee's skills, directs efforts to promote the results and encourages success of the employees. This is the way how we create organizational culture which promotes openness and improvement. In the beginning of 2017 new remuneration management system based on Hay Group methodology started. Since system started remuneration management in all group is unified. Till the end of this year "LE academy" training schedule was updated. "LE academy" is managed by internal trainers – employees of the Group. The most popular topics – public speaking, how to prepare good ppt, project management. Lietuvos energija Group consistently cared for staff training and ensure that employees have all the statutory work required certificates, improve work competencies. Depending on the holding level organizations to organize a variety of general, professional and managerial excellence in teaching, eg., Leadership, team building, change management, communication, project management, business process management, and so on.

#### Internship opportunities

In order to attract foreign students to practice in Group companies and apply their knowledge when working in Lithuania, we participated in the "Talents for Lithuania" program. Under this program in 2017 II quarter two trainees were recruited.



## Supervisory and management bodies of the listed companies of the Group

As at 30 June 2017, the composition of the Supervisory Council of Energijos Skirstymo Operatorius (the term of office expires on 3 December 2019) was as follows:

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Workplace
<b>Dalius Misiūnas</b> Chairman	-	2015-12-03 – 2019-12-03	Lietuvos Energija UAB, Chief Executive Officer
<b>Ilona Daugėlaitė</b> Member	-	2015-12-03 – 2019-12-03	Lietuvos Energija UAB, Director of Organisational Development
<b>Petras Povilas Čėsna</b> Independent Member	-	2015-12-03 – 2019-12-03	

As at 30 June 2017, the composition of the Board of Energijos Skirstymo Operatorius (the term of office expires on 3 December 2019) was as follows:

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Workplace
<b>Dalia Andrulionienė</b> Chairman from 2016-11-25	-	2016-11-25 – 2019-12-03	Energijos Skirstymo Operatorius AB, Chief Executive Officer
<b>Rytis Borkys</b> Member	-	2015-12-03 – 2019-12-03	Energijos Skirstymo Operatorius AB, Director of Networks Maintenance Service
<b>Saulius Vaičekauskas</b> Member	-	2017-04-26 – 2019-12-03	Energijos Skirstymo Operatorius AB, Director of Networks Development Service
<b>Augustas Dragūnas</b> Member	-	2016-02-19 – 2019-12-03	Energijos Skirstymo Operatorius AB, Director of Finance and Administration Service
<b>Ignas Pranckevičius</b> Member	-	2017-01-20 – 2019-12-03	Energijos Skirstymo Operatorius AB, Director of Services Division

**General Manager:** Dalia Andrulionienė, Chief Executive Officer of Energijos Skirstymo Operatorius AB.

As at 30 June 2017, the composition of the Supervisory Council of Lietuvos Energijos Gamyba (the term of office expires on 5 August 2017) was as follows:

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Workplace
<b>Mindaugas Keizeris</b> <i>Chairman from 2 Dec 2015</i>	-	2014-11-20 – 2017-08-05	Lietuvos Energija UAB, Director of Strategy and Development
<b>Pranas Vilkas</b> <i>Independent Member</i>	-	2013-08-05 – 2017-08-05	-
<b>Dominykas Tučkus</b> <i>Member</i>	-	2015-12-21 – 2017-08-05	Lietuvos Energija UAB, Director of Production and Services

As at 30 June 2017, the composition of the Board of Lietuvos Energijos Gamyba (the term of office expires on 5 August 2017) was as follows:

Vardas, pavardė	Dalyvavimas Bendrovės ir Grupės įmonių kapitale, %	Kadencijos laikotarpis	Darbovietė
<b>Eglė Čiužaitė</b> Chairman	-	2016-02-19- 2017-09-17	Lietuvos Energijos Gamyba AB, Chief Executive Officer
<b>Nerijus Rasburskis</b> Member	-	2017-06-09 2017-09-17	„Lietuvos energijos gamyba“, AB, Project manager of Business Development Department
<b>Darius Kucinas</b> Member	-	2013-09-17- 2017-09-17	Lietuvos Energijos Gamyba AB, Director of Production Department
<b>Mindaugas Kvekšas</b> Member	-	2015-12-31 – 2017-09-17	Lietuvos Energijos Gamyba AB, Director of Finance and Legal Department
<b>Adomas Birulis</b> Member	-	2013-09-17- 2017-01-06	Lietuvos Energijos Gamyba AB, Director of Business Development Department
<b>Mindaugas Gražys</b> Member	-	2017-01-06 – 2017-06-09	Lietuvos Energijos Gamyba AB, Director of Business Development Department

**General Manager:** Eglė Čiužaitė, Chief Executive Officer of Lietuvos Energijos Gamyba AB.



# Basic information about the Company and the Group

The annual report of Lietuvos Energija and its subsidiaries is prepared in compliance with Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 *On the Approval of the Guidelines for Ensuring the Transparency of Activities of the State-owned Enterprises and Appointment of the Coordinating Authority* and published on the Company's website at [www.le.lt](http://www.le.lt).

<b>Company name</b>	Lietuvos Energija, UAB
<b>Company code</b>	301844044
<b>Authorised share capital</b>	EUR 1,212,156 thousand
<b>Paid-up share capital</b>	EUR 1,212,156 thousand
<b>Address</b>	Žvejų g. 14, LT-09310, Vilnius, Lithuania
<b>Telephone</b>	(8 5) 278 2998
<b>Fax</b>	(8 5) 278 2115
<b>E-mail</b>	biuras@le.lt
<b>Website</b>	<a href="http://www.le.lt">www.le.lt</a>
<b>Legal form</b>	Private limited liability company
<b>Date and place of registration</b>	28 August 2008, Register of Legal Entities
<b>Register accumulating and storing data about the Company</b>	Register of Legal Entities, State Enterprise the Centre of Registers

<b>The Company's shareholders</b>	<b>Share capital (EUR '000)</b>	<b>%</b>
The Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania	1,212,156	100

On 13 February 2013, the Company's shares were transferred to the Ministry of Finance by the right of trust.

With effect from 30 August 2013, the Company's name Visagino Atominė Elektrinė UAB was changed to Lietuvos Energija, UAB.

As at 30 June 2017, the authorised share capital was divided into ordinary registered shares with the nominal value of LTL 1 (EUR 0.29) each. All the shares are fully paid.

The control of the implementation of the budgets of the Group companies and the consolidated budget of the entire Group is performed on a monthly basis. If needed the actual results of the components of the budget are presented to responsible persons each day. Each month employees responsible for the budgetary implementation prepare explanations and submit substantiations and reasons for deviations of actual results under the separate line items of the budget to the Finance and Treasury Management Service. Every month the Finance and Treasury Service prepares the presentation on the companies' performance which includes the analysis of the budgetary implementation by the companies and the Group, and presents it at regularly held meetings of the companies' management. The assessment of the performance report includes the assessment of occurred deviations from the budgets and their causes. Employees responsible for the budgetary implementation can make proposals on budgetary changes in case of significant deviations from income/expenses plans and (or) the components of the budget.



# Information on subsidiaries, branches and representative offices

Companies directly or indirectly controlled by Lietuvos Energija UAB at the end of the reporting period (30 June 2017) were as follows:

Company	Registered office address	Effective ownership interest at 30 June 2017, (%)	Share capital (EUR '000) at 30 June 2017	Profile of activities
Lietuvos Energijos Gamyba, AB	Elektrinės g. 21, Elektrėnai	96.75	184,174	Production, supply and trade in electricity
Energijos Skirstymo Operatorius, (until 1 January 2016, LESTO AB and AB Lietuvos Dujos AB)	Aguonų g. 24, Vilnius	94.98	259,443	Electricity supply and distribution to customers; natural gas supply
NT Valdosa, UAB	Geologų g. 16, Vilnius	100	85,550	Disposal of real estate, other related activities and service provision
Duomenų Logistikos Centras UAB	A. Juozapavičiaus g. 13, Vilnius	79.64	4,033	Support services for information technology and telecommunications
Energetikos Paslaugų ir Rangos Organizacija UAB (until 1 January 2016, ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB)	Motorų g. 2, Vilnius	100	7,003	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid, energy equipment repair, production of metal structures
LITGAS UAB	Žvejų g. 14, Vilnius	66.67	13,050	Supply of liquid natural gas via the terminal and trade in natural gas
Elektroninių Mokėjimų Agentūra UAB	Žvejų g. 14, Vilnius	100	1000	Provision of payment collection services
Energijos Tiekimas UAB	P. Lukšio g. 1, Vilnius	100	17,240	Electricity and natural gas supply, electricity import, export, balancing services
Public Institution Training Centre for Energy Specialists	Jeruzalės g. 21, Vilnius	100	85	Professional development and further professional training of energy sector specialists
Geton Energy OÜ	Narva mnt 5, 10117 Talinas	100	35	Electricity supply
Geton Energy SIA	Dārziema iela 60, LV-1073, Ryga	100	500	Electricity supply
Technologijų ir Inovacijų Centras UAB	A. Juozapavičiaus g. 13, Vilnius	100	6,440	IT and telecommunication, and other services
VAE SPB UAB	Žvejų g. 14, Vilnius	100	100	Business and other management consultations
Verslo Aptarnavimo Centras UAB	P. Lukšio g. 5 b, Vilnius	51.00	580	Public procurement organisation and implementation, accounting, personnel administration services
Lietuvos Dujų Tiekimas UAB	Žvejų g. 14, Vilnius	100	8,370	Gas supply
Sponsorship Fund of Lietuvos Energija	Žvejų g. 14, Vilnius	100	3	Provision of financial support to projects, initiatives and activities significant for society
Vilniaus Kogeneracinė Jėgainė UAB	Žvejų g. 14, Vilnius	100	21 003	Modernisation of the district heating sector in the city of Vilnius
Kauno Kogeneracinė Jėgainė UAB	Žvejų g. 14, Vilnius	51	24	Modernisation of the district heating sector in the city of Kaunas
Tuuleenergia OU	Keskus, Helmküla, Varbla Rural Municipality, Pärnu County	100	499	Generation of electricity from renewable energy sources
Eurakras UAB	Žvejų g. 14, Vilnius	75	8,096	Generation of electricity from renewable energy sources
Energijos Sprendimų Centras UAB	Žvejų g. 14, Vilnius	100	10	Provision of electricity saving services



# Information on securities of the Group companies

The shares of Energijos Skirstymo Operatorius and Lietuvos Energijos Gamyba have been listed on the Main List of NASDAQ Vilnius Stock Exchange. The trading of shares of the companies was started on 11 January 2016 and 1 September 2011, respectively. The shares of the companies are traded only at NASDAQ Vilnius Stock Exchange.

## Structure of the authorised share capital and shareholders owning more than 5 per cent of the issuer's authorised share capital as at 30 June 2017

Company	Total nominal value of shares (in EUR)	ISIN code	Securities' abbreviation	Trading list	Full name of the shareholder (name of the company)	Percentage of voting rights conferred by shares owned
<b>Lietuvos Energijos Gamyba AB</b>	184,174,248.35	LT0000128571	LNR1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	96.75%
<b>Energijos Skirstymo Operatorius AB</b>	259,442,796.57	LT0000130023	ESO1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	94.98%

## Information about agreements with securities intermediaries

Lietuvos Energija has not concluded any agreements with intermediaries of public trading in securities, because its securities are not traded on the stock exchange.

### Group companies:

#### **Lietuvos Energijos Gamyba AB**

As at 30 June 2017, the company had issued 635,083,615 ordinary registered shares with the nominal value of EUR 0.29. Shares of Lietuvos Energijos Gamyba have been listed on the main list of NASDAQ OMX Vilnius stock exchange. ISIN code of the issue is LT0000128571.

Lietuvos Energijos Gamyba has concluded the securities accounting agreement on the accounting of securities issued and management of personal securities accounts with SEB Bankas AB.

#### **Energijos Skirstymo Operatorius AB**

As at 30 June 2017, the company had issued 894,630,333 ordinary registered shares with the nominal value of EUR 0.29. Shares of Energijos Skirstymo Operatorius AB have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange. ISIN code of the issue is LT0000130023.

Energijos Skirstymo Operatorius AB has concluded the agreement on the accounting of securities issued by the company and management of personal securities accounts with SEB Bankas AB.



# Main events at the Group that occurred until the date of the preparation of the Report

## 2017 January:

**02.01.2017.** LITGAS, in cooperation with LDT, provided the LNG loading services to the first small-scale LNG carrier Coral Energy at the Klaipėda LNG terminal. 15,000 cubic metres of LNG loaded to the carrier will be delivered to one of the small terminals in the Baltic Sea. The second reloading transaction was completed at the end of February.

**06.01.2017.** Mindaugas Gražys elected as a new Member of the Board, Adomas Birulis was recalled from the Members of the Board.

**16.01.2017.** A fee introduced for payment operations at manogile.lt – EUR 0.15 per one operation. The operation fee is not charged upon customers paying for electricity and gas. The fee for the services provided to the customers (collection of fees and distribution of the same to all providers) is collected by EMA.

**17.01.2017.** VKJ signed a contract with the company AF-Consult that will be providing Engineer services under the FIDIC contract.

**20.01.2017.** Ignas Pranskevičius appointed a Member of the Board of ESO and the Director of the Service Office.

**25.01.2017.** LEG started implementing the project on the dismantling the decommissioned Units 5 and 6 of the reserve power plant of the Elektrėnai Complex.

**31.01.2017.** EMA allocated 80,000 ESO fee payments and in this respect overtook SEB bank and now holds the 2nd position in the electronic payment market (21 % of the market, second after Swedbank holding 31 % of the market). Within the entire payment market (including the payments in cash), EMA is holding the fifth position with its 8 % of the market. The National Association of Electric Energy and the Association of Gas merged and became the National Power Association

## 2017 February

**02.02.2017.** For the purpose of further specifying its activities, Lietuvos energija started the EMC sale procedure.

**03.02.2017.** With a view to ensuring a reliable supply of natural gas in Druskininkai, ESO intends to build a liquefied natural gas (LNG) regasification station.

**08.02.2017.** NTV announced a public immovable property auction offering to sell 29 objects the total value of which accounted for EUR 17.8 million.

**14.02.2017.** EMA achieved an agreement with TELIA – manogile.lt customers will be able to pay for the services provided by the TELIA group.

**24.02.2017.** LITGAS optimised the dedicated supply LNG freight schedule in 2017. This will enable the Company to earn up to EUR 1 million. The amount will directly reduce the natural gas infrastructure maintenance costs for business and residents.

**27.07.2017.** The European Commission (EC) closed the case against Lithuania regarding the decision of the Government in 2014 decided to allow incineration of waste in State-owned plants only. The Decision of the EC means that the projects in Vilnius and Kaunas of construction of new CHP plants launched by the energy group Lietuvos energija can be continued. The decision of the Government was appealed to the Commission by Reenergy managed by the concern Icor and the City of Vilnius and a German capital company Danpower.

**27.02.2017.** EnePRO started providing gas pipeline design and construction works services.

**28.02.2017.** Publication of the ESO performance results for 2016: the operating costs decreased by 11.5 % (from EUR 113.3 million to EUR 98.6 million), the net profit increased by 8.2 % (from EUR 85.5 million to EUR 92.5 million), and the revenues increased by 1.9 % (from EUR 637.9 million to EUR 650.1 million).

**28.02.2017.** Publication of the performance results of LEG for 2016: the corporate income for 2016 accounted for EUR 172.9 million and was by 19.3 % lower than in 2015 (EUR 2014.4 million). The Company's sales revenues decreased by 25 % to a largest extent due to decreased output of electric energy at Elektrėnai Complex. Having abolished support to electric energy production, the Elektrėnai Complex produced only half of the volume of electric energy compared to 2015 (respectively, 0.491 TWh and 1.067 TWh). The decrease in the sales income was partly compensated by the proceeds from the sale of part of the business.



**28.02.2017.** Publication of Lietuvos energija Group results for 2016: EBITDA was recorded at EUR 256.3 million, i.e. 16 % or EUR 35.2 million more than in the accounting period of 2015, when EBITDA was equal to EUR 221.1 million. During 2016, revenues of Lietuvos energija Group, increased by EUR 7.9 million on a year-on-year basis and totalled EUR 1,103.7 million. During the nine months of 2016, Lietuvos energija Group earned EUR 122 million in net profit, i.e. up by EUR 66.7 million year-on-year (EUR 55.3 million). During 2016, the Group's operating costs totalled EUR 136.3 million, i.e. a fall by 9.2 % (EUR 13.8 million)..

### 2017 March

**01.03.2017.** With a view to diversifying the debt portfolio, Lietuvos energija announced its intention to place its bonds up to EUR 200 million in value. Lietuvos energija intends to invest the proceeds from the bond placement in green energy projects.

**01.03.2017.** The servicing of VAC customers in Alytus, Marijampolė, Utena, and Visaginas transferred to the remote channels – [www.manogile.lt](http://www.manogile.lt) and customer service telephone. Physical customer service places were closed as of March 1.

**10.03.2017.** Lietuvos energija, a company managing its subsidiaries having strategic importance to national security, and the Police Department will cooperate in the fight against perpetrators and will be working on joint prevention projects. The agreement providing for the cooperation of the two entities was signed by Dalius Misiūnas, Director General of Lietuvos energija, and Linas Parnavas, the Police Commissioner General.

**10.03.2017.** Idle immovable property (NT) worth nearly EUR 1.2 million (incl. VAT) no longer used in the operations of the energy company group of Lietuvos energija was sold at the fifth public auction. The company successfully realised six objects at the public auction of immovable property. Total 29 objects were offered for sale at the auction and the remaining items will be repeatedly offered at other auctions.

**17.03.2017.** KKJ concluded the agreements regarding the supply of the equipment required for the new power plan, provision of design, procurement, and construction management services (EPCM).

**24.03.2017.** LEG shareholders decided to allocate EUR 12.7 million as dividends for H2 2016 and ESO declared EUR 51.8 million in dividends. In H2, LE Group proposed to disburse EUR 59.8 million to its shareholders; the dividends for 2016 will total EUR 100.7 million.

**27.03.2017.** The Court approved the peace arrangement between VKJ and First Opportunity (FO), regarding a crane of FO located in the plot of land owned by VKJ. The crane must be dismantled by 22 April 2017.

**28.03.2017.** ESO hosted in Vilnius a public discussion about the ways to support the development of electric energy producing customers and ensure their sustainable integration. ESO for the first time presented the plan for promotion of electricity producing customers, including the proposals to remove bureaucratic barriers and create the eco-system.

**30.03.2017.** The Seimas adopted the amendments to the Law on Natural Gas that will allow shortening the term for connecting customers to gas pipelines to 55 days. The amendments to the Law establish that low and medium-pressure gas pipelines, most of which in Lithuania are operated by the electricity and gas distribution company ESO, will be treated as movable items.

**30.03.2017.** EMA concluded the fee collection contracts with UAB Vilniaus šilumos tinklai and started the collection of fees on the [manogile.lt](http://manogile.lt) portal.

**31.03.2017.** After the Government amended the Description of the Road Maintenance Procedure, the works of connecting to electricity and gas distribution networks will be carried throughout the year, irrespective of the season. Thus, the electricity and gas distribution company ESO will be able to faster complete the electricity and gas connection works to some 5,000 customers every year.

**31.03.2017.** The ESCO company modernised the lighting of one class-room at Adomas Mickevičius Gymnasium in Vilnius by using LED lamps. Within the first month alone, the class-room used four times less electric energy than in an identical class-room with the old-type lighting system. The estimations concluded that a replacement of old-type lamps at schools of Vilnius by modern LED lamps would lead to saving of more than EUR 2 million per year, without any initial investment.

**31.03.2017.** LEG completed the project on the dismantling the decommissioned Units 1 and 2 of the reserve power plant of the Elektrėnai Complex. Lietuvos Energija announced the ranking of potential implementers of the integrated business management system that participated in the international procurement. The consortium of companies with the best proposal will be offered to sign the agreement. The price of the best proposal is EUR 18.8 million (excl. VAT) and it was presented by NESS Czech s.r.o and InnoForce UAB, companies operating as a joint venture. During the implementation period NESS Czech s.r.o. will act as a responsible partner of the joint venture thus ensuring the use of the best practice accumulated by the



implementer in introducing analogous SAP solutions in the energy sector in the Group's project.

#### April 2017:

**04.04.2017.** A meeting of VKJ with representatives of the public took place. The agenda of the meeting included presentation of the status of the Project, monitoring of the environment pollution, and a discussion on the way to present the monitoring data to the society.

**05.04.2017.** Due to excessive prices ESO rejected the tenders submitted by participants of the public procurement procedure regarding the building of a LNG regasification station in Druskininkai.

**10.04.2017.** Ieva Lauraitytė, currently heading the Legal Service of Lietuvos energija, was nominated the Director General of the Group company NT Valdos. Upon the completion of the public tender the candidacy of Ieva Lauraitytė was approved by the Appointment and Remuneration Committee and the Supervisory Board of Lietuvos energija. Officially Ieva Lauraitytė would perform the functions of the Head of NT Valdos after all the requisite formal procedures are completed.

**11.04.2017.** ESO received a letter of Lietuvos energija notifying ESO that the Supervisory Board approved the candidacy of Saulius Vaičekauskas (area – grid operation) promoted by the Board of Lietuvos energija to the Board of ESO.

**13.04.2017.** State-owned energy company group Lietuvos energija announced that in the course of the past four years of operations not only it successfully reorganised and specified the activities of the Group, but also ensured significant return to its shareholder – the State of Lithuania. Since 2013 Lietuvos energija is estimated to have paid in excess of EUR 180 million to the State budget. In the meantime for H2 2016 Lietuvos energija proposed to pay EUR 59.8 million as dividends, thus, subject to the approval of the shareholder, the amount of dividends paid in the course of the past years would exceed EUR 100 million.

**14.04.2017** Company ESO, the first one in the Baltic States, starts trying out joint smart meters for electricity and gas. The company installed smart devices that transmit data on energy consumption remotely to the ESO accounting system in 50 households of Vilnius consuming electricity and natural gas.

**14.04.2017** NCECP adopted a resolution not to approve the SMP investment project due to complexity and multidimensional nature of the project, as well as a great cross-subsidization risk that arises due to the investment intended for enhancing efficiency

of regulated activities and non-regulated activities provided in one project. As it has been provided for in the procurement conditions, upon failure to obtain an approval of the NCECP plans have been made to appeal to the Public Procurement Office for termination of the SMP procurement.

**26.04.2017** Vilnius authorities allowed building a cogeneration plant – Vilnius Council approved a cooperation agreement between the municipality, VŠT and Lietuvos energija laying down that the holding TEC-3 should take it over until October 1, and approved bigger height of the plant.

**27.04.2017** During the first quarter of the current year ESO signed more than 3.2 thousand gas getting agreements – more by 1.7 times than during January -March 2016, when gas getting agreements were signed by 1.9 thousand customers.

**27.04.2017** LEG appealed to the Competition Council and the transmission system operator with a request to ascertain whether the existing regulation of this market does not establish different playing field for economic entities operating in it and this way is in conflict to the Law on Competition.

**27.04.2017** Saulius Vaičekauskas was appointed as a member of ESO Board and director of the Grids Operation Service.

**28.04.2017** EMA submitted an application to the Bank of Lithuania for obtaining an electronic money license.

**28.04.2017** ESO published the first social responsibility progress report.

#### May 2017:

**01.05.2017** A process of accompanying new users of Gilė was launched. Since now, a user who plans to get electricity or increase the electricity capacity will be proactively consulted during the process and informed about ongoing actions. This will enhance customer satisfaction and in some cases will significantly improve customer satisfaction.

**04.05.2017** An application to the APVA (Environmental Project Management Agency) was filed officially due to support for the incineration part of the Vilnius cogeneration plant.

**09.05.2017** The Environmental Protection Agency approved an environmental assessment report and lit a green light for the wind farm in the vicinities of Kruonis PSP.



**10.05.2017** A change in optimizing the ESO voice prompt recording service MIRA was recorded. Result: more modern and several times cheaper solution.

**2017.05.12** LEG received an application of the Board Member Mindaugas Gražys on his resignation as the company's board member. His last day of holding office in the company's board was 9 June 2017.

**15.05.2017** LEG published unaudited financial results for 3 months of 2017: revenues from sales in January-March 2017 amounted to EUR 31.79 mln and were less by 5 percent as compared to January-March 2016 (EUR 33.46 mln in January-March 2017, EBITDA totalled EUR 14.50 mln and was bigger by 52 percent than in January-March 2016 (EUR 9.56 mln). In January - March 2017, net profit amounted to EUR 3.97 mln and was smaller by 72 percent (in January-March 2016 – EUR 13.96 mln).

**15.05.2017** ESO published unaudited financial results for 3 months of 2017: net profit in January-March 2017 totalled EUR 28.5 mln and was smaller by 7.5 per cent than during the same period in 2016, when it totalled EUR 30.8 mln. Revenues amounted to EUR 168.5 mln and were smaller by 7.6 per cent than during a respective period in 2016, when they totalled EUR 182.5 mln. EBITDA amounted to EUR 45.1 mln and was smaller by 7.8 per cent than during the same period in 2016, when EBITDA was EUR 48.9 mln.

**15.05.2017** Lietuvos energija published unaudited financial results for 3 months of 2017: during the first quarter of this year EBITDA amounted to EUR 71.3 mln – this is more by EUR 3.8 mln than during the same period of the preceding year, when operating costs, as compared with Q I 2016, reduced by 11 per cent or EUR 3.7 mln. Net comparative profit increased by 22.5 per cent – up to EUR 35.9 mln. The Group's equity rate of return remained higher than the rate set for Lithuanian state-owned enterprises and exceeded 10 per cent.

**16.05.2017** A notice to proceed was sent to contractors of the Vilnius cogeneration plant.

**17.05.2017** The Board of NT Valdos UAB approved a new organisational structure.

**22.05.2017** LEG repaid prematurely a part of the long-term credit in the amount of EUR 60.0 mln granted by AB SEB bank. The repayment was initiated in order to reduce the interest costs sustained by the Company.

**25.03.2017** Ieva Lauraitytė was appointed as the director General of NT Valdos UAB.

**23.05.2017** EnePRO launched the first customer survey that will hopefully help to improve customer service and cooperation.

**26.05.2017** Lietuvos energija, by implementing its strategy and fostering innovations, selected a partner with which it sets up an innovation foundation that will make investments into energy start-ups and entrepreneurial start-up accelerator. Being set up together with the selected international partner team, the foundation will become the first corporate venture capital fund in the Baltic States.

**26.05.2017** NCECP approved ESO investments into the modernisation of the gas distribution grid. Until 2018, ESO plans to install 14 progressive gas supply systems. This will help increase reliability and safety of the gas distribution system for approximately 55 thousand ESO customers.

**29.05.2017** ESO submitted to the Ministry of Energy an action plan how it will strengthen resistance of the grid to extreme natural phenomena and improve customer informing.

**31.05.2017** Kaunas cogeneration plant signed a project financing agreement with Swedbank bank that will grant a credit.

**31.05.2017** NCECP approved the new prices for natural gas distribution to be valid from 01.07.2017. Due to greater efficiency of ESO activities, the prices reduced by 5-6 per cent in all seven price groups.

**31.05.2017** The head of TIC Marius Juknevičius ended work in Lietuvos energija Group.

#### June 2017:

**01.06.2017** The service of capacity increase became cheaper by 19 per cent for ESO corporate and private customers. The rate of introducing electricity also reduced for new customers who plan the development of business or construction of housing in more remote locations when the distance up to the points of electricity grids is bigger.

**02.06.2017** Lietuvos energija Support Foundations calls for applications.

**05.06.2017** A secondary enterprise of Energijos tiekimas under the name of Geton Energy was registered in Poland.

**05.06.2017** During the sixth auction held, 4 real estate objects were sold for a total amount of EUR 0.5 mln (inclusive of VAT).

**06.06.2017** APVA (Environmental Project Management Agency) informed the Ministry of Finance that examination of a part of the application on waste submitted by Vilnius cogeneration plant was made and the suitability to finance the project was positively evaluated.



**08.06.2017** ESO simplified the signing of agreements with corporate customers: no longer a tri-lateral arrangement with owners of premises is required.

**12.06.2017** Reconstruction works of the gas distribution grid were started in Vilnius during which nearly 7 kilometres of gas pipelines will be renewed in Vilnius.

**12.06.2017** At the decision of NT Valdos UAB shareholder, a new board of the company was appointed. Its composition until the term of office (December 2017) is as follows: Lina Maskoliūnė, Mindaugas Keizeris, and Vitalij Rakovski. Mindaugas Keizeris elected as Chairman of the Board.

**20.06.2017** A project for the transformation of Gilė Customer Service Centre was commenced. The project goal is to transform customer service units from serving centres into service sales and consultation centres by shifting customer service to remote channels.

**20.06.2017** ESO suggested changing the Code of Administrative Violations of Law and tightening up the liability for violations of the rules for the protection of energy objects and installations that caused disturbances or termination of energy activity.

**22.06.2017** LEG announced the results of feasibility assessment of installing the fifth hydro aggregate. The analysis shows that under current market conditions, the existing 900 MW capacity is sufficient for operation of the plant, however, its development is important in the future in ensuring sufficient electricity capacities and a competitive energy system.

**26.06.2017** Lietuvos dujų tiekimas signed an agreement with the USA company Cheniere Marketing International and acquired a cargo of liquefied natural gas (LNG).

**27.06.2017** Having received the highest credit rating in the Baltic States, Lietuvos energija intends to distribute the green debentures.

**29.06.2017** The Competition Council (CC) refused to start an investigation into LEG actions due to participating primarily in the auction and subsequently also in negotiations regarding a tertiary active power reserve. The resolution published by the CC runs that there is no basis to suspect that by submitting an offer for the assurance of the tertiary reserve, LEG would have applied unfair abnormally low prices or that the company's actions would have had signs of abusing the dominating position.

**30.06.2017** Repeat quality management and information safety certification audits were performed by TIC.

**30.06.2017** In the Kaunas free economic zone, installation of the infrastructure of Kaunas cogeneration plant (water supply and sewerage networks, access road, slip road from A1 highway) was completed.

**30.06.2017** By improving customer informing, ESO introduced an interactive map where information on works of the electricity distribution grid is published in real time. The map ([www.eso.lt/zemelapis](http://www.eso.lt/zemelapis)) shows in which locations installations of the electricity distribution grid were disconnected, also notifies on electricity supply disruptions.

**30.06.2017** During Q II, EMA signed direct agreements with Vilniaus šilumos tinklai, Vilniaus vandenys, actively advertised their services as a result whereof the number of regular payers on the [www.manogile.lt](http://www.manogile.lt) portal increased up to 98 thousand, EMA market share reached 10.1% (by assessing the electricity contributions).

**30.06.2017** LEG published the company's social responsibility progress report for 2016.

#### After the reporting period:

**05.07.2017** The Ministry of Energy included a Vilnius cogeneration plant project part on biofuel into the list of state projects.

**05.07.2017** ESO informed of the planned separation of the public electricity supply activity from the energy distribution activity by transferring it to another enterprise under the management of Lietuvos energija Group.

**10.07.2017** An issuance of 10 year-long debentures worth EUR 300 mln, especially successfully distributed by Lietuvos energija, became the biggest and the longest issuances ever distributed among Lithuanian companies and an issuance of the largest and the longest-term green corporate euro debentures in all states of Central and Eastern Europe.

**11.07.2017** The new articles of association with the reduced authorised capital of NT Valdos UAB (from EUR 85.5 mln to EUR 37.3 mln) were registered in the Register of Legal Entities.

**11.07.2017** A corporate responsibility report of Lietuvos energija Group was published for the year 2016.

**12.07.2017** Lietuvos dujų tiekimas signed a trade agreement with LNG trade company Gas Natural Fenosa and acquired a LNG cargo.



**12.07.2017** Seeking to ensure greater synergy between similar activities and uniform management of the grid services, structural changes are initiated in ESO Tinklų eksploatavimo (TET) and Tinklų vystymo (TVT) services. Posts will be redistributed in the services; their total number, however, will not reduce.

**19.07.2017** NASDAQ notified that since 19 July of the current year, Nasdaq Vilnius included debentures of the state-owned Lietuvos energija Group which exchange symbol is LEGR into the list of Baltic debt securities.

**24.07.2017** Lietuvos energijos gamyba will evaluate the current condition of Vilnius CHP No. 3 (hereinafter – TE-3). This assessment was initiated in order to ascertain the possibilities of using the plant in the future.

**25.07.2017** Lietuvos energija ended the preparatory stage and today signed an agreement on the establishment of a foundation. Management of the innovation foundation and development of the energy start-up accelerator was entrusted to the team Contrarian Ventures having an extensive international experience that was selected from 5 teams which participated in the public selection process.

**28.07.2017** Lietuvos energija has further refined its activities – on 28 July, it initiates a sale process of the transport activity of one of the largest asset management company NT Valdos.

**28.07.2017** Lietuvos dujų tiekimas finished sharing the discounts in the amount of EUR 93.16 mln accumulated during the first half-year of the current year. This amount was formed after Lithuania negotiated an additional discount on the price for gas supplied from the beginning of 2013 to April 2014.

**02.08.2017** The project of Vilnius cogeneration plant implemented by Lietuvos energija was positively assessed by JASPERS independent experts of the European Commission (technical assistance measure for large scale infrastructure objects of the European Commission, European Investment Bank, and European Reconstruction and Development Bank). Experts confirmed that the project of a new power plant is expedient, reasonable and compliant with EU directives which implementation will bring tangible social and economic benefits for society. The managing institution for EU funds – the Ministry of Finance notified the European Commission on 2 August on the selected project of Vilnius cogeneration plant and submitted all necessary documents for financing a part concerning waste of this project.

**07.08.2017** Lietuvos dujų tiekimas offers for customers to acquire from one hands condensed gas boilers that will enable to cut down gas consumption up to 20 per cent,

water heaters, components necessary for them, their installation services, and gas supply ordering.

**07.08.2017** Shareholders of Duomenų logistikos centras, Lietuvos energija, and Litgrid signed a share purchase-sale agreement with Telia Lietuva.

**10.08.2017** During 2017-2018, ESO intends to automate 142 most vulnerable overhead line sections of the medium-voltage electricity distribution grid in the whole Lithuania. As a result, energy quality will improve for nearly 138 thousand customers.

**14.08.2017** Lietuvos energija successfully finished a sale process of the public institution Energetikų mokymo centras (EMC) engaged in certification, qualification improvement of power engineers, and consulting activity. EMC partakers' rights were acquired by the buyer who offered the best price – public institution Kauno Virpstas.

**18.08.2017** Lietuvos energija further seeks to expand activities in the field of renewable energy. The group of companies announces a non-binding appeal to participants of the energy sector and calls to submit offers for the sale of electric plants, or power farms under their management, as well as projects on solar, wind, biofuel, or biogas energy developed by them.

**21.08.2017** Already this week natural gas produced in the USA will reach homes, businesses and industry, power plants and farmers in Lithuania and Baltic States. Today, the gas carrier Clean Ocean that brought the first in the Baltic States and among the first ones in the Eastern and Central Europe cargo of liquefied natural gas (LNG) from the USA which was acquired gas trading company Lietuvos dujų tiekimas from Cheniere Marketing International COMPANY of this country according to a contract signed in June.

**30.08.2017** The Ministry of Finance elected Chief Adviser to the Minister Agnė Bagočiūtė and Director of the State Property Management Department Aušra Vičkačkienė as members of the Supervisory Board. The elected independent members of the Supervisory Board included Darius Daubaras (Project Manager at Saudi Aramco, the world's largest oil refinery) and Daiva Lubinskaitė Trainauskienė (Human Resources Director of UAB „Thermo Fisher Scientific Baltics” and Member of the Board at the Association of Human Resource Management Professionals). The other candidates do not meet the requirements for this position, so the third independent member of the Supervisory Board will be re-elected in the near future.

**Lietuvos energija, UAB**  
CEO



**Dr. Dalius Misiūnas**