



INTERIM REPORT III QUARTER 2017

CONSOLIDATED INRRERIM REPORT OF THE COMPANY AND THE GROUP

1 January 2017 – 30 September 2017

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Key Financial Indicators of the Lietuvos Energija Group

		I-III Quarter 2017	I-III Quarter 2016	Δ, EUR million	Δ, %
Revenue	EUR million	783.4	803.5	-20.1	-2.5%
Purchase of electricity, gas, fuel and related services	EUR million	539.7	512.8	26.9	5.2%
Operating expenses	EUR million	93.7	98.7	-5.0	-5.1%
EBITDA	EUR million	149.5	190.9	-41.4	-21.7%
EBITDA margin	%	19.1%	23.8%		
Adjusted EBITDA (1)	EUR million	166.1	158.4	7.8	4.9%
Adjusted EBITDA margin	%	21.2%	19.7%		
Net profit	EUR million	77.1	95.6	-18.6	-19.4%
Net profit margin	%	9.8%	11.9%		
Net profit (adjusted) (1)	EUR million	91.3	67.4	23.9	35.4%
Net profit (adjusted) margin	%	11.7%	8.4%		
Investments (2)	EUR million	152.2	177.7	-25.5	-14.4%
		At 30 Sep 2017	At 31 Dec 2016	Δ, EUR million	Δ, %
Total assets	EUR million	2,602.7	2,432.2	170.6	7.0%
Equity	EUR million	1,327.0	1,319.5	7.5	0.6%
Borrowings	EUR million	692.3	494.4	197.9	40.0%
Net debt	EUR million	391.9	315.8	76.1	24.1%
Return on equity (ROE)	%	9.3%	10.3%		
Equity ratio	%	51.0%	54.3%		
Net debt / 12-month EBITDA	times	1.65	1.24		
Net debt / Equity	%	29.5%	23.9%		
FFO 12-month. / Adjusted net debt	%	45.6%	64.9%		
Assets turnover ratio	times	0.416	0.453		
Current liquidity	times	1.432	1.046		
Working capital	EUR million	2.7	-33.2	35.8	-108.0%
Working capital / Revenue	%	0.2%	-4.1%		

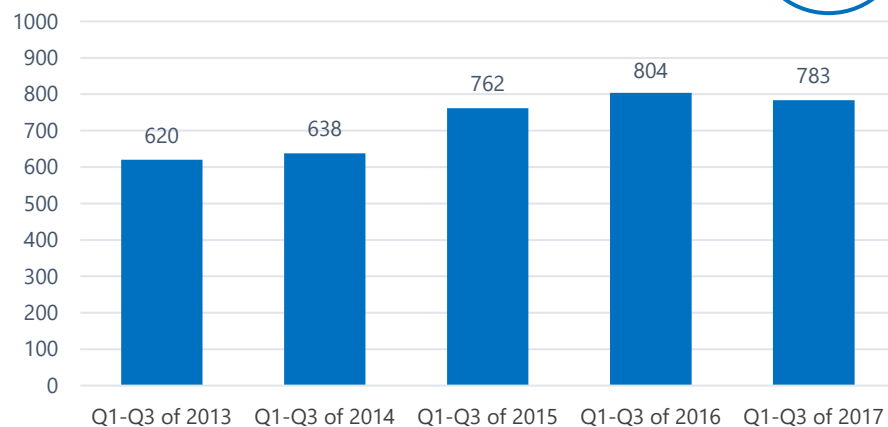
(1) Amounts in the table include EBITDA and net profit adjustments resulting from temporary regulatory differences for ESO, Litgas and LDT. In Q1-Q3 of 2016 report these adjustments were not made due to data only collected from the beginning of 2016.

(2) 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.



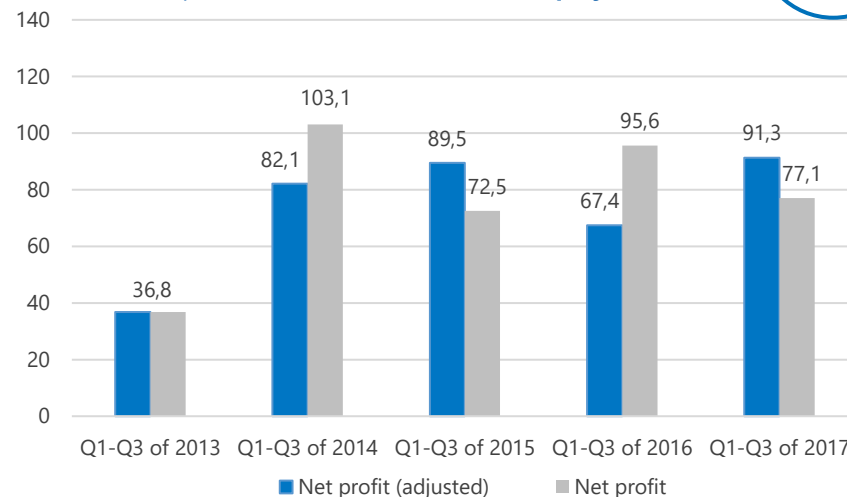
Income of Lietuvos Energija Group fell by 2,5% due to reduced electricity and gas transmission and distribution prices to consumers.

↓2,5%



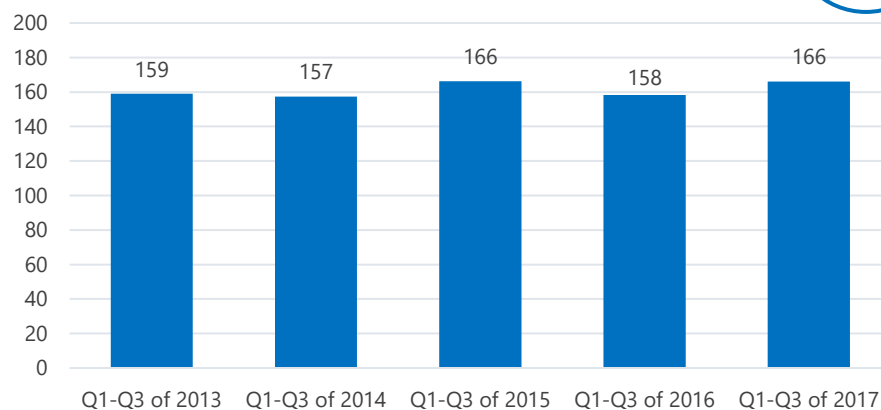
Lietuvos Energija Group's **net adjusted profit** grew by 35,4% up to EUR 91,3 million. **Return on Equity** was 9,3%.

9,3%



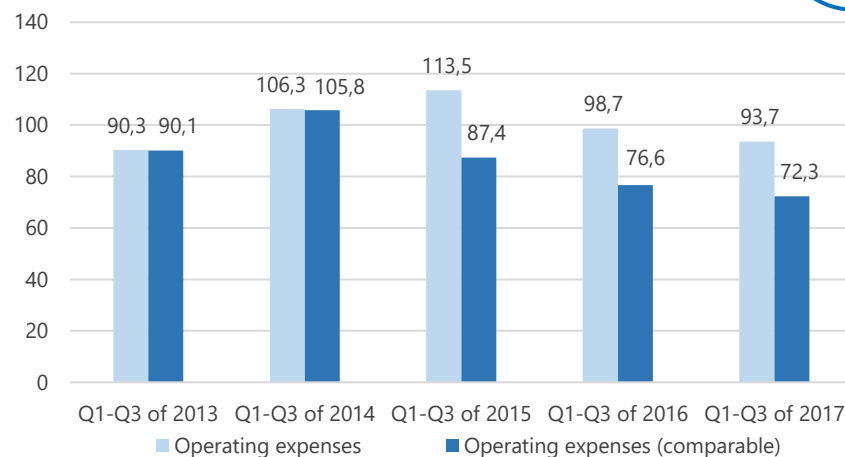
Adjusted **EBITDA** of Lietuvos Energija Group grew by EUR 7,8 million, mostly due to better EBITDA results of electricity generation and the Group's reduced operating expenses.

↑15%



Operating expenses of Lietuvos Energija reduced by EUR 5 million due to more efficient activities.

↓5%



*Adjusted EBITDA and adjusted net profit figures for 2013 – 2015 do not include adjustments for temporary regulatory differences for ESO and LDT due to data only collected from the beginning of 2016.
Comparative costs - operating costs not associated with new businesses since 2013.
Financial data is provided in million EUR.



An aerial photograph of a city, likely London, with a prominent blue grid overlay. The grid consists of concentric circles and radial lines, creating a technical or architectural feel. The city buildings and streets are visible through the grid.

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. Group provides services to almost 1.6 million of consumers across Lithuania, offers electricity supply services to consumers abroad, supplies gas to 570 thousand consumers. Lietuvos Energija implements development projects of strategic value and pursues the objective set forth in the National Energy Strategy. During I-III Quarters of 2017 0,94 TWh of electricity was generated and 6,79 TWh of electricity was transmitted to consumers and 4,95 TWh of natural gas was 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.



0,94 TWh of electricity generated



6,79 TWh of electricity distributed



4,95 TWh of natural gas distributed

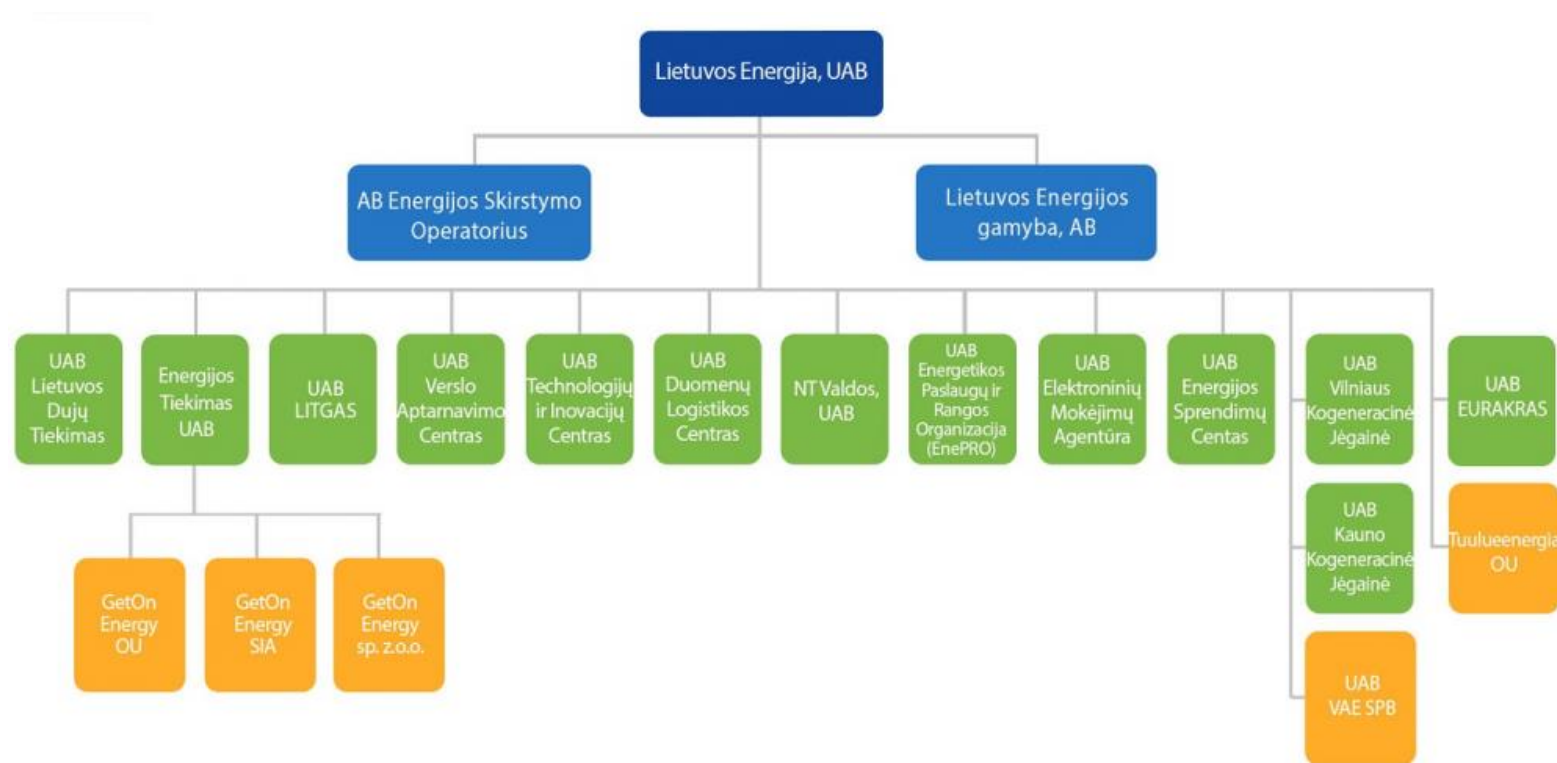


More than 1,6 million customers served

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 September 2017 is presented below.



Supervisory Board (5 members, 3 of them are independent)
Executive Board (5 members)
CEO – Chairman of the Board

Supervisory Board (3 members, 1 of them is independent)
Board (5 members)
CEO – Chairman of the Board

Board (3 members, 2 shareholder representatives and 1 independent)*
CEO – not a member of the Board

CEO
Board is not formed

**Board structure is different across companies; the Board is not formed in special purpose companies until active operation thereof; the Board of service providers is formed ensuring the representation of all shareholders*



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 I-III Quarter 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 Vilnius Third Combined Heat and Power Plant should be taken by Lietuvos Energija 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 of wind power plant park at Kruonis HAE. The implementation of the project will continue after the responsible authorities pass decisions regarding the further development of wind energy in Lithuania.

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 price groups.

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 (LNG).

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

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 has established corporate venture capital fund for energy technology and innovation that will make investments into energy start-ups and entrepreneurial start-up accelerator. It is the first corporate venture capital fund in the Baltic States. The management of the Innovation Fund was entrusted to a highly experienced international team Contrarian Ventures.

August 2017

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

August 14. Lietuvos energija successfully finalised the sale of a PE Energetikų mokymo centras (EMC). The EMC shareholder rights were acquired by the PE Kauno Virpstas, the buyer that offered the best price.

30 August. A new Supervisory Board of Lietuvos Energija was formed. Elected members of the Supervisory Board are: Mr Darius Daubaras (Project Manager at the Saudi Aramco Company), Ms Daiva Lubinskaitė-Trainauskienė (Personnel Director at UAB Thermo Fisher Scientific Baltics), Ms Agnė Bagočiūtė (Senior Advisor at the Ministry of Finance), Ms Aušra Vičkačkienė (Director Of The Assets Management Department, Ministry of Finance).

September 2017

8 September. CEO of Lietuvos energija Mr Dalius Misiūnas resigned. Ms Agnė Bagočiūtė resigned from the Supervisory Board. She was replaced by Mr Gediminas Norkūnas (Deputy Director of State Treasury Department, Ministry of Finance).

13 September. Independent member Mr Darius Daubaras was elected as the Chairman of the Supervisory Board of Lietuvos energija.

22 September. The Supervisory Board of Lietuvos energija elected an interim Board of the Group. Mr M. Keizeris, Ms I. Daugėlaitė, Mr D. Kašauskas, and Mr D. Tučkus who had held the office of Board Members prior to the expiry of the term of office of the Company's Board on 22 July 2017, were appointed as members thereof. Mr Mindaugas Keizeris was elected as the Chairman of the Board and the CEO.

October 2017 (after the reporting period)

17 October. In line with the strategic choice to refine value chain of Lietuvos Energija, the Group's company NT Valdos is planning to offer three new office complexes in Vilnius to the market for EUR 36,7 million.

26 October. The Support Foundation of Lietuvos Energija granted support for 41 projects.

30 October. Selection of Lietuvos Energija Board Members and CEO was announced.

November 2017 (after the reporting period)

7 November. A joint company of Lietuvos energija and Fortum Kauno kogeneracinė jėgainė (Kaunas Combined Heat and Power Plant) entered into a service contract worth more than EUR 5.9 million with the Lemminkäinen Lietuva company that will carry out site preparation, waste bunker pit and concrete pouring works.





ANALYSIS OF THE GROUP'S FINANCIAL AND OPERATIONAL RESULTS



Analysis of the Group's Financial and Operating Results

Key performance indicators		I-III Quarter 2017	I-III Quarter 2016	Δ, +/-	Δ, %
Electricity					
Generated electricity	TWh	0.94	1.06	-0.12	-11.3%
Generated electricity using renewable energy source	TWh	0.41	0.34	0.07	20.6%
Distributed electricity via medium and low voltage networks, etc.	TWh	6.79	6.60	0.19	2.9%
Public and guaranteed supply	TWh	2.38	2.33	0.05	2.1%
Distributed to customers to independent suppliers	TWh	4.42	4.27	0.15	3.5%
Sales in the retail market	TWh	1.13	1.16	-0.03	-2.6%
Number of newly connected customers	pc.	21,354	20,729	625	3.0%
Duration of connection of new customers (average)	calendar days	49.36	68.46	-19.10	-27.9%
Electricity supply quality indicators					
SAIDI, min. (incl. force majeure)	min.	105.52	144.70	-39.18	-27.1%
SAIFI, units (incl. force majeure)	pc.	0.99	0.96	0.03	0.0%
Technological costs in the distribution network	%	5.49%	5.74%		-4.4%
Gas					
Distributed volume of gas	TWh	4.95	4.82	0.13	2.7%
Volume of gas sold	TWh	8.04	7.19	0.85	11.8%
Volume of gas purchased	TWh	8.87	7.40	1.47	19.9%
Volume of LNG purchased	TWh	4.15	4.78	-0.63	-13.2%
Volume of natural gas acquired	TWh	4.41	2.62	1.79	68.3%
Number of newly connected customers	pc.	9,282	3,086	6,196	200.8%
Duration of connection of new customers (average)	calendar days	171.31	160.26	11.05	6.9%
Gas supply quality indicators					
SAIDI, min. (incl. force majeure)	min.	0.868	0.464	0.40	86.9%
SAIFI, units (incl. force majeure)	pc.	0.005	0.005	-0.0002	-3.8%
Technological costs in the distribution network	%	2.30%	2.55%		-9.8%

The main reason influencing electricity consumption is country's gross domestic product. Comparing QI-QIII 2017 with QI-QIII 2016, with the growing gross domestic product, the volume of electricity distributed grew by 2.9 per cent or 0.19 TWh. Compared to the last year, electricity distribution to independent customers grew by 3.5 per cent or 0.15 TWh. Meanwhile the volumes of public and guaranteed supply remained at the similar level (+2.1 per cent).



As compared to the same period last year, in QI–QIII 2017, the generation of power at Kaunas Algirdas Brazauskas' Hydroelectric Power Plant went up by 0.06 TWh or 23.4 per cent. The principal reason for this was a larger water volume in the Nemunas River which was caused by a flood in early spring and a rainy summer, and the beginning of autumn this year. Wind power plant parks operating in Estonia and Lithuania generated 0.09 TWh of electrical energy, i.e., 0.01 TWh or +12 per cent more as compared to the same period last year.

The generation volumes at Kruonis HAE decreased: 0.4 TWh generated during QI–QIII 2017, i.e., less if compared with the same period in 2016 (0.41 TWh).

The generation capacities of the combined cycle gas unit at Elektrėnai complex are activated only in the case of a high electricity price caused by disconnections of the NordBalt link or other reasons. Compared to the same period last year, generation capacities were activated less often, hence a decrease in power generation at the combined cycle unit by 58 per cent (from 0.29 TWh down to 0.12 TWh). In QI–QIII 2017, the combined cycle unit was activated 15 times and 45 times during QI–QIII 2016.

A share of electricity generated from renewable energy resources increased by 20.6 per cent and accounted for 56 per cent of all power generated by the Group in QI–QIII 2017. This was largely due to an increased volume of water in the Nemunas River.

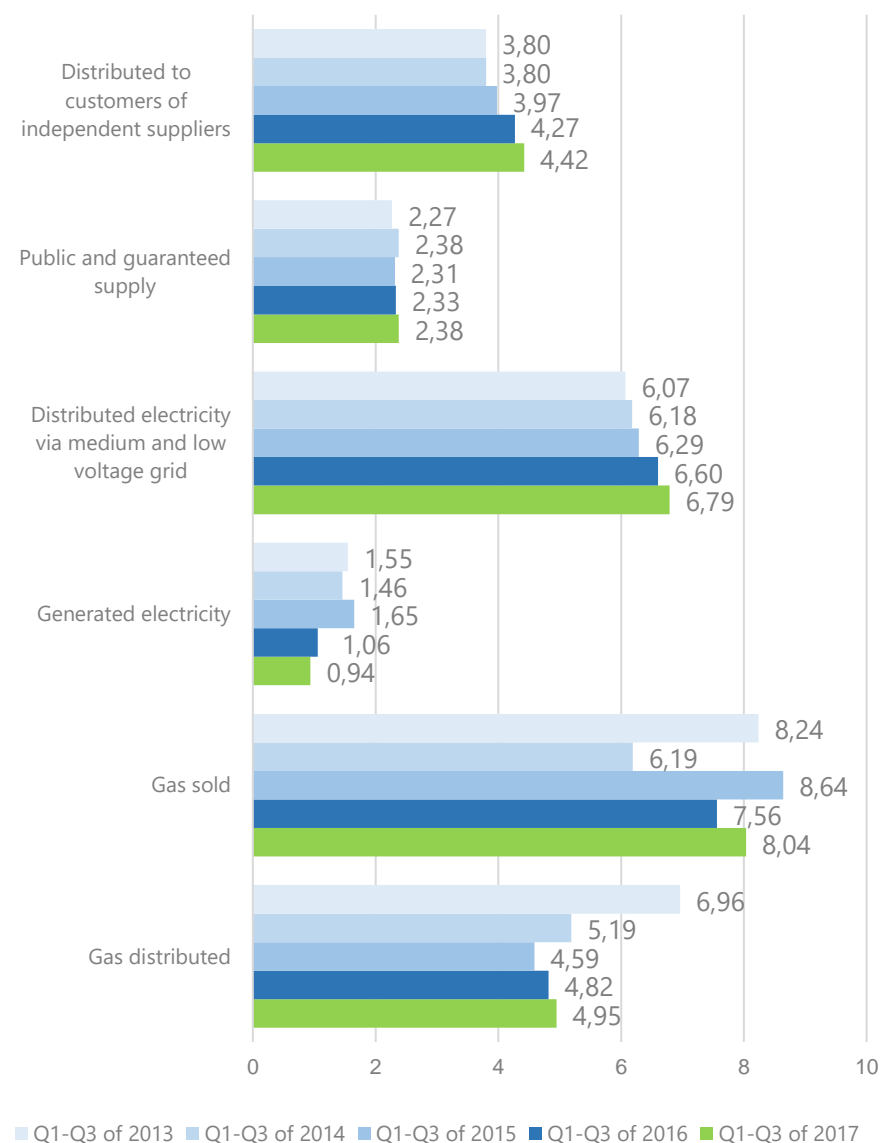
During QI–QIII 2017, the technological costs at the power distribution grid dropped to 5.49 per cent (were at 5.74 per cent in QI–QIII 2016). During the reference period, the SAIDI indicator (incl. force majeure impact) decreased to 105.52 min. The SAIFI indicator accounted for 0.99 times over QI–QIII 2017.

The volume of gas distributed by the companies of the Group increased insignificantly – 2.7 per cent or 0.07 TWh in QI–QIII 2017. This was mostly caused by an increase in gas consumption at heat generation companies owing to the heating season which lasted longer than in 2016. The volume of gas sold by the companies of the Group during QI–QIII 2017 rose by 11.8 per cent. This was influenced by an increase of Latvia-bound gas sales. In QI–QIII 2017, 1.15 TWh gas was sold in Latvia, whereas it came to 0 TWh at the same time last year.

During QI–QIII 2017, the technological costs at the gas distribution grid dropped from 2.55 per cent down to 2.3 per cent. This was caused by reconstruction of gas pipelines, replacement of old gas metering devices with new ones, and the growth in gas sales. The SAIDI indicator (including force majeure impact) pertinent to gas distribution rose in QI–QIII 2017 and was recorded at 0.87 min (0.46 min in QI–QIII of 2016), whereas the SAIFI indicator accounted for around ~0.005 units (~0.005 units in QI–QIII 2016).

During QI–QIII 2017, 21,354 new customers were connected to the electricity distribution grid; the number representing an increase by 3 per cent comparing to the same period last year. In QI–QIII 2017, 9,282 new customers were connected to the natural gas distribution grid, i.e., 3 times more than at the same period last year. Comparing QI–QIII 2017 with QI–QIII 2016, electricity consumers were connected on average 19 days sooner, whereas gas customers – 11 days later.

Electricity generation, gas and electricity distribution and sale, TWh



Key Financial Indicators

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

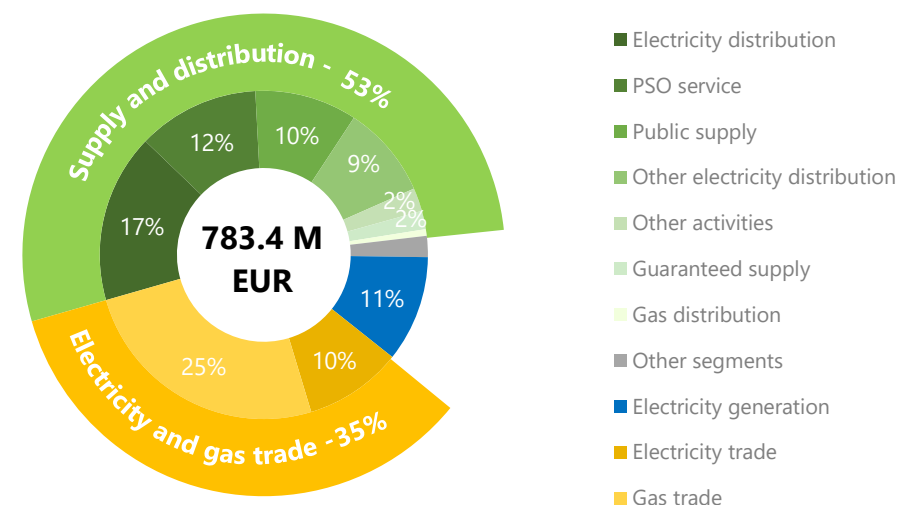
Revenues

During the three quarters of 2017 the revenues of Lietuvos energija decreased by 2.5 per cent (EUR 20.1 million) as compared with 2016 on a y-o-y basis and was reported at EUR 783.4 million. The principal reasons for the changes in the revenue:

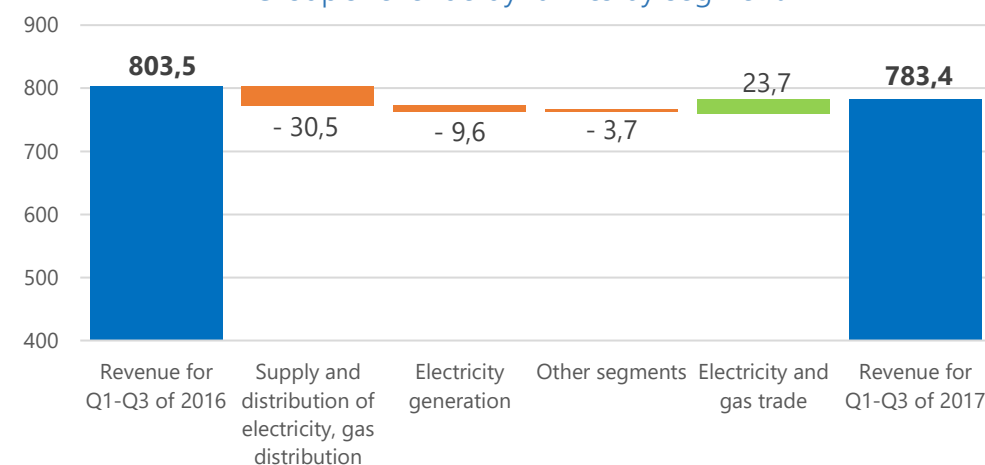
1. **Decrease in the proceeds from electricity transmission.** As compared with the results of QI-QIII 2016, the energy transition revenues decreased by EUR 30.5 million. The main reason for the fall is the established lower price electric energy and natural gas for consumers.
2. **Decrease in the revenues from electricity generation.** In QI-QIII, as compared to the same period last year, the revenues from electricity generation decreased by EUR 9.6 million. The principal reason for the decline in the revenue level was the shrinking volumes in energy generation. Total in QI-QIII 2017, the power plants and wind farms operated by the Group produced by 11.3 per cent less electric energy than during the same period in 2016. The largest contributor to the decrease was a decrease in the generation in the combined cycle unit of the Elektrėnai complex.
3. **Increase in the revenues from trade in electricity and gas.** The proceeds from trade in electricity and gas increased by EUR +23.7 million. The consolidated revenues of the Group from the sale of gas to corporate customers increased by EUR 18.6 million, mostly because of the increase in the sales as change in gas trade price was not significant. The revenues from the sale of gas to residents decreased by EUR 2.5 million, mainly due to lower tariffs. The consolidated revenues of the Group from trade in electricity were growing by EUR 7.6 million, the main reason being an increase in trade electricity in the Latvian 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 this segment¹ (EUR 413.5 million during QI-QIII 2017) accounted for more than half, i.e., 53 per cent of the total revenues of the Group (55 per cent in QI-QIII 2016). Revenues from trade in electricity and gas (EUR 271.2 million in H1 2017) account for 35 per cent of the total revenues (QI-QIII 2016 – 31 per cent). The revenues from electricity generation account for 11 per cent in the overall income structure (QI-QIII 2016 – 11 per cent).

Group's revenue structure for Q1-Q3 of 2017



Group's revenue dynamics by segment



¹ The information on the operational segments of the Group is disclosed in Note 13 of the Consolidated and the abridged interim financial statements of the Company "Operating Segments".

Operating and Purchase Expenses

During QI-QIII 2017, the Group's operating expenses amounted to EUR 93.7 million, representing a decrease of 5.1 per cent (-EUR 5 million). The principal factors that caused the decrease in the costs were the following:

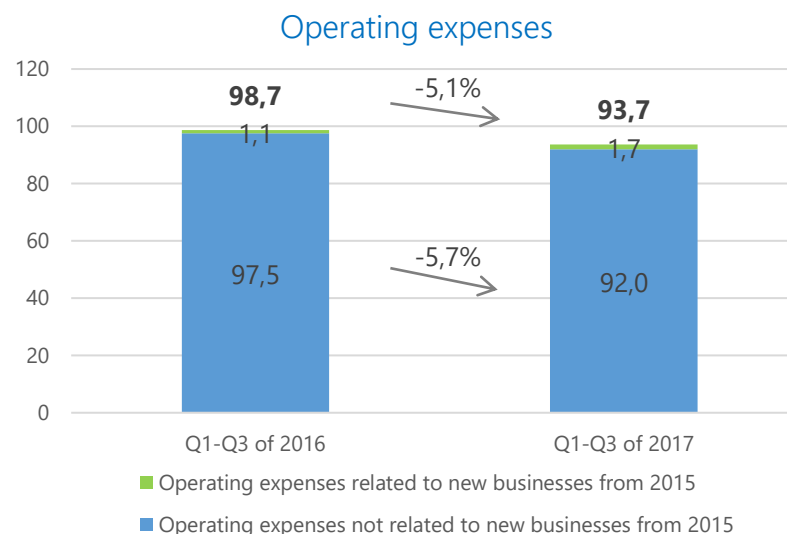
1. **Reduced remuneration costs.** The number of employees decreased by 9 per cent, as a result, the cost of wages decreased by EUR 4 million. On 30 September 2017, there were 4,559 employees working in the Group and 5,000 working as of 30 September 2016 (indicating the number of employment contracts).
2. **Lower costs of repair and maintenance of electric grid and electricity generation equipment.** During QI-QIII 2017, the costs of repair and maintenance of electric grid and electricity generation equipment, as well as those of other repairs decreased by EUR 0.6 million. The key reasons for the change were an increase in the investment (increased from EUR 76.2 to EUR 108.4 million), in addition to fewer failures.
3. **Other operating income** also decreased by EUR 0.5 million.

During the reporting period, the Group's expenses for the purchase of electricity, gas, fuel, and associated services increased as compared with the same period in 2016 by 5.3 per cent or EUR 27 million.

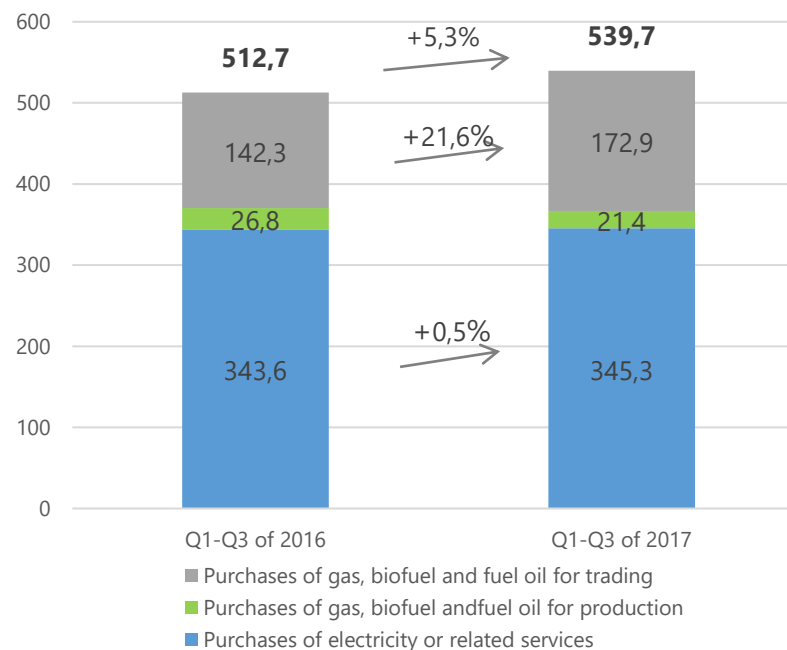
As compared with a respective period of 2016, the purchase of electricity and related services expenses increased marginally and accounted for EUR 345.3 (up by 0.5 per cent).

The expenses of purchases of gas and related services for trading increased by EUR 30.6 million or up by 21.6 per cent year-on-year. The main reason was increased volumes of sales of gas. This accordingly increased the expenses of purchases of gas for trade. The average gas purchase price did not change significantly.

Dujų ir susijusių paslaugų pirkimai prekybai padidėjo +30,6 mln. EUR arba +21,6 proc. lyginant su 2016 m. I-III ketv. Tai nulėmė ženkliai padidėję dujų pardavimo kiekiai. Tai



Purchase expenses of electricity, gas, fuel and other services



EBITDA and Net Profit

The adjusted EBITDA of QI-QIII 2017 amounted EUR 166.1 million. This is by 4.9 per cent or EUR 7.8 million more than in QI-QIII 2016 when adjusted EBITDA amounted EUR 158.4 million.

A major factor to the increase of the Group's adjusted EBITDA was the growing EBITDA of the electricity generation operations. As compared with the same period of the previous year, the indicator increased by EUR 7.6 million. Having regard to the relevant Order issued by the Court, and in view of the regulation of the commercial operations, and the findings of the audit of the operations in 2010-2012, the revenues of regulated operations of Lietuvos Energijos Gamyba are no further being decreased. For that reason during QI-QIII 2017, the EBITDA indicator increased by about EUR 12.9 million, as compared to the same period last year. The early spring flood and a fairly rainy summer and beginning of the autumn were the reasons for the increase of the electricity generation in Kaunas Algirdas Brazauskas' Hydroelectric Power Plant. During the period concerned, the power plant generated 0.32 TWh electricity (by 23 per cent more than in QI-QIII 2016). That pushed up the EBITDA results by EUR 2.6 million. The EBITDA of the generation unit decreased by EUR 3.6 million, as a result of a drop in the sale of the secondary power reserve service and a lower sales margin also decrease of EUR 2.1 million as dismantling costs incurred due to the dismantling of Units 1 and 2 of the Elektrėnai complex reserve power plant.

Furthermore, the positive change (+EUR 6.3 million) in the electricity supply and distribution, and gas distribution performance was responsible for the increase in the Group's EBITDA. The difference resulted from the measures applied to enhance the efficiency of the operations, lower operating expenses in combination with other factors. According to the new regulation policy of the electricity sector effective as of 2016, ESO is promoted to implement saving measures and part of the savings are retained in the Company.

During QI-QIII 2017, the results of trade in electricity and gas was by EUR 8.4 million behind the result of QI-QIII 2016. The main reason for the outcome was EBITDA of the trade in electricity that decreased by EUR 5.8 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. During 2017, due to the competition between the suppliers the profit margin from the electricity supply service was declining.

	I-III Quarter 2017	I-III Quarter 2016	Δ, +/-
Operating profit	83.9	124.9	-41.0
Depreciation and amortisation expenses	64.5	58.1	6.5
Impairment expenses and write off's of PPE	2.6	1.2	1.4
Expenses of revaluation of emission allowances	-1.5	6.8	-8.3
EBITDA	149.5	190.9	-41.4
Management's adjustments			
Change in the market value of open financial derivative instruments	-0.7	-0.7	0.0
Write off's of inventories and amounts receivable	0.5	1.3	-0.8
Gas price discount provided by Gazprom (1)	8.7	8.8	-0.1
Temporary regulatory differences of LITGAS (2)	2.2	-24.9	27.0
Temporary regulatory differences of ESO (3)	4.7	-14.6	19.3
Temporary regulatory differences of LDT (4)	1.2	-2.5	3.7
Adjusted EBITDA	166.1	158.4	7.7

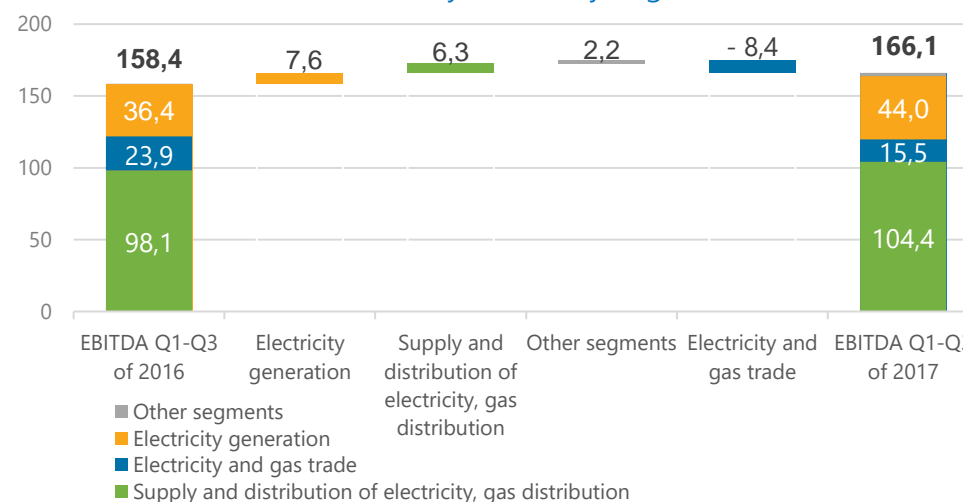
(1) Elimination of the costs which, in the opinion of the management, are related to previous periods.

(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.

EBITDA dynamics by segment



During QI-QIII 2017, the Group earned EUR 77.1 in net profit, which is a decline by EUR 18.6 million, if compared with QI-QIII 2016 (EUR 95.6 million). The main reason for the decline in the net profit results in QI-QIII 2017, in comparison with 2016, was the decrease in the Group's revenues due to lower electricity and gas prices for customers.

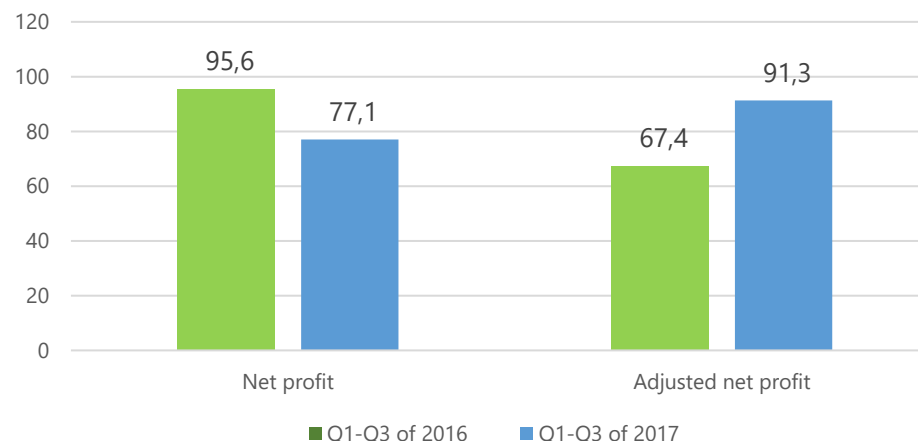
The net profit results for QI-QIII 2017 and QI-QIII 2016 were significantly affected by the deviation in the actual and regulated income of the assigned supplier of Litgas, in addition to the recalculation of regulated income of the Group's companies Elektros Skirstymo Operatorius and Lietuvos Dujų Tiekimas 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 QI-QIII 2017 (EUR 91.3 million) represented an increase by 35.4 per cent or EUR 23.9 million, as compared with QI-QIII 2016 (the adjusted net profit – EUR 67.4 million). Major contributors to the results of QI-QIII 2017 were the following:

- Decrease in deferred tax expenses by EUR 11.9 million;
- Decrease of current year income tax expenses by EUR 9.8 million;
- Decrease in the Group's operating expenses by EUR 5 million.
- increase in the Group's depreciation and amortisation expenses by EUR 6.5 million.

As of 31 December 2016, the equity of the Lietuvos Energija Group amounted to EUR 1,319.5 million. During QI-QIII 2017, the equity of the Company increased by 0.6 per cent (or EUR 7.5 million) and amounted to EUR 1,327 million as of 30 September 2017. The Group's equity increased due to a larger net profit after the payment of dividends to the shareholder. During the accounting period the Group disbursed to the 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 September 2017 was recorded at 51 per cent (on 31 December 2016 the indicator was 54.3 per cent).

Group's net and adjusted net profit



Net profit adjustments	I-III Quarter 2017	I-III Quarter 2016	Δ, +/-
Net profit for the reporting period	77.1	95.6	-18.6
Gas price discount provided by Gazprom	7.4	7.5	-0.1
Recalculation of the regulated income of LITGAS	1.8	-21.1	23.0
Recalculation of the regulated income of ESO	4.0	-12.4	16.4
Recalculation of the regulated income of LDT	1.0	-2.1	3.1
Adjusted net profit result	91.3	67.4	23.9

Investment

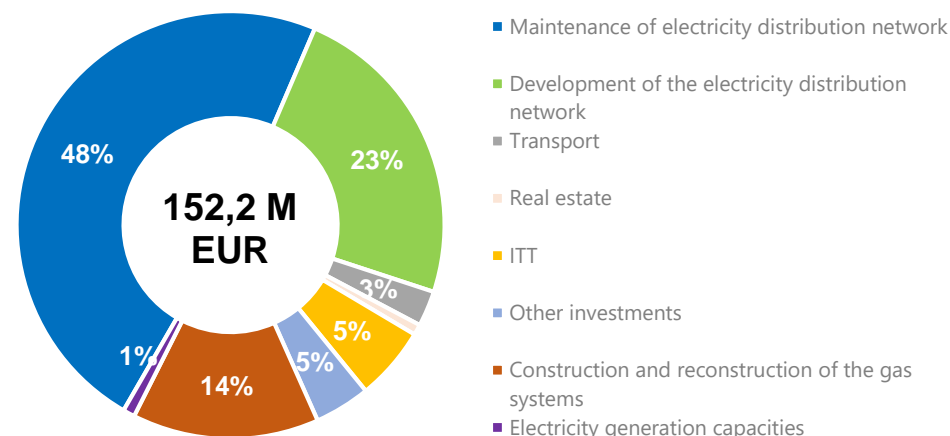
The Group's investment for QI-QIII 2017 accounted for EUR 152.2 million, representing a decline by 14.4 per cent during the respective period last year. This volume of the investment decreased mostly due to the acquisition of wind farms in QI 2016. Excluding the acquisition of the wind farms, the investment in the period of QI-QIII 2017 was growing by 32.3 per cent, or EUR 37.1 million. Major part of the investment was allocated to maintaining the electricity distribution network (48 per cent), and development (23 per cent) of the distribution grid. The investment into construction and reconstruction of the gas system accounted for 14 per cent of the total investment during QI-QIII 2017.

As compared with QI-QIII 2016, the investment in the current reporting period in the electricity distribution grid increased by EUR 25 million. During QI-QIII 2017, the investment by ESO to the upgrading of the electricity distribution network accounted for EUR 72.7 million. The investment in the development of the electricity distribution development in QI-QIII 2017, reached EUR 35.7 million. During reporting period, the investment by ESO in the construction and reconstruction of the gas systems reached EUR 21.3 million, representing an increase by 2.5 times since the respective period a year ago, recorded at EUR 8.5 million. During the first nine months of 2017 ESO built 251.2 km of distribution pipelines, 61.2 km of gas pipelines were laid during the same period in 2016.

The investment in transport decreased during the reporting period by EUR 8.7 million, in comparison to the last year, as in 2016 the Group's company NT Valdovs acquired fire vehicles that were leased to public firefighting services. During QI-QIII 2017 the investment in immovable property decreased by EUR 5.4 million. The main reason was the land plot lease rights in the value of EUR 4 million transferred in the form of property contribution by a Group's company UAB Kauno kogeneracinė jėgainė in 2016.

For the purpose of comparison, as of 31 December 2016, the Group's assets were worth EUR 2,432.2 million. During QI-QIII 2017, the Group's assets increased by 7 per cent (or EUR 170.6 million) and accounted for EUR 2,602.7 million as of 30 September 2017. The main factor affecting the value of the Group's assets was an increased balance of cash due to the issue of bond.

The Group's investment structure in Q1-Q3 of 2017, %



Dynamics of the Group's investments by sector	I-III Quarter 2017	I-III Quarter 2016	Δ, +/-	Δ, %
Maintenance of electricity distribution network	72.7	47.7	25.0	52.4%
Development of the electricity distribution network	35.7	28.5	7.2	25.1%
Construction and reconstruction of the gas systems	21.3	8.5	12.9	152.1%
ITT	8.5	6.9	1.6	23.0%
Transport	4.1	12.8	-8.7	-68.3%
Electricity generation capacities	1.3	2.4	-1.1	-43.9%
Real estate	1.2	6.6	-5.4	-81.6%
Other investments	7.4	1.7	5.7	333.5%
Investment in wind power parks (1)	0.0	62.7	-62.7	-100%
Total:	152.2	177.7	-25.5	-14.4%

(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

As of 30 September 2017, the net debt of the Company was worth EUR 391.9 million. As compared with the value of net debt as of the end of 2016, the amount increased by 24.1 per cent, or EUR 76.1 million. The main factors affecting the increase in the net debt value:

- Successful placement of the EUR 300 million worth of bonds;
- The investment activities by the Group's companies;
- Paid amounts to the suppliers for the acquired gas.

In QI-QIII 2017 the level of the Group's financial debts increased by 40 per cent or EUR 197.9 million, and on 30 September 2017 amounted to EUR 692.3 million (at the end of 2016 – EUR 494.4 million). As at 30 September 2017 EUR 317 million worth financial debts bear a fixed per cent interest rate (45.8 per cent of all financial debt) and the remaining part of the financial debt bears a variable interest rate. The weighted average interest rate was 1.3 per cent. As of 30 September 2017, the cash balances and short-term investments of the Group's companies amounted to EUR 300.4 million, i.e., by EUR 121.8 million or 68.2 per cent more than at the end of 2016 (EUR 178.6 million). Cash balance of the Company increased due to issued bond.

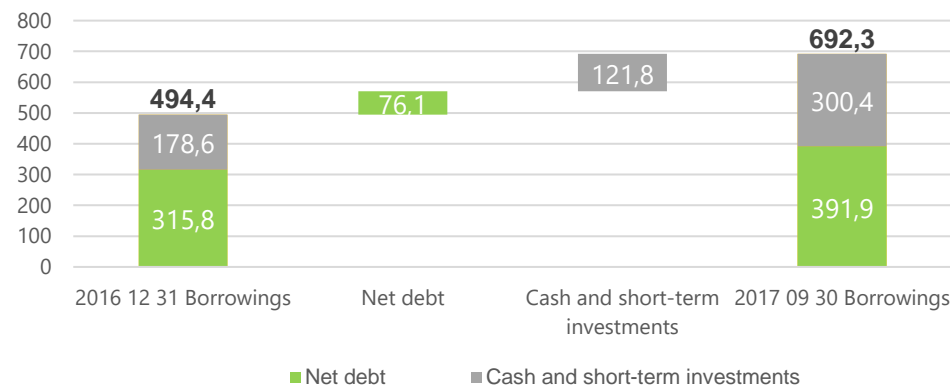
The ratio between the Group's net debts and the adjusted EBITDA for the past 12 months increased from 1.24 times at the end of 2016 to 1.65 times as at 30 September 2017. The increase resulted from an increase in the net debt of the Group. The average maturity for the financial debt as of 30 September 2017 was 6.8 years (3.1 years as at 31 December 2016). The increase was caused by an issue of bond with a maturity of 10 years.

The Group's net debt to equity ratio increased from 23.9 per cent at the end of 2016 to 29.5 per cent at the end of 2017 as of 30 September 2017. Having successfully issued bond emission, the Group's net debt level remains sufficiently low with respect to both the income earned and capital structure.

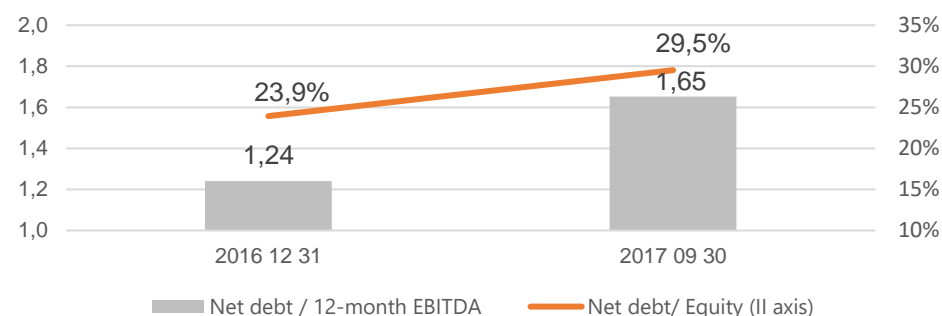
The Group's current liquidity ratio compared with the end of 2016 increased from 1.05 to 1.43. The main reason was the increase in the Group's cash balance. For the purpose of liquidity management the Group has concluded credit line agreements with banks. As of 30 September 2017, the Group had unused credit lines worth EUR 208.5 million. Out of this amount a credit lines worth EUR 168.5 million is committed, i.e. the bank has to disburse the funds according to a payment claim.

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.

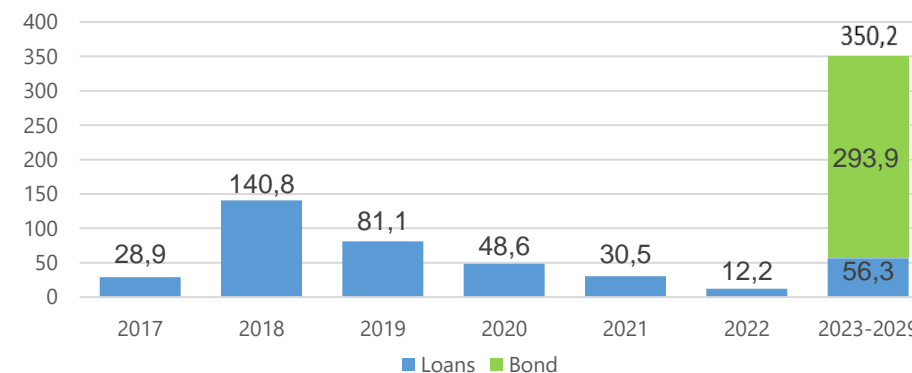
The Group's financial debt



The Group's net debt ratios



The Group's debt repayment schedule



Definitions

Working capital	Current assets - cash and cash equivalents – loans and short term investments - 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 + expenses of revaluation of emission allowances + revaluation expenses + expenses of write-offs of property, plant and equipment,
EBITDA margin	EBITDA / Revenue
FFO	EBITDA + interest income – interest expenses – current year income tax expenses
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
Adjusted net profit	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
Adjusted net profit margin	Net profit (adjusted) / Revenue
Adjusted net debt	Net debt adjusted by „Kauno kogeneracinė jėgainė“ UAB put option redemption liability, a statutory retirement benefit payable to the Group's employees and the amount of trapped cash
Adjusted EBITDA	EBITDA + write-offs of 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

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

Energijos skirstymo operatorius (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, ESO customers 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.

ESO Offered its Customers an Autonomous Gas Supply System

ESO is offering its private customers a new service – an autonomous gas supply system to be installed within as few as 10 days. Having selected the service, the customers will not have to immediately acquire the full-set of the system, as ESO will allow them to lease the equipment for a preferred time and the system itself will secure an uninterrupted supply of gas to the customers. The autonomous gas supply system significantly increases daily comfort for customers. Total eight gas cylinders are installed in a mobile panel. During a heating season with an average temperature -15 °C, such gas supplies are sufficient to supply heat to a house of 200 sq. m. and prepare hot water. When gas in four cylinders is completely consumed, the system automatically switches to other cylinders and sends an alert SMS to the customer and the gas supplier with whom the customer concludes an agreement. As fast as within three business days the empty cylinders are replaced with cylinders filled with gas.

Internal Power Network For the Customers

As a new service ESO will be installing the internal electricity network in the customers' homes. Previously in order to get connected to power grid consumers had to arrange the installation of the network from the plot boundary to the house. From now on the customers getting connected to the grid can simultaneously order a full-set of power installation, including the internal network from ESO metering boards to the location indicated by the customer within his building. This will significantly save time and trouble for the customers. ESO will also agree all the documents on the installation of the power network and grant for them a 10-year's warranty. Internal network installation works also include digging a trench, laying a cable and a protection tube, installation of the inlet board, connection to the ESO grid, and approval of the installation with the State Energy Inspectorate. The only thing the residents have to do is to take care of installation of the minor things inside the house, such as sockets and switches.



Energy Efficiency Enhancement in Business and the Public Sector

The Lazdijai region municipality became the first in Lithuania using the most modern energy-efficient LED lighting in all streets and territories. This was the first in Lithuania region-wide street lighting modernisation project based on the ESCO model implemented by UAB Energijos Sprendimų Centras. The new modern technologies are estimated to enable the Lazdijai region municipality to save up to 60 per cent in street lighting costs.

Nearly 2,000 street lamps were replaced by modern LED installations, their control system was also upgraded and modernised, in addition to replaced obsolete elements on the poles. Savings in power consumption in Lazdijai are estimated to reach 356 megawatt hours (MWh) per year and the municipality will save its expenses for repairs of old lamps. As a result, the town will save about EUR 70,000 per year. The new LED lamps are estimated to serve for 20 years. For part of the 20 years period, the municipality will channel the savings from energy costs to investment to the modernisation project. For the remaining share of the period the savings will be retained in the municipality budget. Ultimately, the project is estimated to generate savings of about EUR 700,000.

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.

Customers are also Offered Gas Condensed Gas Boilers

Lietuvos Dujų Tiekimas offers the customers to acquire condensed gas boilers and water heaters, associate components, and their installation services as a package and order gas supply in addition. In the future the Company is planning to offer more additional services that will turn the installation and operation of gas heating even more convenient and simple.

The new services target not only the prospective, but also the current customers. Having replaced the previously acquired boilers by new ones based on condensation technologies, natural gas consumption may be reduced by up to 20 per cent.

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.

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. 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 program 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 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, 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 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 opt for electronic payment for services. More than 500,000 customers have already registered with the self-service website www.manogile.lt. The website achieved this number of customers within less than two years, i.e., since 1 January 2016. All those customers have added more than one million contracts in their accounts.

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.

Within nine months of 2017, ESO investment into electricity and natural gas networks reached EUR 135.571 million, representing an increase by 51.3 per cent on a y-o-y basis, when the investment was reported at EUR 89.594 million. Within the same period the investment allocated by ESO to the upgrading of the power network reached EUR 72.696 million, i.e., up by 52.4 per cent as compared with the respective period last year. In January-September 2016 ESO invested in the natural gas network total EUR 35.671 million, i.e., by 25 per cent more than during the same period in 2016.

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

For the purpose of improving the servicing and information of the customers ESO have presented a free telephone number 1852 recording power supply failures and operating round the clock. The new short telephone number is intended to serve all customers of ESO willing to register a failure in the electricity supply facilities. Irrespective of the mobile operator or the plan used, the calls will be free of charge for all residents.

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; 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 billion into different fields: heat sector, building of new co-generation plants, gas supply and trade using the potential of the LNG terminal, electricity trade and renewable energy resources.

Development of Innovation

Lietuvos Energija has established corporate venture capital fund for energy technology and innovation (Smart Energy Fund powered by Lietuvos Energija) that will make investments into energy start-ups and entrepreneurial start-up accelerator. It is 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 has set up this fund together with professionals who have gained experience in the management of venture capital funds. Management of the fund and development of the energy start-up accelerator has been entrusted to Contrarian Ventures that has extensive international experience. This team consists of seven experts from Lithuania, Israel, and Holland, whereas the team is being led by Rokas Pečiulaitis. The fund's activity also covers 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 fund is seeking for the ideas 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 can expect a pre-seed stage investment up to EUR 50 thousand. More advanced teams can expect up to EUR 300 thousand or in exclusive cases a bigger seed-stage investment. In July, innovation fund and energy start-up accelerator has started submission of business ideas.

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 jėgainė 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. In October, Lietuvos Energija signed a sale-purchase agreement with AB Vilniaus Šilumos Tinklai regarding the acquisition of the Vilnius Third Combined Heat and Power Plant and fulfilled its obligations under the tripartite cooperation agreement.

The LNG Transshipment Volumes are Growing

Lietuvos Dujų Tiekimas supplied the LNG required for the commissioning and alignment of the operation of the above-ground LNG distribution station to Shell Western LNG B.V. That was the first supply of LNG from the LNG repository at the Klaipėda terminal to the LNG distribution station on the shore. This was the third small-scale LNG transshipment transaction in Lithuania. All of the transactions were implemented by companies of Lietuvos Energija Group.

Optimisation of the Dedicated Supply Costs

By taking advantage of the temporary imbalance that arose in February between the demand and supply of LNG and the LNG prices at the spot market significantly increasing the price of the gas purchased by LITGAS, LITGAS optimised the dedicated supply LNG freight schedule by diverting half of the planned freight flows to the more-paying markets. Instead, the required amount of LNG will be acquired in summer time when the LNG prices drop.

It has been estimated that due to the difference in prices this optimisation 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. The minimum amount of LNG required for the operation of the terminal will not change as a result and will remain at about 3.8 TWh.

Reduced Costs for Natural Gas Consumers

LITGAS company reduced the costs of the dedicated supply by the Klaipėda liquefied natural gas (LNG) terminal by about 18 per cent or EUR 3 million.

This opportunity to reduce the dedicated supply costs became available in Q1, when the LNG market prices leaped and exceeded the price of the gas purchased by LITGAS. By cooperating with the supplier the Company optimised the schedule for the supply of the

required amount of the LNG terminal by selling part of the February freight to the markets paying higher prices and accordingly acquiring the amount in summer when the prices are lower.

The EUR 3 million savings by LITGAS for the benefit of gas consumers was achieved due to the cargo sold at a higher price and the difference in LNG price in February and July adjusted for the related costs of technological loss. The LNG terminal operation costs (terminal component), decreased at the same amount and at the same time the expenses of the natural gas consumers. The minimum amount of LNG required for the operation of the terminal will not change as a result and will remain at about 3.8 TWh.

American Gas Already in Lithuania

In August, a LNG freight from the USA, the first in the Baltic States and one of the first in the Eastern and Central Europe, reached Lithuania. The LNG shipment was acquired by a natural gas trading company Lietuvos Dujų Tiekimas from an American company Cheniere according to the contract signed in June. Lietuvos Dujų Tiekimas will store part of the gas acquired at advantageous prices in Inčukalnis natural gas repository.

In late September, one more shipment of LNG from the USA acquired by Lietuvos Dujų Tiekimas from Gas Natural Fenosa reached Lithuania. That was the fourth shipment of LNG by Lietuvos Dujų Tiekimas in nine months and Gas Natural Fenosa is the fourth LNG supplier to Lithuania.

Plans to Expand Electricity Production from Renewable Resources

Lietuvos Energija continues its plans to expand operations in the area of renewable energy resources. In August, the company announced a non-binding call to participants of the energy sector to submit offers to sell of power plants or their farms, as well as projects on solar, wind, biofuel, or biogas energy developed by them. Lietuvos Energija is also analyzing currently operating solar, biofuel and biogas plants, and the projects developed in the area. Both world-wide arrangements and the new Lithuanian strategy on energy define a clear direction for the further development – through the development of energy generation from renewable energy resources. Therefore, the Company decided to follow the trend and expand its production portfolio, thus making its contribution to the development of sustainable energy in the country.

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 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. The implementation of the project will continue after the responsible authorities pass decisions regarding the further development of wind energy in Lithuania.

Development Abroad

An independent electricity supplier Energijos Tiekimas is entering the Polish market. On 5 June 2017, a subsidiary of Energijos Tiekimas named Geton Energy was registered in Poland. In October, Geton Energy obtained the licence to engage in wholesale trade in electricity in Poland. The process was completed within just six months since the initial approval by Lietuvos Energija to launch the expansion of electricity wholesale operations in the neighbouring country.

Geton Energy, a subsidiary of Energijos Tiekimas, started providing the electricity market expertise and portfolio management services to Lattelecom, the largest Latvian telecommunications company group. Since April, Lattelecom group providing mobile communication, internet, and IT services has been offering its customers to acquire electric energy that Geton Energy owned by Energijos tiekimas assists Lattelecom to acquire from the market.

Lietuvos Dujų Tiekimas signed a supply contract with a new customer in Latvia, the largest Latvian natural gas consumer Latvenargo. Having more than 10 wholesale and retail sale contracts with companies operating in Latvia, the Company estimates that by the end of the year it will supply to the Latvian customers about 1.2 TWh of natural gas and thus will hold about 10 per cent of this year's Latvian natural gas supply market, ranking second after the former monopoly supplier Latvijas Gaze.

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

As part of its strategic decision to divest of its non-core operations a State-owned energy company group 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 consultative activities. The EMC shareholder rights were acquired by PE Kauno Virpistas that placed the highest bid. Furthermore, in August the Company signed a contract on the purchase-sale of shares of Duomenų logistikos centras (shareholders – Lietuvos Energija and Litgrid) with Telia Lietuva.

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.

NT Valdos intends to place three business office units in Vilnius to the market. The total sale price of the office buildings that will be offered for sale by way of public auctions is



EUR 36.7 million, including VAT. Thus, three office units will be offered to investors: a unit at A. Juozapavičiaus St./Žvejų St., P. Lukšio St., and Aguonų St. The total area of the buildings is 30,000 sq. m., however, the area can be additionally expanded up to 45,000 sq. m. The sale of real estate units by way of a public auction will be organised by the Company's real estate consultants Inreal.

The business office units will be sold together with lease contracts by retaining the same premises for the Lietuvos Energija staff pending the moving to the new office premises. Late in September Lietuvos Energija announced a public tender for selecting immovable property consultants that will come up with the most suitable joint office offer. The Group is planning to bring together all its entities operating in Vilnius into a single centre in a building further from the city centre by 2021. The office would accommodate about 1,000 staff members, with a floor area of 10,000 sq. m.

For the purpose of the further refinement of its activities, since the beginning of 2016 Lietuvos Energija and a Group company NT Valdos, managing immovable property, have sold the idle immovable property items for more than EUR 7.5 million (incl. VAT) thus earning about EUR 1 million in profit. The proceeds from the successful sale operations will have a positive impact upon the final performance of the Company.

Prices of Services are Continuously Falling

The power grid connection fees have changed since June 2017. According to the data of ESO, the fee for the connection to the power grid decreased by 15 per cent and benefited nearly 16,000 customers. The natural gas distribution fees have been decreasing since July. Depending on the price group, the gas distribution prices have decreased by 5 or 6 per cent. The prices were decreasing mainly due to the enhanced efficiency in the Company's performance.

Lietuvos Dujų Tiekimas will be reducing natural gas price by approximately 6 per cent in the period from October 1 to the end of the year. Despite the seasonal increasing the gas prices on the international markets, Lithuanian companies will save up to EUR 2 million due the reduction in the price concerned.

New Customers Connected Without Any Paper Documents

With the aim to simplify the processes of connecting to electricity and gas grids for new customers, ESO decided to renounce the paper documents previously submitted by projectors for the purpose of approving the installation or reconstruction of gas and electricity facilities. Since autumn projectors are required to submit electronic versions of the documents only.

Digital Transformation

Seeking to create more convenient services for customers and to enhance operational efficiency, Lietuvos energija has begun the implementation of digital transformation strategy LE 4.0. The strategy 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.

Old Units no Longer Operated in Elektrėnai

At the end of March 2017, the company finished a project of decommissioning the 1st and 2nd 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 1st and 2nd 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 5th and 6th 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 by the end of 2020. 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.



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 (BICG). 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 and renewed on 1 June 2017 (the Guidelines are available at 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 Board

On 1 June 2017, the Minister of Finance approved the updated Corporate Management Guidelines replacing the former procedure for the formation of the Supervisory Board. Under the Corporate Management Guidelines applicable before the amendment, the Supervisory Board consisted of 7 members including 3 independent ones and 4 ones delegated by the Government of the Republic of Lithuania, the Ministry of Finance, the Ministry of Economy and the Ministry of Energy.

Under the new Corporate Management Guidelines, the Supervisory Board is a collegial supervisory body provided in the Statute of the Company. The Supervisory Board is elected by the General Meeting of Shareholders for the period of four years. The Supervisory Board of *Lietuvos energija* consists of 5 members – 2 members representing the Ministry of Finance and 3 independent members. The Supervisory Board elects its Chairman from its members. Such a method for the formation of the Supervisory Board is in line with the corporate management principles. The term of office of the Supervisory Board operating at the time of report publication: from 30/8/2017 to 30/8/2021. No members of the Supervisory Board have any participation in the capital of the company or group enterprises. At the time of report publication 5th member of the Supervisory Board is not elected yet.



Darius Daubaras
(born in 1973)

Chairman, Independent member



Daiva Lubinskaitė-Trainauskienė
(born in 1970)

Independent member



Aušra Vičkačkienė
(born in 1974)

Member



Gediminas Norkūnas
(born in 1978)

Member (since 8 September 2017)

Education	University of Cambridge, Master in International Relations University of Pennsylvania, USA, Business Administration Master's Degree in the field of finance and business management; University of Denver, USA, Business Administration Bachelor's Degree in the field of finance and management	ISM University of Management and Economics, Master's Degree; Public Relations Professional Studies at Vilnius University; Vilnius University, Diploma of a Specialist in Philology	Vilnius University, Master of Management and Business Administration; Vilnius University, Bachelor of Management and Business Administration	Vilnius University, Master's in Economics Degree (finance programme); Vilnius University, Bachelor's in Economics Degree
Place of employment, position	SAUDI ARAMCO Finance and Development Project Division, Project Manager	Thermo Fisher Scientific Baltics, UAB, Director of Personnel; Association of Personnel Management Professionals (PVOA), Board Member; ISM Masters Club, Member	Assets Management Department of the Ministry of Finance, Director Turto bankas, VĮ, Board Member; Būsto paskolų draudimas, UAB, Board Member	State Treasury Department of the Ministry of Finance, Deputy Director

During the reporting period, the duties of a member of the Supervisory Board were performed by Chief Advisor of the Ministry of Finance Agnė Bagočiutė from 30 August 2017 to 8 September 2017. She was revoked by the decision of the Minister of Finance based on her resignation request.

The Supervisory Board of Lietuvos energija operating during the reporting period with the term of office from 16 July 2013 to 16 July 2017 comprised the following members: **Šarūnas Kliokys** (Chairman, independent member), **Antanas Danys** (independent member), **Dr Virginijus Lepeška** (independent member), **Tomas Garasimavičius** (member), **Rasa Noreikienė** (member), **Agnė Bagočiutė** (member since 26 May 2016).

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.

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. Members of the committees are elected for 4 years term.

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 Board 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 Board 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.).

By the end of the term of office of the Supervisory Board of Lietuvos energija on 16 July 2017, the company had the Committees of Risk Management Supervision, Audit and Appointment and Remuneration. On the reporting date, the company had the Committees of Audit and Appointment and Remuneration.

Risk Management Supervision Committee (until 16 July 2017):

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
Antanas Danys Committee Chairman, Independent Member	-	Director of Grinvest PTE.LTD
Raimundas Petrauskas Independent member	-	General Manager of Schmitz Cargobull Baltic UAB
Donatas Kaubrys Independent member	-	Director of Dovirma UAB
Tomas Garasimavičius 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.

On the report publication date the Audit Committee consists of:

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
Irena Petruškevičienė Committee Chairwoman Independent member	-	Audit Development Committee of the European Commission, Member
Danielius Merkinas Independent Member	-	Nordnet, UAB, Director General
Aušra Vičkačkienė Member	-	Assets Management Department of the Ministry of Finance, Director

Audit Committee (until 16 July 2017):

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

The term of current Audit Committee is from 26 October 2017 to 26 October 2021.

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.



On the report publication date the Appointment and Remuneration Committee consists of:

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
Daiva Lubinskaitė-Trainauskienė Committee Chairwoman Independent member	-	Thermo Fisher Scientific Baltics, UAB, Director of Personnel; Association of Personnel Management Professionals (PVOA), Board Member;
Aušra Vičkačkienė Member	-	Assets Management Department of the Ministry of Finance, Director
Gediminas Norkūnas Member	-	State Treasury Department of the Ministry of Finance, Deputy Director

Appointment and Remuneration Committee (until 16 July 2017):

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
Aloyzas Vitkauskas Chairman of the Committee (until 26 May 2016)	-	Ministry of Finance of the Republic of Lithuania; Vice-Minister (until 29 April 2016)
Virginijus Lapeška Independent member, Chairman of the Committee (from 14 June 2016)	-	Chairman of the Board of Organizacijų Vystymo Centras UAB
Tomas Garasimavičius Member	-	Advisor to the Prime Minister of Lithuania for Energy
Agnė Bagočiutė Member (from 14 June 2016)	-	Ministry of Finance of the Republic of Lithuania; Vice-Minister (until 13 December 2016), Chief Advisor of the Ministry

The term of current Audit Committee is from 13 September 2017 to 13 September 2021.

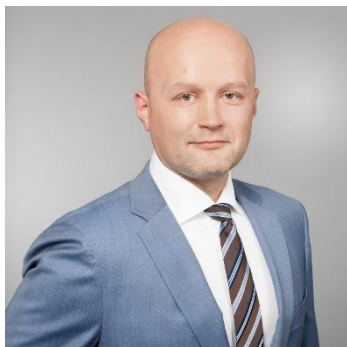
Main functions of the Committee are as follows:

- 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. Board members are elected by the proposal of the Committee of the Appointment and Remuneration for the term of office of four years and removed from office by the Supervisory Board. The Board consists of 5 members and elects the Chairman, the Director General of the Company, from among its members. Board members have to ensure the appropriate performance of Company activities/mentoring of the respective areas at Group level in the field of its competences. No Board Members have any interest in the capital of the Company or Group Enterprises. Remuneration for the activities in the Board is paid in accordance with the guidelines established by the shareholder of the Company. The current Board has been formed by the decision of the Supervisory Board for a temporary period until a new Board of Lietuvos energija is formed by the public selection procedure. The term of office of the current Board started on 22 September 2017. It will continue until a new Board is formed.



Mindaugas Keizeris
(born in 1980)



Ilona Daugėlaitė
(born in 1970)



Darius Kašauskas
(born in 1972)



Dominykas Tučkus
(born in 1981)

	Chairman of the Board, Strategy and Development Director, acting CEO	Member of the Board, Organisational Development Director	Member of the Board, Finance and Treasury Director	Member of the Board, Production and Services director
Education	Vilnius University, Master's degree in International Business; Vilnius University, Bachelor's degree in Business Administration and Management	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	L. Bocconi University (Italy), Master's degree in Finance; L. Bocconi University (Italy), Bachelor's degree in Business Management and Administration
Place of employment, position	Lietuvos energijos gamyba, AB, Member of Supervisory Board); Energijos tiekimas UAB, Chairman of the Board (till 2/2016); LITGAS, UAB Chairman of the Board (till 1/2016); Lietuvos dujų tiekimas, UAB Board Member (till 1/2016); Energetikos paslaugų ir rangos organizacija, UAB, Chairman of the Board (since 10/2015); Vilniaus kogeneracinė jėgainė, UAB, Chairman of the Board (since 11/2015), Lithuanian Energy Support Foundation, Chairman of the Board (since 10/2017), Elektroninių mokėjimų agentūra, UAB, Member of the Supervisory Board (till 4/2017); NT Valdos, UAB, Chairman of the Board (since 07/2017).	Energijos skirstymo operatorius, AN, Member of the Supervisory Board (since 12/2015); Technologijų ir inovacijų centras, UAB, Chairwoman of the Board (since 12/2013); Duomenų logistikos centras, UAB, Chairwoman of the Board (till 1/2016); Verslo aptarnavimo centras, UAB, Chairwoman of the Board (since 1/2016); Elektroninių mokėjimų agentūra, UAB, Member of the Supervisory Board (till 4/2017).	NT Valdos UAB, Chairman of the Board (till 7/2017); Verslo aptarnavimo centras, UAB, Chairman of the Board (till 1/2016); Elektroninių mokėjimų agentūra, UAB, Chairman of the Board (till 4/2017), Member of the Supervisory Board (since 4/2017); Duomenų logistikos centras, UAB, Chairman of the Board (since 1/2016); Lithuanian Energy Support Foundation, Member of the Board (since 10/2017).	Lietuvos energijos gamyba, AB, Member of the Supervisory Board; LITGAS, UAB, Chairman of the Board (since 1/2016); Lietuvos dujų tiekimas, UAB, Member of the Board (since 1/2016); Energijos tiekimas UAB, Member of the Board (since 1/2016); Elektroninių mokėjimų agentūra, UAB, Chairman of the Supervisory Board (since 1/2016); Tuuleenergia, OU, Member of the Board (since 2/2016), EURAKRAS, UAB, Member of the Board (since 3/2016).

Board of Lietuvos energija from 22 July 2013 to 22 July: **Dalius Misiūnas** (Chairman of the Board, CEO), **Ilona Daugėlaitė** (Member of the Board, Organisational Development Director), **Darius Kašauskas** (Member of the Board, Finance and Treasury Director) **Mindaugas Keizeris** (Member of the Board, Strategy and Development Director), **Dominykas Tučkus** (Member of the Board, Production and Services director, from January 2016).

Organisational Culture and Employees

The people working at Lietuvos energija Group form the basis for the implementation of its strategy. 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.

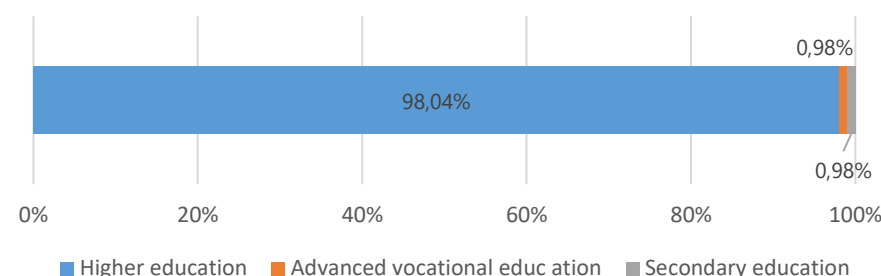
While implementing the objectives raised by the shareholder, and carrying out socially responsible business, we seek to attract and maintain skilled employees and create long-term partnership that would ensure mutually successful future.

As at 30 September 2017, the Group had 4559² employees.

Group Companies	Total number of employees
Lietuvos energija, UAB	102
Energijos skirstymo operatorius AB	2520
Lietuvos energijos gamyba, AB	401
UAB Energetikos paslaugų ir rangos organizacija	576
UAB Technologijų ir inovacijų centras	169
UAB Duomenų logistikos centras	16
Energijos tiekimas UAB	31
UAB Elektroninių mokėjimų agentūra	5
NT Valdosa, UAB	183
UAB LITGAS	15
UAB VAE SPB	3
UAB Verslo aptarnavimo centras	473
UAB Lietuvos dujų tiekimas	31
UAB Vilniaus kogeneracinė jėgainė	18
UAB Kauno kogeneracinė jėgainė	3
UAB Energijos sprendimų centras	12
UAB Eurakras	1
Total	4559

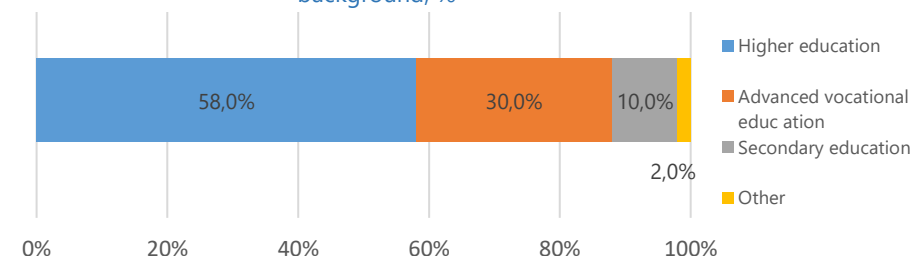
On 30 September 2017, the Company had 102 employees. The total of 98.04% of the Company's employees have higher university education, of whom 3 have doctoral degrees. 2 employees are certified professional project managers (PRINCE2 and PMP), 1 certified financial analyst (CFA), 1 certified internal auditor (CIA), 1 certified fraud examiner (CFE), 2 certified risk management assurance experts (CRMA), 1 certified risk management expert (ISO 31000:2009), 6 employees has professional Board Member's qualification of the Baltic Institute of Corporate Governance. Company's employees are active members of the associations, unions and academic communities (Scientific Council of the Lithuanian Energy Institute; the Supervisory Council of the Lithuanian Energy Institute; Business Council of Kaunas University; Technological Development Committee of the Agency for Science, Innovation and Technology, Risk Management Professionals Association Board, Lithuanian Responsible Business Association Board).

Structure of the Company's employees according to the educational background, %



The total of 58% of Group's employees have higher education, of whom 20 have doctoral degrees, 30% of employees have acquired advanced vocational education and 10% have secondary education.

Structure of the Group's employees according to the educational background, %



² Number of existing contracts.

The biggest part of Group employees consisted of men – 76.06%, women comprised 23.94%. Among the executives, the gender breakdown was very similar: 77.17% of the executives were men, and 22.83% – women.

The total wage bill of the Company for January – September 2017 was EUR 1,962,815.

Average monthly salary of the Company's employees July – September 2017 (before taxes)

Category	Average salary, EUR
Head of the company	7 194
Top level executives	4 989
Middle level managers	3 533
Experts, specialists	2 018

As at 30 September 2017, the Group had 4,559 employees. The total wage bill of the Group for January – September 2017 was EUR 43.42 million.

Average monthly salary of the Group's employees July – September 2017 (before taxes)

Category	Average salary, EUR
Head of the company	5 090
Top level executives	4 346
Middle level managers	2 219
Experts, specialists, workers	1 131

Development of the Organisation and its Culture

In the 3rd quarter of 2017, the organisation continued its strategic initiatives intended for its coordinated development, management of human resources, formation of new organisational culture, efficient organisation of activities, education of new employees, improvement and maintenance of skills.

The group of Lietuvos energija includes 12 trade unions and cooperates with them concerning the management of remunerations, additional benefits, structural changes and other issues.

In the 3rd quarter of 2017, the required procedural and systemic changes relating to the implementation of the new Labour Code effective from 1 July of this year were performed.

The career management, rotation system structuration processes are further successfully continued (during the 3rd quarter of 2017, 16 employees rotated within the Group enterprises, and 93 employees made their career inside the enterprise).

Development of Skills

Lietuvos energija Group is consistently taking care of employees' skill development. It ensures that employees have all compulsory attestations provided for by the laws, improve the skills necessary for their work. Companies of the Group has organised different trainings for employees, such as leadership, team building, management of changes, communications, project management, management of business processes, etc.

In the 3rd quarter of 2017, more than 100 of the managers from Group completed a long-term leader development programme of 4 modules with the duration of 8 months: The League of Strong Leaders. During the programme, participants strengthened their management and leadership skills which will allow them to ensure more efficient management by directing, motivating and enabling employees to achieve goals. The programme is being continued further, and a new group of managers has started participating in the programme till February 2018.

Internship Opportunities

Lietuvos energija Group provide opportunities for high school and vocational school students to apply their theoretical knowledge and to gain practical skills. In the 3rd quarter of 2017, 10 people had internships in the Group.



Supervisory and Management Bodies of the Listed Companies of the Group

As at 30 September 2017, the Supervisory Board of Energijos skirstymo operatorius consisted of the following members (term of office till 3 December 2019):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
Dalius Misiūnas Chairman	-	3/12/2015- 4/10/2017	Lietuvos energija UAB, Chief Executive Officer (until 22 September 2017)
Ilona Daugėlaitė Member	-	3/12/2015- 3/12/2019	Lietuvos energija UAB, Director of Organisational Development
Petras Povilas Čėsna Independent Member	-	3/12/2015- 3/12/2019	

As at 30 September 2017, the Board of Energijos skirstymo operatorius consisted of the following members (term of office till 3 December 2019):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
Dalia Andrulionienė Chairwoman from 2016-11-04	-	3/12/2015- December 2019	Energijos skirstymo operatorius, AB, Chief Executive Officer
Rytis Borkys Member	-	3/12/2015- December 2019	Energijos skirstymo operatorius, AB, Director of the Network Operation Service
Saulius Vaičekas Member from 2017-04-26	-	26/4/2017- December 2019	Energijos skirstymo operatorius, AB, Director of the Network Development Service
Augustas Dragūnas Member	-	February 2016 – December 2019	Energijos skirstymo operatorius, AB, Director of the Finance and Administration Service
Ignas Pranckevičius Member	-	20/1/2017 – December 2019	Energijos skirstymo operatorius, AB, Director of the Services Service

Head: Dalia Andrulionienė, Energijos skirstymo operatorius, AB, Chief Executive Officer.

As at 30 September 2017, the Supervisory Board of Lietuvos energijos gamyba consisted of the following members (term of office till 10 August 2021):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
Mindaugas Keizeris Memeber	-	10/8/2017- 10/8/2021	„Lietuvos energija“, UAB, valdybos pirmininkas, Strategijos ir plėtros direktorius, I.e.p. generalinis direktorius
Dominykas Tučkus Member	-	10/8/2017- 10/8/2021	„Lietuvos energija“, UAB, gamybos ir paslaugų direktorius

The supervisory Board of Lietuvos energijos gamyba, AB, with the term of office from 5/8/2013 to 5/8/2017: Mindaugas Keizeris (Chairman of the Supervisor Board), Dominykas Tučkus, Pranas Vilkas (independent member).

As at 30 September 2017, the Board of Lietuvos energijos gamyba (consisted of the following members (term of office till 22 September 2021):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
Eglė Čiužaitė Chairwoman since 25/9/2017	-	22/9/2017- 22/9/2021	Lietuvos energijos gamyba, AB, Chief Executive Officer
Nerijus Rasburskis Member	-	22/9/2017- 22/9/2021	Lietuvos energijos gamyba, AB, Project Manager of Business Development Department Lietuvos energija, UAB Head of CHP Department; Vilniaus kogeneracinė jėgainė, UAB, Board Member Kauno kogeneracinė jėgainė, UAB, Board Member
Darius Kucinas Member	-	22/9/2017- 22/9/2021	Lietuvos energijos gamyba, AB, Director of Power Generation Department
Mindaugas Kvekšas Member	-	22/9/2017- 22/9/2021	Lietuvos energijos gamyba, AB, Director of Finance and Legal Department

Head: Eglė Čiužaitė, Lietuvos energijos gamyba, AB, Chief Executive Officer.

Board of Lietuvos energijos gamyba, AB, with the term office from 17/9/2013 to 17/09/2017: Eglė Čiužaitė (9/2/2016 – 17/9/2017), Adomas Birulis (17/9/2013 – 6/1/2017), Darius Kucinas (17/9/2013 – 17/9/2017), Mindaugas Gražys (6/1/2017 – 9/6/2017), Mindaugas Kvekšas (31/12/2015 – 17/9/2017), Nerijus Rasburskis (9/6/2017 – 17/9/2017).



Main 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.

Company name	Lietuvos Energija, UAB
Company code	301844044
Authorised share capital	EUR 1,212,156 thousand
Paid-up share capital	EUR 1,212,156 thousand
Address	Žvejų str. 14, LT-09310, Vilnius, Lithuania
Telephone	(+370 5) 278 2998
Fax	(+370 5) 278 2115
E-mail	biuras@le.lt
Website	www.le.lt
Legal form	Private limited liability company
Date and place of registration	28 August 2008, Register of Legal Entities
Register accumulating and storing data about the	Register of Legal Entities, State Enterprise the Centre of Registers

The Company's shareholders	Share capital (EUR '000)	%
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 of 30 September 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 September 2017) were as follows:

Company	Registered office address	Effective ownership interest at 30 September 2017, (%)	Share capital (EUR '000) at 30 September 2017	Profile of activities
Lietuvos energijos gamyba, AB	Elektrinės str. 21, Elektrėnai	96,75	184,174	Production, supply and trade in electricity
AB Energijos skirstymo operatorius	Aguonų str. 24, Vilnius	94,98	259,443	Electricity supply and distribution to customers; natural gas supply
NT Valdosa, UAB	Geologų str. 16, Vilnius	100	85,550	Disposal of real estate, other related activities and service provision
UAB Duomenų logistikos centras	A. Juozapavičiaus str. 13, Vilnius	79,64	4,033	Support services for information technology and telecommunications
UAB Energetikos paslaugų ir rangos organizacija	Motorų str. 2, Vilnius	100	2,500	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid, energy equipment repair, production of metal structures
UAB LITGAS	Žvejų str. 14, Vilnius	100	13,050	Supply of liquid natural gas via the terminal and trade in natural gas
UAB Elektroninių mokėjimų agentūra	Žvejų str. 14, Vilnius	100	700	Provision of payment collection services
Energijos tiekimas UAB	Žvejų str. 14, Vilnius	100	17,240	Electricity power supply, import, export, balancing services
Public Institution Energetikų mokymo centras	Jeruzalės str. 21, Vilnius	100	85	Professional development and further professional training of energy sector specialists
Geton Energy OÜ	Narva mnt 5, 10117 Tallin	100	35	Electricity supply
Geton Energy SIA	Bezdelingu 12, LV-1048, Riga	100	28	Electricity supply
Geton Energy, sp. Z.o.o.	Puławska 2-B, PL-02-566, Warsaw	0,005	10 M Polish zloty	Electricity supply
UAB Technologijų ir inovacijų centras	A. Juozapavičiaus str. 13, Vilnius	50,08	6,440	IT and telecommunication, and other services
UAB VAE SPB	Smolensko str. 5, Vilnius	100	100	Business and other management consultations
UAB Verslo aptarnavimo centras	P. Lukšio str. 5 b, Vilnius	51	580	Public procurement organisation and implementation, accounting, personnel administration services
UAB Lietuvos dujų tiekimas	Žvejų str. 14, Vilnius	100	8,370	Gas supply
Support Foundation of Lietuvos Energija	Žvejų str. 14, Vilnius	100	3	Provision of financial support to projects, initiatives and activities significant for society
UAB Vilniaus kogeneracinė jėgainė	Žvejų str. 14, Vilnius	100	6,003	Modernisation of the district heating sector in the city of Vilnius
UAB Kauno kogeneracinė jėgainė	Žvejų str. 14, Vilnius	51	10,759	Modernisation of the district heating sector in the city of Kaunas
Tuuleenergia OU	Keskus, Helmküla, Pärnu (Estonia)	100	499	Generation of electricity from renewable energy sources
UAB Eurakras	Vytienio str. 46, Vilnius	100	8,096	Generation of electricity from renewable energy sources
UAB Energijos sprendimų centras	Žvejų str. 14, Vilnius	100	373	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 September 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
Lietuvos Energijos Gamyba, AB	184,174,248.35	LT0000128571	LNR1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	96.75%
Energijos Skirstymo Operatorius, AB	259,442,796.57	LT0000130023	ESO1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	94.98%

Information about agreements with securities intermediaries

Lietuvos Energija has issued an issue of green bonds with the value of 300 million euros listed in the Stock Exchanges of Luxemburg and NASDAQ Vilnius. The amount of Bond Programme is 1 billion euros.

Company	Total nominal values of the issue, EUR	ISIN code	Buy-out date
Lietuvos Energija, UAB	300,000,000.00	XS1646530565	14/7/2027

Group companies:

Lietuvos Energijos Gamyba AB

As at 30 September 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.

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

Lietuvos energija, UAB

CEO



Mindaugas Keizeris



