Lietuvos energija | GAMYBA

2018-08-31 No. SD-673

CERTIFICATION STATEMENT

Referring to the provisions of the Article 23 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, the undersigned Lietuvos energijos gamyba, AB Eglė Čiužaitė, Chief Executive Officer, Mindaugas Kvekšas, Director of Finance and Administration Department, and Joana Venclovienė, Head of Reporting Division of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, Lietuvos energijos gamyba, AB condensed Interim Financial Information for the six-month period ended 30 June 2018 prepared according to International Accounting Standard 34 "Interim financial reporting" adopted by the European Union, give a true and fair view of Lietuvos energijos gamyba, AB assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report for the six-month period includes a fair review of the activities business development as well as the condition of Lietuvos energijos gamyba, AB and with the description of the principle risk and uncertainties it faces.

Chief Executive Officer — Eglė Čiužaitė

Director of Finance and Administration Department — Mindaugas Kvekšas

UAB Verslo aptarnavimo centras,
Head of Reporting Division,
acting under Order No. IS18-77 (signed 2018 08 13) — Joana Venclovienė

"Lietuvos energijos gamyba", AB

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Company code – 302648707
VAT code – LT100006256115
Data collected and stored in the Register of Legal Entities

Settlement account:
LT40 7044 0600 0020 3369
Bank – AB SEB bankas
SWIFT – CBVILT2X

2018

LIETUVOS ENERGIJOS GAMYBA, AB

COMPANY'S INTERIM REPORT AND CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

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Translation note:

This version of the accompanying documents is a translation from the original, which was prepared in Lithuanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over this translation.

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The condensed interim financial information was approved on 31 August 2018 by Lietuvos Energijos Gamyba, AB General Manager, Finance and Administration Department Director, and Head of Reporting Division of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018).

Eglė Čiužaitė General Manager	**Mindaugas Kvekšas** Finance and Administration Department Director	**Joana Venclovienė** Head of Reporting Division of Verslo Aptarnavimo Centras UAB, acting under Order No IS18-77 of 13 August 2018

Independent auditor's report

To the shareholders of Lietuvos Energijos Gamyba AB

Our opinion

In our opinion, the condensed interim financial information of Lietuvos Energijos Gamyba AB ("the Company") present fairly, in all material respects, in accordance with International Accounting Standard 34 *Interim financial reporting* as adopted by the European Union.

What we have audited
The Company's condensed interim financial information ("the financial information") comprise:

- the condensed interim statement of financial position as at 30 June 2018;
- the condensed interim statements of comprehensive income for the three and six month periods then ended;
- the condensed interim statement of changes in equity for the six month period then ended;
- the condensed interim statement of cash flows for the six month period then ended; and
- the notes to the condensed interim financial information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial information* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the financial information in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

Reporting on other information including the interim report

Management is responsible for the other information. The other information comprises the interim report (but does not include the financial information and our auditor's report thereon) which we obtained prior to the date of this auditor's report.

Our opinion on the financial information does not cover the other information, including the interim report.

In connection with our audit of the financial information, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial information or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania
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With respect to the interim report, we considered whether the interim report includes the disclosures required by the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of EU Directive no 2013/34.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the interim report for the six-month period ended 30 June 2018, for which the financial information is prepared, is consistent with the financial information; and
- the interim report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the interim report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the financial information

Management is responsible for the preparation and fair presentation of the financial information in accordance with International Accounting Standard 34 *Interim financial reporting* as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial information that are free from material misstatement, whether due to fraud or error.

In preparing the financial information, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial information

Our objectives are to obtain reasonable assurance about whether the financial information as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial information.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The certified auditor on the audit resulting in this independent auditor's report is Rasa Radzevičienė.

On behalf of PricewaterhouseCoopers UAB

Radzevičienė

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
31 August 2018

2018

LIETUVOS ENERGIJOS GAMYBA, AB INTERIM REPORT

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

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Reporting period covered by the Interim Report

The Interim Report provides information to shareholders, creditors and other stakeholders of Lietuvos Energijos Gamyba AB ("the Company") about the Company's operations for the period of January-June 2018.

Legal basis for preparation of the Interim Report

The Interim Report of Lietuvos Energijos Gamyba AB has been prepared by the Company's Administration in accordance with the Lithuanian Law on Securities, the Lithuanian Law on Financial Statements of Entities, the Lithuanian Law on Companies and actual edition of the Rules for Preparation and Submission of Periodic and Additional Information approved under resolution of the Board of the Bank of Lithuania as well as Lithuanian Government Resolution on approval of the Guidelines for Ensuring Transparency of Operations of State-owned Entities and Appointment of a Coordinating Body.

Individuals responsible for information contained in the Interim Report

Job title	Full name	Telephone number
Lietuvos Energijos Gamyba AB, CEO	Eglė Čiužaitė	+370 5 278 2907
Lietuvos Energijos Gamyba AB, Director of Finance and Administration Department	Mindaugas Kvekšas	+370 5 278 2907

KEY OPERATING AND FINANCIAL INDICATORS OF LIETUVOS ENERGIJOS GAMYBA

		6 months 2018	6 months 2017	Change	
				+/-	%
KEY OPERATING INDICATORS					
Electricity generation volume	*TWh*	0.44	0.55	-0.11	-19.16
KEY FINANCIAL INDICATORS					
Revenues	*EUR`000*	61,154	63,772	-2,618	-4.11
Costs of purchase of electricity, fuel and related services	*EUR`000*	25,486	27,891	-2,405	-8.62
Operating expenses[1]	*EUR`000*	8,542	8,797	-255	-2.90
EBITDA[2]	*EUR`000*	27,126	27,084	42	0.16
EBITDA margin[3]	*%*	44.4	42.5	1.9 p. p.	
Adjusted EBITDA[4]	*EUR`000*	27,126	27,084	42	0.16
Adjusted EBITDA margin[5]	*%*	44.4	42.5	1.9 p. p.	
Net profit (loss)	*EUR`000*	21,884	10,283	11,601	112.82
		31/06/2018	**31/06/2018**	**Change**	
				+/-	**%**
Total assets	*EUR`000*	647,756	730,631	-82,875	-11.34
Equity	*EUR`000*	380,797	353,147	27,650	7.83
Financial debts	*EUR`000*	46,882	59,857	-12,975	-21.68
Net financial debts[6]	*EUR`000*	-23,106	15,798	-38,904	-246.26
Return on equity (ROE)[7]	*%*	11.5	5.8	5.7 p. p.	
Equity level[8]	*%*	58.8	48.3	10.5 p. p.	
Net financial debts / 12-month EBITDA	*%*	-42.6	29.2	-71.8 p. p.	
Net financial debts / Equity	*%*	-6.1	4.5	-10.5 p. p.	

[1] Operating expenses less costs of purchase of electricity and related services, costs of fuel used for production, depreciation and amortisation costs, impairment losses, revenues/expenses of revaluation of emission allowances and costs of write-offs of property, plant and equipment.
[2] Profit (loss) before tax + financial activities costs – financial activities income – dividends received + depreciation and amortisation costs + impairment losses + revenues/expenses of revaluation of emission allowances + write-offs of property, plant and equipment.
[3] EBITDA / Revenues.
[4] EBITDA result is reported after the adjustments made by management by eliminating the impact of one-off factors. These adjustments are made aiming to disclose the results of the Company's operating activities after the elimination of the impact of non-typical, one-off factors or factors that are not directly related to the current reporting period. All adjustments made by management are disclosed in the Company's interim and annual reports.
[5] Adjusted EBITDA / Revenues.
[6] Financial debts – Cash and cash equivalents – Short-term investments and term deposits – Share of non-current other financial assets consisting of investments in debt securities.
[7] Net profit (loss), restated annual value / ∕ Equity at the end of the period.
[8] Equity at the end of the period / Total assets at the end of the period.

MESSAGE FROM THE CHAIRWOMAN OF THE BOARD

Dear customers, shareholders, partners and employees,

The first half of 2018 was a very busy period for Lietuvos Energijos Gamyba AB.

Conditions for generation activities at Kaunas Algirdas Brazauskas Hydroelectric Power Plant were complicated during this period due to changing weather patterns, and major repair works of the hydro unit were carried out for the first time since the start of operations of Kruonis Pumped Storage Hydroelectric Plant. The Elektrėnai Complex reliably secures the tertiary and strategic reserve, however there were almost no generation of electricity. Consequently, sales of electricity produced at the power plants controlled by Lietuvos Energijos Gamyba AB were lower in January-June 2018 as compared to January-June 2017.

Nevertheless, rather high wholesale electricity prices were forming at the power exchange during this period allowing to maintain relatively stable revenue and profitability indicators of the Company.

The Company's sales revenue declined by 4.1% in January-June 2018 compared to the same months of 2017 and totalled EUR 61.2 million. In January-June 2018, the adjusted (comparative) EBITDA amounted to EUR 27.1 million and was 0.16% higher than in January-June of the previous year.

The Company's financial and performance indicators are analysed in more detail in further sections of this report. The report also reviews the major events and management changes that occurred in the first half of the year.

In early spring the taking over of Vilnius thermal power plant No 3 was completed successfully. This power plant became the fourth power plant controlled by Lietuvos Energijos Gamyba AB. Options of the power plant's utilisation in future are being currently assessed.

Lietuvos Energijos Gamyba AB remains to be prepared for the expansion of Kruonis Pumped Storage Hydroelectric Plant. At the end of January of 2018, the European Commission approved of a partial funding of the studies on the power plant's poles site and infrastructure. The aim of these studies is to assess whether the current condition of the poles site, on which the new pipeline would be constructed, meets the requirements established in the design.

To ensure accessibility and reliability of the facilities, scheduled major repair works of the second hydro unit, which is in operation for more than 25 years, of Kruonis Pumped Storage Hydroelectric Plant were started in February. The planned repair works were completed in July.

At the beginning of the year a planned dismantling of two no longer used chimneys of the Elektrėnai Complex was announced and in April it was announced that the use of reserve heavy fuel oil will be terminated and this fuel will be sold. Heavy fuel oil will be replaced with a cleaner fuel – natural gas. This is done in order to avoid incurring expenses for the maintenance of equipment and infrastructure that are no longer necessary for today's market.

The other areas to which extensive efforts and ideas are devoted include the development of new activities, effective use of available competences. Services were provided to more than twenty clients during the first half of the year. Lietuvos Energijos Gamyba AB will analyse the market in order to continue expanding its portfolio of services and to become more attractive to clients.

Eglė Čiužaitė
Chairwoman of the Board and CEO
of Lietuvos Energijos Gamyba

MOST SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

The exploitation of unit 7 of Lithuanian Power Plant has been terminated from 1 January 2018. The unit is put into preservation mode. The decision has been taken on 11 December 2017, by the Board of the Company, having assessed the scope of services provided by Lithuanian Power Plant's units in 2018, the market situation of electricity production and system services, changes in the regulatory environment and prospects, taking into account the opinion of Supervisory Board. The tertiary power reserve in the scope of 260 MW ise ensured in 2018 by combined cycle unit, and the strategic reserve (in the scope of 212 MW) – by unit 8.

On 25 January 2018, **the European Commission approved partial financing of the pole field and infrastructure research of the Kruonis Pumped Storage Hydroelectric Plant** (hereinafter referred to as the Kruonis PSHP), which is managed by the Company. This is a further step in preparing for the expansion of the power plant by installing the fifth hydropower unit. The goal of the research was to evaluate whether the current condition of the pole field, where the new piping system would be built, complies with the design requirements.

On 20 February 2018 **the Company announced about the initiation of dismantling project of the two disused chimneys of the Elektrėnai Complex**. This decision was made after taking into consideration the actual condition of the chimneys: tests that were done last year showed that two out of three chimneys of the power plant are too affected by damaging environmental factors and are no longer safe.

On 1 March 2018, when as a result of very cold weather and low production of wind power stations the electricity price at the exchange increased dramatically, **the combined cycle unit managed by the Company was switched on**. The unit produced electricity for almost two days non-stop. In 2018, the combined cycle unit operates commercially by using only residual power (the power left from the power allocated for the tertiary reserve service).

On 23 March 2018, at the convention of the Latvian Association for the Owners and Managers of Small Hydropower Plants, **the Company presented the possibility of providing the service of maintenance of small hydropower plants**. The first contract on such work has already been concluded in Lithuania.

The set of audited consolidated and annual financial statements of the Company and distribution of the Company's profit for 2017 was approved in the Ordinary General Meeting of Shareholders of the Company held on 26 March. **Shareholders also adopted a decision to increase authorised capital of the Company by issuing new shares** that shall be paid by Lietuvos Energija, UAB, as the subscriber of shares, by making contribution in kind, i.e. transfer of assets of Vilnius Third Combined Heat and Power Plant to the Company. The new version of the Articles of Association of the Company has been approved, the Supervisory Board recalled and new members of the Supervisory Board elected for 4 year term of offcie: Dominykas Tučkus, Živilė Skibarkienė and independent member Rimgaudas Kalvaitis.

On 30 March 2018 the Company and Lietuvos Energija, UAB, concluded the Share Subscription Agreement, which stipulates that the **ownership of Vilnius Third Combined Heat and Power Plant will be transferred to the Company** from 31 March 2018, 00:00 AM.

During the first sitting of the Company's Supervisory Board of the new composition held on 3 April 2018 it was decided to **elect Dominykas Tučkus as the Chairman of the Supervisory Board**. **During this sitting, in accordance with the new version of the Articles of Association, the Company's Board members**, who previously served as the Company's Board members, **were elected for the new term of office**: Eglė Čiužaitė (in charge of strategy and management), Darius Kucinas (in charge of production and system services management), Mindaugas Kvekšas (in charge of finances and administration).

On 11 April 2018, **the Company's Articles of Association containing the amendment on the increase in the Company's authorised share capital up to EUR 187,920,762.41** were registered with the Register of Legal Entities.

On 11 April 2018, the Company's Board, in view of the opinion of the Supervisory Board, **elected the Company's Board member Eglė Čiužaitė as the Chairwoman of the Company's Board** and passed a decision that the elected Chairwoman of the Board would continue serving as the Company's Chief Executive Officer.

On 27 April 2018, **the Company announced that reserve heavy fuel oil will no longer be used in the facilities of the Elektrėnai Complex**. Reserve fuel will be replaced with natural gas and currently held heavy fuel oil is planned to be sold. The Company estimates that it could save around EUR 0.5 million per year.

On 23 May 2018, **parent company of the Group Lietuvos Energija announced the updated strategy LE2030**. The state-owned Group of energy companies Lietuvos Energija plans to undergo substantial transformation over the upcoming twelve years: increase production capacities in green energy, expand to international markets, develop and implement innovations in the energy sector. The implementation of these plans will ensure a stable return expected to reach EUR 1.6 billion in 2018-2030 and retain the best price and quality to clients.

On 14 June 2018, with the aim of further strengthening the implementation of the transparency principle across the Group companies in 2018, a decision of the Board of Lietuvos Energija was announced on the discontinuance of the provision of support and **initiation of the termination of the activities of the Sponsorship Fund of Lietuvos Energija**. This fund also distributed support provided by the Company.

On 29 June 2018, **the Company published the social corporate responsibility progress report**. The report reviews the Company's activities in 2017 and progress in the field of social responsibility. The report focuses on relationship with employees and their involvement in the Company's activities, cooperation with local communities and the society, environmental protection and activities in the market.

Further details on these and other events significant to the Company are given in other sections of this report and are available on the Company's website www.gamyba.le.lt.

ANALYSIS OF PERFORMANCE AND FINANCIAL INDICATORS

		6 months 2018	6 months 2017	6 months 2016 m.	6 months 2015[1]	6 months 2014[1]
FINANCIAL INDICATORS						
Sales revenue	*EUR`000*	60,014	63,306	69,148	98,033	92,273
Other operating income	*EUR`000*	1.140	466	20.176	9.344	1.123
EBITDA[2]	*EUR`000*	27.126	27.084	21.655	28.334	34.327
Adjusted EBITDA[3]	*EUR`000*	27.126	27.084	21.655	28.334	34.327
Operating profit	*EUR`000*	26.025	10.328	23.037	22.762	25.469
Net profit (loss)	*EUR`000*	21.884	10.283	17.794	19.256	22.389
Profit before tax	*EUR`000*	25.876	9.966	22.790	21.659	25.553
Cash flows from operations	*EUR`000*	34.947	26.543	40.014	10.548	22.848
Liabilities to financial institutions	*EUR`000*	46.882	59.857	137.069	154.280	158.893
RATIOS						
Liabilities / equity		0.70	1.07	1.33	1.45	1.40
Financial liabilities / equity		0.12	0.17	0.38	0.42	0.42
Financial liabilities / assets		0.07	0.08	0.16	0.17	0.18
LOAN COVERAGE RATIO						
Loan coverage ratio (EBITDA / (interest costs + loans repaid in the reporting period))[4]		3.05	0.37	2.31	2.93	6.61
PROFITABILITY RATIOS						
Operating profit margin	*%*	42.56	16.20	25.79	21.20	27.27
Profit before tax margin	*%*	42.31	15.63	25.51	20.17	27.36
Net profit margin	*%*	35.79	16.12	19.92	17.93	23.97
Return on equity	*%*	11.49	5.82	9.87	10.55	11.89
Return on assets	*%*	6.76	2.81	4.23	4.31	4.95
Earnings per share	*EUR*	0.034	0.016	0.028	0.030	0.035
P/E (share price / earnings)		8.59	19.36	10.90	12.75	10.14

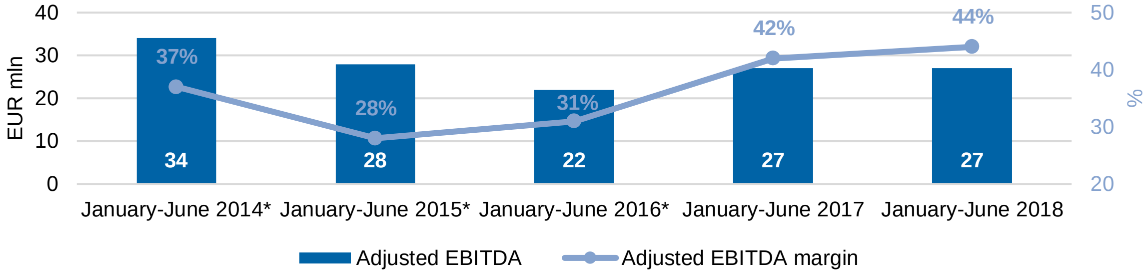
[1] Comparative indicators were not recalculated.
[2] Earnings before tax + interest costs – interest income – dividend received + depreciation & amortisation + non-current & current asset impairment losses + result on disposal of part of business.
[3] EBITDA result is reported after the adjustments made by management by eliminating the impact of one-off factors. These adjustments are made aiming to disclose the results of the Company's operating activities after the elimination of the impact of non-typical, one-off factors or factors that are not directly related to the current reporting period. All adjustments made by management are disclosed in the Company's interim and annual reports.
[4] Re-financed loans were not included in the calculation of the ratio.

In January-June 2018, the Company's adjusted EBITDA margin slightly increased compared to the same period of 2017. This change is illustrated by Figure 1 which presents EBITDA dynamics during January-June of 2014-2018. Other profitability ratios of the Company (operating profit margin, profit before income tax margin, net profit margin, return on equity) are significantly higher in January-June 2018 compared to ratios in January-June 2017 due to higher operating profit that resulted from lower depreciation expenses and a positive result of the revaluation of emission allowances.

As a result of higher sales revenue of Kaunas A. Brazauskas HPP and better performance indicators of Kruonis PSHP, the overall adjusted EBITDA of the Company remained stable compared to the same period of 2017, irrespective of decline in revenue from regulated activities of the Elektrėnai Complex.

Figure 1

The Company's EBITDA and EBITDA margin dynamics



* Comparative indicators were not recalculated.

Statement of financial position

The Company's liabilities to financial institutions amounted to EUR 46.9 million as at 30 June 2018. They included liabilities under long-term loan agreements.

Statement of comprehensive income

Revenue

The Company's sales revenue totalled EUR 60.0 million in January-June 2018. Income from electricity trading, balancing power, regulation power, power reserve and public service obligation (PSO) services as well as income from sale of heat energy accounted for the largest part of sales revenue. The Company's sales revenue decreased by 5.2% compared to January-June 2017. Such decrease was mostly caused by decrease in electricity production volumes at the Elektrėnai Complex and decrease in revenue from regulated activities of the Elektrėnai Complex.

The Company's regulated revenue for January-June 2018, i.e. electricity and heat energy generation at the Elektrėnai Complex and power reserve services provided at the Elektrėnai Complex and Kruonis PSHP, accounted for 54% of the Company's total revenue (January-June 2017: 64%).

Expenses

In January-June 2018, expenses incurred by the Company totalled EUR 35.1 million (EUR 43.5 million before revenue from revaluation of emission allowances). Expenses of purchasing electricity and related services as well as expenses of purchasing fuel for electricity generation accounted for the major part of the Company's expenses (EUR 25.5 million or 72.5%). In January-June 2017, these expenses amounted to EUR 27.9 million and made up 52.2% of total expenses. In January-June 2018, the Company's depreciation and amortisation expenses amounted to EUR 9.3 million.

Operating expenses (excluding expenses of purchasing electricity and related services, expenses of fuel for electricity generation, depreciation and amortisation expenses, expenses of revaluation of emission allowances and impairment expenses) amounted to EUR 8.5 million in January-June 2018, i.e. decreased by 3% or EUR 0.3 million compared to the same period of 2017.

Profit

In January-June 2018, the Company's adjusted EBITDA remained stable compared to this ratio in January-June 2017. Adjusted EBITDA margin was 1.9 percentage points higher compared to the same period of the previous year and reached 44.4% in January-June 2018 (January-June 2017: 42.5%).

In January-June 2018, the Company's profit before tax totalled EUR 25.9 million, and net profit totalled EUR 21.9 million. In January-June 2017, the Company earned net profit of EUR 10.3 million.

The Company's net profit increased in January-June 2018 due to lower depreciation and amortisation expenses and the positive revaluation result of emission allowances.

Statement of cash flows

In January-June 2018, the Company's net cash flows from operating activities amounted to EUR 35.0 million compared to EUR 26.5 million in January-June 2017.

In January-June 2018, the Company's cash flows from financing activities were negative similarly as in January-June 2017 and amounted to EUR 17.8 million compared to EUR 85.9 million in January-June 2017.

Investments in non-current assets

In January-June 2018, the Company's investments in property, plant and equipment and non-current intangible assets totalled EUR 3.3 million compared to EUR 0.6 million in the same period of 2017. In January-June 2018, investments were mainly allocated for major repair works of the second unit of Kruonis PSHP.

Overview of activities of the Company's power plants

The Company brings together the state-owned electricity generating facilities, namely, the reserve power plant and the combined cycle unit in Elektrėnai Complex, Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP) and Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas HPP). The Company's main objective is to contribute to ensuring the country's energy security by consolidating production capacity (Figure 2).

The biofuel boiler house built in the Elektrėnai Complex enables the Company to produce heat energy to satisfy the needs of Elektrėnai town and Kietaviškės greenhouses, and the needs of its own.
As from 1 January 2016, trade in electricity produced by the Company is conducted under the agreement by Energijos Tiekimas UAB. Before that date, the Company used to conduct trading on the wholesale electricity market on its own (i.e. within the communication environment between the producers and suppliers of electricity).

The Company provides balancing services, as well as system services to the Lithuanian transmission system operator LITGRID AB (the TSO).

Figure 2
Description of activities of the Company's power plants

Elektrėnai Complex Reserve power plant and combined cycle unit	**Kruonis Pumped Storage Hydroelectric Plant**	**Kaunas Algirdas Brazauskas Hydroelectric Power Plant**	**Vilnius Third Combined Heat and Power Plant**
			
Capacity – 1055 MW* The main power plant of the Lithuanian energy system, which assures tertiary and strategic reserves to ensure safe electricity supply and reserves of the energy system. Units 1,2, 3 and 4 of the reserve power plant have been dismantled (the capacity of all units is 150 MW each). Units 5 and 6 (300 MW each) have been decommissioned, and their dismantling was started in 2017. The most effective – combined cycle unit (455 MW) – provided tertiary reserve, units 8 (300 MW) – strategic reserve in 2017. Unit 7 is conserved. In 2015, new heat production facilities (steam and biofuel boiler houses) were brought into use.	**Capacity – 900 MW** Kruonis PSHP is intended for the balancing of electricity generation and consumption, as well as for the prevention of emergency incidents within the power system and elimination of consequences thereof. Kruonis PSHP is responsible for securing the larger part of the emergency reserve required for the Lithuanian power system. As the need for regulation increases, and on completion of the power links with Sweden and Poland, the power plant provides more system services. In 2018, the power plant provided secondary reserve with two units (400 MW). Other two units produced electricity for the market.	**Capacity – 100.8 MW** Kaunas A. Brazauskas HPP is the largest power plant in Lithuania that uses renewable energy sources. Depending on natural conditions, the plant produces green energy and provides system services. Kaunas A. Brazauskas HPP contributes to the balancing of electricity generation and consumption, and levels out the power system. It is one of the power plants in the Lithuanian power system that can start an autonomous operation in case of the total power system failure.	**Capacity – 360 MW** **Heat capacity – 603 MW** Power plant activity stopped on December 31, 2015.

Electricity trading
As from 2016, trading in electricity produced by the Company is conducted under the agreement on the wholesale electricity market by Energijos Tiekimas UAB.
On completion of the power links with Sweden and Poland, trading becomes more active due to wider opportunities for electricity trading and system services in the interconnected systems.

** The above-mentioned power plant capacity applies from 1 January 2016, i.e. upon decommissioning of units 5 and 6.*

Key performance indicators

Electricity generation indicators for January-June 2018

The Company has permits for indefinite term to engage in electricity generation activities. Electricity production volumes at the power plants controlled by the Company decreased in January-June 2018 compared to January-June 2017 (see Figure 3). In total, 0.444 TWh of electricity produced at the power plants controlled by the Company was sold during January-June 2018, i.e. 19% less compared to 0.549 TWh in January-June 2017.

A large amount of water was accumulating in the Nemunas river at the beginning of this year. This allowed improving electricity generation conditions at **Kaunas A. Brazauskas HPP**. In January-February 2018, the volumes of electricity produced at Kaunas A. Brazauskas HPP increased by even more than 32% compared to January-February 2017. However, very cold weather that prevailed in the country in March 2018 caused a 29% decline in the hydroelectric power plant's production volumes compared to March 2017.

Due to heavy rainfall the volumes of electricity produced at Kaunas A. Brazauskas HPP increased by 16% in April 2018 compared to the same month of 2017. With the start of hot and dry weather conditions in Lithuania in May, the water level in the Nemunas river began to decline and in May-June 2018, compared to the same months of 2017, the electricity production volumes at Kaunas A. Brazauskas HPP dropped by 28%.

In January-June 2018, electricity production volumes at Kaunas A. Brazauskas HPP decreased by 4% compared to January-June 2017 and totalled 0.232 TWh (January-June 2017: 0.241 TWh)

Due to planned repair works of the second hydro unit of **Kruonis PSHP** that were started in February and continued during the entire reporting period (completed in July), sales of electricity produced at this power plant decreased by 11% in January-June 2018 compared to January-June 2017 and totalled 0.204 TWh (January-June 2017: 0.228 TWh).

In January-June 2018, the volumes of electricity produced and sold at Kruonis PSHP (a service necessary to balance electricity surplus/shortage in the energy system) increased by 56% compared to January-June 2017.
Another type of system services provided at Kruonis PSHP is the secondary active power reserve. This type of system services were used 19 times during January-June 2017 Whereas in January-June 2017, this type of services designated to ensure the safety of electricity supply were activated even 7 times. The TSO usually activates the emergency reserve (the provision of which was assigned to two units of Kruonis PSHP) when it is necessary to compensate a sudden drop in electricity supplied to Lithuania.

In 2018, the most efficient facility of the **Elektrėnai Complex** – the combined cycle unit – provided the tertiary active power reserve service (260 MW), i.e. power maintained by the producer at power generating sources, which is activated within 12 hours This reserve is activated by the TSO. The unit is always ready for bringing in operation in order to significantly contribute to ensuring the security of the energy system. Commercial production at the combined cycle unit is possible with the use of the residual capacity (which remains after the provision of the designated tertiary reserve service), however not at the lower capacity than the unit's technological minimal level, i.e. 160 MW.

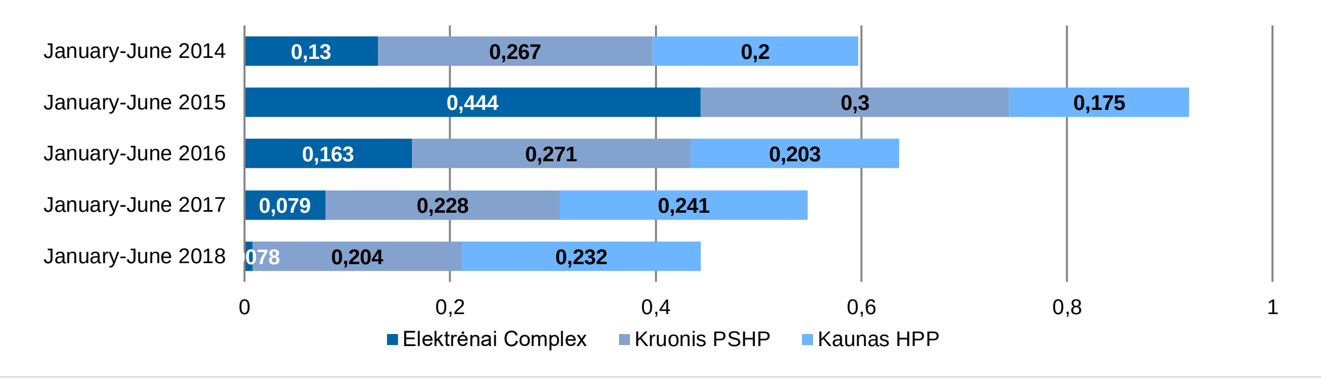
Conditions suitable for the production at the combined cycle unit occurred in March when cold weather entered all Scandinavian and Baltic countries and caused rise in electricity consumption. Moreover, the production volumes at wind power plants declined significantly. In January-June 2018, 0.008 TWh of electricity was produced at the Elektrėnai Complex compared to 0.079 TWh produced during January-June 2017. In the warm seasons of the year the residual capacity of the combined cycle unit becomes too low due to the impact of temperature, therefore offers for electricity production at this unit are not placed to the market.

In 2018, unit 8 of the reserve power plant ensures the electricity system reserve, the so-called strategic reserve. This unit did not produce electricity during January-June 2018.

After the end of the reporting period it was announced that at the end of summer-autumn of 2018 the combined cycle unit will provide the strategic reserve service during the planned repair of the interconnection with Sweden NordBalt. The possibility to offer electricity produced at the combined cycle unit to the market occurred when the Company obtained permission from the TSO allowing to provide the tertiary active power reserve service using unit 8 of the Elektrėnai Complex during the repair of NordBalt interconnection.

Figure 3

Electricity produced at power plants controlled by the Company and electricity sold (TWh)



Provision of system services

The system services ensure the stability and reliability of the energy system, prevention of and response to system emergencies, and the required power reserve in line with the established requirements for quality and reliability of electricity supply. The system services provided by the Company include power reserve, trade in regulation power and balancing power, reactive power management and system recovery services.

Power reserve services are intended to ensure reliable operation of the electricity system in the (emergency) events of unexpected drop in production of electricity or unexpected increase in electricity consumption. The producers provide secondary and tertiary power reserve maintenance services. The secondary active power reserve is the power of installations or hydroelectric units maintained by the producer, which are activated within 15 minutes. The tertiary active power reserve is the power of power-generating sources maintained by the producer, which is activated within 12 hours. The power plants controlled by the Company provide tertiary and secondary active power reserve services. The secondary power reserve is ensured at Kruonis PSHP, whereas the tertiary power reserve is ensured at Elektrėnai Complex. In January-June 2018, the Company sold approx. 1.737 TWh of secondary power reserve and 1.129 TWh of tertiary power reserve compared to 1.743 TWh and 2.102 TWh, respectively, in January-June 2017.

Trade in regulation power services are intended to balance the surplus and shortage of power in the energy system. Trade in regulation power is conducted in real time and ensures reliable operation of the power system on an hourly basis. When the amount of electricity in the system becomes insufficient and the TSO gives an instruction to increase its production, the Company increases the volume of electricity generation and sells the lacking amount of regulation power to the TSO. When there is surplus of power in the energy system and the TSO gives an instruction to reduce its production, the Company reduces the volume of electricity generation and buys surplus regulation power from the TSO. In January-June 2018, the Company sold 0.034 TWh and bought 0.015 TWh of regulation power compared to 0.019 TWh and 0.01 TWh, respectively, in January-June 2017.

Balancing power is the actual deviation from electricity generation or consumption scheduled by the TSO. Trade in balancing power is conducted at the end of the reporting month and it encourages the market players to make accurate forecasts of their electricity generation and consumption. For instance, when the amount of electricity produced by the Company at a certain hour is lower than the scheduled one, the Company has to buy the difference from the TSO (purchase of balancing power); and vice versa, when the amount generated by the Company at a certain hour is higher than the scheduled one, the Company has to sell the difference to the TSO (sale of balancing power).

Reactive power management services are intended to level out any fluctuations in the loads of the power system and ensure the required level of voltage and frequency. Reactive power management services are provided through the units of Kruonis PSHP operating in synchronous compensator mode.

System recovery after complete failure services are intended to ensure effective activation of the power-generating source in the event of full or partial failure of power system, without using power supply from the grid. System recovery after complete failure services are provided at both Kruonis PSHP and Kaunas HPP.

FACTORS DETERMINING THE FINANCIAL INDICATORS OF THE COMPANY

Business environment

In January-June 2018, the Company was engaged in electricity and heat generation activities and provision of such services as assurance of strategic power reserve and tertiary active power reserve at the Elektrėnai Complex and assurance of secondary emergency reserve at Kruonis PSHP, and other system services.

The main customers of the Company are the TSO (receiving all system services), the NCC (representing the interests of consumers as the Company provides regulated services), Nord Pool (NP) exchange participants (receiving electricity generation services), Elektrėnų Komunalinis Ūkis UAB and Kietaviškių Gausa UAB (receiving heat energy services).

The most important events determining (actually or potentially) the Company's performance and financial indicators are as follows:

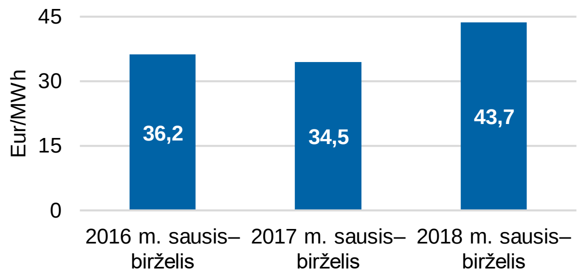
- **Further trend of development of electricity generation from renewable sources may provide basis for the implementation of the Company's development projects**. This enables the Company to take part in the development process, as well as increases the need for balancing services and increases purchases/sales of regulation power from/to the producers.

- **Power links with Sweden and Poland have both positive and negative effects on the Company's performance**. As a result of interconnection of electricity transportation systems and integration of power trade markets, the electricity prices in the Baltic States, Poland and Northern Europe gradually assimilate. As a result of integration of several power markets, the price charged in the larger markets starts to prevail (i.e. the price charged in the smaller markets changes to the level of price charged in the larger markets).
  On one hand, the launching of these power links results in a higher demand for the power reserve services provided by the power plants of the Company. On the other hand, it reduced the differences between the peak and off-peak prices on the electricity exchange, which in turn impacts the production at Kruonis PSHP. In addition, a lower electricity price worsens the possibilities to remain competitive while producing electricity using the gas installations.
- **The Company's performance is affected by fluctuations in prices of emission allowances (EA).** At the end of 2017, the EA price was equal to EUR 8.09 compared to EUR 14.95 at the end of June 2018. A positive impact of EA revaluation had a significant positive effect on the Company's net profit for January-June 2018. In a long run, the European Commission seeks to ensure increase in the EA prices.

Figure 4

Electricity prices as per Lithuania price area on NP electricity exchange

(source: Nord Pool)



- **The Company's performance might be affected by uncertainties in the market of power reserves**. Along with the discussions on the level of production capacity that is necessary to ensure in the country, the Company aims at ensuring that the Elektrėnai Complex will remain as the most useful and effective local source of strategic reserve.
  To achieve this objective (in agreement with other services provided at the Elektrėnai Complex), the Company plans to bring into use three units of the Elektrėnai Complex by the end of 2023: combined cycle unit (455 MW) and units 7 and 8 (300 MW each) which burn heavy fuel and comply with EU pollution requirements. The assessment of further maintenance and investments necessary beyond the year 2023 is expected to be carried out in 2020.

However, in view of the scope of services expected to be provided by the units of the Elektrėnai Complex in 2018, situation in the market of electricity production and system services, changes and prospects in the regulatory environment, the Company's Board adopted a decision at the end of 2017 to discontinue the operation of unit 7 with the capacity of 300 MW and conserve it.

In seeking solutions to reduce the cost of electricity and heat energy produced at the Elektrėnai Complex and the price of services rendered, the Company decided to discontinue the use of reserve heavy fuel oil at the facilities of the Elektrėnai Complex. It will be fully replaced with natural gas.

The Company's strategy

In September 2016, the Company's Board approved the Company's business strategy for 2016-2020 (hereinafter "the Strategy"). The Strategy defines the long-term business strategy of the Company: the strategic directions and objectives and the indicators for measuring the implementation of the Strategy.

The Company updated its Strategy in view of the developments and future perspectives in the energy sector: growing competition in the electricity market, new opportunities arising in relation to the development of renewable resources, and emerging threats.

By the year 2020, the Company expects to dedicate at least 15% of its work time to earning income from new activities, and to cut its costs of operating activities by at least 15%.

The Company plans to achieve the above-mentioned objectives by focusing on four main strategic directions (See Figure 5).

Holding company Lietuvos energija, UAB on May 23, 2018 announced the updated strategy LE2030. In response to this, during 2018 the company plan to review and update the Company's strategy.

Figure 5
The Company's strategic directions for 2016–2020

MISSION We are a reliable and advanced power generation company providing the services that are required for the energy system security.			
Ensure quality services provided to clients (the TSO, suppliers, consumers, shareholders)	**Improve operational efficiency**	**Diversify and develop activities**	**Engage and empower employees**
VISION Our aim is to be become a competitive international centre of power generation and services.			

Research & development projects

For the purpose of implementing a technologically and economically feasible investment policy, the Company conducts long-term strategic planning helping to identify the directions of development for the Company and the investments required for replacement or modernisation of technological equipment.

The following investments of higher value are conducted or planned (until 2020) by the Company:

- renovation of complex distribution facilities for own needs and complex distribution transformer substations at Kruonis PSHP;
- major repairs of the second hydroelectric unit at Kruonis PSHP;
- works at the Obeniai ash site at Elektrėnai Complex; wind farm in the territory of Kruonis PSHP;
- installation of unit 5 at Kruonis PSHP (if market conditions appear to be favourable).

The following R&D projects were under implementation during January-June 2017:

Dismantling of units 5 and 6 of the reserve power plant

In January 2017, the project for dismantling units 5 and 6 of the reserve power plant of the Elektrėnai Complex was initiated. Given the fact that the price of electricity produced at these units is no longer competitive in the market and that their abandonment will help reduce the final electricity tariff to consumers, these units were decommissioned at the beginning of 2016. The dismantling of these units with the capacity of 300 MW each is planned to be accomplished by the end of 2020. During the implementation of the project thermal insulation of the units has been dismantled and utilised. Dismantling works of metal structures, equipment and devices of the units, scrap metal are performed. In 2018, contracts on the acquisition of dismantling works of brickwork and metal constructions of the units' boilers were signed with the contractors and these works were started.

Major repairs of the second hydro unit of Kruonis PSHP

The second hydro unit of Kruonis PSHP was installed and launched in 1992, thus the unit has been operated for about 25 years now. At the beginning of 2014, during a diagnostic repair of the hydro unit, the inspection of the generator was conducted with the participation of representatives of the manufacturer of the power plant. It was established that causes of identified deficiencies could be eliminated only by replacing some parts in the course of major repairs. A contract with a contractor, who will perform main major repair works of the second hydro unit of Kruonis PSHP, was signed in May 2017. In December 2017, a part of the manufactured equipment was delivered to Kruonis. Repair works started in February 2018. All planned works were completed until 23 July 2018.
During the performance of major repair works the unit was inoperative for 6 months. The internal (metal) part of the external pipeline of the hydro unit was also renovated during this period.

Installation of hydro unit 5 at Kruonis PSHP

The Company has assessed the possibilities for the expansion of Kruonis PSHP with the installation of the fifth hydro unit. The results of the analysis show that under current market conditions the existing 900 MW capacity is sufficient for the operation of the power plant, but its expansion is important for assuring sufficient electricity capacity and competitive power system in Lithuania in future. Higher production capacity of Kruonis PSHP is expected to be achieved by building the fifth asynchronous hydro unit with the capacity of 225 MW.
A large part of preparatory works for the expansion project of Kruonis PSHP has been already performed. The implementation of the project is expected to continue for about four years.
In January 2018, the European Commission approved of a partial funding of studies on the power plant's poles site and infrastructure. The aim of these studies is to assess whether the current condition of the poles site, on which the new pipeline would be constructed, meets the requirements established in the design. The application has also been submitted with the request for a partial funding of the feasibility study of the fifth unit of Kruonis PSHP. This study will aim to assess whether a synchronous or asynchronous unit would be more suitable in meeting today's needs and will also cover a socio-economic analysis.

The National Energy Independence Strategy as approved by the Seimas of the Republic of Lithuania on 21 June 2018 presents the expansion project of Kruonis PSHP in the list of the main electricity sector works. The project will be continued having resolved the issues relating to the projected demand for power reserve when operating in the isolated network during the preparation for synchronisation and after synchronisation as well as technical requirements established for the facility ensuring such a power reserve.

Dismantling of chimneys 1 and 2 in Elektrėnai

Considering that chimneys 1 and 2 of the Elektrėnai Complex have not been used since 2014 and their condition deteriorates every year and thus can pose an increasing threat to the safety of people, the Company initiated their dismantling project. The chimneys were constructed as early as at the beginning of the 1960s. The middle chimney with the height of 25 metres will be dismantled first as its condition is the worst. This chimney was used to remove smoke emitted from units 5 and 6 that are currently being dismantled. This chimney is damaged by the occurrence of electrochemical corrosion of reinforcing bars and has signs of the emergency condition of the structure. The dismantling of this chimney is expected to be completed by the end of 2019. The dismantling of the lower chimney with the height of 150 metres will follow, which was used to emit smoke from units 1 and 4 that are currently fully dismantled. The contracts on the dismantling of these chimneys are planned to be signed at the end of 2018.

Discontinuance of the use of heavy fuel oil in Elektrėnai

The Company passed a decision to discontinue the use of reserve heavy fuel oil in the facilities of the Elektrėnai Complex. The demand for reserve fuel during the cold seasons of the year will be met using natural gas. Thus, the Company intends to conclude the agreement on uninterrupted supply of gas. Reserve gas would be stored at the Inčukalns gas storage facility. The Company estimates that it could save around EUR 0.5 million per year.

During the reporting period the Company initiated the procedures of the replacement of reserve fuel and the discontinuance of the storage of burned heavy fuel oil and operation of its supply infrastructure at the Elektrėnai Complex: purchases of uninterrupted natural gas supply and storage and sale of burned heavy fuel oil were announced. No quantity of heavy fuel oil should remain at the Elektrėnai Complex already until the beginning of the cold season of 2018-2019. Later on the infrastructure of heavy fuel oil storage and supply to the reserve power plant will be adjusted and, subject to the needs, offered to clients whose activities in this territory would be beneficial to the entire region.

Operational excellence, innovative activities

Seeking to implement one of its strategic directions – to improve operational efficiency – the Company pursues constant improvements supported with optimisation of functions, technological advancement, introduction of innovations, and improvement of business processes. The Company implements Operational Excellence programme, which is based on the best management practices (LEAN, Six Sigma etc.).

The Company encourages and implements not only the improvements stipulated in its operating plans but also the ones proposed by its employees. The Company's employees submitted 375 proposals for performance improvement in January-June 2018. Experts and managers evaluate the proposed ideas in terms of their payback and in respect of such aspects as time saving, safety at work, quality, corporate values, and improvement of workplace ergonomics. Employees are provided with the possibility to implement their ideas and thereby contribute to developing the Company's activities and attaining its goals. More than 290 of proposals for performance improvement were implemented in January-June 2018.

All divisions of the Company continue using visual management of day-to-day operations with integrated performance indicators and cascaded meeting systems. With the help of LEAN and other operational management tools, the Company eliminates wastages no longer creating any value, arranges and standardises premises and work places (67 premises were arranged in January-June 2018, with an area about 2400 square meters, about 1760 square meters of premises are not being used anymore), solves problems in a more effective and fast manner, and improves the processes and their individual steps in view of the Company's priorities.

New services

The Company expanded its services portfolio by starting to offer services of weighing heavy motor vehicles and biofuel and other laboratory tests to external clients in 2016. Currently, the Company offers maintenance services for automation, electrical, mechanical facilities as well as hydrotechnical structures and facilities, services of operation of various energy objects, metal processing and weighting, leases out buildings, warehousing areas and territories not used in its activities, offers chemical products and other services.

In January-June 2018, the Company's employees provided services to 23 customers, of whom 11 were new customers, which required almost 5.5 working hours.

With effect from 31 March 2018, the Company acquired ownership rights to the set of assets of Vilnius thermal power plant No 3. Subject to the rights acquired the Company took over from the former owner the agreements on the lease of premises, under which the Company leases about 22 thousand square metres of premises and territories to third persons. In total until 30 June the Company leases out various territories and premises no longer used in the principal activities of the Company covering an area of about 44 thousand square metres.

In assessing possibilities for the expansion of new services and implementing its operational strategy, the Company plans to offer its experience and competences not only to Lithuanian, but also to Latvian, Estonian, Swedish, Finnish companies.

Risk factors and their management

The risk management model, which is applicable across the whole Lietuvos Energija group, has been based on the man principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and AS/NZS ISO 31000:2009 (Risk management - Principles and guidelines).

The main objectives of the risk management process at the Company are as follows:

- achievement of the Company's performance objectives with controllable, yet, in principle, acceptable deviations from these objectives;
- ensurance of provision of information of the highest possible accuracy to decision makers, shareholders and other stakeholders;
- defence of the Company's reputation;
- protection of interests of shareholders, employees, clients, stakeholders and the society;
- ensurance of the stability (including financial) and sustainability of the Company's activities.

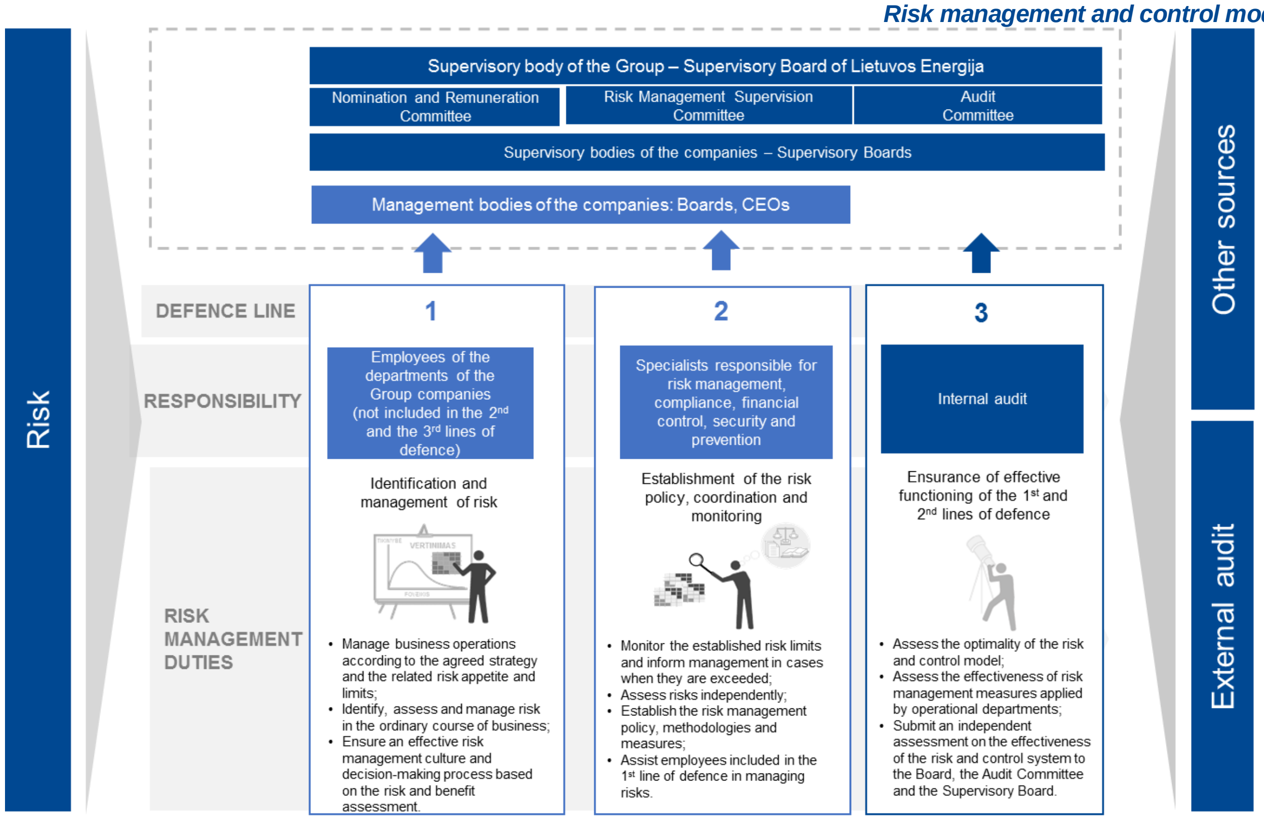
The risk management principles established by Lietuvos Energija UAB are consistently applied throughout the whole Lietuvos Energija group. The uniform risk management principles ensure that the management personnel of the Lietuvos Energija group receive risk management information covering all areas of activities. To ensure the practicality of the risk management process, specific activity areas supplement information on their activities with detailed risk assessment, monitoring and management principles.

Aiming to ensure that risk management information and decisions correspond to recent developments and changes in the Company's activities, the Company's risk level is re-assessed each year during a specified time period and risk management actions are established. In addition, the Company monitors new risk factors on a quarterly basis and defines additional actions, if needed.

Risk appetite and risk tolerance limits are established within the Lietuvos Energija group. Risk appetite means the level and type of risk that the Lietuvos Energija group is ready to accept aiming to implement strategic objectives. Risk appetite is determined by assessing financial impact of risk as well as impact on health and safety of persons. Tolerance limit means the level of risk the excess of which is not acceptable for the Group and which is expressed in the results of operations or values of incidents. The Lietuvos Energija group's risk appetite and risk tolerance limits are established by the Board of Lietuvos Energija UAB and reviewed by it once a year. Where risk appetite and risk tolerance limits are exceeded by the Company, action plans are prepared in order to meet the mentioned thresholds. The effectiveness of the management plans is assessed by the Company's Board, the Company's Supervisory Council and the Lietuvos Energija group's Risk Management Supervision Committee under the Supervisory Council.

In order to effectively manage risks arising from its activities, the Company applies the three lines of defence principle by establishing a clear segregation of duties for risk management and control between the Company's management and supervisory bodies, structural departments or functions.

Figure 6
Risk management and control model



As is the case each year, in 2017 the Company performed risk assessment for the year 2018 which included the determination of the areas where the Company's main risk management measures and initiatives are concentrated and coordinated. The list of the main risk factors for 2018 and their management policies is presented below:

Risk factors for 2018 and their management policies

Risk factor	Sources of risk	Main risk management policies
Regulation and compliance	Regulation risk at the Company is associated with a complicated planning of cash flows and a risk of reputational damage. The NCC remains the main regulatory authority making the largest impact on the prices of services provided by the Company and its revenue by establishing ceilings for them.	• Efforts are made to fulfil the requirements of the regulatory authority in as specific manner as possible; • To ensure compliance with new requirements, projects are organised at the Lietuvos Energija group level that engage the best specialists of the Lietuvos Energija group with regard to the issue concerned; • The compliance function is strengthened and formed; • Active participation in the process of public coordination of legal acts; • The long-term strategy of the Company provides for a consistent reduction of costs of regulated activities and diversification of activities.
Market changes and competitiveness	Market changes that range from fluctuations in prices of raw materials to strategic initiatives is an inherent risk of the energy sector. The major risk currently faced by the Company arises from changes occurring in the reserve services supply market. Traditional external risk sources also remain relevant, i.e. the country's macroeconomic indicators that determine the level of consumption of electricity, heat and gas, changes in prices of raw materials as well as new markets that emerged after the launch of the NordBalt and LitPolink interconnections.	• The long-term strategy of the Company provides for a consistent increase of operational efficiency through reduction of costs for the provision of services, diversification and expansion of activities aiming to ensure the long-term stability of the Company's activities; • Abandonment of out-of-service production facilities; • Bringing into use new production facilities (biofuel and steam boiler houses); • Modernisation of combined cycle unit on purpose to increase its competitiveness in the markets of reserve services and electricity generation.
Information security (cyber security)	By observing external factors, geopolitical situation the Company understands its strategic importance for the country's security and by cooperating with external establishments and by introducing internal measures it aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime.	• Improvement of resistance through tests/trainings/training courses for employees; • Ensuring the continuity of the Company's critical systems; • Enhancement of detection/suspension of cyber-attacks; • Cooperation with external institutions.
Technical faults	The Company's electricity production process involves the use of a large variety specialised equipment due to which a risk of technical faults always exists that arises from general sources of risk, such as obsolescence or hidden defects. In addition to general risk sources, risk of technical faults at the Company is increased by the infrequent use of equipment providing the reserve service.	• Continuous and timely performance of technical maintenance; • Renewal of equipment; • Ensuring the continuity of knowledge and retention of skills of operations personnel; • Development, renewal and testing of business continuity plans; • Implementation of the integrated asset management system of energy facilities.
Safety and health of employees and contractors	Due to a specific character of the Company's activities and nature of works performed there exists an inherent risk of failure to ensure safety of employees and contractors due to the use of open flame sources, flammable and explosive materials, steam, hot water in the production process, temporary and short-term working places for specific works, and complex working conditions. This risk remains a priority area for a number of years and the main causes of this risk, in addition to high-risk working environment, include the lack of awareness or experience/knowledge.	• Implementation of occupational safety and health management system (OHSAS 18001:2007); • Regular control and supervision of safety of employees and contractors; • Ensuring occupational safety linked with the annual objectives of the Company and management personnel.

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

Structure of authorised share capital and securities in issue

The authorised share capital of the Company amounts to EUR 187,920,762.41 and it is divided into 648,002,629 ordinary registered shares with par value of EUR 0.29 each. All the shares have been fully paid.

All the shares of the Company belong to the same class of ordinary registered shares and they grant equal rights to their holders.

The Company did not acquire, nor transferred its own shares during the reporting period. The Company had not acquired its own shares.

On 1 September 2011, the shares of the Company were admitted for listing on the Baltic Main List of NASDAQ Vilnius. The shares of the Company are traded on NASDAQ Vilnius Stock Exchange ("VSE").

ISIN code LT0000128571.

Ticker - LNR1L.

The Company's shares are not traded on any other regulated markets.

Structure of authorised share capital

Class of shares	Number of shares	Par value per share, EUR	Total par value, EUR	% of authorised share capital
Ordinary registered shares	648,002,629	0.29	187,920,762.41	100.00

The Company's share price and turnover dynamics

Statistics on trade in the Company's shares

			6 months 2014	6 months 2015	6 months 2016	6 months 2017
Last trading session price, EUR		0.715	0.773	0.611	0.627	0.58
Maximum price, EUR		0.750	0.940	0.713	0.655	0.64
Minimum price, EUR		0.395	0.765	0.611	0.600	0.54
Average price, EUR		0.582	0.853	0.649	0.627	0.698
Turnover, shares		1 138 669	365 042	268 263	439 408	538 428
Turnover, EUR MLN		0.66	0.31	0.17	0.28	0.32
Capitalisation, EUR MLN	Company	454.08	490.92	388.04	398.20	375.84
	Baltic Main List	4,619.94	4,731.07	4,712.59	5,223.61	6,047.81

Figure 7
The Company's share price and turnover dynamics during the reporting period

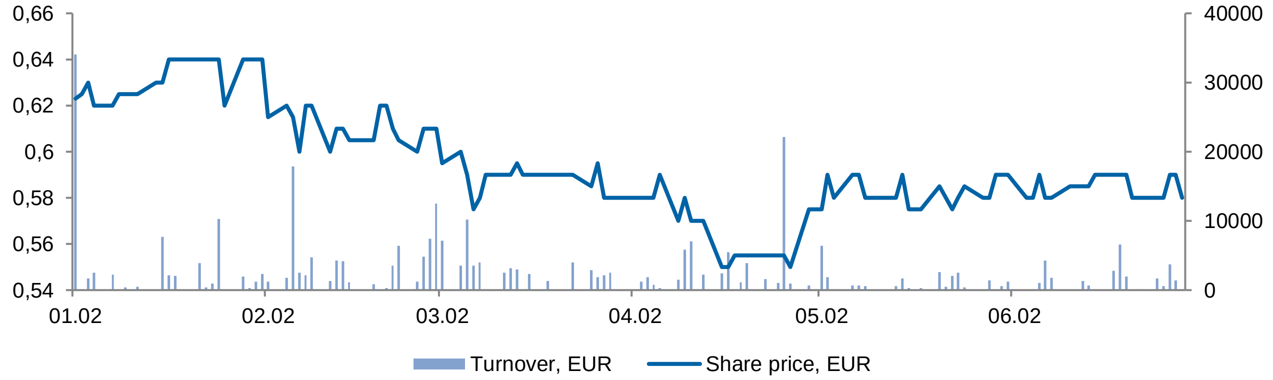
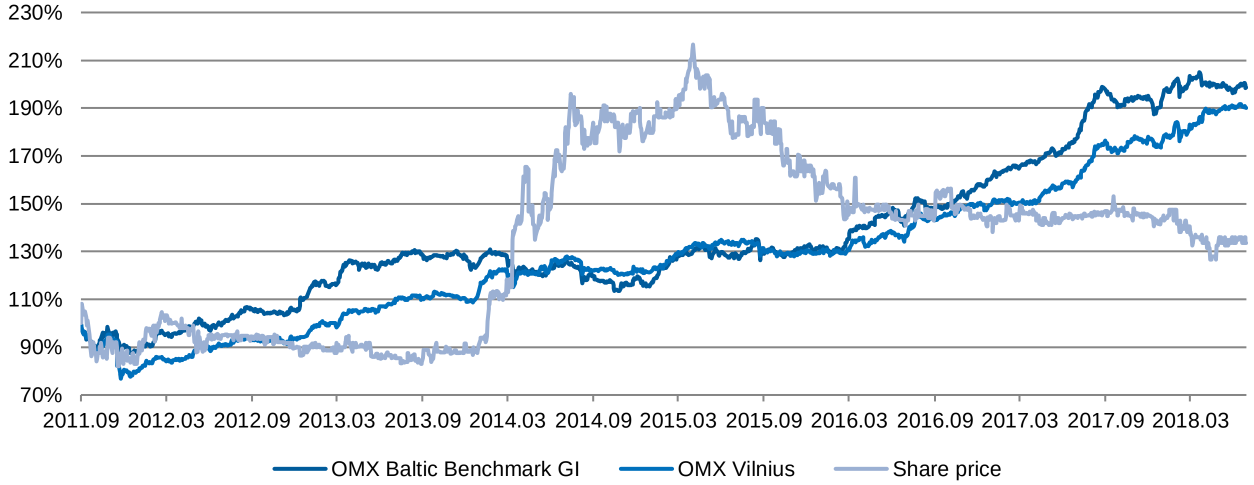


Figure 8
The Company's share price and turnover dynamics between the trading start date and end of the reporting period

Figure 9
Dynamics of the Company's share price, OMX Vilnius and OMX Baltic Benchmark Indices



Shareholder structure

As at 31 December 2017, the Company had in total 5,904 shareholders.

As at 30 June 2018, the Company had in total 5,886 shareholders.

Shareholders holding more than 5% of the Company's shares (as at 30 June 2018)*

Name	Class of shares	Number of shares	% of authorised share capital	% of shares with voting rights
Lietuvos Energija UAB Company code – 301844044 Žvejų g. 14, 09310 Vilnius	Ordinary registered shares	627,372,769	98.82	96.82
Other shareholders	Ordinary registered shares	20,629,860	3.18	3.18
TOTAL	Ordinary registered shares	648,002,629	100	100

* On 26 March 2018, the Ordinary General Meeting of Shareholders adopted a decision to increase authorised capital of the Company by issuing new shares, which are being paid up by the additional non-monetary contribution by the person subscribing the shares (Lietuvos Energija, UAB). The Company issued 12,919,014 (twelve million nine hundred nineteen thousand and fourteen) new shares with the nominal value of EUR 0.29 (twenty nine euro cents), their emission price being EUR 0.624 (six hundred twenty four thousandths of euro cent). The right to acquire (subscribe) all the new shares was granted to Lietuvos Energija, UAB. At the publishing date of this report the changes of shares were registered at Lithuanian central securities depository and Lietuvos Energija, UAB, owned 627,372,769 (six hundred twenty seven million three hundred seventy two thousand seven hundred sixty nine) shares (96.82% of authorised share capital).

Rights of the shareholders, shareholders with special control rights and description of these rights

All shareholders of the Company have equal property and non-property rights as laid down in the legislation, other legal acts, and the Articles of Association of the Company. The management bodies of the Company create suitable conditions for implementing the rights of shareholders of the Company.

None of the shareholders of the Company had special control rights.

Restrictions on voting rights

There were no restrictions on voting rights.

Restrictions on transfer of securities

To the best of the Company's knowledge, there were no arrangements among the shareholders of the Company that could result in restriction of transfer of securities and/or voting rights.

Information on agreement with intermediary of public trading in securities

The agreement on keeping accounts of the Company's securities and management of personal security accounts, which was concluded on 9 February 2016 with AB SEB bankas, is active.

Dividends and dividend policy

The **dividend policy** of Lietuvos Energija Group was approved in 2016, which also applies to the Company and is published on the Company's website under the section "For Investors".

On 26 March 2018, the General Meeting of Shareholders of the Company approved the distribution of the Company's profit (loss) of 2017. The plan is to pay almost EUR 8.9 million in dividends for the six-month period ended on 31 December 2017. EUR 0.014 in dividends per share is paid for this period. Persons, who were shareholders of the Company at the end of the 10th working day following the decision on the payment of dividends adopted by the General Meeting of Shareholder, i.e. at the end of the working day of 10 April 2018, received dividends.

Please be reminded that the dividends were paid on the basis of the decision of the Extraordinary General Meeting of Shareholders of the Company held on 29 September 2017, whereby they decided on the allocation of dividends for a period shorter than the financial year to the shareholders of the Company. Dividends of EUR 0.017 per share (EUR 10.8 million in total) were allocated for the six-month period ended on 30 June 2017.

Net profit from continuing operations of the Company was EUR 20.52 million in 2017 with the indicator of dividends paid for this period / net profit being 0.96.

CORPORATE SOCIAL RESPONSIBILITY

The Company's social responsibility activities are based on its values and are a manifestation of its attitude toward its operations, inclusion of social, environmental and transparency principles in its internal business processes, and in its relations with stakeholders.

Being engaged in its activities in a responsible manner, the Company follows the Social Responsibility Policy approved for the entire group. This document defines the general principles of responsible operation and provisions to be followed when creating a culture and practice of socially responsible business developed in a sustainable manner.

The Company makes social responsibility purposeful by pursuing target-oriented and consistent activities in the following areas:

- relationship with employees,
- relationship with the public,
- environment protection,
- operation in the market.

The Company follows the Ten Principles of the UN Global Compact defining the responsibilities of businesses in the areas of human rights, employee welfare, environment protection, anti-corruption, and aims at reducing its impact on environment, community, other businesses, taking part in resolving economic, social and environmental issues by common effort, and contributing to community development and economic growth. These generally accepted guidelines of responsible behaviour serve as clear and strong reference for the Company in developing its activities in a socially responsible manner.

The Company demonstrates goodwill and invites the members of public to participate in non-repayable excursions at its objects: the combined cycle unit, Kruonis PSHP, Kaunas A. Brazauskas HPP. Thereby, the Company contributes to increasing awareness of the public, especially the younger generation, about the energy. In January-June 2018, the above-mentioned power plants had in total over 1,300 visitors from various educational establishments, schools and other institutions, as well as delegations from abroad. Kruonis PSHP has the highest number of visitors on January-June 2018.

The Company elaborates annual activity plans of social responsibility, implements them and describes the progress achieved in its social responsibility reports that are available to public.

The Corporate Social Responsibility Progress Report of 2018 was announced on June 29, 2018, and can be accessed by clicking on this link.

Environmental protection

The Company is committed to protecting the environment in its operations, sparingly using the natural resources, introducing advanced, efficient and environmentally friendly technologies, complying with the environmental laws and regulations, and implementing preventive measures to reduce the adverse impact upon the environment in a professional manner.
The most important environmental protection issues include the safe operation of facilities, safe use of substances dangerous to the environment, waste management, ensuring that the water level fluctuations in the Kaunas Lagoon and the Nemunas River downstream the Kaunas A. Brazauskas HPP are within the permissible limits etc.

The Company fulfils all the relevant environmental requirements and undertakes, on its initiative, construction of new facilities and modernization of the old ones so that the impact of operations on the environment is minimized. The Company organizes environment clean-up campaigns, inviting other companies and organizations to join them. Meetings between employees of units are organized by means of video conferences in order to reduce both transport costs and environmental pollution. Sparing use and sorting of electronic equipment and paper used for operations is encouraged at the Company so the use of paper is decreasing and the increasing numbers of documents are managed electronically by means of a dedicated document management system.

According to the company's approved resource saving plan, actions are being taken to reduce the need for self-managed resources.

Environmental management standard

The Company maintains ISO 14001:2005 certificate Its globally recognized certificate indicates that the Company meets the requirements for the identification, monitoring, management and improvement of the main environmental protection aspects. The certificate is valid for the products and services of the Company's power plants in Elektrėnai, Kruonis and Kaunas. This means that the strict global environmental requirements are fulfilled by all the power plant operations: the electricity and thermal energy generation and the operation of the power, heat, turbine, natural gas, oil and petroleum product facilities at the Elektrėnai Complex, electricity generation and supply, operation of facilities and power reserving at the Kruonis PSHP, and the electricity generation and supply as well as operation of facilities at the Kaunas A. Brazauskas HPP.

The requirements for the monitoring and protection of the air, surface water, ground water and soil specified in the Integrated Pollution Prevention and Control Permits are fulfilled.

Waste sorting

Assorted waste bins and special containers for old batteries and minor electronic equipment have been erected at the Company's divisions in Elektrėnai, Kruonis and Kaunas as well at the offices in Vilnius. A modern waste sorting yard at Elektrėnai Complex enables to sort many types of waste. Hazardous and non-hazardous waste resulting from the Company's operations are transferred to waste management companies. Waste of ferrous and non-ferrous metals is transferred to scrap collectors at a market price.

In 2018 January-June at the power plants of the Company 31 tons of hazardous waste and 2,111 tons of non-hazardous waste were transferred, 1,116 tons of ferrous and almost 67 tons of non-ferrous metals were sold, 36 tons of household waste was collected.

THE COMPANY AND ITS MANAGEMENT BODIES

Information about the Company and its contact details

Name	Lietuvos Energijos Gamyba, AB (until 5 August 2013: Lietuvos Energija AB)
Legal form	Public company; private legal person with limited civil liability
Registration date and place	20 July 2011, Register of Legal Persons of the Republic of Lithuania
Company code	302648707
Registered office address	Elektrinės g. 21, LT-26108 Elektrėnai
Telephone	+370 5 278 2907
Fax	+370 5 278 2906
E-mail	info@le.lt
Website	www.gamyba.le.lt

The Company's main business activity

Energy generation and trade. The Company may engage in any other activities that are not in conflict with its objectives and the Lithuanian law.

Information about the Company's branches and representative offices

The Company has no branches or representative offices.

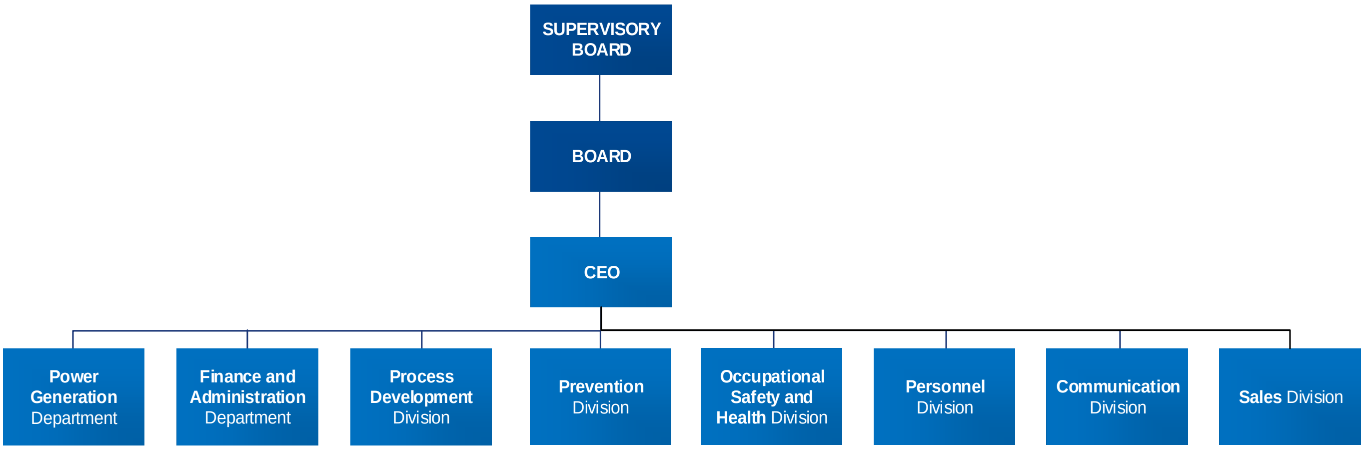
Divisions of the Company

The Company operates all state-owned power generation facilities:

- Elektrėnai Complex with a reserve power plant (the former Lietuvos Elektrinė) and a combined cycle unit,
- Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP),
- Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas HPP),
- Vilnius Third Combined Heat and Power Plant (Vilnius PP-3) (since March 31, 2018).

Figure 10

Structure of the Company (as at 30 June 2018)



Information about ownership interest in other entities

As at 30 June 2018, the Company had ownership interest in the following entities: Geoterma UAB (23.44%), Technologijų ir Inovacijų Centras UAB (20.01%), Verslo Aptarnavimo Centras UAB (15%).

Information about the Company's management bodies

Based on the Articles of Association effective as at 30 June 2018, the management bodies of the Company include as follows:

- the General Meeting of Shareholders;
- the Supervisory Board;
- the Board;
- the Managing Director – the Chief Executive Officer.

The Articles of Association of the Company are available on the Company's website under section "Company Management".

Information on the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius is available on Annual Report of the Company of 2016 (link). There were no major changes in January-June 2018.

The General Meeting of Shareholders

One General Meeting of the Company's Shareholders was held during January-June 2018:

1. The set of audited consolidated and annual financial statements of the Company and distribution of the Company's profit for 2017 was approved in the Ordinary General Meeting of Shareholders of the Company held on 26 March. The plan was to pay dividends for the six-month period ended on 31 December 2017. Shareholders also adopted a decision to increase authorised capital of the Company by issuing new shares that shall be paid by Lietuvos Energija, UAB, as the subscriber of shares, by making contribution in kind, i.e. transfer of assets of Vilnius Third Combined Heat and Power Plant to the Company. The new version of the Articles of Association of the Company has been approved, the Supervisory Board recalled and new members of the Supervisory Board elected for 4 year term of offcie: Dominykas Tučkus, Živilė Skibarkienė and independent member Rimgaudas Kalvaitis.

Information on voting results of the Company's shareholders during the above-mentioned and previous General Meetings of Shareholders is available on the Company's website under section "For Investors".

The Supervisory Board

As stated in the Articles of Association of the Company, the Supervisory Board is a collegial body exercising supervision over operations of the Company consisting of three members – natural persons. At least one-third of the Supervisory Board's members are independent members. The Supervisory Board is elected for the period of four years by the General Meeting of Shareholders. The Chairman of the Supervisory Board is elected by the members of the Supervisory Board from among themselves. The Supervisory Board and its members start and terminate their activities according to the procedures established in relevant legal acts.

On 26 March 2018, at the ordinary general meeting of shareholders of the Company, the Companys' Supervisory Board (with members Mindaugas Keizeris (chariman) and Dominykas Tučkus) has been recalled and new Supervisory Board elected for a 4 year term of office: Dominykas Tučkus, Živilė Skibarkienė, Rimgaudas Kalvaitis (independent member.

More details about the members of the Company's Supervisory Board are available on the Company's website under section "Company Management".

Members of the Supervisory Board (during the reporting period)

Name	Term of office	Share-holding in the Company	Participation in other companies and organisations	Ownership interest in other companies (>5%)
Mindaugas Keizeris Chairman	10 August 2017 – 26 March 2018	-	- Lietuvos Energija UAB, Member of the Board, Director for Strategy and Development (untill February 1, 2018), acting director (untill February 11, 2018). - Energetikos Paslaugų ir Rangos Organizacija UAB, Member of the Board. - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board (untill April 24, 2017). - Vilniaus Kogeneracinė Jėgainė UAB, Chairman of the Board (untill March 19, 2018). - Sponsorship Foundation of Lietuvos Energija UAB, Chairman of the Board. - NT Valdos, UAB, Chairman of the Board. - „Lietuvos energija", UAB, Director of Corporative Management Korporatyvinio valdymo direktorius (from February, 2018).	–
Dominykas Tučkus Member	10 August 2017 – 26 March 2018 26 August 2018 – 26 August 2022		- Lietuvos Energija UAB, Member of the Board, Director for Production and Services. - LITGAS UAB, Chairman of the Board. - Lietuvos Dujų Tiekimas UAB, Member of the Board. - Energijos Tiekimas UAB, Chairman of the Board	–

			- Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board. - Eurakras UAB, Chairman of the Board - Tuulueenergia OU, Member of the Board - Vilnius Third Combined Heat and Power Plant, Member of the Board (from March 19, 2018) - KŪB Smart Energy Fund powered by Lietuvos Energija, Member of the Advisory Committee.	
Živilė Skibarkienė Member	26 March 2018 – 26 March 2022	–	- Lietuvos Energija, UAB, Member of the Board, - Director for Organizational; Development. - Verslo Aptarnavimo Centras, UAB, Chairwoman of the Board (since April 4, 2018, chairman since April 25, 2018). - Technologijų Ir Inovacijų Centras, UAB, Chairwoman of the Board (member since April 11, 2018, chairwomand since April 26, 2018). - Elektroninių Mokėjimų Agentūra UAB, Member of - the Supervisory Board (from March 23, 2018).	–
Rimgaudas Kalvaitis Independent Member	26 March2018 – 26 March 2022	–	- Technology Competence Center, UAB, CEO. - Lietuvos Radijo ir Televizijos Centras, UAB, Independent Member of the Board. - Luno, UAB, consultant.	–

Information on payments made to the members of the Supervisory Board during the reporting period

Based on Articles 21 and 25 of the Company's Articles of Association, at least 1/3 (one third) of members of the Supervisory Board must be independent members. Remuneration for work at the Supervisory Board can be paid only to the independent members of the Supervisory Board and upon the decision of the General Meeting of Shareholders.
The terms and conditions of the agreements with the members of the Supervisory Board, including the independence criteria, are established at the General Meeting of Shareholders in accordance with the requirements set forth in the relevant legal acts and based on the best corporate governance practices.

An independent member has been elected on 26 March 2018. Until then there were no independent member in the composition of the Supervisory Board since 5 August 2017. From this date until the end of the reporting period, independent member received a remuneration of EUR 2,202 for the activities of the Supervisory Board.

The Board

The Board is a collegial body of the Company. The scope of competence and the procedure for making the decisions, election of members and their removal from office is prescribed by law, other legal acts, the Articles of Association, and the Work Regulations of the Board.

On 26 March 2018, at the General Meeting of Shareholders of the Company, the new version of the Articles of Association of the Company has been approved. It is stated in the new version of the Articles of Association of the Company, that the Board of the Company is composed of 3 members, elected for a 4 year term of office (it was 5 members until then).

On 3 April 2018, the first meeting of the new Supervisory Board of the Company passed a decision to recall the Company's Board of 4 (four) members in corpore, and to elect for a term of office of 4 (four) years 3 (three) members – the current members of the Board: Ms. Eglė Čiužaitė (the area under supervision – strategy and management), Mr. Darius Kucinas (production and system service management), and Mr. Mindaugas Kvekšas (finance and administration).
The newly elected Board of the Company commences its operations as of the end of the meeting of the Company's Supervisory Board.

On 11 April 2018, the Board of the Company taking into account the opinion of the Supervisory Board elected Ms. Eglė Čiužaitė as the Chairwoman of the Board and adopted a decision that the elected Chairwoman of the Board shall pursue the position of the Chief Executive Officer of the Company onwards.

The table below presents more detailed information on the members of the Board of the Company; the description of their education and professional experience is available online, under the section "Company Management".

Members of the Board (during the reporting period)

Name	Term of office	Shareholding in the Company	Participation in other companies and organisations	Ownership interest in other companies (>5%)	Payment for the activities as the member of the Board, EUR
Eglė Čiužaitė Date of birth – 1979 Chairperson of the Board, CEO	22 September 2017 – 3 April 2018 3 April 2018 - 3 April 2022	–	- Geoterma UAB (Lypkių str. 53, Klaipėda, Lithuania, c. c. 123540818), Member of the Board. - Sponsorship Foundation of Lietuvos Energija (Žvejų str. 14, Vilnius, Lithuania, c. c. 303416124), Member of the Board. - Technologijų ir Inovacijų Centras UAB (A. Juozapavičiaus str. 13, Vilnius, Lithuania, c. c. 303200016), Member of the Board.	–	8,688
Darius Kucinas Date of birth – 1971 Member of the Board, Director of Production Department	22 September 2017 – 3 April 2018 3 April 2018 - 3 April 2022	–	–	–	5,214
Mindaugas Kvekšas Date of birth – 1986 Member of the Board, Director of Finance and Administration Department	22 September 2017 – 3 April 2018 3 April 2018 - 3 April 2022	–	- Verslo Aptarnavimo Centras UAB (P. Lukšio str. 5B, Vilnius, Lithuania, c. c. 303359627), Member of the Board	–	5,214
Nerijus Rasburskis Date of birth – 1977 Member of the Board, Project Manager at Business Development Department	22 September 2017 – 3 April 2018	–	- Lietuvos Energija, UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 301844044), Head of Cogeneration Power Plants Division - Vilnius Cogeneration Power Plant UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 303782367), Member of the Board - Kaunas Cogeneration Power Plant UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 303792888), Member of the Board		2,694

Information on payments made to the members of the Board (during the reporting period)

	Remuneration in January-June 2018, EUR	Other payments in January-June 2018, EUR	Total in January-June 2018, EUR
All members of the Board, total	93,813	21,810	115,623
Per member of the Board, average	23,453	5,453	28,906

The Management

The Chief Executive Officer is a one-man management body of the Company. The Chief Executive Officer organises and directs operations of the Company, acts on its behalf, and has the right to conclude transactions single-handedly, except for the cases established in the Articles of Association and prescribed by law. The scope of competence and the procedure for election and recalling of the Chief Executive Officer are prescribed by law, other legal acts and the Articles of Association of the Company.

Information on payments made to the Chief Executive Officer and Chief Financier (during the reporting period)

	Remuneration in January-June 2018, EUR	Other payments in January-June 2018, EUR	Total in January-June 2018, EUR
To the CEO	27,592	8,289	35,881
Vyr. finansininkui*	–	–	–

* As from 1 December 2014, the accounting function has been moved from the Company to Verslo Aptarnavimo Centras UAB, and accordingly, the Company no longer has accounting employees, nor the Chief Financier. Verslo Aptarnavimo Centras UAB performs a complete set of accounting services for the Company, starting with the recording of the source documents into the accounting software and ending with the preparation of the financial statements.

The Company has neither transferred management of assets nor issued guarantees to the members of the bodies. During January-June 2018, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

Information about the Committees

For the purpose of effective fulfilment of its functions and obligations, the Supervisory Board of Lietuvos Energija UAB (hereinafter "Lietuvos Energija") forms the committees the activities of which apply to Lietuvos Energija UAB and its directly and indirectly controlled subsidiaries, including the Company, as well as other legal persons with different legal status, over which Lietuvos Energija UAB may have significant influence.

The following committees have been established at the Supervisory Board of Lietuvos Energija:

- **The Risk Management and Ethics Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of the management and control system in the Group and (or) main risk factors and implementation of risk management or prevention measures;
- **The Audit Committee** is responsible for the submission of objective and impartial conclusions or proposals to the Supervisory Board on the functioning of the audit and control system in the Group;
- **The Nomination 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 Board, 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.

Members of the Risk Management and Ethics Supervision Committee (during the reporting period)

Committee member	Shareholding in the Company	Term of office	Name of employer, job position
Andrius Pranckevičius Chairperson	–	April 2018– April 2020	AB „Linas Agro Group" Deputy General Manager and Member of the Board; PF „Kekava" CEO and Member of the Board
Darius Daubaras Member	–	April 2018– April 2020	„Saudi Aramco", Head of Finance and Project Development Department
Šarūnas Rameikis Independent member	–	April 2018– April 2020	R.Mištauto ir T.Milickio Law Firm „Konsus", Lawyer

The current term of office of acting The Risk Management and Ethics Supervision Committee is from April 24, 2018 until April 24, 2022.

Members of the Audit Committee (during the reporting period)

Committee member	Shareholding in the Company	Term of office	Name of employer, job position
Irena Petruškevičienė Chairperson Independent member	–	October 2017 – October 2021	European Commission Audit Committee, member
Aušra Vičkačkienė Member	–	October 2017 – October 2021	Lithuanian Ministry of Finance, State Asset Management Department, Director
Danielius Merkinas Independent member	–	October 2017 – October 2021	Nordnet UAB, CEO
Ingrida Muckutė Member	–	May 2018 – October 2021	Lithuanian Ministry of Finance, Reporting, Audit, Property Valuation and Insolvency Policy Department, Director
Šarūnas Radavičius Independent member	–	May 2018 – October 2021	Rodl & Partner, UAB, CEO

The current term of office of acting The Audit Committee is from October 13, 2017 until October 13, 2021.

Members of the Nomination and Remuneration Committee (during the reporting period)

Committee member	Shareholding in the Company	Term of office	Name of employer, job position
Daiva Lubinskaitė-Trainauskienė Chairperson Independent member	–	September 2017 - September 2021	UAB „Thermo Fisher Scientific Baltics“ Director of Human Resources Personnel Management Professionals Association, Member of the Management Board
Aušra Vičkačkienė Narė	–	September 2017 - September 2021	Lithuanian Ministry of Finance, State Asset Management Department, Director
Ramūnas Dilba Narys	–	October 2017 - September 2021	Lithuanian Ministry of Finance, ES Finansų ministerijos European Union Investment Department, Director
Lėda Turai-Petrauskienė Nepriklausoma narė	–	March 2018 - September 2021	International Federation of Coaching Specialists, Coaching Specialist

The current term of office of acting The Nomination and Remuneration Committee is from September 13, 2017 until September 13, 2021.

The Company's employees

As at 30 June 2018, the Company had 375 employees (including those on child care leave). In the end of 2017, the Company had 392 employees. The number of employees changed because several employees retired, several emplyees decided to leave the Company becouse of personal reason.

Men account for 85% and women account for 15% of the Company's employees. Most of the Company's employees are aged between 35 and 54 years with a ten-year or longer record of service at the Company.
These are highly qualified and experienced specialists who form the foundation at the production units of the Company, where knowledge and expertise of employees are highly valued. Employees of this age accounted for 50% of all employees of the Company. About 17% of the Company's employees are aged between 25 and 34 years. Average age of the employees of the Company is almost 48 years, average experience at the Company – 20 years.

64% of Company's employees were specialists and middle-level managers, 35% were workers, and 1% were top level managers.

Almost 55% of the Company's employees have higher education, 38% have vocational education, and 7% have secondary education.

Composition of the employees of the Company is detailed in figure 11.

Figure 11
Employees of the Company
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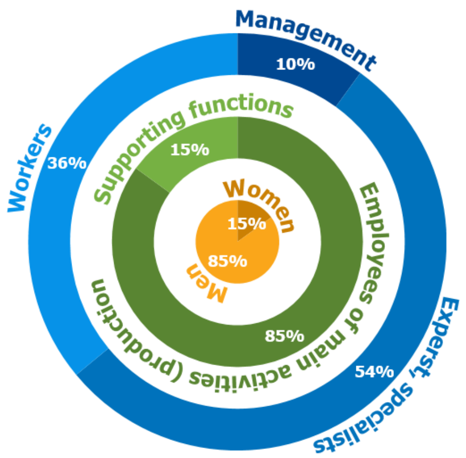

Work pay and performance management

Based on the Company's remuneration system, employees receive a fixed pay, which is determined on the basis of the level of job position, which in turn depends upon the functions and complexity of tasks fulfilled, responsibilities undertaken and the level of decision-making, as well as upon the employee's professional qualification. A variable pay depends upon measurable performance results, i.e. achievement of targets or performance indicators established in respect of each job position.

The Company's employees may receive additional monetary benefits, such as extra pay for work at night, overtime work, one-off extra pay for additional work load, for exceptional performance results, innovative ideas or suggestions for improvement and their implementation, as well as social care, material support, additional paid leave. Additional non-monetary benefits to employees include training financed by the Company, various events organised for the Company's employees and their children, medical aid station services, vaccination of employees against seasonal diseases, etc.

The purpose of employee performance management system is to ensure that the goals of employees match those of the Company and to direct the efforts of employees towards their achievement. The process starts with a 360° study, which helps assess the general and leadership competences of management and specialists. Annual performance assessment meetings are organised between management and employees, during which management member and employee assess the progress in terms of achievement of the set goals, agree on further goals and on competences that need improvement (on the basis of assessments of competences), and on the specific employee development measures to be taken in the upcoming year, as well as career expectations.

Breakdown of headcount by category of employees and average work pay are given in the table below. The work pay amounts include the fixed pay, the variable pay and extra pays for exceptional performance results, for work during personal or public holidays, overtime work or work at night.

Breakdown of headcount by category of employees and average work pay (in the reporting period)

	Breakdown of headcount by category of employees on 30 June 2018	Average work pay, EUR
CEO	1	6,212
Top level management	2	5,203
Middle-level management	35	2,423
Experts, specialists	206	1,533
Workers	131	1,068
Total	**375**	**1,453**

Professional career, adaptation of new joiners and possibilities of internship

Turnover of employees is quite low at the Company – less than 3 %. If there is a need for a new employee, all vacancies will be advertised. If no potential candidates are available at the Company or the group for the vacant position, the recruitment process is continued outside the Company. The biggest part of vacancy announcements in January-June 2018 were won by candidates selected through internal recruitment procedures, i.e. the Company's employees. Search for employees on the basis of internal rotation principle during January-June 2018 resulted in promotion of 14 employees (vertical career) and movement of 9 employees to similar job positions in the same or other divisions (horizontal career). By expanding the career opportunities of employees and promoting the movement of employees between the Group's companies, 5 employees moved to other Group Companies.

Organisational culture, development of competences, professional training

In view of the identified performance goals, competence assessments and need for further improvement, the Company provides opportunities for its employees to engage consistently in their personal growth by developing their professional, soft and management skills. As a result of professional training, the employees refreshed their knowledge required to fulfil their job duties and obtained the necessary certificates of professional qualification and attestations. Employees attended various seminars, internal training courses and conferences to find out about the latest developments in their respective fields, innovations and best practices in the energy sector and other businesses.

In January-June 2018, 196 employees of the Company attended training.

Collective agreement, trade unions

There are four trade unions at the Company, which are joined by 226 employees of the Company.

The Company has a collective agreement, which ensures a more favourable package of social benefits for the Company's employees compared to that prescribed by the Lithuanian Labour Code. Based on the collective agreement, the Company's employees are paid allowances in the event of accident, illness, death of close family members, also additional benefits in the event of birth of child or families raising many children, also provides additional paid leave in the event of birth of child, marriage, death of a close relative and in other cases.

From 2018, a new joint package of additional benefits for the Lietuvos Energija group came into force.

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MATERIAL EVENTS AT THE COMPANY

Significant arrangements

The Company was not a party to any significant arrangements that would take effect, be amended or terminated in the event of changes in the Company's control situation.

There were no arrangements between the Company and the members of its management bodies or its employees that would provide for payment of termination benefits in the event of their resignation or dismissal without a valid reason or in the event of termination of their employment as a result of changes in the Company's control situation.

Detrimental transactions

No detrimental transactions were concluded during the reporting period on behalf of the Company (transactions that are not consistent with the Company's objectives or usual market terms and conditions, infringe interests of the shareholders or other stakeholders etc.), which had or potentially may have a negative impact on the Company's performance and/or results of operation, nor were any transactions concluded resulting in conflict of interests between the responsibilities of the Company's management, majority shareholders or other related parties against the Company and their own private interests and/or other responsibilities.

Notifications on materials events during the reporting period

31/1/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 12 months of 2017
28/2/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 1 month of 2018
28/2/2018	Regarding the agenda and proposed draft resolutions of Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
6/3/2018	Regarding the supplement of the agenda and proposed draft resolutions of Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
14/3/2018	Regarding the resolutions of Lietuvos Energijos Gamyba, AB, Supervisory Board
26/3/2018	Regarding the resolutions of Ordinary General Meeting of Lietuvos Energijos Gamyba, AB Shareholders
30/3/2018	Regarding the non-monetary contribution to the authorized capital of Lietuvos Energijos Gamyba, AB
30/3/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 2 months of 2018
3/4/2018	Chairman of the Supervisory Board and members of the Board of Lietuvos Energijos Gamyba, AB, were elected
11/4/2018	The amended Articles of Association with the increased authorized capital of Lietuvos Energijos Gamyba, AB has been registered
12/4/2018	The Chairwoman of the Board of Lietuvos Energijos Gamyba, AB, has been elected
30/4/2018	Information regarding shares and authorized capital
30/4/2018	Results of Lietuvos Energijos Gamyba for 3 months of 2018 - 3 percent increase in generation of electricity and revenue
31/5/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 4 months of 2018
29/6/2018	Lietuvos Energijos Gamyba preliminary financial results for 5 months of 2018

Other events during the reporting period

13/2/2018	CORRECTION: Reporting dates in 2018
28/2/2018	Interim information of Lietuvos Energijos Gamyba for the twelve-month period of 2017: more electricity from water and sustainable profitability indicators
2/3/2018	Summary of Lietuvos Energijos Gamyba, AB, webinar on the results of 2017
26/3/2018	Lietuvos Energijos Gamyba, AB, Annual Information 2017
10/4/2018	Procedure for the payment of dividends for the 6 months period, ended 31 December 2017
29/6/2018	The Report on Social Responsibility of 2017 of Lietuvos Energijos Gamyba

2018

LIETUVOS ENERGIJOS GAMYBA, AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX-MONTH AND THREE-MONTH PERIOD ENDED 30 JUNE 2018 PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

Lietuvos energija | GAMYBA

Lietuvos energija

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All amounts in EUR thousands unless otherwise stated

	Note	At 30 June 2018	At 31 December 2017
ASSETS			
Non-current assets			
Intangible assets	5	29,625	15,238
Property, plant and equipment	6	490,264	496,818
Investments in associates	7	1,536	1,536
Other non-current assets		5,980	3,236
Investment property	6	4,212	-
Other financial assets		283	1,799
Total non-current assets		**531,900**	**518,626**
Current assets			
Inventories		5,562	5,580
Prepayments		3,539	3,479
Trade receivables		12,174	17,216
Other financial assets		4,645	15,757
Loans granted	8	19,948	14,930
Cash and cash equivalents		69,988	60,700
Total current assets		**115,856**	**117,662**
TOTAL ASSETS		**647,756**	**636,288**
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	9	187,921	184,174
Share premium		89,975	85,660
Legal reserve		13,897	12,871
Revaluation reserve		7,690	2,289
Retained earnings		81,314	68,680
Total equity		**380,797**	**353,874**
Non-current liabilities			
Borrowings	11	25,433	34,039
Finance lease liabilities		103	172
Grants	12	176,084	177,875
Other non-current amounts payable and liabilities		7,732	6,704
Deferred income tax liabilities		19,563	17,475
Total non-current liabilities		**228,915**	**236,265**
Current liabilities			
Borrowings	11	21,208	21,208
Finance lease liabilities		138	138
Trade payables		11,349	17,380
Advance amounts received		105	1,135
Income tax payable		2,457	2,883
Provisions for emission allowances	13	141	528
Other amounts payable and liabilities		2,646	2,877
Total current liabilities		**38,044**	**46,149**
Total liabilities		**266,959**	**282,414**
TOTAL EQUITY AND LIABILITIES		**647,756**	**636,288**

The accompanying notes form an integral part of this condensed interim financial information.

All amounts in EUR thousands unless otherwise stated

	Note	1 January 2018– 30 June 2018	1 January 2017– 30 June 2017
Revenue			
Sales revenue		60,014	63,306
Other income		1,140	466
	14	**61,154**	**63,772**
Operating expenses			
Purchases of electricity or related services		(12,004)	(11,259)
Gas, biofuel and heavy fuel expenses		(13,482)	(16,632)
Depreciation and amortisation	5,6,12	(9,336)	(12,441)
Wages and salaries and related expenses		(4,375)	(4,021)
Repair and maintenance expenses		(1,264)	(1,987)
Emission allowance revaluation and release (expenses)/income		5,518	(2,353)
Other non-current assets impairment (expenses)/income		2,744	(608)
Inventory write-down allowance/reversal		(240)	4
(Impairment) of property, plant and equipment/reversal		22	(1,074)
Other expenses		(2,712)	(3,073)
Total operating expenses		**(35,129)**	**(53,444)**
OPERATING PROFIT		**26,025**	**10,328**
Finance income (costs)			
Finance income		61	148
Finance (costs)		(281)	(558)
		(220)	**(410)**
Share of results of operations of associates	7	**71**	48
PROFIT BEFORE INCOME TAX		**25,876**	**9,966**
Income tax and deferred income tax benefit/(expenses)		(3,992)	317
NET PROFIT FOR THE PERIOD		**21,884**	**10,283**
Other comprehensive income (loss) that will be subsequently reclassified to retained earnings (loss)		5,889	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**27,773**	**10,283**
Basic and diluted earnings per share (in EUR)		**0.034**	**0.016**
Weighted average number of shares		**640,856,052**	**635,083,615**

The accompanying notes form an integral part of this condensed interim financial information.

All amounts in EUR thousands unless otherwise stated

	1 April 2018–30 June 2018	1 April 2017–30 June 2017
Revenue		
Sales revenue	27,382	31,515
Other income	654	174
	28,036	**31,689**
Operating expenses		
Purchases of electricity or related services	(5,185)	(5,536)
Gas, biofuel and heavy fuel expenses	(6,053)	(8,967)
Depreciation and amortisation	(4,831)	(6,215)
Wages and salaries and related expenses	(2,205)	(2,074)
Repair and maintenance expenses	(663)	(1,091)
Emission allowance revaluation and release (expenses)/income	1,411	672
Other non-current assets impairment (expenses)/income	680	144
Inventory write-down allowance/reversal	(14)	-
(Impairment) of property, plant and equipment/reversal	11	11
Other expenses	(1,381)	(1,713)
Total operating expenses	**(18,230)**	**(24,769)**
OPERATING PROFIT	**9,806**	**6,922**
Finance income (costs)		
Finance income	31	94
Finance (costs)	(136)	(247)
	(105)	**(153)**
Share of results of operations of associates	(28)	48
PROFIT BEFORE INCOME TAX	**9,673**	**6,817**
Income tax and deferred income tax benefit/(expenses)	(1,746)	741
NET PROFIT FOR THE PERIOD	**7,927**	**7,558**
Other comprehensive income (loss)	1,637	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**9,564**	**7,558**
Basic and diluted earnings per share (in EUR)	**0.012**	**0.012**
Weighted average number of shares	**646,582,957**	**635,083,615**

The accompanying notes form an integral part of this condensed interim financial information.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
for the six-month period ended 30 June 2018

All amounts in EUR thousands unless otherwise stated

	Authorised share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2017	**184,174**	**85,660**	**1,033**	**10,872**	**73,827**	**355,566**
Other comprehensive income for the period	-	-	-	-	-	-
Net profit for the reporting period	-	-	-	-	10,283	10,283
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**10,283**	**10,283**
Legal reserve	-	-	-	1,999	(1,999)	-
Depreciation of revaluation reserve	-	-	(17)	-	16	(1)
Dividends (Note 10)	-	-	-	-	(12,701)	(12,701)
Balance at 30 June 2017	**184,174**	**85,660**	**1,016**	**12,871**	**69,426**	**353,147**
Balance at 1 January 2018	**184,174**	**85,660**	**2,289**	**12,871**	**68,880**	**353,874**
Effect of change in accounting policies following the adoption of new IFRS	-	-		-	(21)	(21)
Restated balance at 1 January 2018	**184,174**	**85,660**	**2,289**	**12,871**	**68,859**	**353,853**
Revaluation of emission allowances	-	-	5,889	-	-	5,889
Net profit for the reporting period	-	-	-	-	21,884	21,884
Total comprehensive income for the period	**-**	**-**	**5,889**	**-**	**21,884**	**27,773**
Increase in share capital (note 9)	3,747	4,315	-	-	-	8,062
Legal reserve	-	-	-	1,026	(1,026)	-
Emission allowances utilised	-	-	(473)	-	473	-
Depreciation of revaluation reserve	-	-	(15)	-	15	-
Dividends (Note 10)	-	-	-	-	(8,891)	(8,891)
Balance at 30 June 2018	**187,921**	**89,975**	**7,690**	**13,897**	**81,314**	**380,797**

The accompanying notes form an integral part of this condensed interim financial information.

All amounts in EUR thousands unless otherwise stated

	Note	1 January 2018–30 June 2018	1 January 2017–30 June 2017
Net profit for the period		21,884	10,283
Reversal of non-cash expenses (income) and other adjustments:			
Depreciation and amortisation expenses	5,6	13,637	22,329
Inventory write-down/(reversal)		240	(4)
(Gain) on disposal of investments in subsidiaries and associates		-	-
Expenses/(income) of revaluation of emission allowances		(8,357)	2,801
Other impairments		(142)	213
Share of (profit) of associates	7	(71)	(48)
Income tax expenses		2,071	333
Change in deferred income tax liability		1,922	(650)
Depreciation of grants	12	(4,300)	(9,888)
Increase/(decrease) in provisions		(767)	161
Change in fair value of derivative financial instruments		-	-
Impairment of property, plant and equipment/(reversal)	6	(22)	1,074
(Gain)/loss on disposal/write-off of non-current assets (other than financial assets)		928	(9)
Elimination of results of financing and investing activities:			
- Interest (income)		(60)	(72)
- Interest expense		275	554
- Other finance (income) costs		4	-
- (Gain) on disposal of a part of the business		-	-
Changes in working capital			
(Increase) decrease in trade receivables and other receivables		11,771	2,648
(Increase) decrease in inventories and prepayments		(77)	(134)
Increase (decrease) in amounts payable and advance amounts received		(7,544)	(3,048)
Income tax (paid)		(2,494)	-
Net cash flows used in operating activities		**28.838**	**26,543**
Cash flows from investing activities			
(Purchase) of property, plant and equipment and intangible assets		(2,959)	(813)
Disposal of property, plant and equipment and intangible assets		8	18
Loans granted		(5,019)	-
Loans repaid		-	2,965
Disposal of subsidiaries		-	-
Disposal of investments in associates		4.049	-
Disposal of a part of the business		2.000	2,000
Grants received during the period		-	74
Interest received		50	72
Dividends received		70	77
Net cash flows generated from (used in) investing activities		**(1.801)**	**4,393**
Cash flows from financing activities			
Repayments of borrowings		(8,606)	(72,602)
Finance lease payments		(74)	(69)
Interest (paid)		(275)	(554)
Dividends (paid)		(8,854)	(12,697)
Net cash flows used in financing activities		**(17,809)**	**(85,922)**
Net increase (decrease) in cash and cash equivalents		**9,288**	**(54,986)**
Cash and cash equivalents at the beginning of the period		**60,700**	**99,045**
Cash and cash equivalents at the end of the period		**69,988**	**44,059**

The accompanying notes form an integral part of this condensed interim financial information.

All amounts in EUR thousands unless otherwise stated

1 General information

Lietuvos Energijos Gamyba, AB is a public limited liability company registered in the Republic of Lithuania. Lietuvos Energijos Gamyba, AB (hereinafter referred to as the “Company”) is a profit-seeking entity of limited civil liability, which was registered with the Register of Legal Entities managed by a public institution Centre of Registers. The Company’s registration date is 20 July 2011, company code 302648707, VAT payer’s code LT100006256115. The Company has been established for indefinite period. The Company’s registered office address is: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania.

The authorised share capital of Lietuvos Energijos Gamyba, AB amounts to EUR 187,920,762.41 and it is divided into 648,002,629 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares have been fully paid. With effect from 1 September 2011, the shares of Lietuvos Energijos Gamyba, AB have been listed on the Main List of NASDAQ OMX Vilnius Stock Exchange. As at 30 June 2018 and 31 December 2017, the Company had not acquired its own shares.

During 2018 and 2017, the Company was engaged in electricity generation and electricity trading activities. In addition to these principal activities, the Company is free to be engaged in any other business activities not forbidden under the laws and stipulated in the Company‘s Articles of Association.

The Company has permits of indefinite term to engage in electricity generation activities at the Reserve Power Plant and the Combined Cycle Unit (hereinafter collectively referred to as the Elektrėnai Complex), at Kaunas Algirdas Brazauskas Hydro Power Plant and at Kruonis Pumped Storage Power Plant, as well as in electricity import and export activities. The Company also holds permits to expand electricity generation capacities at the Reserve Power Plant and Kruonis Pumped Storage Power Plant, and certificates entitling to engage in maintenance and operation of electric, thermal power, natural gas and oil facilities. On 29 July 2011, based on the decision of the National Commission for Energy Control and Prices (hereinafter “the Commission”), Lietuvos Energijos Gamyba, AB obtained the licence of an independent electricity supplier.

This condensed interim financial information contains condensed interim financial information of Lietuvos Energijos Gamyba, AB as a separate entity. This condensed interim financial information has been prepared according to the requirements of Article 60^1 of the Lithuanian Law on Companies.

As at 30 June 2018 and 2017, the Company had no subsidiaries.

The Company is part of the Lietuvos Energija group which is one of the largest state-owned groups of energy companies in the Baltic countries. Its parent company is Lietuvos Energija UAB, which owns 96.82% of the Company’s shares.

As at 30 June 2018, the number of employees of the Company was 375 (31 December 2017: 392).

2 Accounting policies

2.1 Basis of preparation

The Company's condensed unaudited interim financial information for the six-month period ended 30 June 2018 has been prepared according to International Financial Reporting Standards as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, 'Interim financial reporting').

This condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The Company’s financial year coincides with the calendar year.

2.2. Accounting policies

When preparing these financial statements the Company applied revenue recognition accounting policies consistent with the requirements of IFRS 15 and IFRS 9. The other accounting policies applied in the preparation of the condensed interim financial information are consistent with those that were applied in the preparation of the annual financial statements for 2017.

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Adoption of new and/or amended International Financial Reporting Standards (IFRSs) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

New standards, amendments and interpretations that were mandatory for the Company with effect from 2018 exerted impact on the Company’s retained earnings at the beginning of the period, which amounted to EUR 21 thousand.

New standards, amendments to standards and interpretations effective for the annual periods beginning on or after 1 January 2018 that were applied in preparing these financial statements are as follows:

All amounts in EUR thousands unless otherwise stated

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018).

The new accounting policies applied starting from 1 January 2018 under IFRS 9 are set out in section 2.3.

Assessment as to when IFRS 9 affects the financial statements:

The Company applied IFRS 9 starting from 1 January 2018 using the modified retrospective approach. The Company assessed the effect of the adoption of the standard in relation to the application of the expected credit losses model to financial assets, which was equal to EUR 21 thousand and which was presented in retained earnings (loss) in the financial statements, with current financial assets reduced accordingly. The Company assesses all material amounts receivable individually, and all immaterial amounts collectively.

The effect of first-time adoption of IFRS 9 on the impairment of loans, trade receivables and other amounts receivable:

	Trade receivables	Other amounts receivable	Loans granted
Carrying amount as at 1 January	**381**	**912**	**-**
Effect of first-time adoption of IFRS 9 presented in retained earnings (loss)	21	-	-
Carrying amount upon adoption of IFRS 9	**402**	**912**	**-**

The effect of first-time adoption of IFRS 9 on the assessment of expected credit losses:

	Trade receivables	Trade receivables
Trade receivables assessed individually		
Expected credit losses, %	0.01%	0.01%
Trade receivables	17,240	17,240
Expected credit losses	163	163
Trade receivables assessed collectively		
Expected credit losses, %	63.00%	57.67%
Trade receivables	378	378
Expected credit losses	239	218

The Company‘s financial assets and financial liabilities are classified as follows:

- Loans and amounts receivable will be classified as financial assets measured at amortised cost;
- Financial assets at fair value through profit or loss remained in the same category;
- Classification of financial liabilities remained unchanged.

The effect of first-time adoption of IFRS 9 on the classification of financial assets and liabilities:

	IFRS 9	IAS 39
Financial assets - Loans and receivables (IAS 39)/Financial assets carried at amortised cost (IFRS 9)		
Trade receivables	17,216	17,216
Other amounts receivable	8,669	8,669
Loans granted	14,930	14,930
Cash and cash equivalents	60,700	60,700
Other non-current amounts receivable	315	315
Financial assets at fair value through profit or loss	**7,521**	**7,521**
Financial liabilities at amortised cost		
Loans received	55,247	55,247
Finance lease liabilities	310	310
Other non-current borrowings	723	723
Trade payables	17,380	17,380

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).
Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).

The adoption of IFRS 15, *Revenue from Contracts with Customers* and amendments thereto has no impact on the timing and scope of revenue recognition by Company. The Company reviewed all material contracts with customers and did not identify a number of performance commitments, contract execution expenses and variances in timing of revenue recognition.

The new accounting policies applied starting from 1 January 2018 under IFRS 15 are set out in section 2.4.

New standards, amendments to standards and interpretations effective for the annual periods beginning on or after 1 January 2019, yet not applied in preparing these financial statements are as follows:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Company is currently assessing the impact of these amendments on its financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company plans to adopt IFRS 16 *Leases* starting from 1 January 2019. The value of assets being transferred under the lease agreement and related lease liabilities will be stated in the Company's statement of financial position. The effect of the first-time adoption of the standard will be presented using the modified retrospective approach which required adjustment to the balance of retained earnings in the statement of financial position.

IFRS 17, Insurance Contracts (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. This IFRS will have no impact on the Company's financial position or results of operations.

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company is currently assessing the impact of the amendment to the interpretation on its financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendment to the standard on its financial statements.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Company is currently assessing the impact of the amendment to the standard on its financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions

All amounts in EUR thousands unless otherwise stated

of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of these amendments on its financial statements.

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

2.2.1. Investment property

Investment property, which consists of the Company's buildings and constructions, is held to earn rentals or for capital appreciation. Investment property is initially recognised at acquisition cost and subsequently carried at fair value. The fair value of investment property is estimated by independent valuers. Investment property is not depreciated, and gain or loss on change in the fair value of investment property is recognised in profit or loss for the reporting period.

Transfers to and from investment property are made only when there is an evidence of change in the purpose of use of assets. Some properties may be partially occupied by the Company, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Company can be sold separately, the Company accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held to earn rentals is accounted for under IAS 40.

2.2.2. Property, plant and equipment

The list of the categories of property, plant and equipment set out in the accounting policies was supplemented with the category of buildings and structures of the thermal power plant. The category includes Vilnius Thermal Power Plant No 3 that the Company acquired in 2018. Assets in this category are stated at acquisition cost less subsequent accumulated depreciation and impairment.

2.3 Financial assets

Following the adoption of IFRS 9, *Financial Instruments*, the Company classifies its financial assets into the following 3 new categories:
(i) financial assets subsequently measured at amortised cost;
(ii) financial assets subsequently measured at fair value through other comprehensive income; and
(iii) financial assets subsequently measured at fair through profit or loss.

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. The intentions of the Company's management regarding separate instruments has no effect on the applied business model. The Company may apply more than one business model to manage its financial assets.

The business model for managing financial assets is a matter of fact and not merely an assertion. It is typically observable through the activities that the Company undertakes to achieve the objective of the business model. In determining the business model applicable for managing financial assets, the Company justifies its decision not by a single factor or activity, but in view of all relevant evidence that is available at the date of the assessment. (

The Company recognises a financial asset in its statement of financial position when, and only when, the Company becomes party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting.

At initial recognition, the Company measures financial assets at fair value, except for trade receivables that do not have a significant financing component. Transaction costs comprise all charges and commission that the Company would not have paid if it had not entered into an agreement on the financial instrument.

If the fair value of the financial asset at initial recognition differs from the transaction price, the difference is recognised in profit or loss.

In view of the business model applied for managing the group of financial assets, the accounting for financial assets is as follows:

<u>Financial assets measured at amortised cost</u>

Loans granted by the Company and amounts receivable are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows.

Loans and amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the date of the statement of financial position. These are classified as non-current assets.

Loans and receivables are initially recognised at cost (the fair value of consideration receivable) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when these assets are derecognised, impaired or amortised.

All amounts in EUR thousands unless otherwise stated

Financial assets at fair value through profit or loss

The Company measures financial assets, which are stated at fair value in subsequent periods, through profit or loss, using the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Company does not have any financial assets held for trading and acquired for the purpose of selling in the near term and attributes to this category only financial assets arising from the disposal of business or investments classified as non-equity contingent consideration.

Effective interest method

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss over the relevant period.
The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Company uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Expected credit losses

Credit losses incurred by the Company are calculated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. The Company estimates cash flows by considering all contractual terms of the financial instrument through the expected life of that financial instrument, including cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses show the weighted average of credit losses with the respective risks (probability) of a default occurring as the weights.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the period from the date of initial recognition of a financial asset to the subsequent date of settlement of the financial asset or ultimate write-off of the financial asset.

The Company seeks for lifetime expected credit losses to be recognised before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk.
Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable and verifiable information including future oriented information.

The lifetime expected credit losses of trade receivables are assessed based on both the collective and individual assessment basis. The Company’s management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower. In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company assesses the debt on a collective basis.

The lifetime expected credit losses of trade receivables are recognised at the recognition of amounts receivable.

When granting the loan the Company assesses and recognises 12-month expected credit losses. In subsequent reporting periods, in case there is no significant increase in credit risk related to the lender, the Company adjusts the balance of 12-month expected credit losses in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the lender has deteriorated significantly compared to the financial position that existed upon the issue of the loan, the Company records all lifetime expected credit losses of the loan. The latest point at which the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption.

Loans for which lifetime expected credit losses were calculated are considered credit-impaired financial assets.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
a) significant financial difficulty of the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties;

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f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

The lifetime expected credit losses of loans receivable and trade receivables is recognised in profit or loss through the contrary account of doubtful receivables.

The Company derecognises loans receivable and trade receivables when it loses the right to receive contractual cash flows from financial assets.
Derecognition of financial assets

The Company derecognises financial assets in case of the following:
- the rights to receive cash flows from the asset have expired;
- the Company has retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset:

- if the Company has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if the Company has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Whether the Company has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the Company has not retained control. In all other cases, the Company has retained control.

The accounting policies and principles applicable to financial liabilities remain the same as presented in the annual financial statements.

2.4 Revenue recognition

The Company recognises revenue at the time and to the extent that the transfer of goods or services promised to customers would show the amount which would correspond to a consideration, the right to which is expected to be obtained by the Company in exchange for those goods or services. When recognising revenue the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

Revenue from the provision of PSO services

The Company commits to render the services that serve the public interest in accordance with the procedures and terms established by the regulatory legal acts, including ensuring the electricity system reserves in the specified power plants the operation of which is critical in assuring state energy security. The benefits of the services of ensuring power system reserves are brought to customers throughout the period of the service, during which, accordingly, the seller carries out its performance obligation.

When concluding the agreement, the customer commits to compensate the expenditures necessary for maintaining the reserve (including the expenditure incurred during electricity production tests). In view of the above, the progress of fulfilment of the performance obligation is assessed considering the actual duration of provision of the service that ensures the electricity system reserve.

In the agreement concluded with the customer, the consideration paid to the seller comprises the fixed part payable in equal portions throughout the period of provision of the service.

Revenue from trade in electricity

The sales of electricity produced using own resources are conducted at the Nord Pool Spot exchange (hereinafter “Exchange”) by submitting electricity sale offers to the Exchange. On Nord Pool's Day-Ahead market, the transaction for the purchase and sale of electricity is considered as concluded if the automatic coupling algorithm does not by default reject the submitted offer of selling electricity. Transactions on the Intraday market are approved by market participants. Following the approval of the transaction, the system of the Exchange sends a confirmation of the concluded electricity sale transaction to the seller. The seller’s performance obligation under the concluded transaction is to supply the volume of electricity as indicated in the seller’s offer to the electricity transmission system. The performance obligation is to be carried out throughout a certain period during which the supply of the agreed volume of electricity is maintained to the network. The progress of fulfilment of the performance obligation is assessed considering the volume of electricity indicated in respect of the transaction.

The price of the transaction and consideration to be paid to the seller correspond to the amount indicated in the confirmation notice of the transaction. The entire consideration of the seller is fixed. Upon receipt of the confirmation on the conclusion of the transaction on the sale of electricity, the prices of that transaction remain unchanged.

Revenue is recognised considering the actually supplied electricity pertaining to the transaction, without any deduction of commissions that might be retained by trading intermediaries representing the Company at the Exchange.

All amounts in EUR thousands unless otherwise stated

Revenue from electricity-related services

Other revenue from the services related to energy supply comprise the following: (1) revenue from generation of electricity of the active power reserve, (2) revenue from assurance of the power reserve, (3) revenue from reactive power and voltage management services, (4) system recovery after the total accident (hereinafter "Services").

The customer receives the benefits of other services related to energy supply at the same time the service is actually rendered to the customer. The customer may consume the benefits of the services separately or together with other services rendered to the customer. In the agreement, the services to be rendered to the customer are defined separately from other services stipulated under the agreement. Since the services are interrelated and are provided per customer, the performance obligation of the seller comprises one complex service, that is the provision of additional services and supply of regulating electricity. The performance obligation under the agreement concluded with the customer is to be carried out throughout the period of validity of the agreement. The progress of fulfilment of the performance obligation is assessed considering the volume of services rendered, stated at power measurement units (kWh, MW/h, etc.).

Under the agreement concluded with the customer, the customer is provided an option to acquire additional services and regulating electricity on demand. The customer is not obligated to acquire from the seller any amount of additional services defined (in the agreement). The fixed consideration for the service of system recovery after the total accident is to be paid to the seller as per agreement. The seller is entitled to 1/12 of the total price of the service each month. In view of the above, the whole of the agreement concluded with the customer is assessed at the moment of signing the agreement and the total consideration is attributed to the identified performance obligation.

For the purpose of its performance obligations, the seller recognises revenue pursuant to the provisions of IFRS 15 (paragraphs B39–B43) regarding *customer options for additional goods or services*, under which the revenue recognised is actually consistent with the invoices issued to the customer for the services relating to the supply and assurance of the active power and management of the reactive power rendered over time. Moreover, the seller additionally recognises 1/12 of the total price of the agreement that the seller intends to pay for the services of system recovery after the total accident throughout the term of validity of the agreement, i.e. within one year.

Revenue from supply of thermal energy

Under the agreement concluded with the customer, the seller commits to supply thermal energy to its customers in compliance with the defined technical requirements (temperature graph, pressure, flow, quality of thermofication water, etc.). Under the agreement concluded with the customer, the single performance obligation that the seller commits to is the supply of thermal energy. The customer receives and simultaneously consumes the benefits of the service relating to the supply of thermal energy at the same time the seller carries out its performance obligation. The seller carries out its performance obligation throughout the period of validity of the agreement. The progress of fulfilment of the performance obligation is assessed considering the volumes of thermal energy actually supplied to the customer as determined on the basis of data of metering devices.

In the agreement concluded with the customer, the consideration paid to the Company comprises the fixed part and the variable part. The variable part comprises the customer's payments for the actually supplied thermal energy. The variable part arises due to default interest (interest on late payment) to be paid by the customer to the seller in cases where the customer fails to timely reimburse for the services rendered.

The Company recognises revenue considering the volumes of thermal energy actually produced and supplied to the customer at the price calculated with reference to the methodology on the establishment of the heating price as approved by the Commission.

Services of purchase of electricity generated by wind farms

Under IFRS 15, the Company does not receive consideration for the purchase of electricity from renewable energy resources and the payment of PSO funds to energy producers. The administrator of PSO funds only reimburses the expenditures of the seller; however, since the seller does not receive any consideration for the performance of the purchase function itself, the seller does not account for any proceeds related to the functions of the purchasing company that are served by the Company under the agreement concluded with the administrator of PSO funds.

There were no changes in other principles of revenue recognition.

3 Critical accounting estimates and judgments

The preparation of the condensed interim financial information in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. Future events may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant management judgements regarding the application of the accounting policies and the main sources for determining uncertainties used in the preparation of this condensed interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2017.

Depreciation rates of property, plant and equipment

In assessing the remaining useful life of property, plant and equipment, management takes into account conclusions presented by the employees responsible for technical maintenance of assets.

Management has reviewed the depreciation rates used for property, plant and equipment. As from 1 January 2018, new depreciation rates of energy units No 7 and 8 of the Reserve Power Plant were established for the remaining categories of property, plant and equipment that depreciation rates were not reduced for from 1 January 2017. The rates were reduced in view of technical depreciation and introduction of more stringent requirements applicable as from 2024. As a result of changes to the rates, depreciation of these categories of non-current assets, less depreciation of grants, increased by EUR 2,669 thousand, impairment of grants increased by EUR 1,924 thousand, and total depreciation increased by 745 thousand during January–June 2018.

Revaluation of property, plant and equipment

On 30 June 2018, no independent valuation was performed for the Company's assets stated at revalued amount, because, in the management's opinion, the fair value of assets did not differ significantly from the carrying amount.

On 31 December 2013, the independent property valuers Turto ir Verslo Tyrimo Centras UAB and OBER-HAUS UAB determined the market value of the Company's assets stated at revalued amount. The valuation was performed using the comparable and cost method.

Impairment of property, plant and equipment

The Company makes an assessment, at least annually, whether there are any indications that the carrying amount of property, plant and equipment has been impaired.

The Company accounted for property, plant and equipment, except for the assets of the Hydro Power Plant, the Pumped Storage Power Plant, the Elektrėnai Complex (the Combined-Cycle Unit and the Reserve Power Plant, Thermal Power Plant No 3) at the revalued amount in accordance with IAS 16, 'Property, Plant and Equipment'.

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment, intangible assets and other non-current assets to determine whether there is any indications that those assets have suffered an impairment loss. If any such indication exists, the Company makes estimate of the recoverable amount of such property, plant and equipment and non-current assets to assess impairment, if any. When the recoverable amount of the asset cannot be calculated, the Company calculates the recoverable amount of the cash-generating unit to which the asset belongs.

As at 31 December 2017, the Company's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets, and recognised EUR 31,384 thousand of impairment losses for energy units No 7 and 8 of Elektrėnai Complex, EUR 757 thousand of impairment losses for two fuel oil reservoirs, and EUR 339 thousand of impairment losses for a tank. No impairment indications were identified for the remaining property, plant and equipment or, upon the impairment test, it was determined that the recoverable amount exceeded its carrying amount, less grants.

The same impairment test carried out in relation to this property, plant, and equipment on 30 June 2018 also revealed no indications of impairment.

Provisions for emission allowances

The Company estimates the provisions for emission allowances based on actual quantity of emission during the reporting period multiplied by the market price of one emission allowance. The quantity of actual emissions is approved by a responsible state authority during four months after the end of the year. The provision accounted for as at 31 December 2017 was consistent with actual quantities of emissions. Based on historic experience, the Company's management does not expect any significant differences to arise between the estimated provision at 30 June 2018 and the quantity of emissions which will be approved in 2018.

Accrual of income from public service obligation (hereinafter "PSO") services and capacity reserve services

A part of fees received for PSO and tertiary capacity reserve services is allocated for the maintenance of the infrastructure of the Elektrėnai Complex and for the covering of expenses related to the testing of the necessary electricity generation facilities. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes.

Accrual of income from public service obligation (hereinafter "PSO") services and capacity reserve services (continued)

Allocated amount of PSO funds and the price for capacity reserve services are determined for the next calendar year by the Commission in view of the projected costs of the Company. In the Company's financial statements, income from these services is recognised on accrual basis based on actually incurred costs.

As at 30 June 2018, the Company recognised PSO funds of EUR 5,008 thousand (31 December 2017: EUR 5,034 thousand) within 'Other non-current amounts payable and liabilities' to be refunded after 12 calendar months. PSO funds to be refunded arose from lower than established actual fixed and variable costs incurred in the provision of the regulated services. As at 31 December 2017, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 0.92% was used, and discounting effect of EUR 51 thousand as at 31 December 2017 was recognised within 'Other financial income'. Discounting effect was not restated as at 30 June 2018 as the effect of change was immaterial.

As at 30 June 2018, receivable amount of EUR 4,484 thousand (31 December 2017: EUR 8,198 thousand), which will be compensated in 2018, was recognised within current amounts receivable. In 2017, the Commission inspected the PSO funds allocated to the Company during 2010-

All amounts in EUR thousands unless otherwise stated

2015, and in 2017 introduced changes in the principles for determination of allocated PSO funds, with relevant changes in the regulatory framework. In 2014, the Commission adopted a resolution, by which the Company was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Company's hydroelectric plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Company. On 17 October 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of the Commission was repealed. At the end of 2017, as part of implementation of the court judgement, the Commission allocated to the Company EUR 5.438 million of PSO funds for the year 2018, which will compensate the Company's revenue not received in 2015. This amount was recognised within amounts receivable as at 31 December 2017.

Accrued revenue from capacity reserve services

As at 30 June 2018, based on *Methodology for establishing the prices for electricity and capacity reserve services* approved by Resolution No. O3-229 of the Commission, the Company's management accounted for EUR 1,534 thousand (31 December 2017: EUR 511 thousand) of PSO funds to be refunded in under the line item 'Other non-current amounts payable and liabilities'. As at 30 June 2018, the Company also accounted for EUR 145 thousand (31 December 2017: EUR 289 thousand) of amount receivable to be compensated in 2018 under the line item 'Other current amounts receivable'.

Legal disputes over the Commission's decisions related to regulated revenue

As at 30 June 2018, the amount of the Company's contingent assets related to the legal dispute concerning the Commission's decision, by which the Company was declared as an undertaking with significant power in the electricity generation market and thus the amount of the payable PSO funds was additionally reduced by EUR 2.51 million, amounted to EUR 2.51 million and remains unchanged from 31 December 2017.

4 Financial risk management

The Company is exposed to financial risks in its operations, i.e. liquidity risk, market risk (foreign exchange risk, interest rate risk in relation to fair value and cash flows, securities price risk) and credit risk.

This condensed interim financial information does not include all management's information relating to financial risks and disclosures mandatory in preparing the annual financial statements, therefore, it should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

There have been no changes in risk management or risk management policy since 31 December 2017.

Fair value of financial assets and financial liabilities

Trade and other amounts receivable, trade and other debts, non-current and current borrowings represent the major portion of the Company's financial assets and financial liabilities not carried at fair value. The fair value of the Company's financial assets and financial liabilities designated as at fair value through profit or loss is based on prices in the active market.

The fair value is defined as the amount at which an asset or services could be exchanged or at which a mutual liability could be set off between knowledgeable parties in an arm's length transaction willing to buy/sell an asset or to set off a mutual liability. The fair value is determined on the basis of quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to determine the fair value of each class of financial assets and liabilities:

- The carrying amount of cash and cash equivalents, current trade and other accounts receivable, short-term loans granted, current trade and other accounts payable and current borrowings approximates their fair value;

- The fair value of non-current borrowings is based on the quoted market price for the same or similar loan or on the current rates available for loan with the same maturity profile. As at 30 June 2018, the Company had non-current borrowings from Luminor and SEB Bank bearing variable interest rates. The fair value of non-current borrowings a bearing variable interest rate approximates their carrying amount, provided that the margin on such loans corresponds to margins currently prevailing in the market.

- The fair value of non-current amounts receivable and payable is determined with reference to the current interest rates available for the loans with the same maturity profile. As at 30 June 2018, the discount rate applied to the Company's non-current amounts receivable and payable approximated the market interest rate.

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5 Intangible assets

The Company's intangible assets as at 30 June 2018 and 2017 comprised as follows:

	Computer software	Emission allowances	Other intangible assets	Total
At 31 December 2016				
Acquisition cost	1,262	11,826	128	13,216
Accumulated amortisation	(936)	-	(123)	(1,059)
Net book amount at 31 December 2016	**326**	**11,826**	**5**	**12,157**
Period ended 30 June 2017				
Opening net book amount	326	11,826	5	12,157
Additions	29	-	-	29
Reclassification from construction in progress	183	-	-	183
Grant received (Note 12)	-	1,128	-	1,128
Emission allowances utilised	-	(933)	-	(933)
Emission allowance revaluation (expenses)	-	(2,801)	-	(2,801)
Amortisation	(70)	-	(1)	(71)
Net book amount at 30 June 2017	**468**	**9,220**	**4**	**9,692**
At 31 December 2017				
Acquisition cost	1,394	14,830	123	16,347
Accumulated amortisation	(988)	-	(121)	(1,109)
Net book amount at 31 December 2017	**406**	**14,830**	**2**	**15,238**
Period ended 30 June 2018				
Opening net book amount	406	14,830	2	15,238
Additions	1	-	-	1
Grant received (Note 12)	-	2,554	-	2,554
Emission allowances utilised	-	(908)	-	(908)
Emission allowance revaluation (expenses)/income	-	12,837	-	12,837
Amortisation	(96)	-	(1)	(97)
Net book amount at 30 June 2018	**311**	**29,313**	**1**	**29,625**
At 30 June 2018				
Acquisition cost	1,395	29,313	123	30,831
Accumulated amortisation	(1,084)	-	(122)	(1,206)
Net book amount at 30 June 2018	**311**	**29,313**	**1**	**29,625**

The fair value of emission allowances is determined using the prices quoted in an active market, therefore, it is attributable to Level 1 in the fair value hierarchy. Following the initial recognition, emission allowances are remeasured at fair value based on the active market prices at the end of each reporting period. On revaluation of emission allowances, any increase in carrying amount, which is in excess of the acquisition cost, is added to the revaluation reserve within equity, whereas any decrease in carrying amount, which is excess of the previously accumulated amount in the reserve, is recognised through profit or loss. Emission allowances received on gratuitous basis and emission allowances acquired are accounted for by the Company separately. Upon the realisation of emission units, the positive balance in the revaluation reserve is recognised directly within retained earnings.

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment

The Company's property, plant and equipment as at 30 June 2018 and 2017 comprised as follows:

	Land	Buildings	Structures and equipment	Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant	Structures and equipment of Reserve Power Plant	Combined Cycle Unit	Vilnius Thermal Power Plant No 3	Motor vehicles	Computer hardware, communication and other office equipment	Other PP&E	Construction in progress	Total
At 31 December 2016												
Acquisition cost	1,880	657	2,964	206,510	498,459	387,941	-	138	46	172	2,726	1,101,493
Accumulated amortisation	-	(42)	(336)	(87,262)	(267,860)	(62,330)	-	(106)	(43)	(102)	-	(418,081)
Accumulated impairment	-	-	-	-	(38,135)	-	-	-	-	-	(223)	(38,358)
Net book amount at 31 December 2016	**1,880**	**615**	**2,628**	**119,248**	**192,464**	**325,611**	**-**	32	**3**	**70**	**2,503**	**645,054**
Period ended 30 June 2017												
Opening net book amount	1,880	615	2,628	119,248	192,464	325,611	-	32	3	70	2,503	645,054
Additions	-	-	-	5	20	-	-	-	-	-	498	523
Write-offs	-	-	-	-	(9)	-	-	-	-	-	-	(9)
Reversal of impairment	-	-	-	-	22	-	-	-	-	-	-	22
Impairment	-	-	-	-	(1,096)	-	-	-	-	-	-	(1,096)
Reclassifications between groups	-	-	-	117	801	9	-	-	-	-	(927)	-
Reclassification to intangible assets	-	-	-	-	-	-	-	-	-	-	(183)	(183)
Reclassification from/to inventories	-	-	-	11	8	24	-	-	-	-	-	43
Depreciation	-	(7)	(60)	(3,652)	(11,147)	(7,375)	-	(8)	(2)	(7)	-	(22,258)
Net book amount at 30 June 2017	**1,880**	**608**	**2,568**	**115,729**	**181,063**	**318,269**	**-**	**24**	**1**	**63**	**1,891**	**622,096**
At 30 June 2017												
Acquisition cost	1,880	657	2,964	206,644	388,824	387,975	-	138	46	172	2,114	991,414
Accumulated amortisation	-	(49)	(396)	(90,915)	(205,254)	(69,706)	-	(114)	(45)	(109)	-	(366,588)
Accumulated impairment	-	-	-	-	(2,507)	-	-	-	-	-	(223)	(2,730)
Net book amount at 30 June 2017	**1,880**	**608**	**2,568**	**115,729**	**181,063**	**318,269**	**-**	**24**	**1**	**63**	**1,891**	**622,096**

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment (continued)

	Land	Buildings	Structures and equipment	Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant	Structures and equipment of Reserve Power Plant	Combined Cycle Unit	Vilnius Thermal Power Plant No 3	Motor vehicles	Computer hardware, communication and other office equipment	Other PP&E	Construction in progress	Total
At 31 December 2017												
Acquisition cost	1,880	657	4,119	207,297	389,195	388,095	-	138	46	172	2,112	993,711
Accumulated depreciation	-	(56)	(1,587)	(94,508)	(216,483)	(77,082)	-	(122)	(45)	(117)	-	(390,000)
Accumulated impairment	-	-	-	-	(106,670)	-	-	-	-	-	(223)	(106,893)
Net book amount at 31 December 2017	**1,880**	**601**	**2,532**	**112,789**	**66,042**	**311,013**	**-**	**16**	**1**	**55**	**1,889**	**496,818**
Period ended 30 June 2018												
Opening net book amount	1,880	601	2,532	112,789	66,042	311,013	-	16	1	55	1,889	496,818
Additions	-	-	-	-	11	21	3,850	-	2	-	3,313	7,197
Sales	-	-	-	-	(8)	-	-	-	-	-	-	(8)
Write-offs	-	-	-	-	(20)	-	-	-	-	-	-	(20)
Reversal of impairment	-	-	-	-	22	-	-	-	-	-	-	22
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Reclassifications between groups	-	-	-	-	21	-	-	-	-	-	(21)	-
Reclassification to intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification from/to inventories	-	-	-	15	(234)	15	-	-	-	-	-	(204)
Depreciation	-	(7)	(61)	(3,645)	(2,298)	(7,381)	(132)	(8)	-	(8)	-	(13,540)
Net book amount at 30 June 2018	**1,880**	**594**	**2,471**	**109,159**	**63,536**	**303,668**	**3,718**	**8**	**3**	**47**	**5,181**	**490,265**
At 30 June 2018												
Acquisition cost	1,880	657	4,119	207,314	382,462	388,131	3,850	138	49	172	5,404	**994,176**
Accumulated depreciation	**-**	(63)	(1,648)	(98,155)	(212,614)	(84,463)	(132)	(130)	(46)	(125)	**-**	**(397,376)**
Accumulated impairment	**-**	**-**	**-**	**-**	(106,312)	**-**	**-**	**-**	**-**	**-**	(223)	**(106,535)**
Net book amount at 30 June 2018	**1,880**	**594**	**2,471**	**109,159**	**63,536**	**303,668**	**3,718**	**8**	**3**	**47**	**5,181**	**490,265**

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment (continued)

As at 30 June 2018, no independent valuation was performed for the Company's assets carried at revalued amount, since the fair values of the assets did not differ significantly from their carrying amounts, accordingly no difference was recognised.

Assets carried at revalued amount are attributed to Level 2 in the fair value hierarchy:

	Level 1	Level 2	Level 3	
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	Total
Land	-	1,880	-	1,880
Structures and equipment	-	2,471	-	2,471
Buildings	-	594	-	594
Motor vehicles	-	8	-	8
Computer hardware, communication and other office equipment other PP&E	-	50	-	50
Fair value at 30 June 2018	**-**	**5,003**	**-**	**5,003**

As at 30 June 2018, the value of contracts on capital investments that were concluded but were not yet completed amounted to EUR 896 thousand.

As at 30 June 2018, the Company pledged to the banks property, plant and equipment with the value of EUR 308,553 thousand (31 December 2017: EUR 316,136 thousand).

On 30 March 2018, after Lietuvos Energija UAB, a shareholder of Lietuvos Energijos Gamyba AB, paid for the new issue of 12,919,014 shares by way of in-kind contribution, the non-current assets, a part of which under the accounting policies is attributable to investment property, were transferred to the Company. Investment property includes buildings and constructions with permanently installed fixtures and fittings.

	Buildings	Constructions	Machinery and equipment	Other fixtures, fittings, tools and equipment	Total
Net book amount at 31 December 2017	-	-	-	-	-
Additions	3,731	100	4	376	4,211
Net book amount at 30 June 2018	**3,731**	**100**	**4**	**376**	**4,211**

7 Investments

As at 30 June 2018 and 31 December 2017, the Company's investments in associates were as follows:

Company	Registered office address	Company's ownership interest 30 June 2018	Company's ownership interest At 31 December 2017	Profile of activities
Geoterma UAB	Lypkių g. 53, LT-94100 Klaipėda, Lithuania	23.44%	23.44%	Geothermal energy generation
Technologijų ir Inovacijų Centras UAB	Juozapavičiaus g. 13, Vilnius, Lithuania	20.01%	20.01%	IT services
Verslo Aptarnavimo Centras UAB	P. Lukšio g. 5B, LT-08221 Vilnius, Lithuania	15.00%	15.00%	Public procurement, accounting and employment relations administration services

The Company accounts for investments in the associates using the equity method.

All amounts in EUR thousands unless otherwise stated

Movements of the Company's investments in associates:

	Carrying amount At 31 December 2017	Impairment	The Company's share of results of operations	Dividends received	Carrying amount at 30/06/2018
Geoterma UAB	-	-	-	-	-
Technologijų ir Inovacijų Centras UAB	1,383	-	33	(30)	1,386
Verslo Aptarnavimo Centras UAB	152	-	38	(40)	150
Total	**1,535**	**-**	**71**	**(70)**	**1,536**

	Acquisition cost	Impairment	The Company's share of results of operations	Carrying amount at 31 December 2017
Geoterma UAB	2,142	(2,142)	-	-
Technologijų ir Inovacijų Centras UAB	1,287	116	(20)	1,383
Verslo Aptarnavimo Centras UAB	87	21	44	152
Total	**3,516**	**(2,005)**	**24**	**1,535**

8 Loans granted

On 27 April 2016, the Company signed the Group account agreement under which the Company's current loans granted to the companies of the Lietuvos Energija UAB group amounted to EUR 19,948 thousand as at 30 June 2018 (31 December 2017: EUR 14,930 thousand). The market interest rate is applied to these loans.

9 Authorised share capital

On 26 March 2018, the General Meeting of the Company's Shareholders was held during which a decision was passed to increase the Company's authorised share capital by EUR 3,747 thousand through the issue of 12,919,014 shares with the nominal value of EUR 0.29 each. As the issue price was set at EUR 0.624 per share, Lietuvos Energijos Gamyba AB accounted for share premium in the amount of EUR 4,314,950.94. Lietuvos Energija UAB committed to pay for the acquired shares by way of an in-kind contribution, i.e. Vilnius Thermal Power Plant No 3, as a whole complex of technological equipment and territories, the value of which was EUR 8,061,465.

As at 31 December 2017, the share capital of the Company amounted to EUR 184,174,248 and it was divided into 635,083,615 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares have been fully paid.

As at 30 June 2018 and 31 December 2017, the Company's shareholder structure was as follows:

	Authorised share capital At 30 June 2018		Authorised share capital At 31 December 2017	
Shareholders	**(in EUR)**	**%**	**(in EUR)**	**%**
Lietuvos Energija UAB	181,938,103	96.82	178,191,589	96.75
Other shareholders	5,982,659	3.18	5,982,659	3.25
Total	**187,920,762**	**100.00**	**184,174,248**	**100.00**

Lietuvos Energija UAB is wholly owned by the State of Lithuania, represented by the Lithuanian Ministry of Finance.

10 Dividends

During the Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 26 March 2018, a decision was made to pay out dividends of EUR 0.014 per share for July–December 2017.

Dividends (EUR '000)	8,891
Weighted average number of shares (units)	635,083,615
Dividends per share (EUR)	**0.014**

During the Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 24 March 2017, a decision was made to pay out dividends of EUR 0.020 per share for July–December 2016, amounting to EUR 12,701 thousand in total. During the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 29 September 2017, a decision was made to pay out dividends of EUR 0.017 per share for January–June 2017, amounting to EUR 10,797 thousand in total.

All amounts in EUR thousands unless otherwise stated

11 Loans received

The Company's borrowings by maturity grouping are as follows:

	At 30 June 2018	At 31 December 2017
Non-current borrowings		
Loan from Luminor Bank AB Lithuania branch, in EUR, to be repaid by 31 March 2027	9,501	10,114
Loan from SEB Bankas AB, in EUR, to be repaid by 23 February 2024	15,933	23,925
Total non-current borrowings	**25,433**	**34,039**
Current borrowings and current portion of non-current borrowings		
Loan from Luminor Bank AB Lithuania branch, in EUR, to be repaid by 31 March 2027	1,226	1,226
Loan from SEB Bankas AB, in EUR, to be repaid by 23 February 2024	19,982	19,982
Total current borrowings and current portion of non-current borrowings	**21,208**	**21,208**

As at 30 June 2018 and 31 December 2017, the Company had balances of borrowings that were not withdrawn pursuant to the new credit line agreement signed with SEB Bankas AB on 5 July 2017.

The Company has pledged property, plant and equipment (Note 6), cash, and future cash inflows to bank accounts to secure the repayment of the loans granted.

12 Grants

The balance of grants includes grants received to finance the acquisition of assets Movements on grants account during the six-month period ended 30 June 2018 were as follows:

	Asset-related grants			
	Fuel combustion equipment and other assets	Project for renovation, improvement of environmental and safety standards	Grants for emission allowances	Total
Balance at 1 January 2017	**27,408**	**241,843**	**507**	**269,758**
Grants received during the period	74	-	1,128	1,202
Depreciation of immovable property, plant and equipment	(319)	(9,569)	-	(9,888)
Utilisation of grant for emission allowances	-	-	(241)	(241)
Balance at 30 June 2017	**27,163**	**232,274**	**1,394**	**260,831**
Balance at 1 January 2018	**26,780**	**149,896**	**1,199**	**177,875**
Grants received during the period	-	-	2,555	2,555
Depreciation of immovable property, plant and equipment	(314)	(3,987)	-	(4,301)
Utilisation of grant for emission allowances	-	-	(45)	(45)
Balance at 30 June 2018	**26,466**	**145,909**	**3,709**	**176,084**

During the six-month period ended 30 June 2018 asset-related grants decreased by EUR 4,301 thousand, i.e. by the amount of depreciation of property, plant and equipment. Depreciation expenses of property, plant and equipment were reduced by this amount in the statement of comprehensive income.

All amounts in EUR thousands unless otherwise stated

13 Provisions for emission allowances

Movements in provisions for emission allowances were as follows:

	2018	2017
Balance at 1 January	**528**	**1,316**
Emission allowances utilised	(907)	(932)
Revaluation of emission allowances utilised	379	(384)
Provisions for emissions*	141	177
Balance at 30 June	**141**	**177**

* For the purpose of the statement of comprehensive income, expenses of provisions for emissions were reported net of government grants (Note 12).

14 Revenue

Recognised revenue from contracts with customers:

	1 January 2018– 30 June 2018	1 January 2017– 30 June 2017
Revenue from sale of electricity	24,816	24,782
Revenue from balancing and regulation	2,001	971
Revenue from PSO services	7,758	14,796
Revenue from capacity reserve services	23,051	20,264
Revenue from sale of thermal energy	2,375	2,474
Other sales revenue	13	19
Total sales revenue	60,014	63,306
Other income	1,140	466
Total revenue	**61,154**	**63,772**

15 Segment information

The Company's management analyses the Company's operations by separating them into regulated activities and commercial activities. The regulated activities include the Reserve Power Plant's revenue from heat and electricity production, balancing and regulation, capacity reserve services, including capacity reserve revenue of Kruonis Pumped Storage Power Plant. The commercial activities include electricity trade in a free market, electricity production at Kaunas Algirdas Brazauskas Hydro Power Plant and Kruonis Pumped Storage Power Plant, and the related balancing and regulation services. Total revenue of segments is generated from external customers. Administrative expenses are allocated between the regulated activities and the commercial activities based on operating expenses.

Information on the Company's segments for the period between January and June 2018 is presented in the table below.

2018	Regulated activities	Commercial activities	Total
Total revenue of segments	**32,885**	**28,269**	**61,154**
Adjusted EBITDA	**11,841**	**15,285**	**27,126**
Management's adjustments	**-**	**-**	**-**
Other adjustments	**1,543**	**(2,644)**	**(1,101)**
Depreciation and amortisation expenses of non-current assets	(6,814)	(2,522)	(9,336)
Increase (decrease) in value of non-current and other assets	-	(122)	(122)
Revaluation of emission allowances and provisions	8,357	-	8,357
Operating profit	**13,384**	**12,641**	**26,025**
Finance income			61
Finance (costs)			(281)
Share of results of operations of associates			71
Profit before income tax			**25,876**

All amounts in EUR thousands unless otherwise stated

Information on the Company's segments for the period between January and June ended on 30 June 2017 is presented in the table below.

2017	Regulated activities	Commercial activities	Total
Total revenue of segments	**40,974**	**22,798**	**63,772**
Adjusted EBITDA	**17,161**	**9,923**	**27,084**
Management's adjustments	**-**	**-**	**-**
Other adjustments	**(13,082)**	**(3,674)**	**(16,756)**
Depreciation and amortisation expenses of non-current assets	(10,057)	(2,384)	(12,441)
Increase (decrease) in value of non-current and other assets	-	(1,290)	(1,290)
Revaluation of emission allowances and provisions	(3,025)	-	(3,025)
Operating profit	**4,079**	**6,249**	**10,328**
Finance income			148
Finance (costs)			(558)
Share of results of operations of associates			48
Profit before income tax			**9,966**

16 Related-party transactions

The Company's transactions with related parties between January and June of 2018 and the balances arising on these transactions as at 30 June 2018 are presented below:

Related parties	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Loans granted	Purchases	Sales
Associates of the Company	127	40	430	508	4
Companies of the Lietuvos Energija UAB group	864	1,496	19,518	3,320	102
Parent company Lietuvos Energija UAB	56	-	-	8,302	24
Companies of the state-owned EPSO-G Group	2,906	10,753	-	13,090	60,280
Total	**3,953**	**12,289**	**19,948**	**25,219**	**60,409**

The Company carries out the functions of a designated entity, i.e. it bought the total quantity of electricity expected to be produced by wind-power generators and sold it at the power exchange. Purchases (EUR 2,477 thousand during January– June 2018, EUR 2,417 thousand during January–June 2017) and sales (EUR 42,346 thousand during January–June 2018, EUR 25,679 thousand during January–June 2017) of electricity produced by wind-power generators as reported in the tables on the related-party transactions cover the total amount of the transactions in the Company's sales revenue.

The Company's transactions with related parties between January and June of 2017 and the balances arising on these transactions as at 31 December 2017 are presented below:

Related parties	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Loans granted	Purchases	Sales
Associates of the Company	85	-	402	474	4
Companies of the Lietuvos Energija UAB group	1,129	3,491	14,528	5,325	119
Parent company Lietuvos Energija UAB	1,135	3,963	-	228	68
Companies of the state-owned EPSO-G Group	3,070	15,968	-	13,831	64,384
Total	**5,419**	**23,422**	**14,930**	**19,858**	**64,575**

There were no guarantees or pledges given or received in respect of the related-party payables and receivables, except for guarantees to associate as disclosed in Note 18. Related-party payables and receivables are expected to be settled in cash or by set-off against payables/receivables to/from a respective related party.

All amounts in EUR thousands unless otherwise stated

17 Compensation to key management personnel

	1 January 2018– 30 June 2018	1 January 2017– 30 June 2017
Employment-related payments (EUR ’000)	130	119
Whereof: other significant payments to key management personnel (EUR ’000)	24	24
Number of key management personnel at 30 June	3	4

In 2018 and 2017, key management personnel includes the general manger and directors of departments (including acting directors of departments).

18 Commitments and contingencies

Guarantees issued and received

The Company has provided a guarantee to Luminor Bank AB, by which it irrevocably and unconditionally guaranteed for the payment of Kauno Energetikos Remontas UAB in the amount of EUR 1,883 thousand after the receipt of the first written request. The Company has guaranteed to the bank for the proper fulfilment of obligations of Kauno Energetikos Remontas UAB under Credit Agreement No KS 12/12/01 signed between the bank and Kauno Energetikos Remontas UAB on 4 December 2012. As from 1 January 2016, Kauno Energetikos Remontas UAB was reorganised to Energetikos Paslaugų ir Rangos Organizacija UAB by way of merger. The guarantee expired. The credit was repaid on 2 February 2018.

Between January and June of 2018, the Company did not sign any new guarantee agreements.

As at 30 June 2018, no other guarantees were received by the Company from other entities.

Litigations

Dispute over resolutions adopted by the Commission relating to revenue from the regulated activities is disclosed in Note 3. There were no significant changes in litigations as from 31 December 2017.

Tax audits

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

19 Events subsequent to the end of the reporting period

There were no other significant events from 30 June 2018 and the date of approval of the condensed interim financial information.

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