

2019-02-28 No. *SD-173***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 Darius Kucinas, Director of Production Acting Chief Executive Officer, Mindaugas Kvekšas, Director of Finance and Administration, and Joana Vencloviene, Head of Accounting Consulting 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 twelve-month period ended 31 December 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 twelve-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.

Director of Production
Acting Chief Executive Officer



Darius Kucinas

Finance and Administration Director



Mindaugas Kvekšas

UAB Verslo aptarnavimo centras,
Head of Accounting Consulting Division,
acting under Order No. IS18-77 (signed 2018 08 13)



Joana Vencloviene

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Bank - AB SEB bankas
SWIFT - SEB233

2018

LIETUVOS ENERGIJOS GAMYBA, AB

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE
TWELVE-MONTH AND THREE-MONTH PERIOD ENDED 31 DECEMBER 2018
PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34,
'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION
(UNAUDITED)



Lietuvos
energija

GAMYBA



Lietuvos
energija

Group of energy
companies

www.le.lt

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.


CONTENTS

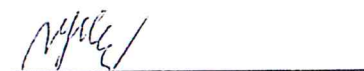
CONDENSED INTERIM FINANCIAL INFORMATION

Condensed interim statement of financial position	3
Condensed interim statements of comprehensive income	4 – 5
Condensed interim statement of changes in equity	6
Condensed interim statement of cash flows	7
Notes to the condensed interim financial information	8 – 22

The condensed interim financial information was approved on 28 February 2019 by Lietuvos Energijos Gamyba AB Director of Production Acting Chief Executive Officer, Finance and Administration Department Director, and Head of Accounting Consulting Division of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018).


Darius Kucinas
Director of Production
Acting Chief Executive Officer


Mindaugas Kvekšas
Finance and Administration Director


Joana Vencloviene
Head of Accounting Consulting
Division of Verslo Aptarnavimo
Centras UAB, acting under Order No
IS18-77 of 13 August 2018

Lietuvos Energijos Gamyba, AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
31 December 2018

All amounts are in EUR thousands unless otherwise stated

	Note	At 31 December 2018	At 31 December 2017
ASSETS			
Non-current assets			
Intangible assets	5	48,597	15,238
Property, plant and equipment	5	476,271	496,818
Investments in associates	6	1,588	1,536
Other non-current assets		5,087	3,236
Investment property	5	4,212	-
Other financial assets		232	1,798
Total non-current assets		535,987	518,626
Current assets			
Inventories		3,370	5,580
Prepayments		3,698	3,479
Trade receivables		12,037	17,216
Other financial assets		3,787	15,757
Loans granted	7	49,950	14,930
Cash and cash equivalents		47,885	60,700
Total current assets		120,727	117,662
TOTAL ASSETS		656,714	636,288
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	8	187,921	184,174
Share premium		89,975	85,660
Legal reserve		13,897	12,871
Revaluation reserve		20,659	2,289
Retained earnings		74,184	68,880
Total equity		386,636	353,874
Non-current liabilities			
Borrowings	10	33,619	34,039
Finance lease liabilities		34	172
Grants	11	171,039	177,875
Other non-current amounts payable and liabilities		10,614	6,704
Deferred income tax liabilities		23,466	17,475
Total non-current liabilities		238,772	236,265
Current liabilities			
Borrowings	10	4,417	21,208
Finance lease liabilities		138	138
Trade payables		13,425	17,380
Advance amounts received		6,562	1,135
Income tax payable		1,128	2,883
Provisions for emission allowances	12	894	528
Other amounts payable and liabilities		4,742	2,877
Total current liabilities		31,306	46,149
Total liabilities		270,078	282,414
TOTAL EQUITY AND LIABILITIES		656,714	636,288

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

Lietuvos Energijos Gamyba, AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
for the twelve-month period ended 31 December 2018

All amounts are in EUR thousands unless otherwise stated

	Note	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
Revenue			
Sales revenue		125,877	147,199
Other income		4,774	2,616
	13	130,651	149,815
Operating expenses			
Purchases of electricity or related services		(33,067)	(26,291)
Gas, biofuel and heavy fuel expenses		(28,827)	(32,214)
PP&E impairment loss		(190)	(32,435)
Depreciation and amortisation	5,11	(19,034)	(24,956)
Wages and salaries and related expenses		(8,824)	(8,111)
Repair and maintenance expenses		(5,571)	(5,513)
Emission allowance revaluation and release (expenses)/income		8,214	1,587
Other non-current assets impairment (expenses)/income		1,851	616
Inventory write-down allowance/reversal		(225)	5
(Impairment) of property, plant and equipment/reversal		-	7
Other expenses		(8,494)	(6,269)
Total operating expenses		(94,167)	(133,579)
OPERATING PROFIT		36,484	16,236
Finance income (costs)			
Finance income		168	244
Finance (costs)		(1,568)	(886)
		(1,400)	(642)
Share of results of operations of associates	6	123	101
PROFIT BEFORE INCOME TAX		35,207	15,695
Income tax and deferred income tax benefit/(expenses)		(5,563)	4,826
NET PROFIT FOR THE PERIOD		29,644	20,521
Other comprehensive income (loss) that will be subsequently reclassified to retained earnings (loss)		18,872	1,285
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		48,516	21,806
Basic and diluted earnings per share (in EUR)		0.046	0.032
Weighted average number of shares		644,463,173	635,083,615

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

Lietuvos Energijos Gamyba, AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
for the three-month period ended 31 December 2018

All amounts are in EUR thousands unless otherwise stated

	1 October 2018 – 31 December 2018	1 October 2017 – 31 December 2017
Revenue		
Sales revenue	31,199	50,515
Other income	2,973	1,660
	34,172	52,175
Operating expenses		
Purchases of electricity or related services	(10,141)	(6,766)
Gas, biofuel and heavy fuel expenses	(6,465)	(6,958)
Depreciation and amortisation	(219)	(31,373)
Wages and salaries and related expenses	(5,062)	(6,229)
Repair and maintenance expenses	(2,556)	(2,269)
Emission allowance revaluation and release (expenses)/income	(3,287)	(1,422)
Other non-current assets impairment (expenses)/income	(166)	299
Inventory write-down allowance/reversal	(893)	412
(Impairment) of property, plant and equipment/reversal	16	2
Other expenses	(3,989)	(1,859)
Total operating expenses	(31,869)	(56,163)
OPERATING PROFIT	2,303	(3,988)
Finance income (costs)		
Finance income	77	29
Finance (costs)	(1,161)	(159)
	(1,084)	(130)
Share of results of operations of associates	(61)	(94)
PROFIT BEFORE INCOME TAX	1,158	(4,212)
Income tax and deferred income tax benefit/(expenses)	1,725	5,048
NET PROFIT FOR THE PERIOD	2,883	836
Other comprehensive income (loss)	5,800	1,285
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	8,683	2,121
Basic and diluted earnings per share (in EUR)	0.0045	0.0013
Weighted average number of shares	644,463,173	635,083,615

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

Lietuvos Energijos Gamyba, AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
for the twelve-month period ended 31 December 2018

All amounts are 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	-	-	1,285	-	-	1,285
Net profit for the reporting period	-	-	-	-	20,521	20,521
Total comprehensive income for the period	-	-	1,285	-	20,521	21,806
Legal reserve	-	-	-	1,999	(1,999)	-
Depreciation of revaluation reserve	-	-	(29)	-	29	-
Dividends (Note 9)	-	-	-	-	(23,498)	(23,498)
Balance at 31 December 2017	184,174	85,660	2,289	12,871	68,880	353,874
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	-	-	19,198	-	-	19,198
	-	-	(326)	-	-	(326)
Net profit for the reporting period	-	-	-	-	29,644	29,644
Total comprehensive income for the period	-	-	18,872	-	29,644	48,516
Increase in share capital (note 8)	3,747	4,315	-	-	-	8,062
Legal reserve	-	-	-	1,026	(1,026)	-
Emission allowances utilised	-	-	(473)	-	473	-
Depreciation of revaluation reserve	-	-	(29)	-	29	-
Dividends (Note 9)	-	-	-	-	(23,795)	(23,795)
Balance at 31 December 2018	187,921	89,975	20,659	13,897	74,184	386,636

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

Lietuvos Energijos Gamyba, AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
CONDENSED INTERIM STATEMENT OF CASH FLOWS
for the twelve-month period ended 31 December 2018

All amounts are in EUR thousands unless otherwise stated

	Note	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
Net profit for the period		29,644	20,521
Reversal of non-cash expenses (income) and other adjustments:			
Depreciation and amortisation expenses	5	27,481	44,733
Inventory write-down/(reversal)	5	(44)	105,307
(Gain) on disposal of investments in subsidiaries and associates	5	334	-
Expenses/(income) of revaluation of emission allowances		225	(7)
Other impairments	5	(10,783)	(3,808)
Share of (profit) of associates		138	-
Income tax expenses	6	(123)	(101)
Change in deferred income tax liability		2,778	2,656
Depreciation of grants		2,810	(7,255)
Increase/(decrease) in provisions	11	(8,447)	(19,777)
Change in fair value of derivative financial instruments	11	(769)	(72,872)
Impairment of property, plant and equipment/(reversal)		719	92
(Gain)/loss on disposal/write-off of non-current assets (other than financial assets)		(3)	(79)
Elimination of results of financing and investing activities:			
- Interest (income)		(132)	(154)
- Interest expense		498	876
- Other finance (income) costs		-	-
- (Gain) on disposal of a part of the business		(528)	(799)
Changes in working capital			
(Increase) decrease in trade receivables and other receivables		13,038	(4,343)
(Increase) decrease in inventories and prepayments		2,074	268
Increase (decrease) in amounts payable and advance amounts received		5,347	(5,265)
Income tax (paid)		(3,117)	-
Net cash flows used in operating activities		61,140	59,993
Cash flows from investing activities			
(Purchase) of property, plant and equipment and intangible assets		(4,744)	(1,902)
Disposal of property, plant and equipment and intangible assets		1,113	93
Loans granted		4,049	-
Loans repaid		2,000	2,000
Disposal of investments in associates	7	(35,020)	-
Disposal of a part of the business	7	-	3,168
Grants received during the period	11	-	74
Interest received		130	149
Dividends received		70	77
Net cash flows generated from (used in) investing activities		(32,402)	3,659
Cash flows from financing activities			
Borrowings		27,922	-
Repayments of borrowings		(45,133)	(77,212)
Finance lease payments		(138)	(138)
Interest (paid)		(498)	(876)
Dividends (paid)		(23,706)	(23,771)
Net cash flows used in financing activities		(41,553)	(101,997)
Net increase (decrease) in cash and cash equivalents		(12,815)	(38,345)
Cash and cash equivalents at the beginning of the period		60,700	99,045
Cash and cash equivalents at the end of the period		47,885	60,700

5

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

All amounts are 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 31 December 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 60¹ of the Lithuanian Law on Companies.

As at 31 December 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 31 December 2018, the number of employees of the Company was 372 (31 December 2017: 392).

2 Accounting policies

2.1 Basis of preparation

The Company's condensed unaudited interim financial information for the nine-month period ended 31 December 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.

Lietuvos Energijos Gamyba, AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
for the twelve-month period ended 31 December 2018

All amounts are in EUR thousands unless otherwise stated

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:

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 have 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.

All amounts are in EUR thousands unless otherwise stated

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 a 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

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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:

Financial assets measured at amortised cost

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.

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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;

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- 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;
- 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 are 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 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

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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.

Revaluation of property, plant and equipment

On 31 December 2018, the independent property valuers UAB APUS TURTAS 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 31 December 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 31 December 2018 and the quantity of emissions which will be approved in 2019.

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 31 December 2018, the Company recognised PSO funds of EUR 7,517 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 2018, 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 86 thousand as at 31 December 2018 was recognised within 'Other financial income'.

As at 31 December 2018, receivable amount of EUR 2,765 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 2010-2015, 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 compensated the Company's revenue not received in 2015.

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Accrued revenue from capacity reserve services

As at 31 December 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 1,956 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 31 December 2018, the Company also accounted for EUR 2,794 thousand (31 December 2017: EUR 289 thousand) of amount receivable to be compensated in 2019.

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

As at 31 December 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, corresponding amount of contingent assets of the Company 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 31 December 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 31 December 2018, the discount rate applied to the Company's non-current amounts receivable and payable approximated the market interest rate.

All amounts are in EUR thousands unless otherwise stated

5 Intangible assets and property, plant and equipment

The Company's intangible assets and property, plant and equipment as at 31 December 2018 comprised as follows:

	Intangible assets	Property, plant and equipment
At 31 December 2017		
Opening net book amount	15,238	496,818
Additions	89	8,776
Received grants	2,555	-
Used emission allowances	(908)	-
Revaluation of emission allowances	31,816	-
Sales	-	(1,068)
Write-offs	-	(43)
Revaluation of PP&E	-	(660)
Reversal of impairment	-	44
Reclassification from/to inventories	-	(308)
Amortisation/Depreciation	(193)	(27,288)
Net book amount at 31 December 2018	48,597	476,271

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	377	4,212
Net book amount at 31 December 2018	3,731	100	4	377	4,212

6 Investments

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

Company	Registered office address	Company's ownership interest 31 December 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.

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 31 December 2018
Geoterma UAB	-	-	-	-	-
Technologijų ir Inovacijų Centras UAB	1,383	-	93	(30)	1,446
Verslo Aptarnavimo Centras UAB	152	-	30	(40)	142
Total	1,535	-	123	(70)	1,588

All amounts are in EUR thousands unless otherwise stated

	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

7 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 49,950 thousand as at 31 December 2018 (31 December 2017: EUR 14,930 thousand). The market interest rate is applied to these loans.

8 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 31 December 2018 and 31 December 2017, the Company's shareholder structure was as follows:

Shareholders	Authorised share capital At 31 December 2018		Authorised share capital At 31 December 2017	
	(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.

9 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, total amount EUR 8,891 thousand. During the Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 28 September 2018, a decision was made to pay out dividends of EUR 0.023 per share for January–June 2018, total amount EUR 14,904 thousand.

Dividends (EUR '000)	23,795
Weighted average number of shares (units)	644,463,173
Dividends per share (EUR)	0,037

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 are in EUR thousands unless otherwise stated

10 Loans received

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

	At 31 December 2018	At 31 December 2017
Non-current borrowings		
Loan from Luminor Bank AB Lithuania branch, in EUR, to be repaid by 31 March 2027	8,888	10,114
Loan from SEB Bankas AB, in EUR, to be repaid by 06 July 2027	24,731	23,925
Total non-current borrowings	33,619	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 06 July 2027	3,191	19,982
Total current borrowings and current portion of non-current borrowings	4,417	21,208

The Company has pledged property, plant and equipment amounting to EUR 21,978 thousand in total, cash, and future cash inflows to bank accounts to secure the repayment of the loans granted.

11 Grants

The balance of grants includes grants received to finance the acquisition of assets. Movements on grants account during the twelve-month period ended 31 December 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 property, plant and equipment	(628)	(19,149)	-	(19,777)
Reversal of grants due to impairment of property plant and equipment	-	(72,872)	-	(72,872)
Utilisation of grant for emission allowances	-	-	(436)	(436)
Balance at 31 December 2017	26,780	149,896	1,199	177,875
Balance at 1 January 2018	26,780	149,896	1,199	177,875
Grants received during the period	-	-	2,555	2,555
Depreciation of property, plant and equipment	(628)	(7,819)	-	(8,447)
Reversal of grants due to impairment of property plant and equipment	-	(769)	-	(769)
Utilisation of grant for emission allowances	-	-	(175)	(175)
Balance at 31 December 2018	26,152	141,308	3,579	171,039

During the twelve-month period ended 31 December 2018 asset-related grants decreased by EUR 8,447 thousand, i.e. by the amount of depreciation of property, plant and equipment (EUR 19,777 thousand as at 31 December, 2017). Depreciation expenses of property, plant and equipment were reduced by this amount in the statement of comprehensive income.

During the year 2018 Company received EU emission allowances grants for an amount EUR 2,555 thousand (EUR 1,128 thousand during 2017).

All amounts are in EUR thousands unless otherwise stated

12 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	(908)	(932)
Revaluation of emission allowances utilised	380	(384)
Provisions for emissions*	894	528
Balance at 31 December	894	528

* For the purpose of the statement of comprehensive income, expenses of provisions for emissions were reported net of government grants (Note 11).

13 Revenue

Recognised revenue from contracts with customers:

	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
Revenue from sale of electricity	57,415	53,926
Revenue from balancing and regulation	5,901	1,984
Revenue from PSO services	12,969	47,123
Revenue from capacity reserve services	45,681	40,449
Revenue from sale of thermal energy	3,911	3,717
Total sales revenue	125,877	147,199
Other income	4,774	2,616
Total	130,651	149,815

14 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 December 2018 is presented in the table below.

2018	Regulated activities	Commercial activities	Total
Total revenue of segments	65,748	64,903	130,651
Adjusted EBITDA	20,146	24,670	44,816
Management's adjustments			
Other adjustments			
Depreciation and amortisation expenses of non-current assets	(14,023)	(5,011)	(19,034)
Increase (decrease) in value of non-current and other assets		(610)	(610)
Revaluation of emission allowances and provisions		10,784	10,784
Sale of shares/business segment		528	528
Operating profit	6,123	30,361	36,484
Finance income			168
Finance (costs)			(1,568)
Share of results of operations of associates			123
Profit before income tax			35,207

All amounts are in EUR thousands unless otherwise stated

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

2017	Regulated activities	Commercial activities	Total
Total revenue of segments	97,180	52,635	149,815
Adjusted EBITDA	32,971	20,763	53,734
Management's adjustments	16,805	-	16,805
Other adjustments			
Depreciation and amortisation expenses of non-current assets	(20,177)	(4,779)	(24,956)
Increase (decrease) in value of non-current and other assets	(31,385)	(1,046)	(32,431)
Write offs of non-current and other assets	-	(11)	(11)
Revaluation of emission allowances and provisions	-	2,296	2,296
Sale of shares/business segment	-	799	799
Operating profit	(1,786)	18,022	16,236
Finance income			244
Finance (costs)			(886)
Share of results of operations of associates			101
Profit before income tax			15,695

15 Related-party transactions

The Company's transactions with related parties between January and December of 2018 and the balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Loans granted	Purchases	Sales
Associates of the Company	159	19	660	1,077	9
Companies of the Lietuvos Energija UAB group	1,498	-	49,290	10,098	2,187
Parent company Lietuvos Energija UAB	60	2,023	-	8,603	24
Companies of the state-owned EPSO-G Group	2,923	11,714	-	31,331	118,772
Total	4,640	13,756	49,950	51,109	120,992

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 10,814 thousand during January– December 2018, EUR 5,258 thousand during January–December 2017) and sales (EUR 83,358 thousand during January– December 2018, EUR 54,264 thousand during January–December 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 December 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	1,021	13
Companies of the Lietuvos Energija UAB group	1,129	3,491	14,528	10,107	1,005
Parent company Lietuvos Energija UAB	1,135	3,963	-	444	230
Companies of the state-owned EPSO-G Group	3,070	15,968	-	31,477	135,089
Total	5,419	23,422	14,930	43,049	136,337

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 17. 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 are in EUR thousands unless otherwise stated

16 Compensation to key management personnel

	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
Employment-related payments (EUR '000)	262	218
Whereof: other significant payments to key management personnel (EUR '000)	43	48
Number of key management personnel at 31 December	4	4

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

17 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 December of 2018, the Company did not sign any new guarantee agreements.

As at 31 December 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.

18 Events subsequent to the end of the reporting period

As at 28 of January, 2019, the Company received information about intentions of the Ministry of Finance of the Republic of Lithuania to pay for "Lietuvos energijos gamyba" UAB the remittance which has been ordered for the Republic of Lithuania by the court of the United Kingdom as a reparation for the potential loss that was inflicted through the actions carried out by Alstom Power Ltd while implementing Lietuvos Elektrinė's, AB Fuel Gas Desulphurisation (FGD) project, implemented from 2005 to 2009. As at 11 of February, 2019, the Company received the remittance for an amount EUR 9,276 thousand into the bank account.

As at 15 of February, 2019, the company owned by the State of Lithuania "Turto bankas" has applied to the Klaipėda Regional Court for the filing of bankruptcy proceedings of Klaipėda heat production company "Geoterma" UAB. The Company owns 23.44% of "Geoterma" UAB shares.

There were no other significant events from 31 December 2018 and the date of approval of the condensed interim financial information.

2018

LIETUVOS ENERGIJOS GAMYBA, AB INTERIM REPORT

FOR THE TWELVE-MONTH PERIOD
ENDED 31 DECEMBER 2018



Lietuvos
energija

GAMYBA



Lietuvos
energija

CONTENTS

INTERIM REPORT

Key operating and financial indicators of Lietuvos Energijos Gamyba	4
Management's foreword	5
Most significant events during the reporting period	6
Analysis of performance and financial indicators	8
Factors determining the financial indicators	13
Information about the Company's authorised share capital and securities	20
Corporate social responsibility	24
The Company and its management bodies	28
Material events at the Company	39
Other important information	41

INTERIM REPORT

For the twelve-month period ended 31 December 2018

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 twelve-month period ended 31 December 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 Law on Companies, the Rules for Submission of Information and the Guidelines for Submission of Information approved by the Board of the Bank of Lithuania, Lithuanian Government Resolution On approval of the guidelines for ensuring transparency of operations of state-owned entities and other legal acts.

Individuals responsible for information contained in the Interim Report

Job title	Full name	Telephone number
Lietuvos Energijos Gamyba AB, Director of Production, acting CEO	Darius Kucinas	+370 5 278 2907
Lietuvos Energijos Gamyba AB, Director of Finance and Administration	Mindaugas Kvekšas	+370 5 278 2907

Information on the availability of the report and the documents used in preparing the report, and on means of mass media in which the Company's public reports are published

The report and the documents, on the basis of which it was prepared, are available at the head office of Lietuvos Energijos Gamyba, AB (Elektrinės St. 21, Elektrėnai), on working days from Mondays through Thursdays 7:30–16:30, on Fridays 7:30–15:15.

The report is also available on the website of the Company at www.gamyba.le.lt and the website of NASDAQ Vilnius stock exchange at www.nasdaqbaltic.com.

All public announcements, which are required to be published by the Company according to the effective legal acts of the Republic of Lithuania, are published on the Company's website (www.gamyba.le.lt) and the website of NASDAQ Vilnius stock exchange (www.nasdaqbaltic.com).

KEY OPERATING AND FINANCIAL INDICATORS OF LIETUVOS ENERGIJOS GAMYBA

A detailed description of the Company's alternative performance indicators and the methodology for their calculation is provided in the section "Financial Reports" ([link](#)) of the section "For Investors" of the Company's website.

		2018	2017	Change	
				+/-	%
KEY OPERATING INDICATORS					
Electricity generation volume	TWh	0.88	1.15	-0.26	-22.97
KEY FINANCIAL INDICATORS					
Revenues	EUR'000	130,651	149,815	-19,164	-12.79
Costs of purchase of electricity, fuel and related services	EUR'000	61,894	58,505	3,389	5.79
Operating expenses ¹	EUR'000	23,413	19,973	3,440	17.22
EBITDA ²	EUR'000	44,816	70,538	-25,722	-36.47
EBITDA margin ³	%	34.4	47.3	-12.9 p. p.	
Adjusted EBITDA ⁴	EUR'000	44,816	53,733	-8,917	-16.60
Adjusted EBITDA margin ⁵	%	34.4	36.1	-1.6 p. p.	
Net profit (loss)	EUR'000	29,644	20,521	9,123	44.46
		At 31/12/2018	At 31/12/2017	Change	
				+/-	%
Total assets	EUR'000	656,714	636,288	20,426	3.21
Equity	EUR'000	386,636	353,874	32,762	9.26
Financial debts	EUR'000	38,208	55,557	-17,349	-31.23
Net financial debts ⁶	EUR'000	-9,677	-5,143	-4,534	88.16
Return on equity (ROE) ⁷	%	7.7	5.8	1.9 p. p.	
Equity level ⁸	%	58.9	55.6	3.3 p. p.	
Net financial debts / 12-month EBITDA	%	-21.6	-7.3	-14.3 p. p.	
Net financial debts / Equity	%	-2.5	-1.5	-1 p. p.	
Asset turnover ⁹	%	19.9	23.5	-3.7 p. p.	
Current ratio ¹⁰	%	385.6	255.0	130.67 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.

⁹ Revenue / Total assets at the end of the period.

¹⁰ Short-term assets at the end of the period / short-term financial liabilities at the end of the period.

MANAGEMENT'S FOREWORD

Dear customers, shareholders, partners and employees,

In 2018, the results of Lietuvos Energijos Gamyba were significantly affected by natural conditions, pre-planned important works, and the situation of electricity prices formed in the market.

The summer of 2018 was especially dry. We felt this intensively at the Kaunas A. Brazauskas' Hydroelectric Power Plant, where production volumes have been rapidly decreasing since May as a result of a low water inflow. The amount of water did not increase in the end of the year. Kaunas A. Brazauskas' Hydroelectric Power Plant produced one quarter less electricity in 2018 than in 2017 in total. However, the financial results of this power plant improved as the price of electricity grew in the market this year.

The major repairs were carried out in Kruonis PSHP for the first time in its history, leading to one of four units being unavailable for six months. Despite this, the power plant was providing reliably power regulation and secondary reserve services. The demand for power regulation service nearly doubled compared to last year, whereas the secondary reserve was activated much more frequently.

The year 2018 was also very active in the Elektrėnai Complex. After the transmission system operator agreed to provide the tertiary active power reserve service using Unit 8 of the Elektrėnai complex at the time of repairs of the NordBalt interconnection with Sweden, the combined cycle unit was providing reliably electricity system reserve, the so-called strategic reserve, service, during this period, and increased the supply of electricity in the market. In August 2018, we completed successfully monitoring tests of emissions in the operating Elektrėnai Complex units. The test of tertiary emergency power reserve performed in the end of the year was also successful. We made sure that we are ready to provide reliably the services needed for the system.

The power plants of the Company produced 23% less of electricity in 2018 if compared to 2017. However, high wholesale electricity prices were forming throughout this period, and thus the Company's financial indexes remained good.

The Company's net profit in 2018 was 29,6 million euros, so it exceeds the profit of 2017 by almost 45 percent. More detailed presentation of the Company's financial and performance indicators is available below.

After the parent company Lietuvos Energija had announced the performance strategy of the Group LE 2030 in May 2018, we updated our own strategy in the end of this year.

We foresee that in order to achieve the growth of the entire group, the strategic generation will have to be the main activity of the Company for the next 12 years. The main objective set for the Company is to contribute to successful synchronization of the Baltic States with the network system of continental Europe, to preserve capacities of reliable local electricity production and to develop new capacities in Lithuania. It is also foreseen in the strategy that while playing its major role – to ensure the reliable and effective strategic generation – the Company will contribute significantly to the implementation of the strategy LE 2030 in the area of green generation and implantation of innovations.

It is already under implementation – in September 2018, we announced about the initiated project for the installation of the experimental solar power plant in the upper reservoir of Kruonis PSHP, and in the beginning of 2019, we started the project of battery energy storage system in Kaunas A. Brazauskas' Hydroelectric Power Plant. If the project of synergy of the hydroelectric power plant and the battery energy storage was implemented successfully, it would be the first innovation of such type, and the battery storage would be one of the biggest in the Baltic States. Operating in accordance with the unique algorithm, the battery would allow maintaining stable frequency of electric network and balancing brief shifts in the power of hydro-unit.

The reliable and efficient provision of services remains our key priority looking into 2019 and subsequent years.

Darius Kucinas
*Director of Production,
acting CEO and Chairman of the Board,
Lietuvos Energijos Gamyba AB*

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 is ensured in 2018 by combined cycle unit (hereinafter – CCU), 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 CCU managed by the Company was switched on**. The unit produced electricity for almost two days non-stop. In 2018, the CCU 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 office: 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.

INTERIM REPORT

For the twelve-month period ended 31 December 2018

After LEG obtained the approval of transmission system operator Litgrid (hereinafter – TSO) to have tertiary active power reserve services provided by Unit 8 of Elektrėnai Complex during the repair of intersystem power link connecting the Lithuanian and Swedish power transmission systems NordBalt, **electricity reserve services (the so called “strategic reserve”) were provided by the CCU.**

In July 2018 the Company completed major repair works of second hydro unit of Kruonis PSHP, which were started in February 2018. Such repair works was carried out for the first time in the history of the power plant, which is unique in the Baltic States. The work will not only help to prevent major failures of the unit, but will also allow the safe operation of the unit to last for more than 15 years.

In August 2018, the Company **successfully conducted emissions monitoring tests in the operating units** of the Elektrėnai complex.

On 27 September 2018, decision of shareholders to allocate dividends for January-June 2018 was adopted in the Extraordinary General Meeting of Shareholders.

On 28 September 2018, the Company announced its plans to build an **experimental floating photovoltaic solar power plant in Kruonis PSHP.**

On 17 November 2018, the **test of the restoration of Lithuanian electric energy system was successfully performed in Kruonis PSHP.** The situation when the entire domestic electric energy system is turned off (the so-called black out happens) was imitated. In such a case supply of electricity is restored from Kruonis PSHP. The service of the system's restoration after total failure to the operator of transmission system is provided by Kaunas A. Brazauskas' Hydroelectric Power Plant (hereinafter – Kaunas A. Brazausko HPP) and Kruonis PSHP. Similar tests of restoration of electric energy system are carried out every year in smaller or bigger scope.

On 20 November 2018, the Company's management decided to stop one of four units in Kruonis PSHP from 1 January 2019 because according to the valid legal acts, two units of Kruonis PSHP engaged in commercial activities would operate wastefully in 2019. **As the legal acts changed, the Board's decision to suspend one of the**

units in Kruonis PSHP was revoked on 31 December 2018. In 2019, two units of Kruonis HPP provides systemic service to the transmission system operator – secondary emergency power reserve. The remaining two units are used commercially and electricity made by them is sold on the market.

As the strategic reserve will not be ordered in 2019, **the Company's management passed a decision on 11 December 2018 to suspend exploitation of the unit 8 from 1 January 2019 and to conserve it.** Similarly to the unit 7 conserved since 1 January 2018, the unit 8 is conserved in such a way as to resume its exploitation expeditiously, if needed. It means that both units will be able to produce electricity when it is needed by the transmission system operator according to the pre-scheduled testing programme of isolated work of the electricity systems of the Baltic States. In 2018, the unit 8 was providing service of assurance of electricity system reserves in the specified power plants necessary to ensure energy security of the State (so-called strategic reserve).

On 20 December 2018, the Company announced its updated performance strategy. It is highlighted therein that the key activities of the Company are strategic generation as the basis to achieve growth of all the companies in the group of Lietuvos Energija. The Company's strategy was updated in accordance with the strategic directions defined for the entire group in the strategy LE 2030 presented by Lietuvos Energija in May 2018. The updated Company's performance strategy is available [via this link](#).

On 29 December 2018, the successful test was carried out, when CCU had to achieve the power necessary to provide tertiary power reserve service on the set time. The Company is providing this service in the volume of 260 megawatts (MW) in 2019 on the ground of the contract made with LITGRID (the TSO) on 20 December 2018. The service has a purpose to control voltages in the transmission network of 330 kilovolts (kV) and to restore the secondary emergency power reserve.

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

A detailed description of the Company's alternative performance indicators and the methodology for their calculation is provided in the section "Financial Reports" ([link](#)) of the section "For Investors" of the Company's website.

		2018	2017	2016	2015 ¹	2014 ¹
FINANSINIAI RODIKLIAI						
Sales revenue	EUR '000	125,877	147,199	151,758	203,097	231,084
Other operating income	EUR '000	4,774	2,616	21,164	11,298	2,116
EBITDA	EUR '000	44,816	70,538	58,054	50,272	64,023
Adjusted EBITDA	EUR '000	44,816	53,733	63,652	50,272	64,023
Operating profit	EUR '000	36,484	16,236	49,030	5,761	39,366
Net profit (loss)	EUR '000	29,644	20,521	39,975	-231	33,407
Profit before tax	EUR '000	35,207	15,695	48,330	3,889	37,987
Cash flows from operations	EUR '000	61,140	59,993	60,513	25,364	86,572
Financial liabilities	EUR '000	38,208	55,557	132,907	146,260	162,886
RATIOS						
Liabilities / equity		0.70	0.80	1.30	1.43	1.49
Financial liabilities / equity		0.10	0.16	0.37	0.43	0.44
Financial liabilities / assets		0.06	0.09	0.16	0.18	0.18
LOAN COVERAGE RATIO						
Loan coverage ratio (EBITDA / (interest costs + loans repaid in the reporting period))		0.98	0.90	3.95	2.62	4.56
PROFITABILITY RATIOS						
Operating profit margin	%	27.92	10.84	28.35	2.69	16.88
Profit before tax margin	%	26.95	10.48	27.95	1.81	16.29
Net profit margin	%	22.69	13.70	23.12	-0.11	14.33
Return on equity	%	7.67	5.80	11.24	-0.07	9.10
Return on assets	%	4.51	3.23	4.88	-0.03	3.65
Return On Capital Employed	%	6.98	5.01	8.18	-0.05	6.30
Earnings per share	EUR	0.046	0.032	0.063	0.000	0.053
P/E (share price / earnings)		10.93	19.28	9.95	-1844.77	14.83

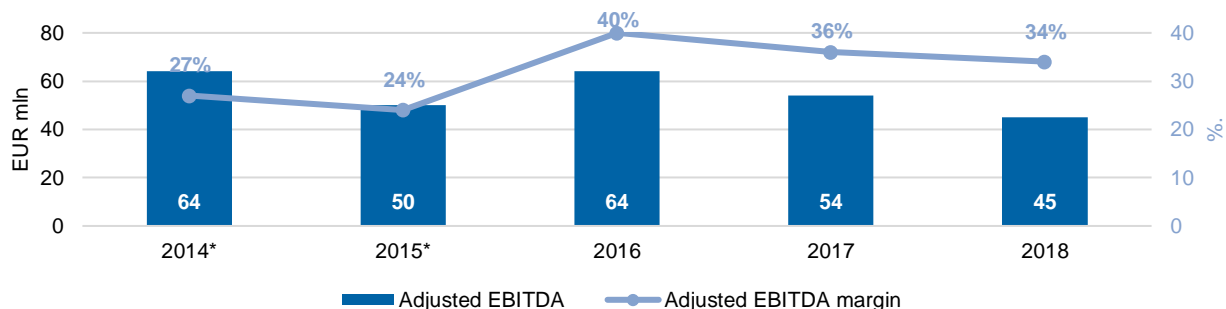
¹ Comparative indicators were not recalculated.

In 2018, the Company's adjusted EBITDA and adjusted EBITDA margin decreased compared to 2017. This change is illustrated by Figure 1 which presents EBITDA dynamics during 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 2018 compared to ratios in 2017 due to higher operating profit that resulted from lower depreciation expenses and a positive result of the revaluation of emission allowances. Operating profit in 2017 was also influenced negatively by the

impairment recognised in the end of 2017 in relation to assets of units 7 and 8 of Elektrėnai Complex (EUR 31.4 million).

The adjusted EBITDA of the Company in 2018 decreased if compared to 2017 due to the lower EBITDA rate of the Elektrėnai Complex, which was determined by the decreased scope of the provided regulated services as well as lower income received from these activities. It was partly compensated by higher sales revenue of Kaunas A. Brazauskas' HPP, better commercial results of Kruonis PSHP, and lower costs of the dismantling projects at Elektrėnai Complex.

Figure 1
The Company's EBITDA and EBITDA margin dynamics



* Comparative indicators were not recalculated.

In 2017, the corrections in EBITDA were made due to the impact of adjustment of the profit from commercial activities and also due to the impact of recalculations of regulated one-off revenues of previous periods. These management's corrections are detailed in [annual report of 2017](#) (p. 18). There were no corrections in EBITDA in 2018.

Statement of financial position

The Company's liabilities to financial institutions amounted to EUR 38.2 million as at 31 December 2018. They included liabilities under long-term loan agreements.

Statement of comprehensive income

Revenue

The Company's sales revenue totalled EUR 125.9 million in 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 14.5% in 2018 compared to 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 2018, i.e. electricity and heat energy generation at Elektrėnai Complex and power reserve services provided at Elektrėnai Complex and Kruonis PSHP, accounted for about 50% of the Company's total revenue (2017: 65%).

Expenses

In 2018, expenses incurred by the Company totalled EUR 94.2 million (EUR 103.5 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 61.9 million or 65.7%). In 2017, these expenses amounted to EUR 58.5 million and made up 43.8% of total expenses. In 2018, the Company's depreciation and amortisation expenses amounted to EUR 19.0 million (2017: EUR 25.0 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;

also excluding the cost of fuel oil sold, which was reflected in expenses of 2018) amounted to EUR 21.0 million in 2018, i.e. increased by 5.4% or EUR 1.14 million compared to 2017. Mainly due to higher expenses of the CCU maintenance contract.

Profit

In 2018, the Company's adjusted EBITDA decreased EUR 8.9 million compared to this ratio in 2017. Adjusted EBITDA margin reached 34.4% in 2018 (2017: 36.1%).

In 2018, the Company's profit before tax totalled EUR 35.2 million, and net profit totalled EUR 29.6 million – 44.5% more than in 2017, when net profit totalled EUR 20.5 million.

The Company's net profit increased in 2018 due to lower depreciation and amortisation expenses and the positive revaluation result of emission allowances. In 2017, net profit was impacted of the effects of one-off items, which are described in detail in annual report of 2017 (p. 19).

Statement of cash flows

In 2018, the Company's net cash flows from operating activities amounted to EUR 61.1 million compared to EUR 60.0 million in 2017.

In 2018 the Company's cash flows from financing activities were negative as in 2017 and amounted to EUR 41.6 million compared to EUR 102.0 million in 2017. As it was reported by the Company on power exchange on 22 May 2017, in first half of 2017 the Company made early repayment of EUR 60.0 million of its long-term loan.

Investments in non-current assets

In 2018, the Company's investments in property, plant and equipment and non-current intangible assets (CAPEX) totalled EUR 5.0 million compared to EUR 1.9 million in 2017. In 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), Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas HPP) and Vilnius Third Combined Heat and Power Plant (Vilnius PP-3), which was taken over from Lietuvos Energija since 31 March, 2018. The Company's main objective is to contribute to ensuring the country's energy security by consolidating production capacity.

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 (since January 1, 2019 the operations were disposed to Gamybos optimizavimas 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
 <p>Capacity – 1055 MW*</p> <p>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.</p> <p>Units 1–4 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.</p> <p>The most effective –combined cycle unit (455 MW) – provided tertiary reserve, unit 8 (300 MW) – strategic reserve in 2018. Unit 7 (300 MW) is conserved.</p> <p>Heat is produced in steam and biofuel boiler houses.</p>	 <p>Capacity – 900 MW</p> <p>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.</p> <p>As the need for regulation increases, and on completion of the power links with Sweden and Poland, the power plant provides more system services.</p> <p>In 2018, the power plant provided secondary reserve with two units (400 MW). Other two units produced electricity for the market.</p>	 <p>Capacity – 100.8 MW</p> <p>Kaunas A. Brazauskas HPP is the largest power plant in Lithuania that uses renewable energy sources.</p> <p>Depending on natural conditions, the plant produces green energy and provides system services.</p> <p>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.</p>	 <p>Capacity – 360 MW Heat capacity – 603 MW</p> <p>Power plant activity stopped on December 31, 2015.</p>
 <p>Electricity trading</p> <p>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.</p>			

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

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.

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.

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.

Noteworthy events during the reporting period

On July-October 2018, during the repair of intersystem power link NordBalt, electricity reserve services (the so called "strategic reserve" services) will be provided by the CCU operated by the Company. The possibility to offer electrical power generated by the CCU to the market occurred after the Company obtained the approval of TSO to have tertiary active power reserve services provided by Unit 8 of Elektrėnai Complex during the repair of NordBalt. After the auction which was held in autumn 2017, in 2018, by means of the CCU (with 260 MW capacity), the Company has provided tertiary active power reserve services intended for the control of voltages in the transmission network of

330 kV and for the restoration of the secondary emergency power reserve. Meanwhile, public interest services (Lith. VIAP) – 212 MW power capacity electrical energy system reserve – has been ensured by means of Unit 8 by decision of the Government. The Company initiated the substitution during the period of NordBalt connection repair taking into consideration the fact that with the 700 MW connection inoperative a considerable amount of electrical power from the fourth price zone (SE 4) in Sweden of the Nordic exchange Nord Pool is unable to reach Lithuania and energy supply reduces.

Key performance indicators

Electricity generation indicators for 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 2018 compared to 2017 (see Figure 3). In total, 0.883 TWh of electricity produced at the power plants controlled by the Company was sold during 2018, i.e. 23% less compared to 1.147 TWh in 2017.

A large amount of water was accumulating in the Nemunas river at the beginning of 2018. 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 July-September 2018 the weather remained very dry, so the production of the power plant during these months, compared with the same months in 2017, decreased by 34%. At the end of the year, in October-December, electricity production volumes decreased even more. In 2018 Kaunas A. Brazauskas HPP produced 24.5% less electricity than in 2017 (0.346 TWh and 0.459 respectively).

INTERIM REPORT

For the twelve-month period ended 31 December 2018

Due to planned repair works of the second hydro unit of **Kruonis PSHP**, that were started in February and continued until July, sales of electricity produced at this power plant decreased by 14.4% in 2018 compared to 2017 and totalled 0.470 TWh (2017: 0.549 TWh).

In 2018, the volumes of regulation power produced and sold at Kruonis PSHP (a service necessary to balance electricity surplus/shortage in the energy system) increased almost twice, compared to 2017. In 2018 the Company sold 0.075 TWh and bought 0.035 TWh of regulation power compared to 0.039 TWh and 0.022 TWh, respectively, in 2017.

Another type of system services provided at Kruonis PSHP is the secondary active power reserve, i.e. the power maintained by the producer at installations or hydroelectric units, which is activated within 15 minutes. This type of system services were used 29 times during 2018. Whereas in 2017, this type of services designated to ensure the safety of electricity supply were activated 17 times. The TSO activates this reserve (the provision of which was assigned to two units of Kruonis PSHP (400 MW) in 2018) only when it is necessary to compensate a sudden drop in electricity supplied to Lithuania. In 2018, the Company sold approx. 3.50 TWh of secondary power reserve – the same amount as in 2017.

In 2018, the most efficient facility of the **Elektrėnai Complex** – the CCU – 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. In 2018, the Company sold approx.

2.28 TWh of tertiary power reserve compared to 4.24 TWh in 2017.

Commercial production at the CCU 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 CCU 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 the warm seasons of the year the residual capacity of the CCU becomes too low due to the impact of temperature, therefore offers for electricity production at this unit are not placed to the market.

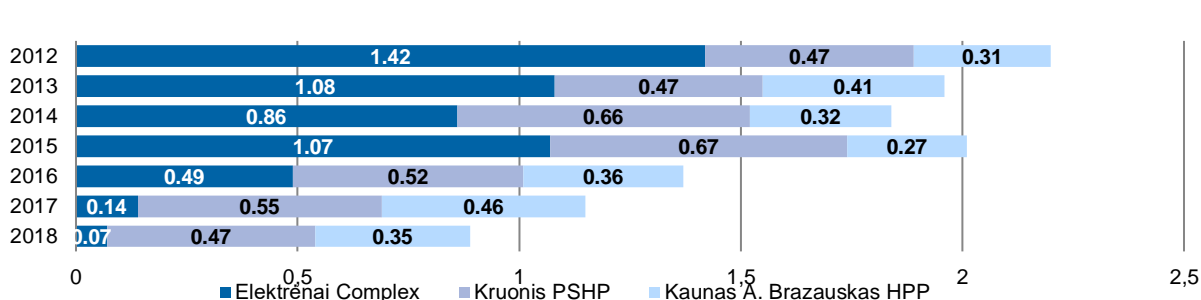
In 2018, Unit 8 of the reserve power plant ensured the electricity system reserve, the so-called strategic reserve.

In July-October 2018, during the planned repair of the interconnection with Sweden NordBalt, the CCU provided the strategic reserve service. During July-October 2018 the CCU was activated 8 times for the commercial production. After the repair of NordBalt, CCU provides tertiary reserve service again, Unit 8 – strategic reserve service.

In 2018, 0.067 TWh of electricity was produced at the Elektrėnai Complex compared to 0.139 TWh produced during 2017.

In 2018 all power plants of the Company achieved their accessibility objectives. Plants are considered available when they produce electricity or are fully prepared for production.

Figure 3
Electricity produced at power plants controlled by the Company and electricity sold (TWh)



Planned activities of the power plants in the forthcoming period

It was learnt in the end of 2018 that the tertiary reserve in 260 MW scope will be guaranteed by CCU in 2019, whereas the strategic reserve will not be ordered. Therefore, the decision was made to conserve the unit 8 of Elektrėnai Complex from 2019, too (the unit 7 has been conserved since 01 January 2018). The periodical short-term technological tests of equipment are planned in the Elektrėnai Complex.

Kruonis PSHP is providing service of secondary reserve (by means of two units) since 2019. The profitability of the commercial activities using two remaining units and the production volumes will depend mostly on the market conditions. i.e. difference in the prices of electricity in peak and nonpeak periods.

The production volumes of Kaunas A. Brazauskas HPP will depend mostly on the Neman yield. The power plant is affected a lot by change of seasons, i.e., the majority of electricity is produced by spring floods, and the smallest part – in cold winter or

hot summer. It will be attempted to make use of the flexible production in the power plant during the hours, when the highest price is formed in the market.

It is not planned to produce energy in Vilnius TPP-3 in 2019.

The Company sets accessibility goals for the power plants. The devices are considered accessible when they are producing electricity or when they are completely ready to produce it. It is planned that average annual accessibility of CCU in 2019 will be at least 97.8%, of Kruonis PSHP – 90.2%, and that of Kaunas A. Brazauskas HPP – 92.5%.

It will be also attempted to achieve that the power plants would participate reliably in the tests of isolated network according to the TSO default program.

FACTORS DETERMINING THE FINANCIAL INDICATORS OF THE COMPANY

Business environment

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).

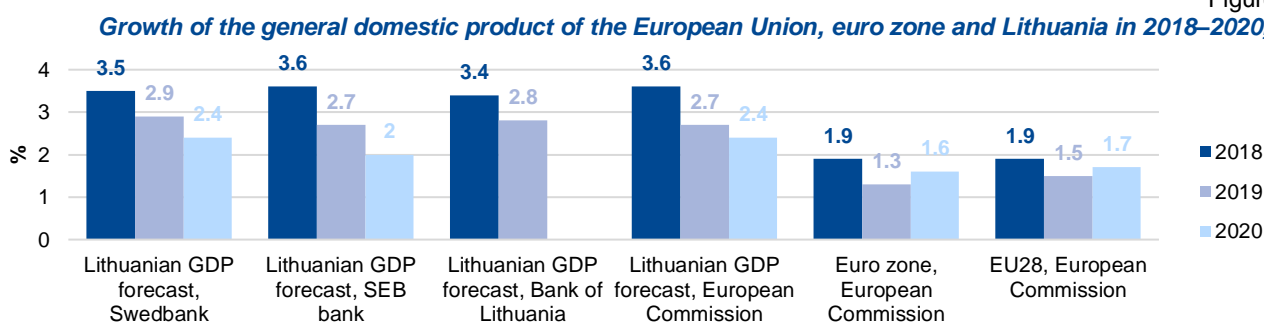
The company operates in Lithuania, but it sells electricity in the regional Nordic power market.

The changes in general domestic product have the biggest impact on increase in demand for energy and competitive environment, where the Company is operating. The general domestic product has been growing for several years in the European Union already. The growth in 2017 was the fastest in the last 10 years. In 2017, the economies of all the Member States of the European Union were growing for the first time since 2007. The growth will continue. However, according to the forecasts, due to increasing global uncertainties, it will be more moderate. According to the forecast of the European Commission published in February 2019¹, total growth of the general domestic product of the European Union (EU28) in 2018 was going to reach 1.9 percent, in euro

zone – also 1.9 percent. Meanwhile, the economic growth in 2019 should be 1.5 and 1.3 percent accordingly, in 2020 – 1.7 and 1.6 percent. The European Commission predicts that the growth of the Lithuanian economy in 2018 will reach 3.6 percent, in 2019 – 2.7 percent, and in 2020 – 2.4 percent. A little bigger growth was prognosed in the EU28, in the euro zone, and in Lithuania in autumn 2018².

The growth of the Lithuanian economy is also forecasted by the economists of the Lithuanian banks in the published perspectives of the Lithuanian economic growth. According to the forecasts presented by the analysts of SEB bank in February 2019³, the real Lithuanian general domestic product is going to increase by 3.5 percent in 2018, by 2.9 percent in 2019, and by 2.4 percent in 2020. The Swedbank analysts published perspectives of the Lithuanian economy in the end of January 2019⁴: it is forecasted that the growth of general domestic product will reach 3.6 percent, in 2019 – 2.7 percent, and 2.0 percent in 2020. According to the forecast of the Bank of Lithuania⁵ made in October 2018, the Lithuanian general domestic product is going to grow by 3.4 percent in 2018, and by 2.8 percent in 2019.

Figure 4



As the energy consumption is closely related to the growth of general domestic product, the changes in speed of economic growth in Lithuania and neighbouring countries may also affect the results of the Company's performance results.

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

- **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, in few last years it reduced the differences between the peak and off-peak prices on the electricity exchange, which in turn impacts the production at Kruonis PSHP. A lower electricity price worsened the possibilities to remain competitive while producing electricity using the gas installations. In 2018, the price of electricity on the Nord Pool Lithuanian trading zone increased compared to 2017

¹ Source: European Commission. European Economic Forecast Winter 2019

² Source: European Commission. European Economic Forecast Autumn 2018.

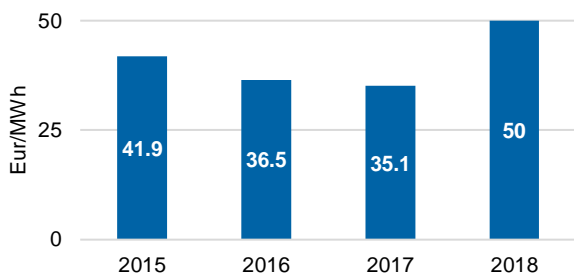
³ Source: SEB bank. Lithuanian Macroeconomic Review, 5/2/2019, No 68.

⁴ Source: Swedbank Economic Outlook. January 2019.

⁵ Source: Bank of Lithuania. Lithuanian Economy Review: October 2018.

(see Figure 5). It is expected that this trend will continue. This will have a positive impact on the Company's results as the produced energy will be sold at a higher price.

Figure 5
Electricity prices as per Lithuania price area on NP electricity exchange
(source: Nord Pool)



- **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 24.63 at the end of 2018. A positive impact of EA revaluation had a significant positive effect on the Company's net profit for 2018.

Company's strategy and objectives

The Company was acting in 2018 in accordance with the Company's business strategy approved by the Company's Board for 2016-2020. This document defines the long-term business strategy of the Company: strategic directions, objectives and indicators measuring the strategy's implementation.

The Company attempted to earn income from new activities and to reduce simultaneously the expenses of the main activities.

As the parent company Lietuvos Energija announced the updated performance strategy of the Group LE 2030 on 23 May 2018, the Company's strategy was reviewed and updated.

The Company's mission and vision were not changed, only specified; the strategic directions and actions planned for their implementation were concretized (see Fig. 6).

It is stressed in the updated strategy that the main activity of the Company is strategic generation as a basis for growth of the entire group. The main objective set for the Company is to contribute to successful synchronization of the Baltic States with the network system of continental Europe, to preserve capacities of reliable local electricity production and to develop new capacities in Lithuania.

It is also foreseen in the strategy that while playing its major role – to ensure the reliable and effective strategic generation – the Company will contribute significantly to the implementation of the strategy LE 2030 in the area of green generation and implantation of innovations.

10 strategic solutions are provided in the Company's strategy – particular projects and performance areas planned for

- **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 keep three units of the Elektrėnai Complex until 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, situation in the market of electricity production and system services, changes and prospects in the regulatory environment, the Company's Board adopted a decision to discontinue the operation of units 7 and 8 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 period 2019-2030. In order to provide services of good quality, they include cooperation in the synchronization project of major importance for Lithuania and preparation for participation in the foreign markets of power reserves.

The Company intends to contribute to development of green generation by using the current capacities of hydroelectric power plants, by developing and suggesting services of supervision of capacities of production of renewable energy sources.

The pilot projects of solar power plants and electricity batteries (accumulation devices) in the current infrastructure are already planned in the area of innovations.

The implementation of the program of cleaning works in Elektrėnai complex remains important for the Company – the old and ineffective devices are disposed and unused chimneys are dismantled.

The Company is going to continue supporting the LEAN management system and culture of continuous improvement, to digitize the processes, to reinforce cyber safety and to take care about training of the employees' competences relevant for implementation of the strategy LE 2030.

It is planned that the Company's investments will make a significant share in EUR 600 million that the Lietuvos Energija Group is planning to invest into the production devices in present and new production bases before 2030. The financial outcome of strategic generation (EBITDA) is believed to make up to EUR 60 million.

The document of the Company's strategy for 2019–2030 is available on the Company's website (link).

Figure 6
The Company's strategic directions for 2019–2030

MISSION			
We are a reliable and advanced energy generation company providing services required for energy system security.			
Quality services (the TSO, suppliers, consumers, shareholders)	Improvement of operating efficiency	Business development	Self-development, team and staff performance
VISION			
We seek to become a competitive international excellence centre for energy generation.			

Achievement of the Company's objectives

According to the preliminary evaluation, the Company succeeded in implementation of 5 out of 7 annual objectives of the Company: the profitability of the year 2018 exceeds the set limit; the performance expenses were controlled successfully and were smaller than planned; the accessibility and reliable work of the power plants was ensured; the achieved maturity level of the performance mastership was bigger than planned (according to the methodology of the group of "Lietuvos Energija"); and Vilnius TPP-3 was taken over smoothly. The Company achieved other two objectives partially: income from new activities was little smaller than planned, and 3 minor accidents happened (tolerance limit – 1).

In 2019, the Company is going to satisfy the shareholders' expectations and to ensure profitable activities of the Company

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:

- major repairs of the second hydroelectric unit at Kruonis PSHP (finished in July 2018);
- clearing-up works at the Obeniai ash site at Elektrėnai Complex (finished in 2018);
- installation of unit 5 at Kruonis PSHP (if market conditions appear to be favourable);
- dismantling of chimneys 1 and 2 in Elektrėnai.

The following R&D projects were under implementation during 2018:

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.

(objective 1) and effective control of expenses (objective 2). Similarly to every year, the reliable work of power plants is relevant (objective 3). The Company is providing systemic services important to the country, so it has to be ready to produce electricity when needed. Besides, it is attempted to make use of all the opportunities to produce on the commercial grounds as much as possible. Another important objective is a reliable participation in the testing program of isolated network (objective 4). The fifth objective of the Company for 2019 is to improve experience of the employees – it will be measure in the entire group of Lietuvos Energija according to the unified methodology. The sixth objective is performance without accidents (tolerance limit – 1 minor accident a year).

Repair works started in February 2018. All planned works were completed until 23 July 2018.

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. Partial funding of the feasibility study of the fifth unit of Kruonis PSHP was also approved. 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 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.

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 250 m 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 m 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.

Discontinuation of usage of heavy fuel at Elektrėnai Complex

Implementing the decision to discontinue the use of reserve heavy fuel oil in the facilities of the Elektrėnai Complex, the Company concluded the agreement on uninterrupted supply of gas. Reserve gas will be stored at the Inčukalnis gas storage facility. The Company estimates that it could save around EUR 0.5 million per year. The Company continues 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.

In December 2018, a contract for the sale of the available fuel oil was concluded, which is expected to be completed by 2019. February. It is planned that the remaining fuel oil storage and reserve infrastructure will be repaired and, as appropriate, offered to customers whose activities in the area would bring value to the entire region.

Solar power plant in the reservoir of Kruonis PSHP

In cooperation with scientists of Kaunas University of Technology (KTU), the Company plans to build an experimental solar power plant floating on the water.

In the first stage of the project, it is planned to build an experimental power plant of small power (approx. 60 kW) and to create an algorithm that would control independently the solar power plant and electricity battery with regard to incessantly registered network's and other physical parameters and working modes of units of Kruonis PSHP. Such system would allow the power plant to provide a reliable service of primary electricity reserve, for example. We plan to carry out these works until the end of 2021. Implementation of this innovative idea granted support from to the European Union's funds.

When the performance data on the experimental power plant are collected and evaluated, it will be possible to consider an opportunity to cover the whole reservoir by floating construction of solar modules. The floating solar power station in Kruonis PSHP would be the first such power plant in this region and it would be distinguished by its technical solutions. More than 300 ha area of upper reservoir of Kruonis PSHP could be used to build it. The power plant's construction would adjust to the changing water level in the reservoir, would be resistant to waves and ice. The power of the solar power plant covering the reservoir of Kruonis PSHP could reach 200–250 MW. Such amount would increase the power of the solar power plants operating in Lithuania now by almost three times. The amount of electricity produced by this power plant in a year would be sufficient to provide more than 120 thousand of households with electricity.

Energy battery storage system in Kaunas A. Brazauskas' Hydroelectric Power Plant

The Company plans to install the energy battery storage system of one megawatt power in Kaunas A. Brazauskas' Hydroelectric Power Plant. If the project of synergy of the hydroelectric power plant and the battery was implemented successfully, it would be the first innovation of such type and the battery would be among the biggest in the Baltic States. The battery would use unique algorithm to maintain stable frequency of the electric network and to balance brief changes in the power of hydro-unit.

At present, the service of frequency regulation in the Baltic States is usually provided by the Russian power plants functioning in the post-Soviet ring BRELL of energy system. The battery's project is a solid step for Lithuania in guaranteeing independent service of frequency regulation inside the country – this service will become of major importance to Lithuania after 2025, and for the Baltic States it will be relevant after they get disconnected from the ring BRELL and get connected to the networks of continental Europe. The successfully implemented project of synergy of the hydroelectric power plant and the battery could serve as an excellent primary reserve source and a qualitative service could be offered to transmission system operator.

Although installation of one-megawatt energy battery would be a pilot project in our region, the energy batteries storage system of lithium ions of bigger power (20 megawatts and more) have already become popular in the USA, Australia and part of the Western European countries. As the need for systemic services is growing in the Baltic States, the technology of energy battery could be adjusted to much more powerful units of Kruonis PSHP in the future.

The Company is going to announce the competition of public procurement for equipment of the energy battery in the beginning of the year 2019.

Operational excellence, innovative activities

In order to implement one of the strategic directions – to increase operational effectiveness – the Company is moving on the path of continuous improvement based on optimization of performed functions, technological progress, implantation of innovations, and improvement of performance processes. The Company is implementing the Performance Excellence program based on the best performance management practices (LEAN, Six Sigma etc.).

In the beginning of 2018, the Company set a goal to optimize technical maintenance of the devices as one of the constituents of the energy's price. In order to achieve these goals, the systemic analysis of the technical maintenance processes of the devices was organized. The processes were subordinated with regard to each other in the course of this initiative. They were connected into the logic of continuous improvement and distributed into the groups of planning, supply, execution and analysis. The processes were coordinated in such a way so that it would be possible to optimize purposefully the expenses of technical maintenance (work hours of persons). The set goals and coordinated processes allowed spending more time on new activities (external services, maintenance of new objects (Vilnius TPP-3)). When compared to the year 2017, the expenses of technical maintenance of the energy production devices belonging to the Company (work hours of persons)

were optimized by more than 17 percent in 2018. This allowed providing some 13 thousand h of new services in the market.

Besides the improvements provided in the performance plants, the improvements suggested by the employees are also induced and implemented in the Company. The Company's employees made 746 suggestions on improvement in 2018. The experts and managers are assessing the suggested ideas with regard to the aspects of financial buying-off, time saving, work safety, quality, pollution reduction, cherishing of the company's values, and improvement of ergonomics of work places. The employees are granted the possibility to implement own ideas and thus to contribute to the Company's performance development and achievement of objectives. More than 714 improvements were implemented in 2018. It is calculated that they helped to save 1.16 million euros and 10.8 thousand work hours.

All the units of the Company continue practicing visual management of daily activities with the cascade-like system of meetings, objectives and indicators (daily accountability). The tools of LEAN and other performance management systems are used to remove wastefulness that does not create any value, to tidy up and make permanent the premises and work places (the premises of 2573 sq. m area were vacated in 2018), and to solve the problems more effectively and quickly.

New services

The Company continued providing services to external clients in 2018. The Company offers services of wide range: automation, operation of electric and mechanical devices, hydrotechnical buildings and equipment, various power objects, rents out the buildings not used for own activities, warehousing areas and territories, offers chemical products and other services.

The Company continues cooperation with fitters of solar power plants and attempts to get strong position in the areas of their installation and maintenance, as well as in the area of maintenance of hydro structures (dams). Two long-term contracts for carriage services were signed in 2018, while devel-

oping successfully and adjusting railway services of the Company (provision of services in the Elektrėnai Complex). The Company won two competitions of provision of operational management services in the junction of years 2018–2019.

In total in 2018, the Company provide services to 25 clients, 9 among which are new clients. Almost 13.1 thousand work hours were granted for these services.

While assessing expansion possibilities of new services and implementing the business strategy, the Company attempts to offer its experience and competences not only to Lithuanian, but also to Latvian, Estonian, Swedish and 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 main 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;
- defense 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.

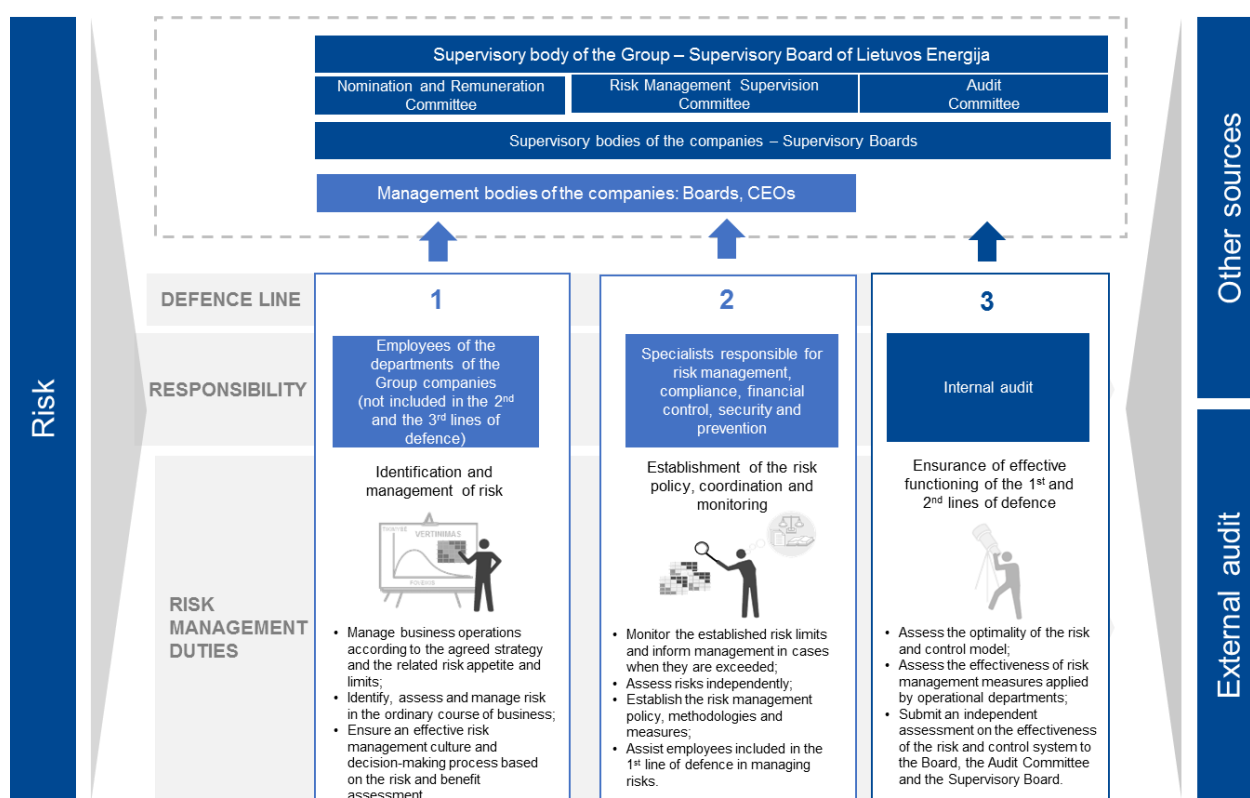
Risk appetite and risk tolerance limits are established within the Lietuvos Energija group. Risk appetite means the level

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 and Business Ethics 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 (see Fig. 7).

Figure 7
Risk management and control model



The risk factor "Regulation and compliance" was manifested on several occasions in 2018. The regulator National Commission for Energy Control and Prices and/or Company made these cases public. Besides, several minor cases of the risk factor "Safety and health of employees and contractors" were manifested in the Company. They are described below in the column "Social responsibility".

As is the case each year, in 2018 the Company performed risk assessment for the year 2019 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 2019 and their management policies is presented below:

Risk factors for 2019 and their management policies

Risk factor	Sources of risk	Main risk management policies	Risk level
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.	<ul style="list-style-type: none"> 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; 	Very high

		<ul style="list-style-type: none"> • 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; • The management reviews regularly relevant regulation risks. 	
Market changes and competitiveness	<p>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.</p>	<ul style="list-style-type: none"> • 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 CCU on purpose to increase its competitiveness in the markets of reserve services and electricity generation. 	Very high
Information security (cyber security)	<p>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.</p>	<ul style="list-style-type: none"> • Improvement of resistance through tests/trainings/training courses for employees; • Periodical updating of work stations of management system and software; • Ensuring the continuity of the Company's critical systems; • Enhancement of detection/suspension of cyber-attacks; • Cooperation with external institutions. 	High
Technical faults	<p>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.</p>	<ul style="list-style-type: none"> • 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. 	Medium
Safety and health of employees and contractors	<p>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.</p>	<ul style="list-style-type: none"> • 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; • Standardization and increase of control of complex works performed by several companies, and reduction of uncertainties in the area of occupational safety and health. 	Medium

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

	2014	2015	2016	2017	2018
Last trading session price, EUR	0.780	0.671	0.626	0.623	0.5
Maximum price, EUR	0.854	0.940	0.713	0.665	0.64
Minimum price, EUR	0.395	0.650	0.610	0.6	0.5
Average price, EUR	0.639	0.805	0.654	0.656	0.587
Turnover, shares	1,545,602	642,148	929,940	920,892	772,323
Turnover, EUR MLN	0.99	0.52	0.61	0.58	0.45
Capitalisation, EUR MLN	Company	495.37	426.14	397.56	324.0
	Baltic Main List	4,438.23	4,885.76	5,043.31	5,853.81

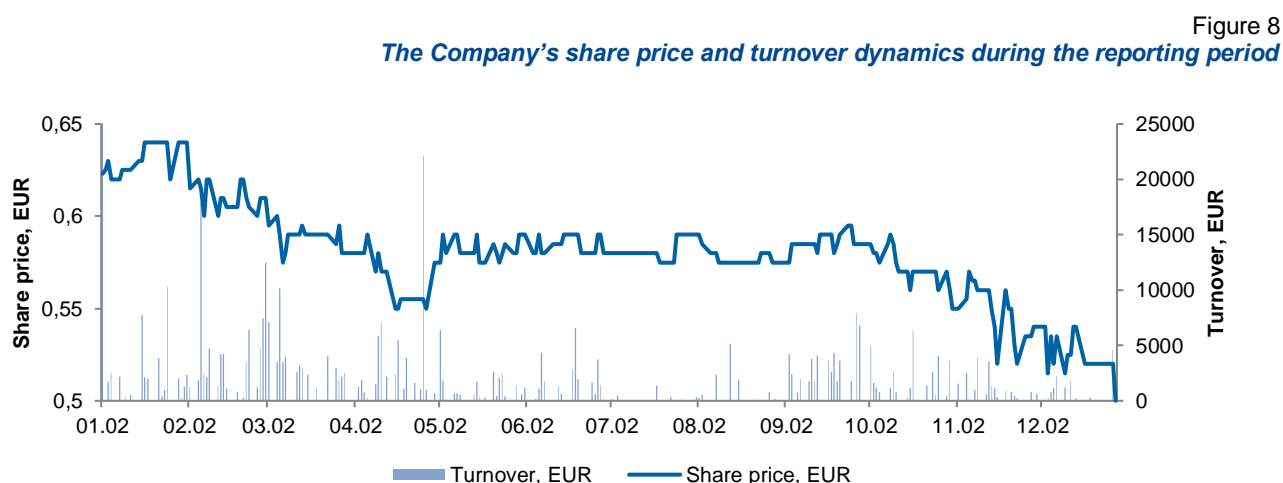


Figure 9

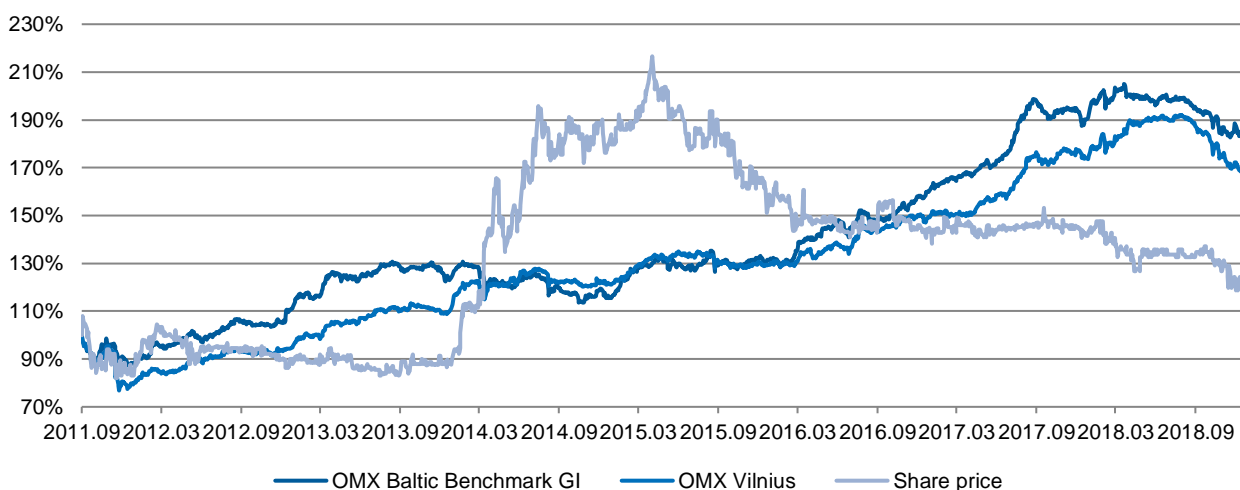
INTERIM REPORT

For the twelve-month period ended 31 December 2018

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



Figure 10
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 31 December 2018, the Company had in total 5,964 shareholders.

Shareholders holding more than 5% of the Company's shares (as at 31 December 2018)*

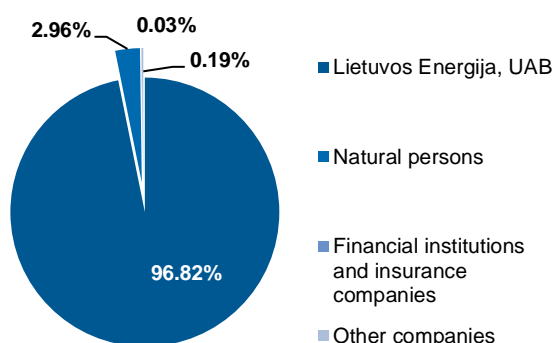
Name	Class of shares	Number of shares	% of authorised share capital	% of shares with voting rights
Lietuvos Energija UAB Company code – 301844044 Žvejų g. 14, 09310 Vilnius	Ordinary registered shares	627,372,769	96.82	96.82
Other shareholders	Ordinary registered shares	20,629,860	3.18	3.18
TOTAL	Ordinary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

Breakdown of shareholders by country

Country	Number of shareholders, %
Lithuania	96.5
Russia	0.8
Estonia	1.0
Belarus	0.6
Latvia	0.4
USA	0.2
Other	0.5

Breakdown of shareholders by category



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.

The shareholders have the following property rights:

- to receive a part of the Company's profit (dividend);
- to receive the Company's funds when the authorised share capital of the Company is reduced with a view to paying out the Company's funds to the shareholders;
- to receive shares without payment if the authorised share capital is increased out of the funds of the Company, except for the cases stipulated in the Lithuanian Law on Companies;

- to have the pre-emption right in acquiring shares or convertible debentures issued by the Company, except for the case when the General Meeting of Shareholders decides to withdraw the pre-emption right for all shareholders in accordance with the procedure defined in the Lithuanian Law on Companies;
- to lend funds to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the Company borrows from its shareholder, the interest rate may not be higher than the average interest rate offered by commercial banks operating in the lender's place of residence or business, which was in effect at the time of entering into loan agreement. In such case, the Company and the shareholders are prohibited from negotiating a higher interest rate;
- to receive a part of assets of the company in liquidation;
- to transfer all shares or a part thereof to the possession of other persons;
- other property rights prescribed by law.

The shareholders have the following non-property rights:

- to attend the General Meetings of Shareholders;
- to submit questions to the Company about the items included in the agenda of the General Meetings of Shareholders;
- to vote at the General Meetings of Shareholders according to the voting rights carried by their shares. One ordinary registered share grants one vote;
- to receive information about the Company as prescribed by law;
- to file a claim with a court for reparation of damage resulting from non-fulfilment of improper fulfilment of obligations by the head of the Company or the Board members as stipulated in Lithuanian Law on Companies and other laws and Articles of Association of the Company, also in other cases prescribed by law;
- other non-property rights prescribed by law.

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 with AB SEB bankas on keeping accounts of the Company's securities and management of personal security accounts is active.

AB SEB bankas contacts:

Gedimino pr. 12, LT-01103 Vilnius, Lithuania

Tel. 1528 or +370 5 268 2800.

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.

A decision to allocate EUR 0.023 dividends per share for the six-month period ended on 30 June 2018 (EUR 14.9 million in total) was adopted in the Extraordinary General Meeting of Shareholders of the Company held on **27 September 2018**. 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 11 October 2018, received dividends.

Net profit from continuing operations of the Company was EUR 21.9 million in January-June 2018, with the indicator of dividends paid for this period/ net profit being 0.68.

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,

About the UN Global Compact

The United Nations initiative Global Compact is the biggest voluntary initiative to encourage businesses to adopt sustainable and socially responsible policies which are supported not only by business companies but also other organisations, trade unions, public and civil society organisations all over the world.

The aim of this international agreement is to help organisations adopt the principles laid down in the agreement in organisations' operational strategies, to promote cooperation and partnership among different sectors within a country and beyond its borders so as to achieve the universal global development goals.

The key principles of the Global Compact:

Human Rights

- Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2:** make sure that they are not complicit in human rights abuses.

Labour

- Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,
- Principle 4:** the elimination of all forms of forced and compulsory labour,
- Principle 5:** the effective abolition of child labour; and
- Principle 6:** the elimination of discrimination in respect of employment and occupation.

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.

- 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 Global Compact is based on human rights, labour power and environmental protection principles established in the following international documents:

- The Universal Declaration of Human Rights;
- the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work;
- the Rio Declaration on Environment and Development;
- the United Nations Convention Against Corruption.

Environment

- Principle 7:** Businesses should support a precautionary approach to environmental challenges,
- Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

A comprehensive integrated Lietuvos Energija Group social responsibility report for the year 2018 will be prepared and published separately.

Human rights

In the process of development of its activities and provision of its services in various communities, the Company respects the principles of the human rights' protection, supports the international human rights protection within the sphere of its operations, does not commit any violations of the human rights and comes out against such violations.

During 2018, no discrimination cases or other incidents of violation of human rights were recorded in Lietuvos Energijos Gamyba.

Relationship with employees

The Company respects the rights of its employees and comes out against child's work and against any discrimination both in the employee hiring process and among current employees. Trade unions are active and there is a valid collective agreement in the Company. Objective self-assessment by the employee and an assessment of the employee's competences by his/her supervisor is the only way in which employees are assessed in the Company. The Company is concerned about the improvement of its employees' competences. There are transparent wage setting and payment procedures in place. The Company is also concerned about the employees' health, therefore, it organised informal events on its own initiative and invites all employees to them. The Company also tries to ensure that the organisational culture is favourable to its employees.

The main purpose of the Company's human resources policy is to attract and retain highly-qualified employees and to ensure, based on a long-term partnership and mutual-value creation, a common successful future of the Company.

The Company has created opportunities for people of different age and having different experience to successfully find employment and work. At the end of 2018, men accounted for 86 percent of the Company's employees and women - for 14 percent. There are more men working in the Company because of specifics of its activities - women choose technologic works and related specialties less frequently. There are no women in the Supervisory Board of the Company. However, in 2018, one of the five members of the Board of the Company (top management category) was female, who is also was holding the post of CEO.

Occupational health and safety at work

The Company adheres to the general provisions and principles of occupational health and safety at work as well as to the provisions of the Group's Occupational Health and Safety Policy which sets for the main guidelines for the implementation of such principles.

Open flame sources, flammable and explosive substances, steam and hot water are used in the production process; together with the temporary nature of specific workplaces and complicated conditions for the performance of the works this creates health and safety at work risks for the employees of both the Company and its contractors.

Prevention of accidents is in the focus of attention of the Company: an OHSAS 18001:2007 certificate is maintained in order to ensure health and safety at works, workplaces and the quality of organised work are regularly inspected, the employees are regularly briefed and provided with personal protective equipment.

The Company is concerned about its employees' health. A free medical check for all employees of the Company for whom such checks are mandatory was organised, free vaccination against flu and tick-borne encephalitis, as well as training on hygiene and first aid at work were conducted.

Using the digital training platform, a periodic briefing on safety requirements was organised to the Company employees in 2018

More information on employees and relations with employees – further in this report.

Occupational safety and health indicators (2018)

Employee injuries (minor health disorders and fatalities)	18 minor injuries (eye contamination, cardiovascular disorders, muscle strains, bruises, nicks and thumps) and 3 - minor accidents. Deaths - 0. The main reason for minor injuries is careless employees behavior at work place. All injuries were investigated, plans for prevention are made.
Violations of occupational safety and health by contractor employees in the Company's objects and their nature	16 (including works stopped 4 times) Nature: non-use of personal protective equipment, non-compliance with occupational safety and health rules inappropriate registration of works, performance of fire works, etc.
Indicator of time lost as a result of violations of occupational safety and health or injuries	201 working days were lost as a result of accidents at work, 3 795 working days - due to a sickness.

Society Relationships

In the process of development of its activities and provision of its services in various communities, the Company respects the principles of the human rights' protection, supports the in-

ternational human rights protection within the sphere of its operations, does not commit any violations of the human rights and comes out against such violations.

Educational activities

The Company demonstrates goodwill and invites the members of public to participate in free-of-charge excursions at its objects: the combined cycle unit, Kruonis PSHP, Kaunas HPP. Thereby, the Company contributes to increasing awareness of the public, especially the younger generation, about the energy.

During 2018, the power plants of the Company had in total over 2 500 visitors from various educational establishments, schools and other institutions, as well as delegations from

abroad. Kruonis PSHP has the highest number of visitors in 2018.

Provision of Support

Up to 2017, the Company provided support via the support foundation of Lietuvos Energija set up in 2014. The Foundation united and coordinated support of the Group to significant public projects, programmes and actions. Currently the Company provides no support.

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. This 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. SGS Klaipėda UAB performed the audit of the standard ISO 14001:2015, there were no discrepancies during the audit, the standard was re-certified until 30 December 2019.

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.

Investments into environmental protection

The Company invested 1.04 million euros into the environmental protection in 2018. The investments cover protection of water sources, protection of soil and underground water, waste management, and protection of biological variety and landscape. The funds were attributed to put the Obeniai land lot in order and to renew the chemical water treatment equipment and equipment of control measurements of hydrotechnical buildings.

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, at the power plants of the Company 65 tons of hazardous waste and 6,638 tons of non-hazardous waste were transferred, 5,275 tons of ferrous and almost 67 tons of non-ferrous metals were sold, 81 tons of household waste was collected.

Activities in market

Energy efficiency

The Company signed the Agreement on Education and Consultation of Energy Users in March 2018 with the Ministry of Energy of the Republic of Lithuania. In such a way, the Company joined the initiative to induce energy efficiency in Lithuania, the purpose of which is to teach and consult the users on effective usage of energy and to help the user to reduce costs of energy consumption and to contribute to increase of energy efficiency.

The efficiency of energy usage is becoming more and more important for all the energy users. The challenge of more sparing usage of energy resources has become a strategic goal in the European Union. The Energy Efficiency Directive of December 2012 provides that the EU Member States are going to reduce energy usage by 20 percent until 2020. The Law on Increase of Energy Efficiency of the Republic of Lithuania of 03 November 2016 provides national objectives of energy efficiency and tools, how Lithuania is going to contribute to this goal.

The Company contributes to the initiatives of energy efficiency by informing its clients and society about a possibility to use energy more economically.

Zero tolerance to corruption

In accordance with the principle of "Global Agreement" to fight corruption, the Company is paying all the taxes transparently, ensures transparency of procurements that it organizes and demands that its potential and present suppliers would act fairly and transparently. The Company trades in electricity in the market following the principle of transparency and does not take part in any transactions, where bribes are requested or where non-transparent behaviour is

requested. The Company submits remarks and offers to the competent authorities about new or corrected relevant legal acts, and assesses their transparency.

The Company and its employees act in compliance with the provisions and principles of zero tolerance to corruption. The Company is intolerant to any forms of corruption (direct or indirect). The policy of zero tolerance to corruption is available on the Company's website. All the employees of the group of companies of Lietuvos Energija have to report any violations or suspected violations of the policy of zero tolerance to corruption to the employee, who performs preventive functions in the Company, or they may call the **Trust line, tel. +370 640 88889 or e-mail to pasitikejimolinija@le.lt**. All other parties are also encouraged to report any violations or suspected violations of the policy of zero tolerance to corruption using these contacts. The anonymity is guaranteed.

Transparent procurements

The Company's public procurements are carried out by UAB Verslo aptarnavimo centras (Business Servicing Centre Ltd). According to the Law on Public Procurements, the tools of central information system of public procurements are used to announce all the draft technical specifications of the Company's procurements, save for the low-value procurements. The reports on procurement procedures and information on the procurements under implementation are also published. The Company is implementing all the procurement and sale procedures with maximal correctness and transparency.

433 procurements initiated by the Company were finished in 2018. 15 claims regarding the Company's procurements were received this year. 5 of them were recognized as justified and were satisfied.

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

The Company's business objective is effective energy generation and supply in contribution to assurance of power safety. The Company's business object is energy generation and supply, as well as import, export and trade in electricity. The Company may engage in other activities that are not in conflict with its objectives and laws of the Republic of Lithuania.

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 (CCU),
- 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).

The Company's geographic market is Lithuania. Its electricity is traded on the Nordic market Nord Pool.

Information about the Company's branches and representative offices

The Company has no branches or representative offices.

Information about ownership interest in other entities

The Company belongs to state capital group of companies Lietuvos Energija, which is one of the biggest group of energy companies in Baltic countries. Lietuvos Energija holds 96.82% of the Company's share.

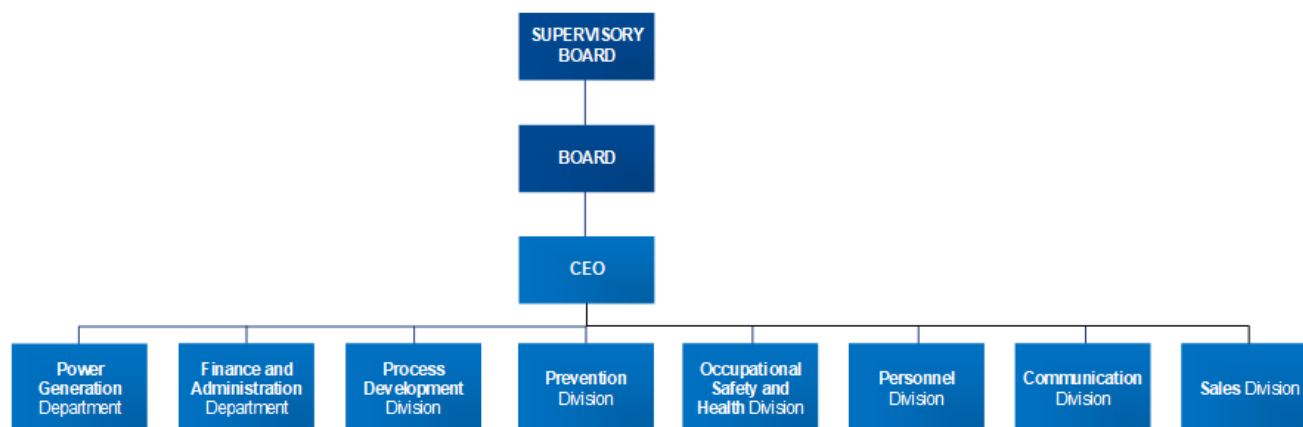
As at 31 December 2018, the Company had no daughter companies and had ownership interest in the following entities: Geoterma UAB, Technologijų ir Inovacijų Centras UAB, Verslo Aptarnavimo Centras UAB (see below).

	Technologijų ir inovacijų centras UAB	Verslo aptarnavimo centras UAB	Geoterma UAB
Name	A. Juozapavičiaus g. 13, Vilnius, Lithuania	P. Lukšio g. 5B, Vilnius, Lithuania	Lypkių g. 17, Klaipėda, Lithuania
Registration date	4 December 2013	30 July 2014	1 March 1996
Company code	303200016	303359627	123540818
Contacts	+370 5 278 2272, info@etic.lt	+370 5 259 4400, vac@le.lt	+370 46 326 163, info@geoterma.lt
Website	www.etic.lt	http://vac.le.lt	www.geoterma.lt
Shares	20.01%	15%	23.44%
Main activities	Provision of information technology and telecommunication services to energy companies.	Organization and execution of public procurement, provision of accounting, labor relations administration, customer service, human resources administration, legal services, performance consulting and training.	Gheothermal heating plant.

Information on larger related party transactions

Information on related party transactions is available in Interim Financial Statements of 2018.

Figure 11
Structure of the Company (as at 31 December 2018)*



* From 1 January 2019, after the integration of the communication function in Lietuvos Energija Group, no Communication Division was left in the Company and this service is provided by the company Verslo Aptarnavimo Centras UAB.

Information about the Company's management bodies

Based on the Articles of Association effective as at 31 December 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](#)".

The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme managing body of the Company. The scope of competence and the procedure for its convention and adoption of decisions by the meeting are established by the laws, other legal acts and the Articles of Association.

Two General Meetings of the Company's Shareholders were held in 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

Information on the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius is available on Annual Report of the Company. Changes in management of the Company are described below).

Company has been approved, the Supervisory Board recalled and new members of the Supervisory Board elected for 4 year term of office: Dominykas Tučkus, Živilė Skibarkienė and independent member Rimgaudas Kalvaitis.

2. The Extraordinary General Meeting of Shareholders held on 27 September 2018 made a decision to allocate dividends for shareholders of the Company for the six-month period ended on 30 June 2018.

All General Meetings of Shareholders convened by the Company in 2018 were attended by the Company's CEO (chairperson of the Board) and/or Director of Finance and Administration (member of the Board).

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

The Company's Supervisory Board is a collegial supervisory body. Its competence, procedures of decision making, election and recalling of the members are established in laws, other legal acts and the Company's Articles of Association. The Company's Supervisory Board has three members elected for the period of four years by the General Meeting

of Shareholders. At least one third of the Supervisory Board should be formed from independent members. The Chairman of the Supervisory Board is elected by the members of the Supervisory Board from among themselves.

INTERIM REPORT

For the twelve-month period ended 31 December 2018

Every candidate to the position of the supervisory board member must inform the Supervisory Board in writing about qualification of each candidate, experience in managing position, and suitability to act as a member of the Supervisory Board. A Managing Director, A Board's member, A member of management body of the daughter enterprise, member of supervisory body, management body or administration of the legal entity that transmits electricity or gas, an auditor of employee of an audit company cannot be a member of the Supervisor Board. The same applies to the person, who does not have a right to take this position in accordance with the legal acts.

If a member of the Supervisory Board is removed from office, resigns or discontinues the performance of his duties for other reasons and the shareholders whose shares carry at least 1/10 of all votes object to the election of individual members of the Supervisory Board, the Supervisory Board shall lose its powers, and the entire Supervisory Board shall be subject to election. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

The main competences of the Company's Supervisory Board are the following:

- To consider and approve the business strategy of the Company, to analyse and evaluate information on the implementation of the Company's business strategy, and to submit this information to general meeting of shareholders;
- To elect the members of the board and to remove them from office;
- To supervise the activities of the board and the Managing Director of the Company;
- To submit its comments and proposals to the general meeting of shareholders on the Company's set of annual financial statements, draft of profit/loss distribution and the annual report of the Company as well as the activities of the board and the Managing Director of the Company;
- To submit to the general meeting of shareholders its comments and proposals regarding a draft decision on the allocation of dividends for a period shorter than the

financial year and the set of interim financial statements and the interim report drawn up for the purpose of adoption of the decision;

- With regard to the conclusion of the Company's Audit Committee, to submit opinion about the transactions planned by the Company with the associated party (if they satisfy the criteria discussed in the Company's Articles of Association);
- To submit proposals to the board and the Managing Director of the Company to revoke their decisions which are in conflict with laws and other legal acts, the Articles of Association of the Company or the decisions of the general meeting of shareholders;
- To address other issues assigned to the powers of the Supervisory Board by the Articles of Association of the Company as well as by the decisions of the general meeting of shareholders regarding the supervision of the Company's management bodies.

Changes in the structure of the Company's Supervisory Board during the reporting period:

- On 26 March 2018, at the ordinary general meeting of shareholders of the Company, the Company's Supervisory Board (with members Mindaugas Keizeris (chairman) 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).
- On 3 April 2018, at the first meeting of the new supervisory board, Dominykas Tučkus was elected as its chairman.)

The expected end of term of office of the current Supervisory Board of the Company is 25 March 2022.

Overall 14 meetings of the Supervisory Board were held in 2018. All of them were attended by all elected members.

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%)
Dominykas Tučkus Chairman	10 August 2017 – 26 March 2018 26 March 2018 – 25 March 2022		<ul style="list-style-type: none"> - Lietuvos Energija UAB, Member of the Board, Director for Infrastructure and Development. - LITGAS UAB, Chairman of the Board (until January 2019). - Lietuvos energijos Tiekimas UAB, Chairman of the Board (until August 28 2018), Member of the Board (from August 28 2018). - Energijos Tiekimas UAB, Chairman of the Board (until June 14 2018), Member of the Board (from June 14 2018). - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board. - Eurakras UAB, Chairman of the Board - Tuulueenergia OU, Chairman of the Board - Vilnius Third Combined Heat and Power Plant, Member of the Board (from March 19, 2018). - Lietuvos Energija Renewables UAB, member of the Board (since January 3, 2019). - KÜB Smart Energy Fund powered by Lietuvos Energija, Member of the Advisory Committee. 	–

Mindaugas Keizeris Chairman	10 August 2017 – 26 March 2018	-	<ul style="list-style-type: none"> - Lietuvos Energija UAB, Member of the Board, Director for Strategy and Development (until February 1, 2018), acting director (until February 11, 2018). - Energetikos Paslaugų ir Rangos Organizacija UAB, Member of the Board. - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board (until April 24, 2017). - Vilniaus Kogeneracinė Jėgainė UAB, Chairman of the Board (until 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 til October 2018). - Energijos Skirstymo Speratorius AB, chairman of the Board (since October 2, 2018), CEO (sinde October 8, 2018). 	-
Živilė Skibarkienė Member	26 March 2018 – 25 March 2022	-	<ul style="list-style-type: none"> - Lietuvos Energija, UAB, Member of the Board, Director for Organizational; Development. - Verslo Aptarnavimo Centras, UAB, Member of the Board (since April 4, 2018, Chairwoman since September 26, 2018). - Technologijų Ir Inovacijų Centras, UAB, Chairwoman of the Board (until September 26, 2018). - Elektroninių Mokėjimų Agentūra UAB, Member of the Board (from , 2018). 	-
Rimgaudas Kalvaitis Independent Member	26 March2018 – 25 March 2022	-	<ul style="list-style-type: none"> - 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 9,285 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.

The Board consisting of 3 (three) members is elected by the Supervisory Board for the term of office of four years and is recalled in line with the procedure prescribed by law and the Company's Articles of Association. The Board reports to the Supervisory Board and General Meeting of Shareholders. The Board elects its Chairman from among its members.

The person who nominates candidates for the position of the member of the Board is required to submit to the Supervisory Board a written statement about the qualification of each nominated candidate, his/her experience in managing positions, and fitness for the position of the member of the Board. The following members may not be elected as the members of the

Board: a person occupying the position of a member of the supervisory body, management body or administration in an energy company engaged in electricity or gas transmission operations; a member of the Supervisory Board of the Company; and any person who is not entitled to occupy such position on other grounds established in legal acts.

If the Board is recalled, the Board resigns or ceases to perform its duties for any other reason prior to expiry of its term of office, the new Board will be elected for the new term of office. When individual members are elected, such members may be elected only for the period until the end of term of office of the current Board.

The Board adopts decisions on:

- The Company's acting as a founder or a member of a legal person;
- Any transfer to third parties or encumbrance of the Company's shares/interests or rights attached thereto;

INTERIM REPORT

For the twelve-month period ended 31 December 2018

- Formation or termination of branches and representatives offices of the Company;
- Bond emissions;
- Operation of facilities owned by the Company and specified in the Lithuanian Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises Important to Ensuring National Security;
- Signing of agreements for the value of in excess of EUR 3 million;
- Other matters provided for in the Articles of Association of the Company.

In certain cases, prior to adopting a decision the Board is required to seek for comments from the Supervisory Board and obtain approval from the General Meeting of Shareholders. In view of the opinion of the Supervisory Board, the Board elects and recalls the Chief Executive Officer, decides on his/her remuneration and other terms of employment contract, approves his/her job regulations, provides incentives and imposes penalties.

Changes in the structure of the Company's Board during the reporting period:

- 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. The expected end of term of office of the current Supervisory Board of the Company is 26 March 2022.
- 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 expected end of term of office of the current Board of the Company is 2 April 2022.

Overall 42 meetings of the Board were held in 2018. All of them were attended by all elected members.

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 – 21 January 2019*	–	<ul style="list-style-type: none"> - 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. (until January 21, 2019). 	–	17,376
Darius Kucinas Date of birth – 1971 Member of the Board, Director of Production Department	22 September 2017 – 3 April 2018 3 April 2018 – 2 April 2022	–	–	–	10,428
Mindaugas Kvekšas Date of birth – 1986 Member of the Board, Director of Finance and Administration	22 September 2017 – 3 April 2018 3 April 2018 – 2 April 2022	–	<ul style="list-style-type: none"> - Verslo Aptarnavimo Centras UAB (P. Lukšio str. 5B, Vilnius, Lithuania, c. c. 303359627), Member of the Board 	–	10,428

- Lietuvos Energija, UAB (Žveju str. 14, Vilnius, Lithuania, c. c. 301844044), Head of Cogeneration Power Plants Division
- Vilnius Cogeneration Power Plant UAB (Žveju str. 14, Vilnius, Lithuania, c. c. 303782367), Member of the Board
- Kaunas Cogeneration Power Plant UAB (Žveju str. 14, Vilnius, Lithuania, c. c. 303792888), Member of the Board

* The Company's Board and the Supervisory Board received the notice of E. Čiužaitė regarding her resignation from the office of Managing Director and thus on 07 January 2019 decided to remove E. Čiužaitė from the office of the Company's Managing Director from 21 January 2019. E. Čiužaitė also resigned from the office of the Company's Board member and chairwoman of the Board from 21 January 2019. The Production Director Darius Kucinas has been acting as a temporary Managing Director from the Company from 22 January 2019. The Company initiated public election of a new Managing Director. On the day of this report, the Managing Director has not been yet elected.

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

Per member of the Board, average

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)

73.268

* 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 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

The committees of the Supervisory Board are formed in the group of companies Lietuvos Energija. They have the competence to submit conclusions, opinions and suggestions to the Supervisory Board of Lietuvos Energija. The committee must have at least three members, where at least one member has to be a member of the Supervisory Board and at least one member has to be independent. The members of the committees are elected for the period of four years. The activities of the committees apply to Lietuvos Energija and it's directly and indirectly controlled subsidiaries, including

the Company, as well as other legal persons with different legal status, over which Lietuvos Energija may have significant influence.

The following committees of the Supervisory Board are operating in Lietuvos Energija:

- The **Audit committee** is responsible for submission of objective and impartial conclusions and suggestions regarding audit, transactions with associated parties, as provided in the Law on Companies of the

Republic of Lithuania, and functioning of internal control system in the group of companies to the Supervisory Board;

- The **Risk management and business ethics supervision committee** is responsible for submission of conclusions and suggestions regarding management and control system in the group of companies and/or status of implementation of the main risk factors and risk management tools to the Supervisory Board; for compliance with business ethics, maintenance of bribery and corruption risk system and submission of recommendations to the Supervisory Board;
- The **Nomination and remuneration committee** is responsible for submission of conclusions and suggestions about appointment, revocation of the management and supervisory bodies of the group of companies, and about incentive issues to the Supervisory

Board, as well as for the evaluation of performance of the Board and its members and submission of appropriate opinion. The committee's functions also cover formation of common remuneration policy in the group of companies, determination of the size and composition of remuneration, incentive principles, etc.

If necessary, other committees may be formed according to the ad hoc principle (e.g., to solve special issues, to prepare, supervise or coordinate strategic projects, etc.).

On the day when this report was announced, the committees of Risk management and business ethics supervision, Audit and Nomination and remuneration were operating in Lietuvos Energija.

Audit Committee

Main functions of the committee:

- To supervise the preparation process of financial statements of Lietuvos Energija and the group of companies of Lietuvos Energija and to pay special attention to assessment of suitability and consistency of applied accounting methods;
- To supervise effectiveness of internal control and risk management systems of Lietuvos Energija and the group of companies of Lietuvos Energija that affect financial accountability of the audited company;
- To supervise independence and objectivity of auditors and audit companies, and to submit recommendations regarding selected audit company;
- To supervise audit processes of Lietuvos Energija and the group of companies of "Lietuvos Energija", to check audit's effectiveness and reaction of the administration to the recommendations submitted in the letter of the audit company to the management;
- To supervise effectiveness of internal audit function of Lietuvos Energija and the group of companies of "Lietuvos Energija", to submit recommendations to the Supervisory Board regarding selection, appointment and dismissal of a manager of the Company's Internal Audit Service, to coordinate and evaluate periodically the work of the Company's Internal Audit Service, to discuss the inspection results, removal of defects and implementation of internal audit plans;

- To approve regulations of the Company's Internal Audit Service and plan of internal audit;
- To supervise whether the activities of Lietuvos Energija and the group of companies of Lietuvos Energija are in compliance with the laws of the Republic of Lithuania, other legal acts, Articles of Association and business strategy;
- To submit opinion to the Company's enterprises, whose shares may be sold in the regulated market, regarding transactions with the associated party, as provided in paragraph 5 of article 372 of the Law on Companies of the Republic of Lithuania;
- To access and analyse other issues assigned to the Committee by the Supervisory Board;
- To perform other functions related to the committee's functions and provided in the legal acts of the Republic of Lithuania and the Corporate Governance Code for the Companies listed on NASDAQ Vilnius.

The group of entities has a centralised internal audit function since 5 January 2015. This helps ensure independence and objectivity of the internal audit, consistency in application of uniform methodology and reporting principles, and a more rational allocation of the available audit resources and competences.

Members of the Audit Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Irena Petruškevičienė Chairperson Independent member	–	October 2017 – October 2021	<ul style="list-style-type: none"> - ISM University of Management and Economics, Head of Master's Study module "Finance Strategy and Management". - The Authority of Audit, Accounting, Property Valuation and Insolvency Management, Member of Audit Supervision Committee. - European Stability Mechanism (ESM), Member of Auditors Board.
Danielius Merkinas Independent member	–	October 2017– October 2021	<ul style="list-style-type: none"> - NNT Termo, UAB, CEO, Chairman of the Board. - Nordnet, UAB, Head of Commerce, Chairman of the Board. - Mercado prekyba, UAB, CEO. - Litcargo, UAB, Chairman of the Board - Lietuvos paštas AB, Member of the Board

Aušra Vičkačkienė Member	–	October 2017– October 2021	- Lithuanian Ministry of Finance, Asset Management Department, Director
Ingrida Muckutė Member (since 23 March, 2018)	–	March 2018– October 2021	- The Ministry of Finance of the Republic of Lithuania, Head of Accountability, Audit, Property Valuation and Insolvency Management Division
Šarūnas Radavičius Independent member (since 23 March, 2018)	–	March 2018– October 2021	- Rodl & Partner, UAB, CEO

The term of office of the incumbent Audit Committee will last until 12 October 2021.

Overall 24 meetings of the Audit Committee were held in 2018.

Risk Management and Business Ethics Supervision Committee

Main functions of the committee:

- To monitor the way the risks relevant for the achievement of the targets set for Lietuvos Energija and its group entities are identified, assessed and managed;
- To assess the adequacy of internal control procedures and risk management measures in view of the risks identified;
- To assess the progress achieved in the implementation of risk management measures;
- To monitor the process of risk management;
- To analyse the financial possibilities for the implementation of risk management measures;
- To assess the risks and the risk management plan for Lietuvos Energija and its group entities;
- To assess the periodic cycle of risk identification and assessment;
- To monitor availability of risk registers, analyse their data, provide recommendations;
- To monitor the availability of internal documentation pertaining to risk management;
- To assess the tolerance and adequacy of internal documents that regulate fight of the group of companies with bribery and corruption, and to monitor periodically their implementation/ compliance;
- To watch periodically information related to the controlling actions of assurance of business ethics, events and unsolved incidents (security of transparency, prevention of bribery, management/ prevention of corruption risk, etc.);
- To perform other functions assigned to the Committee based on the decision of the Supervisory Board of Lietuvos Energija.

Members of the Risk Management and Business Ethics Supervision Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Andrius Pranckevičius Chairperson Independent member	–	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 Independent member	–	April 2018– April 2020	- „Saudi Aramco“, Finance and Project Development Department, Senior Adviser
Šarūnas Rameikis Independent member	–	April 2018– April 2020	- R.Mištauto ir T.Milickio Law Firm „Konsus“, Lawyer

The term of office of the incumbent Risk Management and Business Ethics Supervision Committee will last until 19 April 2022.

Overall 6 meetings of the Risk Management and Business Ethics Supervision Committee were held in 2018.

Nomination and Remuneration Committee

Main functions of the committee:

- To make assessments and provide suggestions in relation to the long-term remuneration policy of Lietuvos Energija and its group entities (fixed pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, other items of the remuneration package), and the principles of compensation for expenses related to the person's activities;
- To make assessments and provide suggestions in relation to the bonus (tantieme) policy of Lietuvos Energija and its group entities;
- To monitor compliance of the remuneration and bonus (tantieme) policies of Lietuvos Energija and its group entities with international practice and good governance practice guidelines, and provide suggestions for their improvement;
- To provide suggestions in relation to bonuses (tantiemes) upon appropriation of profit (loss) for the financial year of Lietuvos Energija and its group entities;
- To assess the terms and conditions of inter-company agreements between Lietuvos Energija and its group entities and the members of the management bodies of Lietuvos Energija and its group entities;
- To assess the procedures for recruitment and hiring of candidates to the positions of management bodies and top management of Lietuvos Energija and its group entities, and establishment of qualification requirements for them;

- To assess on a continuous basis the structure, size, composition and activities of management and supervisory bodies of Lietuvos Energija and its group entities;
- To oversee the process of notification of the members of management bodies and employees of Lietuvos Energija and its group entities about the professional training opportunities and monitor the progress achieved on a regular basis;
- To oversee and assess the implementation of measures ensuring business continuity of management and supervisory bodies of Lietuvos Energija and its group entities;
- To perform other functions falling within the scope of competence of the Committee as decided by the Supervisory Board of Lietuvos Energija.

Members of the Nomination and Remuneration Committee at the end of the reporting period

Committee member	Number of shares held at 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 Member	–	September 2017 - September 2021	- Lithuanian Ministry of Finance, State Asset Management Department, Director
Ramūnas Dilba Member (until 7 November, 2018)	–	October 2017 - November 2018	- Lithuanian Ministry of Finance, European Union Investment Department, Director
Lėda Turai-Petrauskienė Independent Member (nuo 2018 m. kovo 23 d.)	–	March 2018 - September 2021	- L-CON Global UAB, leadership training partner, shareholder, - ISM University of Management and Economics, Head of Leadership Module of „Executive MBA“ programme

The term of office of the incumbent Nomination and Remuneration Committee will last until 21 September 2021.

Overall 11 meetings of the Nomination and Remuneration Committee were held in 2018

The Company's employees

The main objective of the Company's human resource management policy is to attract and retain qualified employees and ensure long-term partnership relations with them on the basis of creating a mutually beneficial value and jointly implementing the Company's strategic goals. The Company focuses on the formation of corporate culture, empowerment of employees, employee substitution and HR management effectiveness.

Headcount

As at 31 December 2018, the Company had 372 employees (including those on child care leave). In the beginning of 2018, the Company had 392 employees. The Company's headcount changed due to lower production activities in Elektrėnai Complex and process optimization, a number of employees retired or left the Company for other reasons.

Men account for 86% and women account for 14% 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 12% 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.

62% of Company's employees were specialists and middle-level managers, 37% were workers, and 1% were top level managers.

Almost 55% of the Company's employees have higher education, 37% have vocational education, and % have secondary education.

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, health insurance or pension funds. 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.

In 2018, The Company's work pay fund consisted of EUR 6,4 million.

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

	Breakdown of headcount by category of employees	Average work pay*, EUR
CEO	1	6,074
Top level management	3	4,566
Middle-level management	34	2,348
Experts, specialists	202	1,483
Workers	132	1,008
Total	372	1,435

* Compared to data on average work pay published in the previous interim reports in 2018, an increase in average work pay can be observed in all categories of employees. Such increase was driven by payment of annual variable part. The Company's workers receive variable pay on a monthly basis, whereas employees of other categories receive variable pay on a quarterly or annual basis. A similar trend of average work pay statistics is observed at the Company on a year-by-year basis.

Professional career, adaptation of new joiners and possibilities of internship

Turnover of employees is quite low at the Company – less than 3.3%. When there occurs a vacancy, the potential candidates are firstly selected by internal recruitment procedures. When no potential candidates are available at the Company or the group for the vacant position, the recruitment process is continued outside the Company. 30% of vacancy announcements in 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 2018 resulted in promotion of 16 employees (vertical career) and movement of 9 employees to similar job positions in the same or other divisions (horizontal career). As a result of improvement of career opportunities for employees and encouragement of their mobility between the Lietuvos Energija group entities, 5 employees moved to other group entities, 2 employees came to the Company.

To ensure a more successful integration of new joiners into the activities and teams of the Company or the Group, adaptation plans are developed for new joiners, the purpose of which is to help them familiarise with the work environment and organisational culture, and to involve them into the activities as soon as possible. All new joiners take part in the days dedicated to new joiners of Lietuvos Energija group, during which they are introduced to the group strategy, the main activities and policies.

Seeking to attract young qualified specialists, the Company is actively involved in communication with educational institutions, and provides opportunities for vocational students to apply their theoretical knowledge and acquire practical skills during the internships. In 2018, the Company attended the Career Days events organised by Kaunas University of Technology, also met students of Kaunas Technical College. During 2018, 5 students from different universities in Lithuania had

paid long-term internship at the Company: 4 from Kaunas University of Technology and 1 from Kaunas Technical College. After that 4 of them were employed at the Company.

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 2018, 163 employees of the Company attended compulsory technical training. Seminars, internal and external trainings, conferences were attended by 170 employees during 2018. 41 employee attended internal trainings at Lietuvos Energija Academy. Trainings were attended by in total 348 unique employees (i.e. when the same employee attends several trainings, such employee is counted as one). The Company focused its efforts on intensive development of leadership competencies, as well as excellence in the field of operational excellence, including not only the managers of all departments, but all employees of the Company through e-learning or direct training.

In 2018, the Company continued a programme intended for the development of management competences of masters, shift supervisors and other employees in management func-

tions. The participants of this programme learned about leading, delegating, feedback provision, motivation, LEAN methods practice.

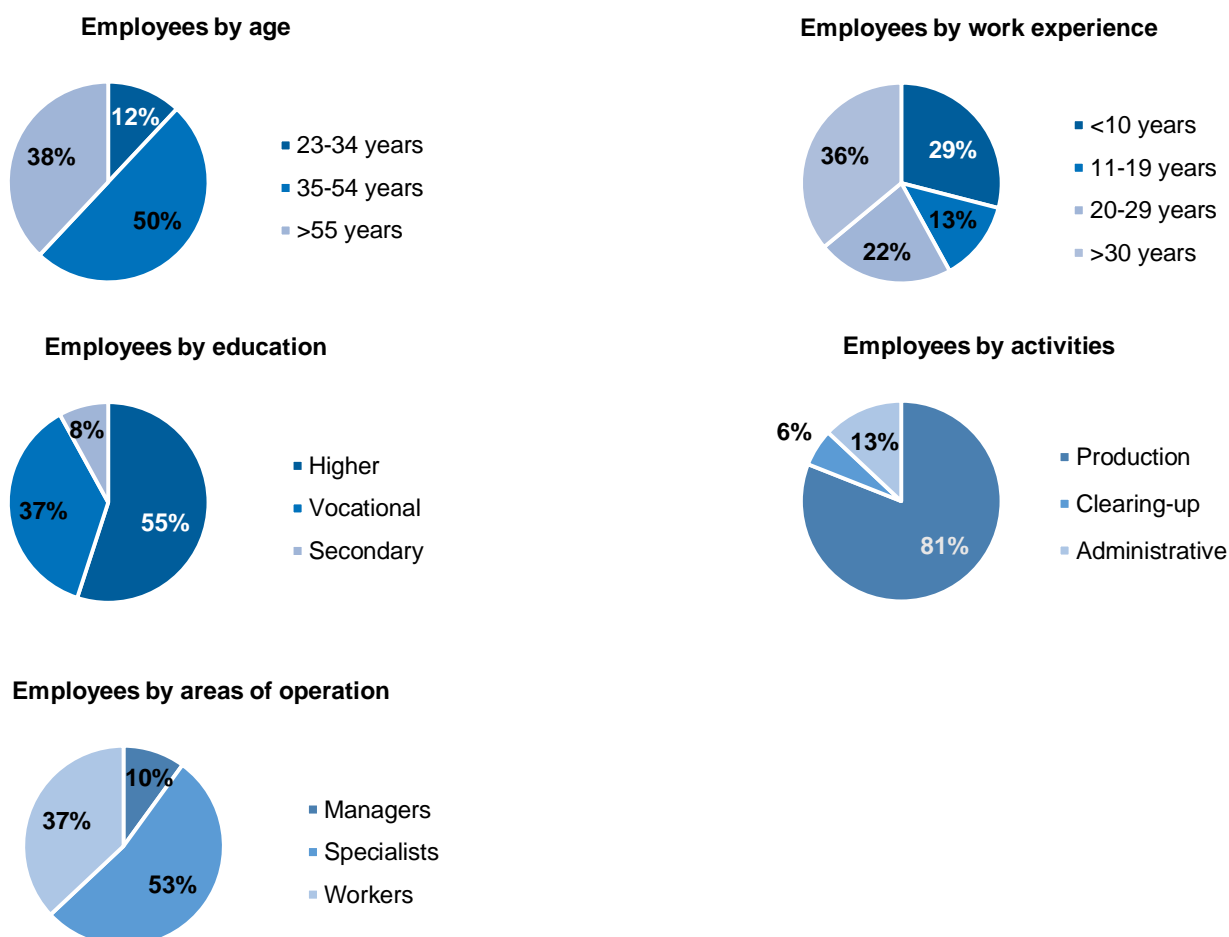
The Company has implemented an employee substitution programme. The main purpose of this programme is to ensure availability of employees at the Company with the required qualification. Under this programme, the substitute employees are trained consistently so that they could substitute employees in those functions that are important for ensuring business continuity, i.e. such employees whose training requires a lot of time and who are not easy to find in the labour market due to the specific nature of their work and the required level of expertise. The substitution programme is mostly focused on the divisions of the Production Department. Such substitution is regarded as an opportunity for growth, both personal and professional.

Collective agreement, trade unions

There are four trade unions at the Company, which are joined by 220 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.

Figure 12
The Company's employees



MATERIAL EVENTS AT THE COMPANY

Notifications on materials events during the reporting period

31/1/2018	<u>Lietuvos Energijos Gamyba, AB, preliminary financial results for 12 months of 2017</u>
28/2/2018	<u>Lietuvos Energijos Gamyba, AB, preliminary financial results for 1 month of 2018</u>
28/2/2018	<u>Regarding the agenda and proposed draft resolutions of Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB</u>
6/3/2018	<u>Regarding the supplement of the agenda and proposed draft resolutions of Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB</u>
14/3/2018	<u>Regarding the resolutions of Lietuvos Energijos Gamyba, AB, Supervisory Board</u>
26/3/2018	<u>Regarding the resolutions of Ordinary General Meeting of Lietuvos Energijos Gamyba, AB Shareholders</u>
30/3/2018	<u>Regarding the non-monetary contribution to the authorized capital of Lietuvos Energijos Gamyba, AB</u>
30/3/2018	<u>Lietuvos Energijos Gamyba, AB, preliminary financial results for 2 months of 2018</u>
3/4/2018	<u>Chairman of the Supervisory Board and members of the Board of Lietuvos Energijos Gamyba, AB, were elected</u>
11/4/2018	<u>The amended Articles of Association with the increased authorized capital of Lietuvos Energijos Gamyba, AB has been registered</u>
12/4/2018	<u>The Chairwoman of the Board of Lietuvos Energijos Gamyba, AB, has been elected</u>
30/4/2018	<u>Information regarding shares and authorized capital</u>
30/4/2018	<u>Results of Lietuvos Energijos Gamyba for 3 months of 2018 - 3 percent increase in generation of electricity and revenue</u>
31/5/2018	<u>Lietuvos Energijos Gamyba, AB, preliminary financial results for 4 months of 2018</u>
29/6/2018	<u>Lietuvos Energijos Gamyba preliminary financial results for 5 months of 2018</u>
31/7/2018	<u>Lietuvos Energijos Gamyba preliminary financial results for 6 months of 2018</u>
31/8/2018	<u>Lietuvos Energijos Gamyba preliminary financial results for 7 months of 2018</u>
4/9/2018	<u>Regarding the agenda and proposed draft resolutions of Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB</u>
12/9/2018	<u>Regarding the resolutions of the Supervisory Board of Lietuvos Energijos Gamyba, AB</u>
27/9/2018	<u>Regarding the resolutions of Extraordinary General Meeting of Lietuvos Energijos Gamyba, AB, Shareholders</u>
28/9/2018	<u>Lietuvos Energijos Gamyba preliminary financial results for 8 months of 2018</u>
29/10/2018	<u>Regarding the Adopted Resolution on the Public Service Obligation Funds and the Setting of the Price for 2019</u>
29/10/2018	<u>Regarding the Decision Adopted by National Commission for Energy Control and Prices</u>
31/10/2018	<u>On adopted Resolutions of the Court</u>
11/12/2018	<u>Regarding the termination of exploitation and preservation of Unit 8 of Lithuanian Power Plant owned by Lietuvos Energijos Gamyba</u>
20/11/2018	<u>Regarding loan refinancing</u>
20/11/2018	<u>Regarding the discontinuing of the exploitation of the first unit of Kruonis Pumped Storage Hydroelectric Power Plant</u>
30/11/2018	<u>Lietuvos Energijos Gamyba preliminary financial results for 10 months of 2018</u>
20/12/2018	<u>Regarding the agreement on tertiary active power reserve</u>
28/12/2018	<u>Lietuvos Energijos Gamyba preliminary financial results for 11 months of 2018</u>
31/12/2018	<u>Regarding revocation of the Board decision</u>

Other events during the reporting period

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

INTERIM REPORT

For the twelve-month period ended 31 December 2018

29/6/2018	<u>The Report on Social Responsibility of 2017 of Lietuvos Energijos Gamyba</u>
20/7/2018	<u>CORRECTION: Reporting dates in 2018</u>
31/8/2018	<u>Lietuvos Energijos Gamyba, AB, audited interim financial information for the first six months of 2018</u>
30/10/2018	<u>Results of Lietuvos Energijos Gamyba for 9 months of 2018: the Company ensured the stability of its performance and financial indicators and started implementing new ideas</u>
20/12/2018	<u>Lietuvos Energijos Gamyba has updated its business strategy: the key direction until 2030 – strategic power generation</u>
31/12/2018	<u>Reporting dates of Lietuvos Energijos Gamyba in 2019</u>

Notifications on materials events after the end of the reporting period

07/01/2019	<u>Regarding the resignation of Eglė Čiužaitė, Chairwoman of the Board and CEO of Lietuvos Energijos Gamyba</u>
11/01/2019	<u>On adopted Resolution of the Court</u>
31/01/2019	<u>Regarding the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB</u>
31/01/2019	<u>Lietuvos Energijos Gamyba preliminary financial results for 12 months of 2018</u>
12/02/2019	<u>Regarding the financial reparation received by Lietuvos Energijos Gamyba</u>
25/02/2019	<u>Regarding the decisions of the Extraordinary General Meeting of shareholders Lietuvos Energijos Gamyba, AB</u>

OTHER IMPORTANT INFORMATION

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.

The main attributes of the internal control and risk management systems involved in the preparation of financial statements

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The employees of the company from which the Company outsources the accounting functions, make sure that the financial statements are prepared properly and that all data are collected in a timely and accurate manner. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the financial statements are monitored and managed.

Information about audit

At the Company's Extraordinary General Meeting of Shareholders of the Company held on 26 July 2016, the decision was made to elect PricewaterhouseCoopers UAB (J. Jasinskio 16B, 01112 Vilnius, Lithuania) as an auditor of the Company's financial statements for 2016–2018 and establish a fee for the audit of the financial statements for 2016–2018 not in excess of EUR 102,450.00 (excl. VAT).

Other agreements with auditors

The Company concluded an agreement with a company which conducted the audit of its financial statements on the audit of statements of regulated activity.