



# INTERIM REPORT IV QUARTER 2017

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

1 January 2017 – 31 December 2017



# Table of Contents

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

About the Group and the Company	<b>5</b>
Most Significant Events	<b>10</b>
Analysis of the Group's Financial and Operating Results	<b>14</b>
Overview of Activities by the Company and the Group	<b>24</b>
Corporate Governance	<b>33</b>
Main Information about the Company and the Group	<b>43</b>



# Key Financial Indicators of the Lietuvos Energija Group

		2017	2016	Δ, EUR million	Δ, %
Revenue	EUR million	1,095.8	1,101.6	-5.8	-0.5%
Purchase of electricity, gas, fuel and related services	EUR million	740.5	727.5	13.0	1.8%
Operating expenses	EUR million	129.8	136.2	-6.4	-4.7%
EBITDA	EUR million	224.3	232.8	-8.5	-3.6%
EBITDA margin	%	20.5%	21.1%		
Adjusted EBITDA (1)	EUR million	235.8	234.6	1.2	0.5%
Adjusted EBITDA margin	%	21.5%	21.3%		
Net profit	EUR million	91.5	118.4	-26.9	-22.7%
Net profit margin	%	8.4%	10.7%		
Net profit (adjusted) (1)	EUR million	128.1	117.7	10.4	8.9%
Net profit (adjusted) margin	%	11.6%	10.7%		
Investments (2)	EUR million	253.4	240.5	12.9	5.4%
Dividends paid to the Company's shareholder (on accrual basis) (3)	EUR million	100.8	100.7	0.1	0.1%
		At 31 Dec 2017	At 31 Dec 2016	Δ, EUR million	Δ, %
Total assets	EUR million	2,501.3	2,432.2	69.1	2.8%
Equity	EUR million	1,341.7	1,319.5	22.2	1.7%
Borrowings	EUR million	613.4	494.4	119.0	24.1%
Net debt	EUR million	441.7	315.8	125.9	39.9%
Return on equity (ROE)	%	9.6%	9.0%		
Equity ratio	%	53.6%	54.3%		
Net debt / 12-month adjusted EBITDA	times	1.87	1.35		
Net debt / Equity	%	32.9%	23.9%		
12-month FFO / Adjusted net debt	%	47.3%	64.9%		
Assets turnover ratio	times	0.438	0.453		
Current liquidity	times	1.248	1.046		
Working capital	EUR million	55.8	-33.2	88.6	267.3%
Working capital / Revenue	%	5.1%	-3.0%		

(1) The amount presented comprises additional EBITDA and net profit adjustments relating to the recalculation of regulated revenue of ESO, Litgas, LEG and LDT. These adjustments were not made in the 2016 year report, because such data is collected from the beginning of 2016.

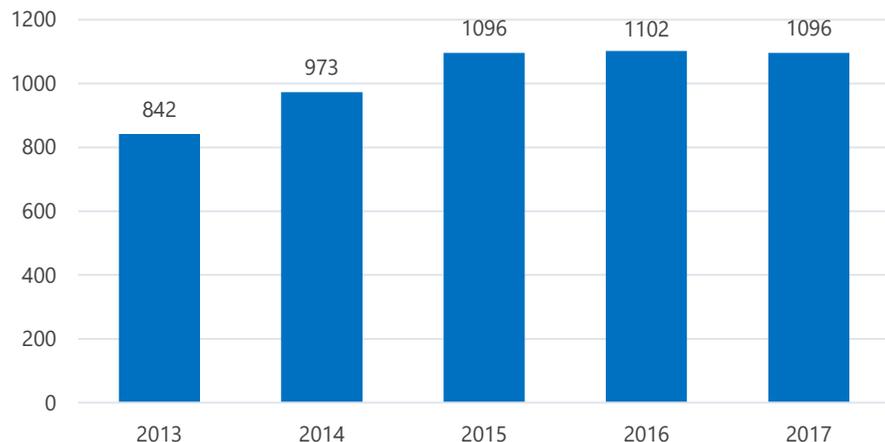
(2) Investments for 2016 comprise investments of EUR 62.7 million in the wind farms. This amount reflects increase in the amount of the Group's property, plant and equipment.

(3) Dividends for 2017 represent the amount of dividends that is proposed to be paid for 2017.



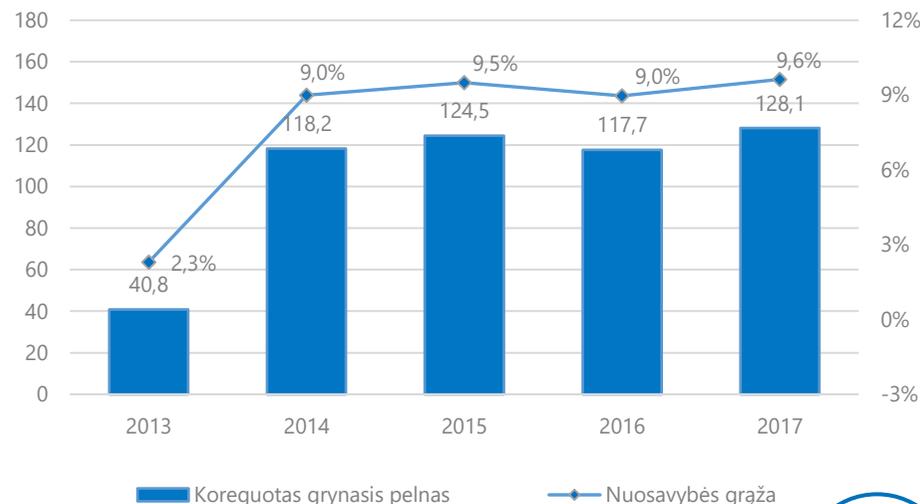
Revenue of the Lietuvos Energija group remained at a stable level regardless of decline in electricity and gas transmission prices for consumers.

↓1%



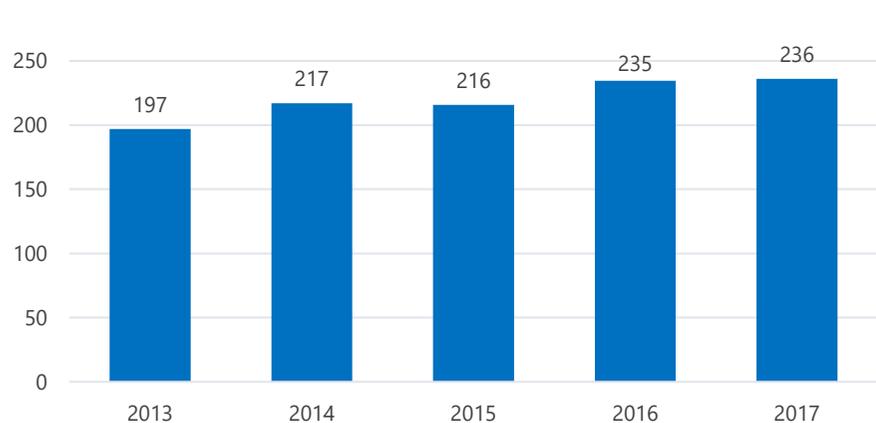
Adjusted net profit of the Lietuvos Energija group increased by 8.9% up to EUR 128.1 million. Return on equity reached 9.6%.

9.6%



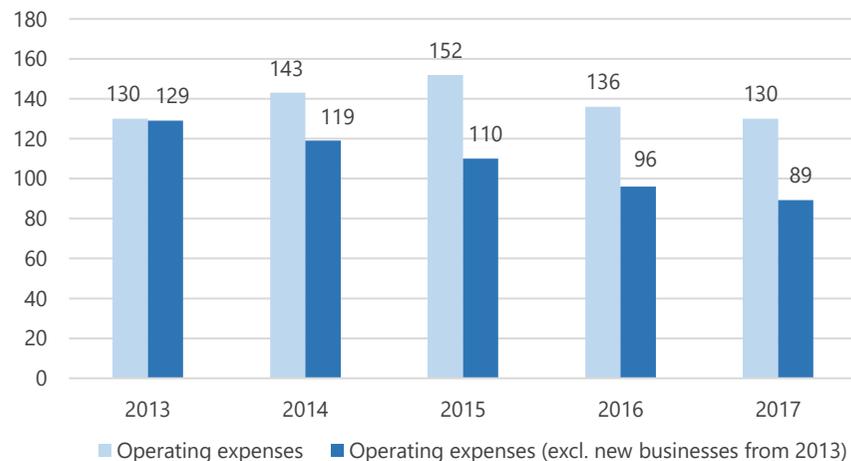
Adjusted EBITDA of the Lietuvos Energija group remained at a stable level irrespective of decline in electricity and gas transmission prices for consumers.

↑11%



Improved operational efficiency resulted in reduction of operating expenses of Lietuvos Energija by more than EUR 6 million.

↓5%



Adjusted EBITDA and adjusted net profit for 2013–2015 are presented before the elimination of the effect of recalculation of regulated revenue of ESO and LDT because such data is collected from the beginning of 2016. Financial data is presented in million euros.





# THE COMPANY AND THE GROUP



# About the Group and the Company

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

The Lietuvos Energija group with about 4500 employees manages and operates the key energy generation capacities of Lithuania that ensure the security of energy supply, a distribution network covering the entire territory of the country. Group provides services to almost 1.6 million of consumers across Lithuania, offers electricity supply services to consumers abroad, supplies gas to 570 thousand consumers. Lietuvos Energija implements development projects of strategic value and pursues the objective set forth in the National Energy Strategy. During I-IV Quarters of 2017 1,28 TWh of electricity was generated, 9,22 TWh of electricity was distributed to consumers and 7,37 TWh of natural gas was transported via gas distribution pipelines.

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



1,28 TWh of electricity generated



9,22 TWh of electricity distributed



7,37 TWh of natural gas distributed



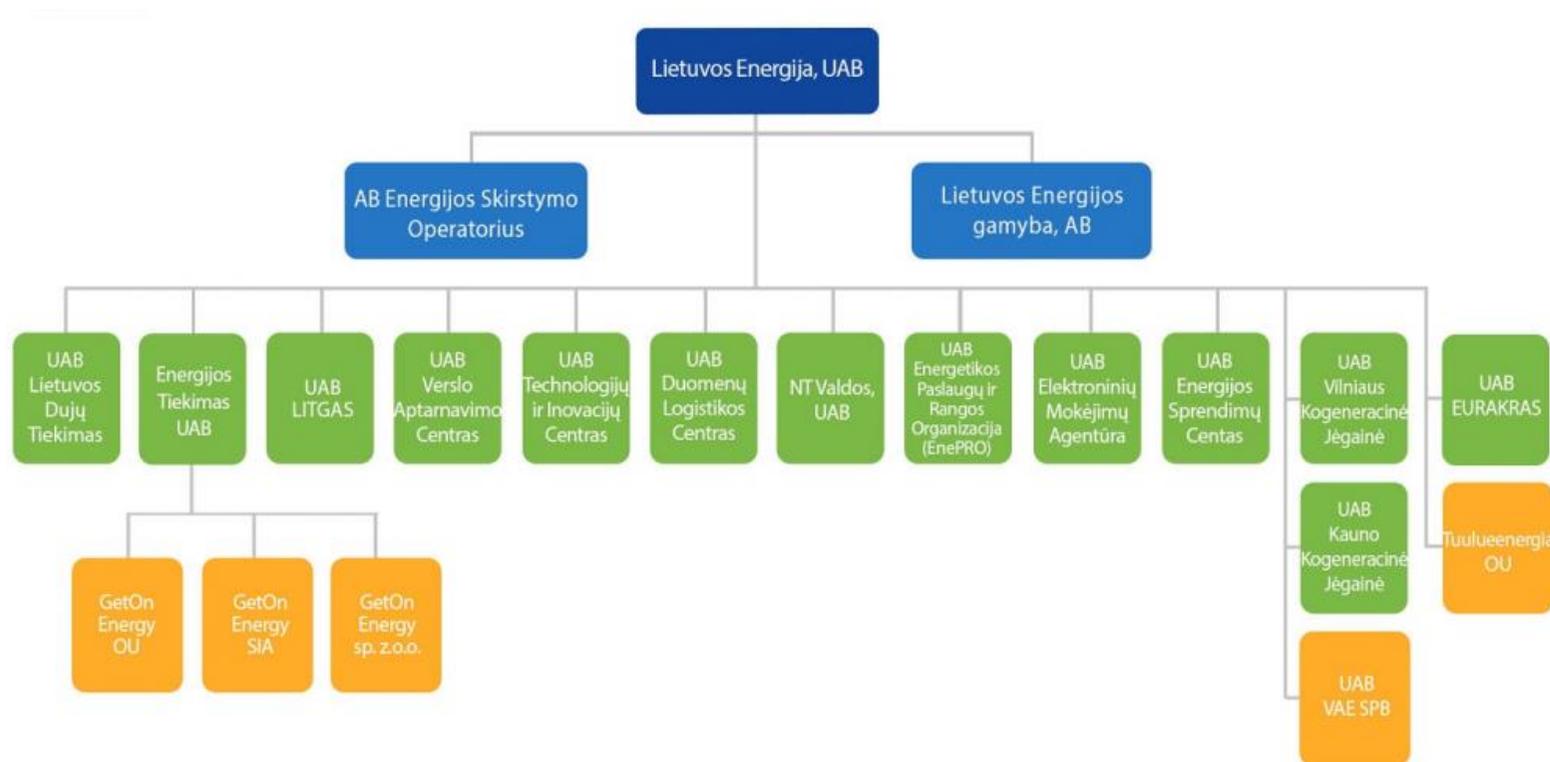
More than 1,6 million customers served



# Structure of the Group

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

companies servicing these main types of business activities comprise ITT, real estate, transport, repair and construction of energy facilities, professional development of employees, public procurement, accounting, administration of employment relationships and other services.



<b>Supervisory Board</b> (5 members, 3 of them are independent) <b>Executive Board</b> (5 members) <b>CEO</b> – Chairman of the Board	<b>Supervisory Board</b> (3 members, 1 of them is independent) <b>Board</b> (5 members) <b>CEO</b> – Chairman of the Board	<b>Board</b> (3 members, 2 shareholder representatives and 1 independent)* <b>CEO</b> – not a member of the Board	<b>CEO Board</b> is not formed
---	--	--	--------------------------------

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



# The Group's Strategy



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

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

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

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

**Diversifying the operations.** The diversification includes implementation of investment projects in the sectors of electricity, heat and natural gas. The projects increase the competitiveness of the Group and the national economy at large as well as the country's energy independence, optimisation of the production and trading portfolio, development of new activities by extending the value chain of the Lietuvos Energija group. These goals will be achieved using the available resources and infrastructure, investing in the creation of new infrastructure and effective governance, as well as through acquisitions.

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

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



# The Most Significant Events for the I-IV Quarter of 2017

## 2017 January

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

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

**20 January.** Mr Ignas Pranskevičius was appointed as a Board member of ESO and the Services Director.

## 2017 February

**2 February.** By further purifying its activities, Lietuvos Energija started the sale of company Energetikų mokymo centras (EMC).

**8 February.** „NT valdos“ (NTV) announced a public auction of real estate and offered to acquire 29 objects with a total value of EUR 17.8 million.

**24 February.** LITGAS optimised the 2017 schedule of the designated supply of LNG freight. This enabled earning up to EUR 1 million. By this amount, maintenance costs of the natural gas infrastructure was directly reduced for business and residents.

## 2017 March

**1 March.** Seeking to diversify the available debt portfolio, Lietuvos Energija announced of its plan to distribute in the market up to EUR 200 million worth green bonds. The funds received are invested into the green energy projects.

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

## 2017 April

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

**26 April.** Vilnius authorities allowed to build a co-generation plant - Vilnius Council approved a cooperation agreement among the municipality, VŠT, and Lietuvos Energija laying down that Vilnius Third Combined Heat and Power Plant (TEC-3) should be taken by Lietuvos Energija by 1 October, and approved bigger height of the energy plant.



## May 2017

**May 9.** The Environmental Protection Agency approved the report on the environmental impact assessment of wind power plant park at Kruonis HAE. The implementation of the project will continue after the responsible authorities pass decisions regarding the further development of wind energy in Lithuania.

**May 16.** Notice to proceed to the VKJ contractors.

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

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

## June 2017

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

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

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

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

## July 2017

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

**July 25.** Lietuvos energija has established corporate venture capital fund for energy technology and innovation that will make investments into energy start-ups and entrepreneurial start-up accelerator. It is the first corporate venture capital fund in the Baltic States. The management of the Innovation Fund was entrusted to a highly experienced international team Contrarian Ventures.

## August 2017

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

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

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



## September 2017

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

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

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

## October 2017

17 October. In line with the strategic direction to refine value chain of Lietuvos Energija, the Group company NT Valdos has offered three new office units in Vilnius to the market for EUR 36.7 million.

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

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

## November 2017

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

22 November. Two new members took office at the Supervisory Council of Lietuvos Energija: Mr Andrius Pranckevičius (Deputy CEO and member of the Board of AB Linas Agro Group, also CEO and Chairman of the Board of PF Kekava) who joined the Supervisory Council of Lietuvos Energija as an Independent Member and Mr Ramūnas Dilba (Director of the EU Investment Department of the Ministry of Finance) who replaced the former employee of the Ministry of Finance and member of the Supervisory Council of Lietuvos Energija Mr G. Norkūnas.

## December 2017

8 December. The construction site of Kaunas co-generation power plant was opened in the Free Economic Zone in Kaunas and the initial construction works of the power plant were officially started.

12 December. NT Valdos, a company owned by Lietuvos Energija, announced the unbundling terms and conditions and launched the unbundling process of its transport business. Following the unbundling, NT Valdos will continue its operations as a real estate maintenance and lease service provider, while the transport business will be transferred to the new company.

22 December. At the eight public auction, real estate not used in the activities of Lietuvos Energija was sold for EUR 10.5 million. In total, 11 objects were successfully sold at the public auction organised by NT Valdos, a company that is part of the group of energy companies.



## January 2018 (after the reporting period)

2 January. Following the issue of the building permit by the Vilnius City Municipality Administration, the construction works of Vilnius co-generation power plant have started.

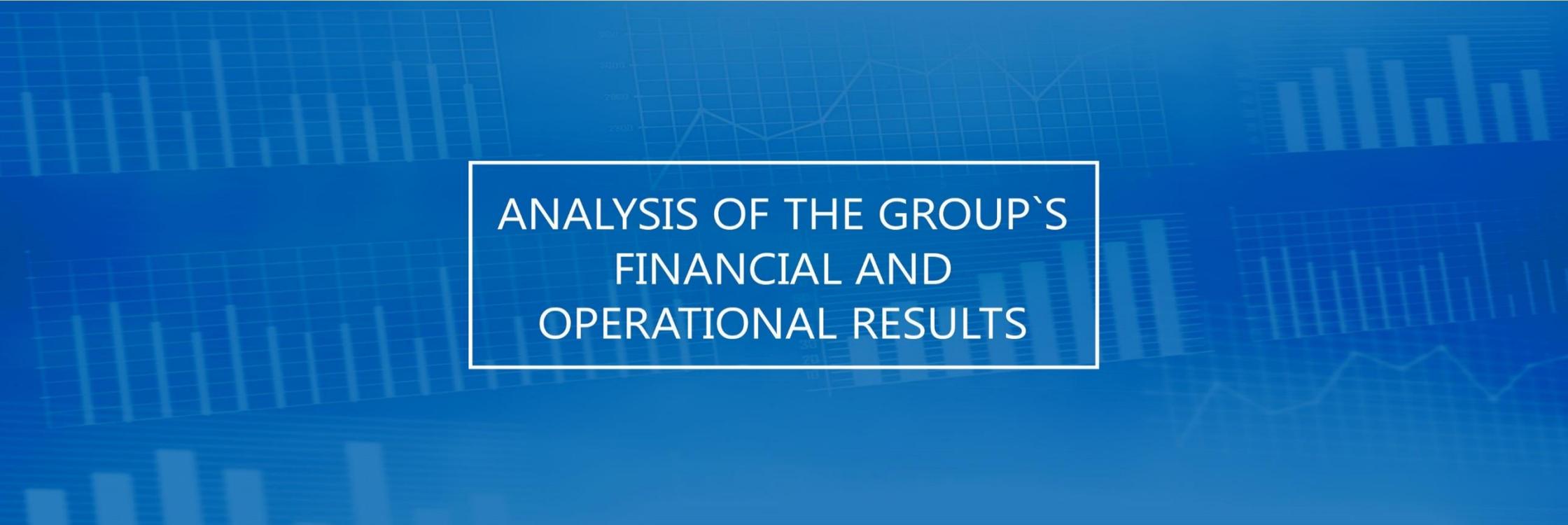
4 January. For the fourth year in a row, Lietuvos Energija has been recognised as the most progressive state-owned company. In the good governance index of state-owned enterprises (SOEs) published by the Governance Coordination Centre (GCC), Lietuvos Energija was the only one of all SOEs to receive the highest A+ rating.

17 January. The European Commission adopted two funding solutions to support the construction of Vilnius co-generation power plant.

## February 2018 (after the reporting period)

1 February. The Supervisory Board of the state-owned enterprise Lietuvos Energija has formed the new Board of the parent company for four years, which elected the new Chairman of the Board and the CEO. Mr. Darius Maikštėnas, Mr. Dominykas Tučkus, Mr. Darius Kašauskas, Mrs. Živilė Skibarkienė and Mr. Vidmantas Salielis were elected as members of the new Board. After considering the Supervisory Board's recommendation, Mr. Darius Maikštėnas was elected to be the new Chairman of the Board and the Company's CEO.





# ANALYSIS OF THE GROUP'S FINANCIAL AND OPERATIONAL RESULTS



# Analysis of the Group's Financial and Operating Results

<b>Key operating indicators</b>		<b>2017</b>	<b>2016</b>	<b>Δ, +/-</b>	<b>Δ, %</b>
<b>Electricity</b>					
Generated electricity	TWh	1.28	1.49	-0.21	-14.1%
Generated electricity using renewable energy sources	TWh	0.59	0.49	0.10	21.2%
Distributed electricity via medium and low voltage networks, etc.	TWh	9.22	8.98	0.24	2.7%
Public and guaranteed supply	TWh	3.22	3.15	0.07	2.3%
Distributed to customers of independent suppliers	TWh	6.00	5.83	0.17	2.9%
Sales in retail market	TWh	2.12	1.78	-0.34	19.2%
Number of newly connected customers	units '000	29.64	29.36	0.28	1.0%
Duration of connection of new customers (average)	calendar days	49	66	-17	-26.5%
<b>Quality indicators of electricity supply</b>					
SAIDI, min. (with <i>force majeure</i> )	min.	137.83	172.92	-35.09	-20.3%
SAIFI, units (with <i>force majeure</i> )	units	1.32	1.25	0.07	5.6%
Technological costs in the distribution network	%	6.14%	6.49%		-5.5%
<b>Gas</b>					
Volume of gas distributed	TWh	7.37	7.39	-0.02	-0.3%
Volume of gas sold	TWh	11.47	11.31	0.16	1.4%
Volume of gas purchased	TWh	11.88	11.77	1.11	1.0%
Volume of LNG purchased	TWh	6.35	7.55	-1.20	-15.9%
Volume of natural gas purchased	TWh	5.53	4.22	1.31	31.0%
Number of newly connected customers	units '000	12.53	5.29	7.24	137.0%
Duration of connection of new customers (average)	calendar days		160	6	3.7%
<b>Quality indicators of gas supply</b>					
SAIDI, min. (with <i>force majeure</i> )	min.	1.161	0.529	0.63	119.5%
SAIFI, units (with <i>force majeure</i> )	units	0.007	0.006	0.001	16.7%
Technological costs in the distribution network	%	2.13%	2.25%		-5.1%

Change in the gross domestic product (GDP) indicator has the biggest impact on the level of electricity consumption. With the GDP growth, the volume of electricity distributed rose by 2.7% or 0.24 TWh in 2017 compared to 2016. The distribution of electricity to independent consumers increased by 2.9% or 0.17 TWh compared to the previous year, whereas the volumes of public and guaranteed supply grew by 2.3% or 0.07 TWh.



In 2017, electricity generation volumes at Kaunas Algirdas Brazauskas Hydroelectric Power Plant increased by 0.1 TWh or 26.4% compared to the same period in the previous year. Abundant precipitation in 2017 caused the water level in the Nemunas river to rise to a significantly higher level compared to the previous year. The volume of electricity generated by the wind farms operating in Estonia and Lithuania totalled 0.13 TWh, which is 0.01 TWh or 6% more compared to the same period in the previous year.

Electricity generation volumes at Kruonis Pumped Storage Hydroelectric Plant increased during 2017, i.e. 0.55 TWh of electricity was produced which is 6.2% more than in the same period in 2016 when 0.52 TWh of electricity was produced.

Electricity generation capacities of the combined cycle gas unit at the Elektrėnai Complex are used only in the event of the occurrence of a high electricity price caused by disconnections of the NordBalt interconnection and other reasons. As it is possible to import cheaper electricity, there are fewer possibilities for gas units at the Elektrėnai Complex to generate electricity at a competitive price. Electricity generation capacities were started in much lower number of times compared to the same period in the previous year, as a result the volume of electricity generated by the combined cycle unit declined by 72% from 0.49 TWh to 0.13 TWh. During 2017, the combined cycle unit was started 19 times (2016: 58 times).

A portion of electricity generated from renewable energy sources increased by 21.2% and made up 46% of the Group's total electricity generation volume in 2017 (2016: 33%). Such increase was mainly caused by a higher level of water in the Nemunas river.

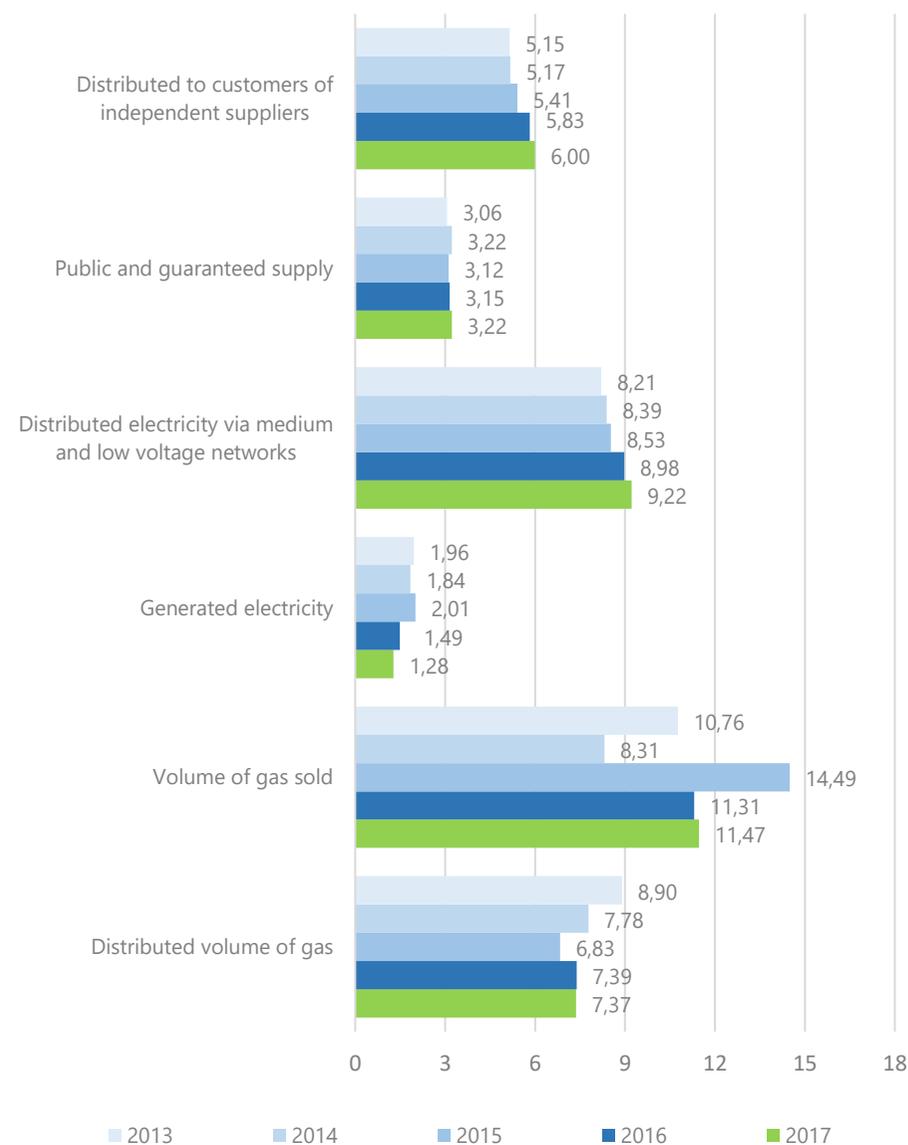
In 2017, technological costs in the electricity distribution network declined to 6.14% (6.49% in 2016). In 2017, SAIDI ratio, with the causes of *force majeure* circumstances, improved and was 137.83 minutes and SAIFI ratio was 1.32 times in 2017.

The volume of gas distributed by the Group companies did not change significantly in 2017 and it was lower by 0.3% or 0.02 TWh. The volume of gas sold by the Group companies increased by 1.4% in 2017. This increase was influenced by higher sales to Latvia as a result of a geographical diversification of the gas sale portfolio. In 2017, the volume of gas supplied for the sale in Latvia was equal to 1.25 TWh (10.9% of the total volume of gas sold), whereas in 2016 the volume sold was equal to 0.04 TWh (0.4% of the total volume of gas sold).

In 2017, technological costs in the gas distribution network declined from 2.13% to 2.25%. The reasons for the decline are the reconstruction of gas pipelines, replacement of old gas metering devices with new ones and growth in gas sales. Gas distribution SAIDI ratio, with the causes of *force majeure* circumstances, increased during 2017 and was 1.16 minutes (0.53 minute in 2016) and SAIFI ratio was approximately 0.007 unit (approx. 0.006 unit in 2016).

In 2017, 29,640 new electricity customers were connected. The number of newly connected electricity customers remained at a similar level compared to the same period in the previous year. In 2017, 12,532 new customers were connected to the natural gas distribution network, which is 2 times more than during the same period last year. The time for connecting electricity consumers shortened on average by 17.5 days, whereas time spent for connecting gas consumers increased by 6 days as consumers in more remote locations were connected in 2017.

## Generation of electricity, distribution and sale of gas and electricity, TWh



# Key Financial Indicators

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

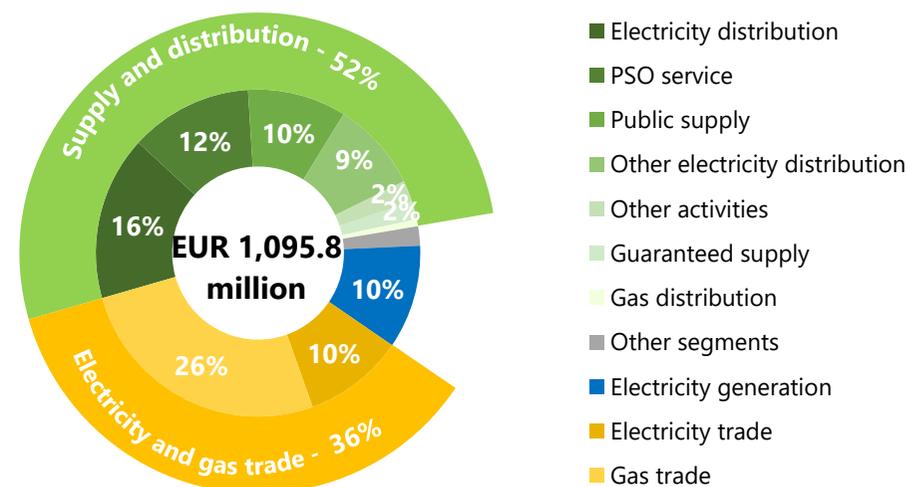
## Revenue

Revenue of the Lietuvos Energija group decreased by 0.5% or EUR 5.8 million in 2017 compared to 2016 and totalled EUR 1,095.8 million. The main reasons causing revenue changes were as follows:

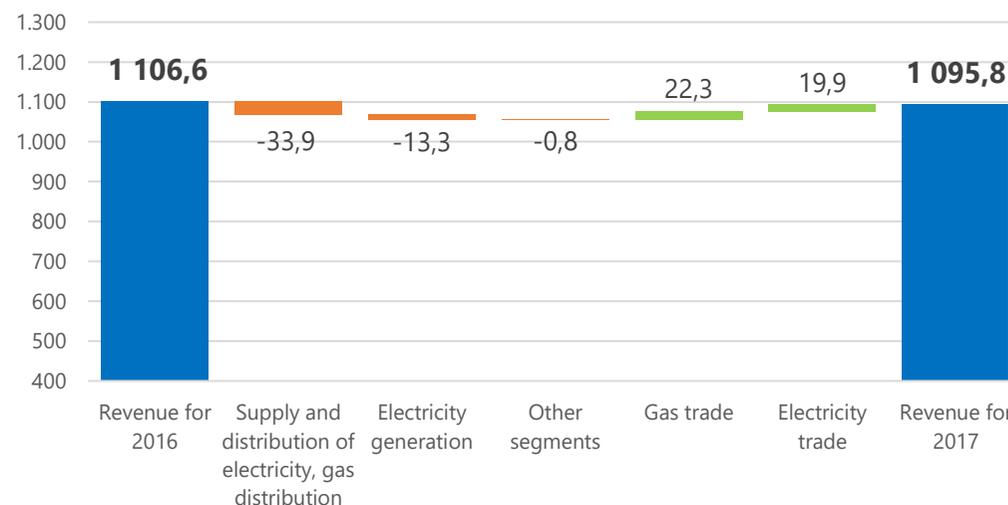
1. **Lower revenue from electricity transmission and public supply.** Revenue from electricity distribution and supply declined by EUR 33.9 million compared to 2016. Lower electricity and natural gas prices established for consumers was the main reason that caused this decline in revenue. The tariff set for the most popular (used for settlements by approx. 70% of ESO's private customers) standard single time zone electricity plan decreased to 11.4 EUR ct/kWh or more than 10% (12.7 EUR ct/kWh in the first half of 2016, 12 EUR ct/kWh in the second half of 2016).
2. **Lower revenue from electricity generation.** Revenue from electricity generation decreased by EUR 13.3 million in 2017 compared to 2016. The main reason for decline in revenue was lower volumes of energy generation. During 2017, the power plants and the wind farms operated by the Group produced 14.1% less electricity compared to 2016. The major factor causing decline was reduction in production volume by the combined cycle unit at the Elektrėnai Complex.
3. **Higher revenue from trade in electricity and gas.** Revenue received in the segment of trade in electricity and gas increased by EUR 42.2 million. The Group's consolidated revenue from the sale of gas to corporate customers increased by EUR 27.7 million, mostly because of a higher gas sale price in line with a full utilisation of the gas price discount provided by Gazprom. The Group's consolidated revenue from trade in electricity increased by EUR 19.9 million. Higher revenue from electricity trading in the Latvian retail market that was received due to higher volumes sold (0,57 TWh during 2017, 0,14 TWh during 2016) was the main reason for such increase.

The Group generates its revenue mainly from electricity supply and distribution, and natural gas distribution. Revenue from this segment<sup>1</sup> (EUR 565.3 million in 2017) represents more than half (52%) of the Group's total revenue (54% in 2016). Revenue from trade in electricity and gas (EUR 394.3 million in 2017) represents 36% of the total revenue (32% in 2016). Revenue from electricity generation account for 10% in the overall revenue structure (11% in 2016).

The Group's revenue structure in 2017



Dynamics of the Group's revenue by operating segment



<sup>1</sup> Information on the Group's operating segments is disclosed in Note 13 'Operating segments' to the consolidated and Company's condensed interim financial information.



## Operating and Purchase Expenses

The Group's operating expenses decreased by 4.7% (EUR 6.4 million) compared to 2016 and amounted to EUR 129.8 million in 2017. The main reasons causing decline in operating expenses were as follows:

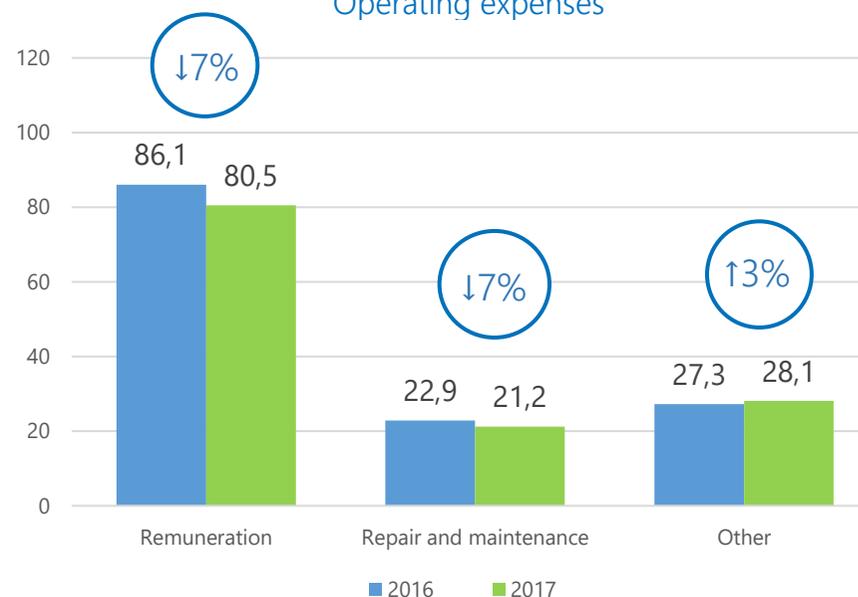
1. **Lower remuneration expenses.** Remuneration expenses declined by EUR 5.6 million or 6.5% as a result of a 7% decrease in the number of employees. As at 31 December 2017, the Group had 4,513 (31 December 2016: 4,861) employees (the number of employment contracts is presented).
2. **Lower repair and maintenance expenses.** Repair and maintenance expenses for electricity network and electricity generation equipment, natural gas systems as well as other repair and maintenance expenses decreased by EUR 1.6 million or 7.1% in 2017. Such decrease mainly resulted from higher investments in the electricity and gas network (an increase from EUR 140.7 million to EUR 215.3 million).

During the reporting period, the Group's expenses for the purchase of electricity, gas, fuel and related services amounted to EUR 740.7 million (EUR 727.5 million in 2016). These expenses increased by 1.8% (or EUR 13.2 million) in 2017 compared to 2016.

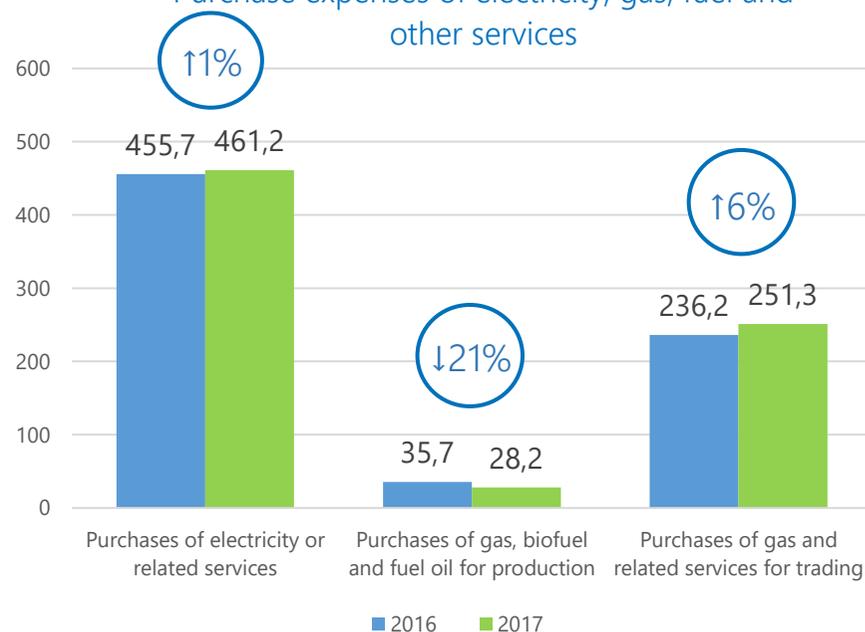
Purchase expenses of electricity or related services amounted to EUR 461.2 million during 2017 and slightly increased by 1.2% compared to a respective period in 2016. The impact of higher volumes purchased was mitigated by a lower purchase price of electricity. The average electricity price on the Nord Pool power exchange as per Lithuania price area decreased by 4% and was equal to 35.13 EUR/MWh.

Purchases of gas and related services for trading increased by EUR 15.1 million or 6.4% compared to 2016 and this increase was caused by higher sales volumes of gas and higher gas purchase price.

### Operating expenses



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



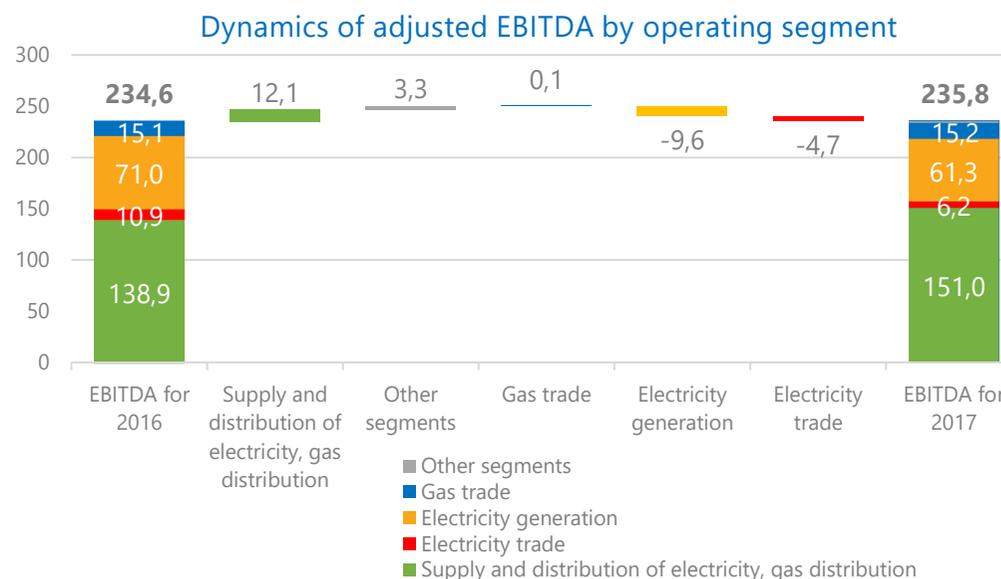
## EBITDA

In 2017, the Group's adjusted EBITDA amounted to EUR 235.8 million, which is 0.5% or EUR 1.2 million more than adjusted EBITDA of 2016, which was equal to EUR 234.6 million. The adjusted EBITDA margin reached 21.5% in the reporting period (21.3% in 2016).

- Higher EBITDA of electricity and gas distribution activity.** The growth of the Group's adjusted EBITDA was determined by a positive change in the results of the activity of electricity and gas distribution (EUR +12.1 million). The increase resulted from improved operational efficiency, lower operating expenses and higher investments in modernisation and development of the networks. In accordance with the new electricity sector regulations that became effective from 2016, Energijos Skirstymo Operatorius is encouraged to save costs and a part of such savings remain with the company.
- Lower EBITDA of electricity generation activity.** In 2017, EBITDA of electricity generation activity decreased by EUR 9.6 million compared to the same period last year. Such decrease was determined by expenses for dismantling works of units 5 and 6 at the Elektrėnai Complex. Other factors included decline in the sale of active secondary power reserve services by Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP) and lower EBITDA of the regulated activities of the Elektrėnai Complex as compared to 2016.
- Lower EBITDA of electricity trading activity.** Results of electricity trading activity for 2017 were lower by EUR 4.7 million compared to 2016. A negative change was determined by the launch of the NordBalt electricity interconnection in 2016 resulting in decline in prices on the NordPool power exchange as per Lithuania price area over the course of the year. Accordingly, commercial electricity buyers raised their expectations for lower prices to be applicable for the year 2017. In 2017, profitability of the electricity supply service dropped due to a competitive environment in the electricity supply market.
- Higher EBITDA of other activities.** The Group's EBITDA of other activities increased by EUR 3.3 million compared to the same period last year. Such increase was mainly determined by a lower negative EBITDA (losses lower by EUR 2 million) of the Group company Energetikos Paslaugų ir Rangos Organizacija and a higher EBITDA of NT Valdosa (EUR 1 million). Results of operations of these companies improved as a result of lower operating expenses compared to 2016.

	2017	2016	Δ, +/-
<b>Operating profit</b>	<b>95.1</b>	<b>147.4</b>	<b>-52.3</b>
Depreciation and amortisation expenses	86.5	78.5	8.0
Impairment expenses and write-offs of PPE	45.0	3.6	41.4
Revaluation expenses of emission allowances	-2.3	3.3	-5.6
<b>EBITDA</b>	<b>224.3</b>	<b>232.8</b>	<b>-8.5</b>
<b>Management's adjustments</b>			
Change in market value of open financial derivative instruments	-1.1	-2.0	0.9
Write-offs of inventories and receivables	1.0	4.8	-3.8
Gas price discount provided by Gazprom (1)	8.7	28.9	-20.2
Recalculation of regulated revenue of LITGAS (2)	7.8	-9.9	17.7
Recalculation of regulated revenue of ESO (3)	10.9	-24.3	35.2
Recalculation of regulated revenue of LDT (4)	1.0	-1.2	2.2
Recalculation of regulated revenue of LEG (5)	-11.4	3.7	-15.1
Regularisation of commercial activities of LEG (6)	-5.4	1.9	-7.3
<b>Adjusted EBITDA</b>	<b>235.8</b>	<b>234.6</b>	<b>1.2</b>

- (1) expenses, which, in management's view, are related to the prior periods, are eliminated.  
(2) elimination of deviation between the designated supplier's actual and regulated revenue, by which the company's future financial results will be adjusted.  
(3) elimination of the effect of the recalculation of the return on investment of the reporting period made by the National Commission for Energy Control and Prices, related to the profit earned in preceding periods and exceeding the return on investment permitted by the Commission, and of the profit earned in the reporting period exceeding the return permitted by the Commission.  
(4) elimination of deviation between the gas supply actual and regulated revenue, by which the company's future financial results will be adjusted.  
(5) elimination of result of audits of regulated activities for prior periods, recalculation of expenses and income.  
(6) elimination of the effect of the commercial activity regularisation, which was annulled by the court's decision.



## Net Profit

In 2017, the Group earned net profit of EUR 91.5 million, which is EUR 26.9 million less than net profit of EUR 118.4 million earned in 2016. The major impact on net profit for 2017 compared to 2016 was made by recognised impairment of LEG's assets (units 7 and 8 of the Elektrėnai Complex), the effect of which on net profit is equal to EUR 26.7 million.

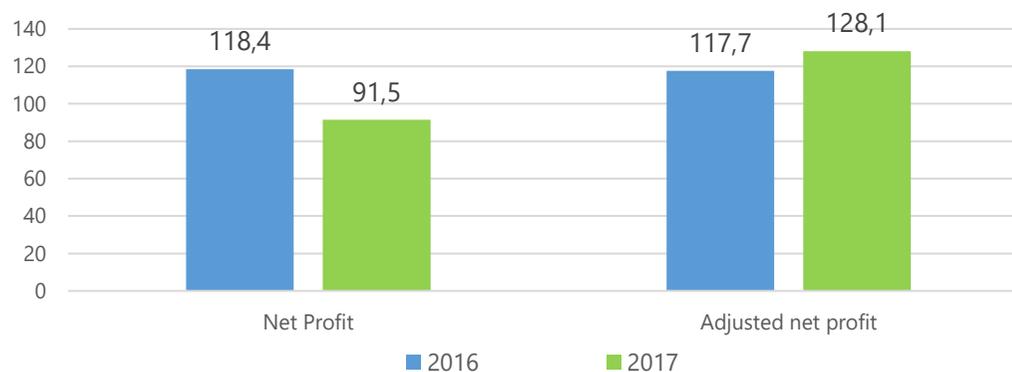
Deviation between actual and regulated revenue from designated supply activity carried out by the Group company Litgas had a significant impact on net profit for 2017 and 2016. Such results were also driven by the recalculation of regulated revenue of Energijos Skirstymo Operatorius, Lietuvos Dujų Tiekimas and Lietuvos Energijos Gamyba carried out according to the procedure established by the National Commission for Energy Control and Prices.

After the elimination of the impact of the mentioned factors, adjusted net profit for 2017 (EUR 128.1 million) was 8.9% or EUR 10.4 million higher than adjusted net profit for 2016 (EUR 117.7 million). The major impact on the results of operations in 2017 was made by the following factors:

- Decrease in deferred income tax expenses (excluding the effects of adjustments presented in the table for deferred income tax) by EUR 14.8 million;
- Decrease in income tax expenses for the reporting period (excluding the effects of adjustments presented in the table for income tax) by EUR 5.8 million;
- Revaluation of emission allowances (EUR +5.6 million);
- Increase in the Group's depreciation and amortisation expenses which decreased net profit result by EUR 8.0 million;
- Higher expenses of write-offs and impairment of non-current assets, except for above mentioned impairment of LEG's assets, reduced net profit by EUR 8.5 million.

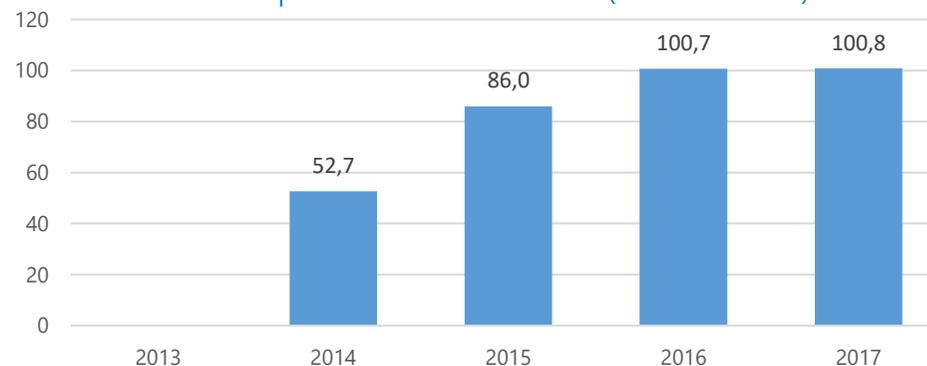
As at 31 December 2016, equity of the Lietuvos Energija group amounted to EUR 1,319.5 million. During 2017, equity increased by 1.7% or EUR 22.1 million and amounted to EUR 1,341,7 million as at 31 December 2017. Increase in the Group's equity was driven by a larger amount of net profit that remained after the payment of dividends to the shareholder. During the reporting period the Group allocated and paid to the shareholder dividends amounting to EUR 59.8 million for the second half of 2016. The total amount of dividends paid to the shareholder for the year 2016 was equal to EUR 100.7 million. The Group's equity ratio decreased during the reporting period and was equal to 53.6% as at 31 December 2017 (31 December 2016: 54.3%).

## The Group's net profit and adjusted net profit



Net profit adjustments	2017	2016	Δ, +/-
<b>Net profit for the reporting period</b>	<b>91.5</b>	<b>118.4</b>	<b>-26.9</b>
Gas price discount provided by Gazprom	7.4	24.6	-17.2
Recalculation of regulated revenue of LITGAS	6.6	-8.4	15.0
Recalculation of regulated revenue of ESO	9.3	-20.7	30.0
Recalculation of regulated revenue of LDT	0.9	-1.0	1.9
Recalculation of regulated revenue of LEG	-9.7	3.2	-12.9
Regularisation of commercial activities of LEG	-4.6	1.6	-6.2
Impairment of assets of LEG	26.7	0.0	26.7
<b>Adjusted net profit</b>	<b>128.1</b>	<b>117.7</b>	<b>10.4</b>

## Dividends paid to the shareholder (accrual basis\*)



\*Amount of dividends paid for reporting period. Dividends for 2017 represent the amount of dividends that is proposed to be paid for 2017.



## Investments

The Group's investments amounted to EUR 253.4 million in 2017 or 5.4% more than in the same period in the previous year. Without taking into consideration the acquisition of the wind farms, investments increased by 42.5% or EUR 75.6 million compared to 2016. The majority of investments was allocated for the maintenance (51%) and development (21%) of the electricity distribution network. Investments in the construction and reconstruction of gas systems represented 14% of the total investments made in 2017.

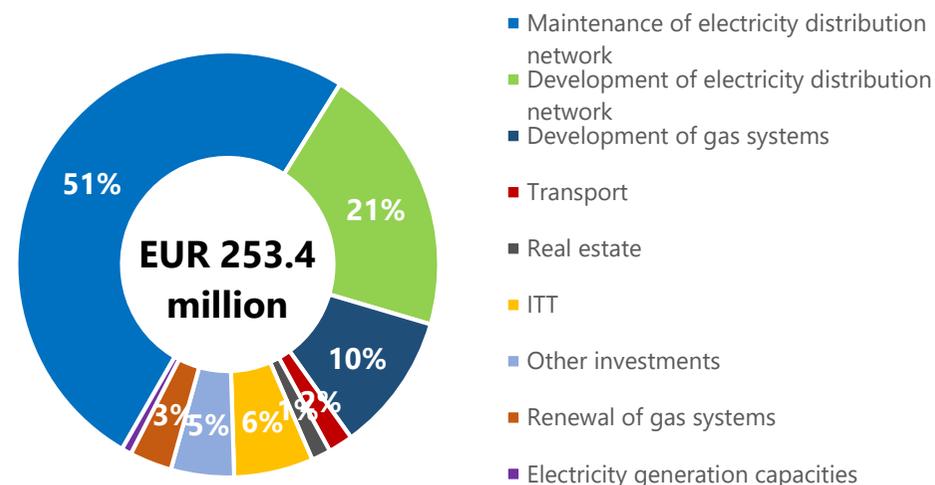
Investments in the renewal of the electricity distribution network increased in 2017 by EUR 43.5 million compared to 2016. Investments made by Energijos Skirstymo Operatorius (ESO) in the renewal of the electricity distribution network amounted to EUR 128.2 million in 2017. Investments allocated by ESO for the development of the electricity distribution network totalled EUR 52.2 million. In 2017, ESO's investments in the development of gas systems amounted to EUR 26.7 million and were 2.7 times higher compared to EUR 9.8 million invested in 2016. During twelve months of 2017, ESO constructed 323 km of the gas distribution pipelines (109.1 km constructed during a respective period in 2016) for the connection of new customers to the gas network.

Investments in transport decreased in 2017 by EUR 8.6 million compared to 2016. The main reason that caused this change was the acquisition of fire fighting vehicles by the Group company NT Valdos UAB in 2016 that were leased to the state fire fighting and rescue services. In 2017, investments in real estate decreased by EUR 3.5 million. This was mainly caused by the acquisition of land plot lease rights by the Group company Kauno Kogeneracinė Jėgainė UAB in 2016 as an in-kind contribution (the value of lease rights amounted to EUR 4 million).

As at 31 December 2016, the Group's assets amounted to EUR 2,432.2 million. The Group's assets increased by 2.8% or EUR 69.1 million during 2017 and amounted to EUR 2,501.3 million as at 31 December 2017. Increase in the amount of property, plant and equipment as a result of investments made by the Group companies had a major impact on the change in the Group's assets.

At the Lietuvos Energija group investments are made according to the investment plans and respective decisions of individual companies of the Group. The general principles are also defined regarding investments in separate projects or the creation of new services encompassing financial assessment criteria and risks of investments that are required to be assessed when determining the financial recoverability of the investment project. The entire implementation cycle of the investment project covers standard project stages from its initiation and planning to execution, monitoring and closing. Investments in the development and maintenance of the electricity networks and construction and reconstruction of gas systems are made according to the procedures approved by ESO, i.e. *Procedure of the planning of investments in electricity networks and implementation of investments projects* and *Procedure of the planning of investments in the natural gas distribution system and implementation of investments projects*.

The Group's investments structure in 2017, %



Dynamics of the Group's investments by sector	2017	2016	Δ, +/-	Δ, %
Renewal of electricity distribution network	128.2	84.7	43.5	51.4%
Development of electricity distribution network	52.2	39.5	12.7	32.2%
Development of gas systems	26.7	9.8	17.0	173.8%
ITT	15.4	10.5	4.9	46.3%
Renewal of gas systems	8.2	6.7	1.5	21.6%
Transport	4.8	13.4	-8.6	-64.1%
Real estate	3.7	7.3	-3.5	-48.7%
Electricity generation capacities	1.9	3.3	-1.4	-41.3%
Other investments	12.3	2.8	9.5	343.7%
Investments in wind power parks (1)	0.0	62.7	-62.7	-100%
<b>Total</b>	<b>253.4</b>	<b>240.5</b>	<b>12.9</b>	<b>5.4%</b>

(1) Disclosed amount of investments in the wind power parks shows increase in the amount of the Group's property, plant and equipment due to the acquisition of the wind power parks.

## Financing

The Group's net debt increased by 39.9% or EUR 125.9 million compared to the amount of net debt at the end of 2016 and amounted to EUR 441.7 million as at 31 December 2017. Increase in net debt was mainly caused by the following factors:

- Successful issue of bonds worth of EUR 300 million;
- Investments made by the Group companies.

During 2017, the Group's borrowings increased by 24.1% or EUR 119 million and amounted to EUR 613.4 million as at 31 December 2017 compared to EUR 494.4 million as at 31 December 2016. Borrowings amounting to EUR 293.9 million were subject to a fixed interest rate (47.9% of the total borrowings) and the remaining amount of borrowings was subject to a variable interest rate. Weighted average interest rate was 1.3% (2016: 1.2%). The amount of the Group's cash balances and short-term investments did not change significantly and was equal to EUR 171.8 million as at 31 December 2017, which is a EUR 6.8 million or 3.8% decrease compared to the year end of 2016 (EUR 178.6 million).

The Group's net debt to the last 12-month adjusted EBITDA ratio increased from 1.35 times at the 2016 year-end to 1.87 times at the 2017 year-end. The increase resulted from increase in the Group's net debt. The average repayment term of borrowings was 6.2 years as at 31 December 2017 (31 December 2016: 3.1 years). The repayment term increased as a result of the issue of bonds, the repayment term of which is 10 years.

The Group's net debt to the Group's equity ratio increased from 23.9% at the 2016 year-end to 32.9% at the 2017 year-end. It should be noted that after the issue of bonds the level of the Group's net debt remains to be rather low with respect to profit earned and the capital structure.

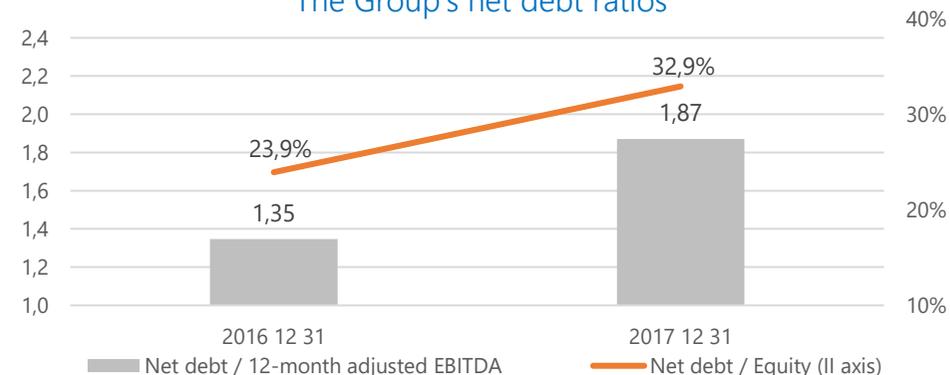
The Group's current liquidity ratio increased from 1.05 at the 2016 year-end to 1.25. The increase was mainly determined by a significant increase in the amount of non-current assets held for sale (NT Valdos). After the elimination of this amount the current liquidity ratio would be equal to 1.09. The Group manages liquidity by entering into the credit line agreements with banks. The Group's unwithdrawn credit line facilities amounted to EUR 208.5 million as at 31 December 2017, of which committed credit line facilities, i.e. funds are paid by the bank upon demand, amounted to EUR 168.5 million,

A low level of the Group's borrowings and a high level of equity, profitability of operating activity indicate a solid and stable financial position of the Group, as well as the Group's financial capacities to implement investments required for the provision of the current services, to implement and finance the acquisition and development of new wind power parks, construction of co-generation power plants, other projects and safeguard a sustainable development of the Group.

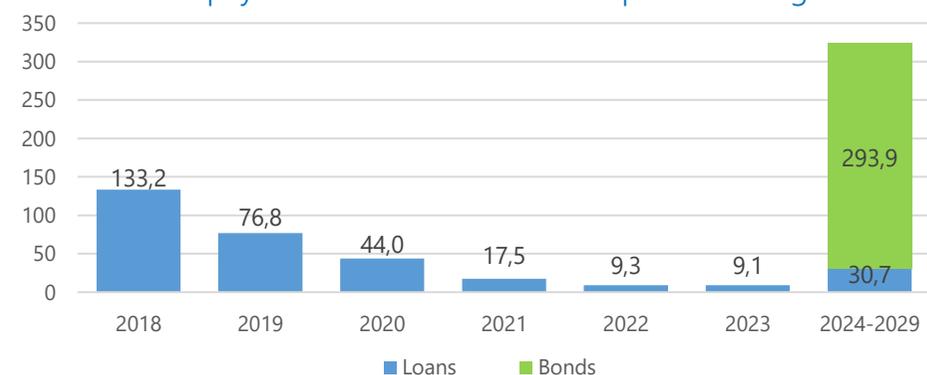
### The Group's borrowings



### The Group's net debt ratios



### Repayment schedule of the Group's borrowings



## Definitions

Working capital	Current assets - cash and cash equivalents - short-term investments and term deposits - current liabilities (excluding current portion of financial liabilities)
EA	Emission allowances
Current liquidity	Current assets at the end of the period / current liabilities at the end of the period
EBITDA	Operating profit (loss) + depreciation and amortisation expenses + expenses on revaluation and provisions for emission allowances + impairment expenses of non-current assets + write-off expenses of non-current assets
EBITDA margin	EBITDA / Revenue
FFO	EBITDA + interest income - interest expenses - current year income tax expenses
Net debt	Borrowings - cash and cash equivalents - short-term investments and term deposits - a portion of other non-current financial assets representing investments in debt securities
Net profit margin	Net profit / Revenue
Adjusted net profit	Net profit + effect of the gas price discount to consumers +/- recalculation of regulated revenue from liquefied natural gas +/- recalculation of regulated revenue from electricity and gas transmission/distribution
Adjusted net profit margin	Net profit (adjusted) / Revenue
Adjusted net debt	Net debt adjusted for the put option execution obligation of Kauno Kogeneracinė Jėgainė UAB, provision for pensions to employees and a cash balance not available for immediate use in the ordinary course of business
Adjusted EBITDA	EBITDA + write-offs of inventories and amounts receivable +/- change in market value of open positions of financial derivative instruments (including EA) + effect of the gas price discount to consumers - recalculation of regulated revenue from liquefied natural gas +/- recalculation of regulated revenue from electricity and gas transmission/distribution +/- result of electricity generation regulated activity audits relating prior periods, expense and income recalculation +/- effect of LEG's commercial activity regularisation, which was annulled by the court's decision, on financial results
Adjusted EBITDA margin	Adjusted EBITDA / Revenue
Customers of independent suppliers	Electricity distribution to corporate customers
Return on equity (ROE)	Net adjusted profit (loss) of a respective reporting period restated at a annual value / average amount of equity during the reporting period
Equity ratio	Equity at the end of the period / total assets at the end of the period
Assets turnover ratio	Revenue / total assets at the end of the period
SAIDI	Average duration of unplanned interruptions in electricity or gas transmission
SAIFI	Average number of unplanned long interruptions per customer
Operating expenses	Operating expenses, excluding purchase expenses of electricity and related services, gas and fuel oil for production, depreciation and amortisation, impairment expenses (non-current assets, construction in progress, amounts receivable, etc.), expenses of revaluation of property, plant and equipment, write-offs of non-current assets, inventories and amounts receivable and EA revaluation expenses.
Public and guaranteed supply	Electricity distribution to household customers





RESULTS OF OPERATIONS  
OF THE GROUP'S  
COMPANIES



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

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

## New Services to Customers

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

### Development of Smart Metering

Energijos Skirstymo Operatorius (ESO) has completed a pilot project on smart metering and evaluated and also publicly released its results. The results of the pilot project, during which nearly 3,000 smart meters were installed in Lithuania, show that this technology helps customers change their daily electricity consumption habits and allows using electricity more efficiently and economically. The project participants consumed 7 per cent less electricity on average per year compared to a traditional metering. Smart meters allow tracking electricity consumption habits, analyse data which is submitted every hour and compare data of different periods. The self-service website *www.manogile.lt* provided the participants of the pilot project with the data on their household electricity consumption and as a result enabled the participants to find ways of more efficient use of electricity. The survey of the project participants revealed that time saved was one of the benefits of smart metering as the readings no longer needed to be recorded and declared; the other benefit named was a possibility to pay electricity bills automatically. The entire smart metering system was ranked at 9.1 on a scale of 10 by the survey participants. Currently, possibilities to install smart meters for customers in the entire territory of Lithuania are being analysed. The analysis performed indicates that investments of EUR 219 million in the four-year term project would generate an overall economic benefit of around EUR 88 million for the country.

### ESO Offered its Customers an Autonomous Gas Supply System

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

### Different Colour Electrical Meter Cabinets Offered by ESO

In view of customers' requests ESO has introduced a new service – electrical meter cabinets painted a custom colour. Paint selection for electrical meter cabinets for customers who are being connected to the electricity network now includes not only grey, but also another eight different colours.

### Internal Power Network For the Customers

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



## Energy Efficiency Enhancement in Business and the Public Sector

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

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

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

## Customers are also Offered Gas Condensed Gas Boilers

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

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

## More Convenient Servicing and Faster Connection

Last year the electricity and gas connection operations for residents and businesses were performed much more expediently. According to the data of ESO, last year the average electricity connection term decreased by 13 calendar days (from 59 to 46 days) and gas connection decreased by nearly 16 calendar days – from 162 to 146 days. The term for connecting new customers to electricity and gas distribution networks shortened due to the digitalization and automation processes. Customers are also offered a possibility to manage and complete the entire process without any paper documents – via the self-service website [www.manogile.lt](http://www.manogile.lt).

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

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

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

ESO also directs great attention to the connection of consumers that produce electricity to the distribution network. At the end of March 2017, ESO made a first public



presentation of the eight-step programme of motivational measures aimed at improving legal regulation of consumers producing electricity. Following the adoption of first decisions and implementation of certain proposals ESO invites to continue these efforts and further improve conditions, i.e. implement all stages of the eight-step programme that will reduce costs for the installation of electric power plants and will shorten connection time even twice – from 7 to 3.5 months on average. Based on ESO's proposal restrictions to corporate consumers to produce electricity have been removed. Companies are able not only to produce electricity for their own needs, but also to supply excess quantity generated to ESO's distribution networks. The accumulated quantity of electricity can be returned back having agreed on specific terms with the selected electricity supplier. Until now only private customers, public and budgetary institutions were allowed to produce electricity by the legal acts. Administrative burden was also reduced, i.e. procedures relating to the issue of development and production permits when installing a small power plant with a capacity of up to 5 kW are no longer required. Consumers who have solar power plants installed produce electricity for their own needs and already take an active part in the exchange process with ESO. As a result, nearly 300 consumers produce electricity in Lithuania and preliminary technical conditions have been issued to around 700 consumers.

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

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

In [www.manogile.lt](http://www.manogile.lt), customers can also pay for other services: a possibility to declare meter readings, view the payment history, exact rates and tariffs for electricity and natural gas, select payment plans, submit applications, and upload documents.

## Quality Services to Customers

The GCSI (Global Customer Satisfaction Index) surveys conducted by ESO, Lietuvos Dujų Tiekimas, Energijos Tiekimas and LITGAS show that customer satisfaction with the services rendered and the servicing quality remained particularly high in 2017 and exceeded the average customer satisfaction indices of European and global utility service providers.

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

By further improving the quality of services ESO plans to replace around 2.8 thousand km of electricity overhead lines with underground cables during 2017. The modern technologies will enable real-time monitoring of individual parameters or modes, a prompt response to exceptional situations, and faster eliminate any failures in electric facilities. The projected investment will also improve the voltage quality. The principal reason for the fluctuation of voltage in the electricity distribution grids is excessively long lines connecting customer objects and the transformer stations and too small diameter of the wires on the line. The point is that the current infrastructure of the network that was designed and built back in 1960-1980 does not longer meet modern customers' needs.

By 2019 ESO plans to install 19 advanced gas pipeline systems. The overall project value is around EUR 2.37 million; 50 per cent of the projected investments are intended to be financed from the European Union (EU) structural funds

### Simplification of Contract Conclusion

Since the beginning of this May ESO simplified the procedure for signing contracts with corporate customers. In relation to signing contracts with entities that rent premises for operation, ESO no longer requires a tripartite agreement with the owners of the premises. This facilitates the process and the services required for business are provided faster and more conveniently. Previously, a lessee of the premises for business operations a company could conclude the contracts with ESO regarding the sale-purchase of electricity or the transmission services only having received written consent of the owner of the premises. Last year, ESO signed nearly 4,000 contracts with tripartite



agreements with the companies renting premises. No such document is required not from corporate customers.

### Improved Customer Information on Failures in the Network

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

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

## Diversification of activities

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

### Development of Innovation

Lietuvos Energija has established corporate venture capital fund for energy technology and innovation (Smart Energy Fund powered by Lietuvos Energija) that will make investments into energy start-ups and entrepreneurial start-up accelerator. It is the first corporate venture capital fund in the Baltic States. The foundation has planned to invest

into start-ups up to EUR 1 million a years, whereas the accelerator should contribute to the development of at least 15 start-ups within three years.

Guided by the good experience of foreign countries, Lietuvos Energija has set up this fund together with professionals who have gained experience in the management of venture capital funds. Management of the fund and development of the energy start-up accelerator has been entrusted to Contrarian Ventures that has extensive international experience. This team consists of seven experts from Lithuania, Israel, and Holland, whereas the team is being led by Rokas Pečiulaitis. The fund's activity also covers the accelerator – authors of selected business ideas will be granted access to the experts' consultations, competent professionals of Lietuvos Energija, and other resources. Activities of the innovation fund is seeking for the ideas not only from Lithuania, Latvia, and Estonia, but also from other Nordic and Eastern European countries. Teams of selected business ideas that still do not have their own operating prototype of the idea can expect a pre-seed stage investment up to EUR 50 thousand. More advanced teams can expect up to EUR 300 thousand or in exclusive cases a bigger seed-stage investment. In July, innovation fund and energy start-up accelerator has started submission of business ideas.

### Projects of Cogeneration Plants in Vilnius and Kaunas

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

At the beginning of December 2017, in the Free Economic Zone in Kaunas the construction site for Kaunas co-generation power plant was opened and the first construction works of the power plant were officially started. The new Kaunas co-generation power plant will help resolve not only waste problems in the region, but also lower heating bills for Kaunas residents. It is estimated that upon the completion of the project Kaunas residents will save around EUR 13 million per year by paying less for waste management and heating. Local electricity will also be produced that would meet the needs of around 100 thousand households. The state-owned group of energy companies Lietuvos Energija and Fortum Heat Lietuva hold 51 per cent and 49 per cent, respectively, of the shares of Kauno Kogeneracinė Jėgainė UAB. It is also established that



a company of Kaunas city municipality can acquire up to 5 per cent of shares. The commercial activities of the power plant are expected to start in 2020.

Construction works of Vilnius co-generation power plant are to start after the issue of the permit by Vilnius City Municipality Administration. Vilnius co-generation power plant will ensure the implementation of the Circular Economy Strategy objectives set by the European Commission, i.e. to dispose of only up to 5 per cent of waste in landfills. At the present moment, in Lithuania more than 30 per cent of all municipal waste are disposed of in landfills. To reduce this percentage the landfill rates will need to be increased and are expected to reach EUR 98 per ton for Vilnius residents in 2020. Yet the combustion of non-recyclable residual waste in the new power plant will allow retaining these rates at a significantly lower level, i.e. EUR 32 per ton. It is estimated that by managing waste in such way Vilnius residents will pay EUR 10 million less every year. The price of electricity generated by the new power plant will also be lower. Taking into consideration the prices at the biofuel exchange that prevailed in 2016, it is estimated that the price of heat produced at the new power plant would be approx. EUR 19-20 per MWh or more than 35 per cent lower than in 2016 when the average price of produced heat in Vilnius was nearly EUR 30 per MWh. Cheaper heat production could result in annual savings of EUR 13 million for Vilnius residents.

### **The LNG Transshipment Volumes are Growing**

In 2017, Lietuvos Dujų Tiekimas together with LITGAS implemented six LNG transshipment transactions by reloading LNG from floating storage unit Independence to small-scale LNG carriers. The total volume of LNG reloaded through such carriers amounted to nearly 44 thousand cubic metres (25.5 million cubic metres or around 293 GWh) and resulted in preliminary additional revenue of around EUR 385 thousand received by the Klaipėda Seaport and the LNG Terminal.

### **First LNG Supplies by Land**

LITGAS, in cooperation with Lietuvos Dujų Tiekimas, have implemented several transactions on the supply on LNG by land. Between October and November LNG that were sold to Polish company DUON were transported to Poland for the first time. In December, the implementation of the largest up to now LNG supply transaction by land was started – around 4,000 cubic metres of LNG were sold (equivalent to 2.3 million cubic metres of regasified gas or 27.5 GWh), which are being supplied to four companies until March 2018 and are transported to Druskininkai, Estonia and Poland.

### **Reduction of Costs for Natural Gas Consumers**

LITGAS has reduced costs of the designated supply to the Klaipėda Liquefied Natural Gas (LNG) Terminal by about 18 per cent or EUR 3 million.

This opportunity to reduce the designated supply costs occurred in the first quarter of this year when LNG prices in the markets increased and exceeded the price of gas purchased by LITGAS. By cooperating with the supplier the company optimised the schedule for the supply of the required LNG quantity to the LNG Terminal by selling a part of the February freight to the markets paying higher prices and accordingly acquiring this quantity in summer when the prices of LNG are substantially lower.

Savings of EUR 3 million by LITGAS for the benefit of gas consumers were achieved due to the freight sold at a higher price and the difference in LNG prices in February and July as adjusted for the related technological costs and gas exchange costs. The LNG Terminal's maintenance costs (the so-called 'LNG terminal component') as well as expenses incurred by natural gas consumers decreased by the same amount. The minimum annual quantity of LNG required for the operation of the LNG Terminal will not change as a result and will remain at about 3.8 TWh.

### **American Gas Already in Lithuania**

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

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

### **Plans to Expand Electricity Production from Renewable Resources**

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



In 2017, Lietuvos Energija increased the volume of electricity produced using renewable energy sources. Last year the group companies produced 21 per cent more electricity from renewable energy sources operated by them than in 2016. The total quantity of electricity produced by Lietuvos Energija was equal to 1,277.1 GWh in 2017 (2016: 1,493.9 GWh), whereas a portion of electricity produced using renewable energy sources increased from 33 to 46 per cent.

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

At the beginning of 2015, complex measurements of wind speed, directions, and other meteorological conditions were completed in the territory of Kruonis PSP enabling to evaluate the primary potential of the land plot for installing a wind farm. Based on positive results of wind measurements, the company initiated preparatory works of installing a wind farm in the territory of Kruonis PSP. By 2017, a study of the impact of Kruonis wind farm on NATURA 2000, a feasibility study on the evaluation of the wind resource and electricity generation volumes, and an environmental impact assessment programme were prepared, and bird and bat monitoring in the territory programme was finished. The most important works in 2017 were associated with the approval procedures of the environmental assessment report. The Environmental Protection Agency approved the environmental assessment report at the end of April and at the same time lit a green light for the wind farm in Kruonis vicinities. In the exclusive territory with energy production infrastructure where already operate the Kruonis PSP and a solar panels farm has been installed for own needs, it has been planned to build 9 or 10 wind plants. Their total capacity should amount to up to 35 MW. Environmental impact assessment of the planned activity was the last procedure that could be currently initiated by the Company seeking to install a wind farm in the territory of Kruonis PSP. The implementation of the project will continue after the responsible authorities pass decisions regarding the further development of wind energy in Lithuania.

### Development Abroad

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

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

electric energy that Geton Energy owned by Energijos Tiekimas assists Lattelecom to acquire from the market.

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

## Operation Efficiency Enhancement

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

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

### Further Refinement of Activities

As part of its strategic decision to divest of its non-core operations a State-owned energy company group Lietuvos Energija successfully finalised the sale of a PE Energetikų Mokymo Centras (EMC), one of the largest providers of certification services for energy workers, their professional development, and consultative activities. The EMC shareholder rights were acquired by PE Kauno Virpstas that placed the highest bid. Furthermore, in August the Company signed a contract on the purchase-sale of shares of Duomenų logistikos centras (shareholders – Lietuvos Energija and Litgrid) with Telia Lietuva.



At public auctions organised since early 2016, Lietuvos Energija and the real estate management Group company NT Valdos, while continuing to diversify activities, have successfully realised real estate not used in the activities of the Group. The total of 50 real estate objects were sold at more than EUR 18 million, including VAT, with the profit from sale transactions expected to exceed EUR 2 million.

NT Valdos intends to place three business office units in Vilnius to the market. The total sale price of the office buildings that will be offered for sale by way of public auctions is EUR 36.7 million, including VAT. Thus, three office units will be offered to investors: a unit at A. Juozapavičiaus St./Žvejų St., P. Lukšio St., and Aguonų St. The total area of the buildings is 30,000 sq. m., however, the area can be additionally expanded up to 45,000 sq. m.

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

In December 2017, NT Valdos announced the unbundling terms and conditions and launched the unbundling process of its transport business. The transport business will be transferred to a newly established company to be wholly-owned by Lietuvos Energija. Following the unbundling, NT Valdos will continue its operations as a real estate maintenance and lease service provider, while the transport business will be transferred to the new company. After the completion of the unbundling process, the new company will take over all assets, liabilities, contractual obligations and other obligations related to the transport business, as well as other associated rights and obligations.

### **Prices of Services are Continuously Falling**

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

Lietuvos Dujų Tiekimas reduced the price of gas for its business customers by nearly 6 per cent from 1 October to the end of this year. Regardless of seasonal gas price increases in international markets, the move to reduce the price of gas allowed Lithuanian companies to save up to EUR 2 million.

At the end of the year, Lietuvos Dujų Tiekimas offered 14–20 per cent smaller gas prices to the residents of Druskininkai, as from 1 December it has been supplying gas to Druskininkai at the same prices as to the rest of Lithuania.

### **New Customers Connected Without Any Paper Documents**

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

### **Digital Transformation**

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

### **Old Units no Longer Operated in Elektrėnai**

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



In January 2017, a project of dismantling of the 5<sup>th</sup> and 6<sup>th</sup> units of the Elektrėnai Complex reserve power plant was started. These units were decommissioned at the beginning of 2016, upon assessing the fact that the price of electricity generated by these units was non-competitive in the market, whereas their declining will help to reduce the final electricity tariff for consumers. The units, each with a capacity of 300 MW, are planned to be dismantled by the end of 2020. It will be attempted to perform the biggest volume of associated works by the company's employees themselves, whereas income regenerated from the sale of dismantled materials or equipment will be used for covering the project costs.

In December 2017, the Board of the Company, having assessed the scope of services provided by Lietuvos Elektrinė's (Lithuanian Power Plant) 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 Council, decided to terminate the exploitation of the 7<sup>th</sup> unit of Lietuvos Elektrinė from 1 January 2018 and to put it into preservation mode.

## Modern and Transparent Governance

For the fourth year in a row, Lietuvos Energija has been recognised as the most progressive state-owned company. In the good governance index of state-owned enterprises (SOEs) published by the Governance Coordination Centre, Lietuvos Energija was the only one of all SOEs that received the highest A+ rating.

Lietuvos Energija was given the most favourable rating for transparency, strategic planning and implementation, applied international accounting standards, social responsibility reports, annual reports, as well as for the achieved high rates of financial return. In the published index, the activities of the state-owned enterprises were rated in 2016.

The report indicates that Lietuvos Energija was awarded the high rating for the implementation of independence principles: in its Supervisory Council, the Company has independent members and has elected an independent Chairman of the Supervisory Council. Besides, Lietuvos Energija remained the only one SOE that during the rating period had all three committees recommended by the Organisation for Economic Cooperation and Development (OECD): the Appointment and Remuneration Committee, the Audit Committee, and the Risk Management Committee.



## Corporate Governance

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

The new governance structure and model of the Group have been developed on the basis of the most advanced international and national practices, following the recommendations published by the Organisation for Economic Cooperation and Development (OECD), having regard to the Corporate Governance Code of companies listed on the NASDAQ OMX Vilnius exchange, Guidelines on the Governance for State-owned Enterprises recommended by the Baltic Institute of Corporate Governance (BICG). The corporate governance model of the power generation companies' group was implemented in observance of the Corporate Governance Guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 and renewed on 1 June 2017 (the Guidelines are available at [www.le.lt](http://www.le.lt)).

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

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

For the fourth year in a row, Lietuvos Energija has been recognised as the most progressive state-owned company. In the good governance index of state-owned enterprises (SOEs) published by the Governance Coordination Centre, Lietuvos Energija was the only one of all SOEs that received the highest A+ rating.



# Supervisory Bodies

## Supervisory Board

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

Under the new Corporate Management Guidelines, the Supervisory Board is a collegial supervisory body provided in the Statute of the Company. The Supervisory Board is elected by the General Meeting of Shareholders for the period of four years. The Supervisory Board of *Lietuvos energija* consists of 5 members – 2 members representing the Ministry of Finance and 3 independent members. The Supervisory Board elects its Chairman from its members. Such a method for the formation of the Supervisory Board is in line with the corporate management principles. The term of office of the Supervisory Board operating at the time of report publication: from 30/8/2017 to 30/8/2021. No members of the Supervisory Board have any participation in the capital of the company or group enterprises. At the date of publication of the report, the Supervisory Board of Lietuvos Energija comprised the following members:



**Darius Daubaras**  
(born in 1973)

Chairman, Independent member



**Daiva Lubinskaitė-Trainauskienė**  
(born in 1970)

Independent member



**Andrius Pranckevičius**  
(born in 1976)

Independent member  
(since 22/11/ 2017)



**Aušra Vičkačkienė**  
(born in 1974)

Member



**Ramūnas Dilba**  
(born in 1981)

Member (since 22/11/2017)

	Darius Daubaras	Daiva Lubinskaitė-Trainauskienė	Andrius Pranckevičius	Aušra Vičkačkienė	Ramūnas Dilba
<b>Education</b>	University of Cambridge, Master's degree in International Relations; University of Pennsylvania, USA, Business Administration Master's Degree in the field of finance and business management; University of Denver, USA, Business Administration Bachelor's Degree in the field of finance and management	ISM University of Management and Economics, Master's Degree; Public Relations Professional Studies at Vilnius University; Vilnius University, Diploma of a Specialist in Philology	Kaunas University of Technology, Bachelor's degree in Business Administration and Master's degree in Marketing Management; Harvard Business School, Leadership Development	Vilnius University, Master's degree in Management and Business Administration; Vilnius University, Bachelor's degree in Management and Business Administration	Vilnius University Institute of International Relations and Political Science, Bachelor's degree in Political Science and Master's degree in European Studies
<b>Place of employment, position</b>	SAUDI ARAMCO Finance and Development Project Division, Project Manager	Thermo Fisher Scientific Baltics, UAB, Director of Personnel; Association of Personnel Management Professionals (PVOA), Board Member; ISM Masters Club, Member	Linas Agro Group AB, Deputy Chief Executive Officer, Member of the Board; Kekava PF, Chief Executive Officer and Chairman of the Board	Assets Management Department of the Ministry of Finance, Director Turto bankas, VĮ, Board Member; Būsto paskolų draudimas, UAB, Board Member	Ministry of Finance, European Union Investment Department, Director

During the reporting period, Ms **Agnė Bagočiūtė**, Chief Advisor of the Ministry of Finance, held the office as a Member of the Supervisory Board from 30/07/2017 to 8/09/2017. She was revoked by the decision of the Minister of Finance following her request for resignation.

During the reporting period, Mr **Gediminas Norkūnas**, Deputy Director of the State Treasury Department of the Ministry of Finance, held office as a Member of the Supervisory Board from 30/08/2017 to 22/11/2017. He replaced Ms Agnė Bagočiūtė. Under the order of the Minister of Finance Mr Gediminas Norkūnas was revoked from the Supervisory Board of Lietuvos Energija following his request for resignation. On 22 November 2017, Mr **Ramūnas Dilba**, Director at the European Union Investment Department of the Lithuanian Ministry of Finance, took office as the new Member of the Supervisory Board.

The Supervisory Board of *Lietuvos energija* operating during the reporting period with the term of office from 16/07/2013 to 16/07/2017 comprised the following members: **Šarūnas Kliokys** (Chairman, independent member), **Antanas Danys** (independent member), **Dr Virginijus Lepeška** (independent member), **Tomas Garasimavičius** (member), **Rasa Noreikienė** (member), **Agnė Bagočiūtė** (member since 26 May 2016).

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

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

### Committees of the Supervisory Council

For the purpose of effective fulfilment of its functions and obligations, the Supervisory Council forms the committees. The committees of the Supervisory Board provide their conclusions, opinions and proposals to the Supervisory Council within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Council and at least one member is an independent member. Members of the committees are elected for 4 years term.

The following committees have been established at Lietuvos Energija:

- **Risk Management Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of

management and control system in the Group and (or) main risk factors and implementation of risk management or prevention measures;

- **Audit Committee** is responsible for the submission of the objective and impartial conclusions or proposals to the Supervisory Board on the functioning of the audit and control system in the Group;
- **Appointment and Remuneration Committee** is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the Board Members to the Supervisory Council, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

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

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

### Risk Management Supervision Committee (until 16 July 2017):

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

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

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



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

#### On the report publication date the Audit Committee consists of:

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

#### Audit Committee (until 16 July 2017):

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
<b>Rasa Noreikienė</b> Committee Chairwoman	-	Ministry of Economy of the Republic of Lithuania, Vice-Minister (until 13 December 2016)
<b>Danielius Merkinas</b> Independent member	-	General Manager of Nordnet UAB

<b>Aušra Vičkačkienė</b> Member	-	Ministry of Finance of the Republic of Lithuania, Director of the Asset Management Department
<b>Gintaras Adžgauskas</b> Member	-	Director of the Lithuanian Committee of the World Energy Council
<b>Irena Petruškevičienė</b> Independent member	-	Member of Audit Development Committee of the European Commission

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

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

- to monitor the process of preparation of financial statements of the Company and the Group companies, with a special focus on the relevance and consistency of accounting methods used;
- to monitor the effectiveness of internal controls and risk management systems of the Company and the Group companies, to analyse the need for and relevance of these systems and perform the review of the existing internal control management systems;
- to monitor the adherence to the principles of independence and objectivity by the certified auditor and audit firm, to provide related recommendations, as well as proposals for the selection of an audit firm;
- to monitor the audit performance processes of the Company and the Group companies, to examine the effectiveness of audit and response of the administration to the recommendations provided in the management letter;
- to monitor the effectiveness of the internal audit function of the Company and the Group companies, to analyse the need for and relevance of this function, to provide recommendations on the need for, effectiveness of the internal audit function, and on other internal audit related matters;
- to provide proposals for the internal audit plans of the Company and the Group companies, recommendations for the regulations of the internal audit units of the Company and the Group companies, appointment and dismissal of the head of a structural unit performing the functions of the internal audit, approval of his (her) job description, imposition of incentives and penalties;
- to monitor the compliance of activities of the Company and the Group companies



with laws and other legal acts of the Republic of Lithuania, articles of association and operational strategy;

- to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Council;
- to perform other functions related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and in the Corporate Governance Code of companies listed on NASDAQ Vilnius Stock Exchange.

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

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
<b>Daiva Lubinskaitė-Trainauskienė</b> Committee Chairwoman Independent member	-	Thermo Fisher Scientific Baltics, UAB, Director of Personnel; Association of Personnel Management Professionals (PVOA), Board Member;
<b>Aušra Vičkačkienė</b> Member	-	Assets Management Department of the Ministry of Finance, Director
<b>Gediminas Norkūnas</b> Member (until 22/11/2017)	-	State Treasury Department of the Ministry of Finance, Deputy Director
<b>Ramūnas Dilba</b> Member (from 22/11/2017)	-	Ministry of Finance, European Union Investment Department, Director

**Appointment and Remuneration Committee (until 16 July 2017):**

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
<b>Virginijus Lepeška</b> Independent member, Chairman of the Committee (from 14/6/2016)	-	Chairman of the Board of Organizacijų Vystymo Centras UAB
<b>Tomas Garasimavičius</b> Member	-	Advisor to the Prime Minister of Lithuania for Energy
<b>Agnė Bagočiūtė</b> Member (from 14/06/2016)	-	Chief Advisor of the Ministry of Finance

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

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

- to assess and provide proposals on the long-term remuneration policy of the Company and Group companies (the main fixed part of the remuneration, performance based remuneration, pension insurance, other guarantees and forms of remuneration, compensations, termination benefits, other parts of the remuneration package), principles of compensation for costs related to the individual's performance;
- to assess and provide proposals on the policy of bonuses of the Company and the Group companies;
- to monitor the compliance of the policy of remunerations and bonuses of the Company and the Group companies with the international practice and good governance practice recommendations, and provide respective proposals for the improvement of the policy of remunerations and bonuses;
- to provide proposals concerning bonuses upon appropriation of profit (losses) to be appropriated of the Company and the Group companies of the respective financial year;
- to assess the terms and conditions of agreements of the Company and the Group companies with members of management bodies of the Company and the Group companies;
- to assess the procedures of recruitment and selection of candidates to members and senior management of the Company and the Group companies and establishment of the qualification requirements;
- to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Company and the Group companies;
- to supervise how members of management bodies and employees of the Company and Group companies are notified of the professional development possibilities and how they upgrade their skills regularly;
- to supervise and assess the implementation of measures ensuring the continuity of operations of the management bodies and employees of the Company and the Group companies;
- to perform other functions attributed to the competence of the Committee by the Supervisory Council.



# Management bodies

## Board

At the date of publication of the report, the Board of Lietuvos Energija (with the term of office from 01/02/2018 to 01/02/2022) comprised the following members:



**Darius Maikštėnas**  
(born in 1970)

Chairman of the Board, CEO



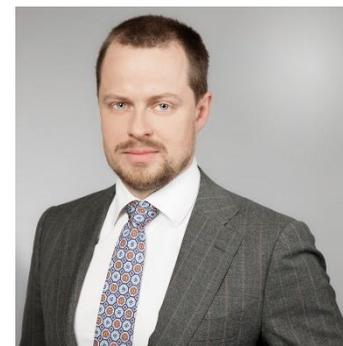
**Vidmantas Saliotis**  
(born in 1987)

Member of the Board



**Darius Kašauskas**  
(born in 1972)

Member of the Board, Finance and  
Treasury Director



**Dominykas Tučkus**  
(born in 1982)

Member of the Board, Production and  
Services director



**Živilė Skibarkienė**  
(born in 1976)

Member of the Board

	Darius Maikštėnas	Vidmantas Saliotis	Darius Kašauskas	Dominykas Tučkus	Živilė Skibarkienė
<b>Education</b>	Harvard Business School (Boston, MA, USA), General Manager Program graduate; Baltic Management Institute (Vilnius, Lithuania), Executive MBA degree; Kaunas University of Technology, Bachelor's degree in Business Administration	Stockholm School of Economics in Riga (SSE Riga), Bachelor's degree in Economics and Business	ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	L. Bocconi University (Italy), Master's degree in Finance; L. Bocconi University (Italy), Bachelor's degree in Business Management and Administration	Mykolas Romeris University, Faculty of Law, Doctoral degree in Social Law; Vilnius University, Faculty of Law, Master's degree in Law
<b>Place of employment, position</b>	Delaware Corporation Wider Communications Incorporated, CEO; Wider Communications Limited, CEO	Energijos tiekimas UAB, CEO; Geton Energy SIA Chairman of the Board.	NT Valdos UAB, Chairman of the Board (till 7/2017); Elektroninių mokėjimų agentūra, UAB, Chairman of the Board (till 4/2017), Member of the Supervisory Board (since 4/2017); Duomenų logistikos centras, UAB, Chairman of the Board; Lithuanian Energy Support Foundation, Member of the Board (since 10/2017). 288th DNSB Vingis, Member of the Revision Commission	„Lietuvos energijos gamyba, AB, Member of the Supervisory Board; LITGAS, UAB, Chairman of the Board; Lietuvos dujų tiekimas, UAB, Chairman of the Board; Energijos tiekimas UAB, Chairman of the Board; Elektroninių mokėjimų agentūra, UAB, Chairman of the Supervisory Board; Tuuleenergia, OU, Member of the Board; EURAKRAS, UAB, Chairman of the Board; Energijos sprendimų centras, UAB, Chairman of the Board; KŪB Smart Energy Fund powered by Lietuvos Energija, Member of the Advisory Committee	Šiaulių Bankas AB, Legal and Administration Division, Head



The Board is a collegial management body provided for in the Articles of Association of the Company. Board members are elected by the proposal of the Committee of the Appointment and Remuneration for the term of office of four years and removed from office by the Supervisory Board. The Board consists of 5 members and elects the Chairman, the Director General of the Company, from among its members. Board members have to ensure the appropriate performance of Company activities/mentoring of the respective areas at Group level in the field of its competences. No Board Members have any interest in the capital of the Company or Group Enterprises. Remuneration for the activities in the Board is paid in accordance with the guidelines established by the shareholder of the Company.

During the reporting period, the Boards of Lietuvos Energija comprised the following:

During the reporting period, the Board of Lietuvos Energija (with the term of office from 22/07/2013 to 22/07/2017) comprised the following members: Mr **Dalius Misiūnas**, Chairman of the Board, Chief Executive Officer; Ms **Ilna Daugėlaitė**, Member of the Board, Organisational Development Director; Mr **Darius Kašauskas**, Member of the Board, Finance and Treasury Director; Mr **Mindaugas Keizeris**, Member of the Board, Strategy and Development Director; Mr **Dominykas Tučkus**, Member of the Board, Production and Services Director (from Jan 2016).

Upon decision of the Company's Supervisory Board, an interim board was established with a term of office from 22/11/2017 to 01/02/2018 (acting until the establishment of a permanent board). The interim board of Lietuvos Energija comprised the following members: Mr **Mindaugas Keizeris**, Chairman of the Board and Acting Chief Executive Officer, Strategy and Development Director; Ms **Ilna Daugėlaitė**, Member of the Board, Organisational Development Director; Mr **Darius Kašauskas**, Member of the Board, Finance and Treasury Director; Mr **Dominykas Tučkus**, Member of the Board, Production and Services Director.



## Organisational Culture and Employees

The people working at Lietuvos energija Group form the basis for the implementation of its strategy. The aim is to build and maintain the organisational culture based on values that motivate employees to assume responsibility, cooperate, and joint efforts to achieve the best result.

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

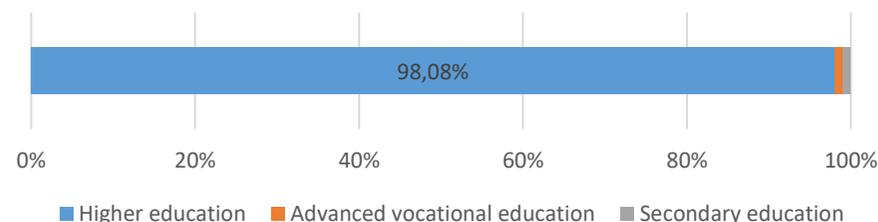
As at 31 December 2017, the Group had 4513<sup>2</sup> employees.

Group Companies	Total number of employees
Lietuvos energija, UAB	104
Energijos skirstymo operatorius AB	2503
Lietuvos energijos gamyba, AB	393
UAB Energetikos paslaugų ir rangos organizacija	552
UAB Technologijų ir inovacijų centras	167
UAB Duomenų logistikos centras	14
Energijos tiekimas UAB	31
UAB Elektroninių mokėjimų agentūra	6
NT Valdos, UAB	175
UAB LITGAS	16
UAB VAE SPB	3
UAB Verslo aptarnavimo centras	480
UAB Lietuvos dujų tiekimas	32
UAB Vilniaus kogeneracinė jėgainė	22
UAB Kauno kogeneracinė jėgainė	3
UAB Energijos sprendimų centras	1
UAB Eurakras	1
<b>Total</b>	<b>4513</b>

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

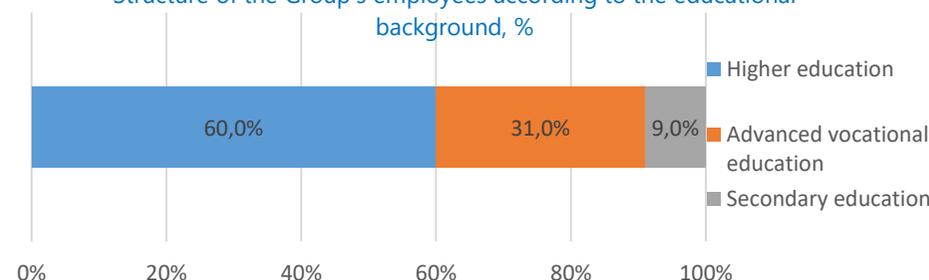
On 31 December 2017, the Company had 104 employees. The total of 98.08% of the Company's employees have higher university education, of whom 2 have doctoral degrees. 2 employees are certified professional project managers (PRINCE2 and PMP), 1 certified financial analyst (CFA), 1 certified internal auditor (CIA), 1 certified fraud examiner (CFE), 2 certified risk management assurance experts (CRMA), 1 certified risk management expert (ISO 31000:2009), 4 employees has professional Board Member's qualification of the Baltic Institute of Corporate Governance. Company's employees are active members of the associations, unions and academic communities (Scientific Council of the Lithuanian Energy Institute; the Supervisory Council of the Lithuanian Energy Institute; Business Council of Kaunas University; Technological Development Committee of the Agency for Science, Innovation and Technology, Risk Management Professionals Association Board, Lithuanian Responsible Business Association Board).

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



The total of 60% of Group's employees have higher education, of whom 20 have doctoral degrees, 31% of employees have acquired advanced vocational education and 9% have secondary education.

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



The biggest part of Group employees consisted of men – 76%, women comprised 24%. Among the executives, the gender breakdown was very similar: 77% of the executives were men, and 23% – women.

The total wage bill of the Company for January – December 2017 was EUR 2,570,679.

#### Average monthly salary of the Company's employees October – December 2017 (before taxes):

Category	Average salary, EUR
Head of the company	6 125
Top level executives	4 934
Middle level managers	3 397
Experts, specialists	1 979

As at 31 December 2017, the Group had 4,513 employees. The total wage bill of the Group for January – December 2017 was EUR 58.14 million.

#### Average monthly salary of the Group's employees October – December 2017 (before taxes):

Category	Average salary, EUR
Head of the company	4 902
Top level executives	4 281
Middle level managers	2 144
Experts, specialists, workers	1 185

#### Development of the Organisation and its Culture

In the 4Q 2017, the organisation continued its strategic initiatives intended for its coordinated development, management of human resources, formation of new organisational culture, efficient organisation of activities, education of new employees, improvement and maintenance of skills.

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

In 4Q 2017, the annual engagement survey of the LE Group employees was conducted. An overall employee engagement index, which is measured using the methodology of a global consulting company AON, reached 58% (+2p.p. compared to 2016), i.e. 9 p.p. above the average of organisations in the Baltics, and 18 p.p. above the average of energy companies in the EU. The major drivers influencing the level of employee engagement include Immediate Superiors (80%), Collaboration (76%), and Performance Management (73%).

In terms of the reward management, an active communication was carried out in 4Q 2017 in relation to an updated Remuneration Policy of the Group, which defined the key principles of the reward management: clarity, transparency, and fairness, ensuring the same reward for the same nature of work, competence and performance across all the Group entities. In addition, the updated Remuneration Policy contributed to the formation of an active dialogue and communication with staff members so that each employee of the Group could have a thorough understanding of the components of remuneration, the timing and the reasons for its review, as well as the circumstances in which additional incentives are provided.

The career management, rotation system structuration processes are further successfully continued (during the 4Q 2017, 24 employees rotated within the Group enterprises, and 252 employees made their career inside the enterprise).

#### Development of Skills

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

In 4Q 2017, a long-term training programme *Strong Leadership League* was continued. It was attended by over 100 management personnel who developed their management and leadership skills that will enable them to ensure effective management by focusing, motivating and empowering employees towards achieving their goals.

#### Internship Opportunities

Lietuvos energija Group provide opportunities for high school and vocational school students to apply their theoretical knowledge and to gain practical skills. In the 4Q 2017, 13 students had internships in the Group.



# Supervisory and Management Bodies of the Listed Companies of the Group

As at 31 December 2017, the Supervisory Board of Energijos skirstymo operatorius consisted of the following members (term of office till 3 December 2019):

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

As at 31 December 2017, the Board of Energijos skirstymo operatorius consisted of the following members (term of office till 3 December 2019):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
<b>Dalia Andrulionienė</b> Chairwoman from 4/11/2016	-	3/12/2015- December 2019	Energijos skirstymo operatorius, AB, Chief Executive Officer
<b>Rytis Borkys</b> Member	-	3/12/2015- 24/1/2018	Energijos skirstymo operatorius, AB, Director of the Network Operation Service
<b>Saulius Vaičekauskas</b> Member from 26/04/2017	-	26/4/2017- December 2019	Energijos skirstymo operatorius, AB, Director of the Network Development Service
<b>Augustas Dragūnas</b> Member	-	February 2016 – December 2019	Energijos skirstymo operatorius, AB, Director of the Finance and Administration Service
<b>Ignas Prancėvičius</b> Member	-	20/1/2017 – December 2019	Energijos skirstymo operatorius, AB, Director of the Services Service

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

As at 31 December 2017, the Supervisory Board of Lietuvos energijos gamyba consisted of the following members (term of office till 10 August 2021):

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

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

As at 31 December 2017, the Board of Lietuvos energijos gamyba (consisted of the following members (term of office till 22 September 2021):

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

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

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



## Main Information about the Company and the Group

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

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

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

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

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

As of 31 December 2017, the authorised share capital was divided into ordinary registered shares with the nominal value of LTL 1 (EUR 0.29) each. All the shares are fully paid.

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



# Information on Subsidiaries, Branches and Representative Offices

At the reporting date, companies directly or indirectly controlled by Lietuvos Energija UAB are as follows:

Company	Registered office address	Effective ownership interest (%)	Share capital (EUR '000)	Profile of activities
Lietuvos energijos gamyba, AB	Elektrinės str. 21, Elektrėnai	96,75	184,174	Production, supply and trade in electricity
AB Energijos skirstymo operatorius	Aguonų str. 24, Vilnius	94,98	259,443	Electricity supply and distribution to customers; natural gas supply
NT Valdosa, UAB	Geologų str. 16, Vilnius	100	37,295	Disposal of real estate, other related activities and service provision
UAB Duomenų logistikos centras	A. Juozapavičiaus str. 13, Vilnius	79,64	4,033	Support services for information technology and telecommunications
UAB Energetikos paslaugų ir rangos organizacija	Motorų str. 2, Vilnius	100	1,100	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid, energy equipment repair, production of metal structures
UAB LITGAS	Žvejų str. 14, Vilnius	100	13,050	Supply of liquid natural gas via the terminal and trade in natural gas
UAB Elektroninių mokėjimų agentūra	Žvejų str. 14, Vilnius	100	700	Provision of payment collection services
Energijos tiekimas UAB	Žvejų str. 14, Vilnius	100	17,240	Electricity power supply, import, export, balancing services
Public Institution Energetikų mokymo centras (until 11/8/2017)	Jeruzalės str. 21, Vilnius	100	85	Professional development and further professional training of energy sector specialists
Geton Energy OÜ	Narva mnt 5, 10117, Tallin	100	35	Electricity supply
Geton Energy SIA	Darziema str. 60, LV-1048, Riga	100	500	Electricity supply
Geton Energy, sp. Z.o.o.	Puławska 2-B, PL-02-566, Warsaw	100	10 M Polish zloty	Electricity supply
UAB Technologijų ir inovacijų centras	A. Juozapavičiaus str. 13, Vilnius	100	6,440	IT and telecommunication, and other services
UAB VAE SPB	Žvejų str. 14, Vilnius	100	100	Business and other management consultations
UAB Verslo aptarnavimo centras	P. Lukšio str. 5 b, Vilnius	100	580	Public procurement organisation and implementation, accounting, personnel administration services
UAB Lietuvos dujų tiekimas	Žvejų str. 14, Vilnius	100	8,370	Gas supply
Support Foundation of Lietuvos Energija	Žvejų str. 14, Vilnius	100	3	Provision of financial support to projects, initiatives and activities significant for society
UAB Vilniaus kogeneracinė jėgainė	Žvejų str. 14, Vilnius	100	21,003	Modernisation of the district heating sector in the city of Vilnius
UAB Kauno kogeneracinė jėgainė	Žvejų str. 14, Vilnius	51	24,000	Modernisation of the district heating sector in the city of Kaunas
Tuuleenergia OU	Keskus, Helmküla, Pärnu (Estonia)	100	499	Generation of electricity from renewable energy sources
UAB Eurakras	Žvejų str. 14, Vilnius	100	4,621	Generation of electricity from renewable energy sources
UAB Energijos sprendimų centras	Žvejų str. 14, Vilnius	100	1,230	Provision of electricity saving services
UAB Transporto valdymas (from 15/2/2018)	Smolensko str. 5, Vilnius	100	2,359	Provision of transport services



# Information on Securities of the Group Companies

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

## Structure of the authorised share capital and shareholders owning more than 5 per cent of the issuer's authorised share capital as at 31 December 2017:

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

## Information about agreements with securities intermediaries

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

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

## Group companies:

### Lietuvos Energijos Gamyba AB

As at 31 December 2017, the company had issued 635,083,615 ordinary registered shares with the nominal value of EUR 0.29. Shares of Lietuvos Energijos Gamyba have been listed on the main list of NASDAQ OMX Vilnius stock exchange. ISIN code of the issue is LT0000128571.

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

### Energijos Skirstymo Operatorius AB

As at 31 December 2017, the company had issued 894,630,333 ordinary registered shares with the nominal value of EUR 0.29. Shares of Energijos Skirstymo Operatorius AB have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange. ISIN code of the issue is LT0000130023.

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

Lietuvos energija, UAB

CEO



**Darius Maikštėnas**



