2018-03-22

CERTIFICATION STATEMENT

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Darius Maikštėnas, Chief Executive Officer of UAB Lietuvos energija and, Darius Kašauskas, Finance and Treasury Director, and Giedruolė Guobienė Head of Accounting services Centre of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, UAB Lietuvos energija consolidated and Company's financial statements for the financial year 2017 prepared in accordance with International Reporting Standards as adopted by the European Union give a true and fair view of assets, liabilities, financial position, profit or loss for the period and cash flows of UAB Lietuvos energija and whole Group, and that the review of activities and business development as well as the condition of UAB Lietuvos energija together with the description of the principle risks and uncertainties it faces has been described correctly in the UAB Lietuvos energija Annual report for 2017.

UAB Lietuvos energija
Chief Executive Officer

Darius Maikštėnas

UAB Lietuvos energija
Finance and Treasury
Director

Darius Kašauskas

Verslo aptarnavimo centras UAB,
Head of Accounting services Centre,
acting under Order No. IS17-80
(signed 2017 08 28)

Giedruolė Guobienė

Lietuvos energija

ANNUAL REPORT 2017

CONSOLIDATED ANNUAL REPORT, CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS

for the year ended 31 December 2017, prepared according to International Financial Reporting Standards as adopted by the European Union, presented together with the independent auditor's report

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Key Financial Indicators of the Lietuvos Energija Group

		2017	2016	Δ, EUR million	Δ. %
Revenue	EUR million	1,100.8	1,101.6	-0.8	-0.1%
Purchase of electricity, gas, fuel and related services	EUR million	740.5	727.5	13.0	1.8%
Operating expenses	EUR million	132.0	136.2	-4.2	-3.1%
EBITDA	EUR million	227.2	232.8	-5.6	-2.4%
EBITDA margin	%	20.6%	21.1%		
Adjusted EBITDA (1)	EUR million	238.7	234.6	4.1	1.7%
Adjusted EBITDA margin	%	21.7%	21.3%		
Net profit	EUR million	93.5	118.4	-24.9	-21.0%
Net profit margin	%	8.5%	10.7%		
Net profit (adjusted) (1)	EUR million	130.1	117.7	12.4	10.6%
Net profit (adjusted) margin	%	11.8%	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	2,505.1	2,432.2	72.9	3.0%
Equity	EUR million	1,343.6	1,319.5	24.1	1.8%
Borrowings	EUR million	614.1	494.4	119.7	24.2%
Net debt	EUR million	442.3	315.8	126.5	40.1%
Return on equity (ROE)	%	7,0%	9.0%		
Adjusted return on equity (ROE)	%	9.8%	9.0%		
Equity ratio	%	53.6%	54.3%		
Net debt / 12-month adjusted EBITDA	times	1.85	1.35		
Net debt / Equity	%	32.9%	23.9%		
12-month FFO / Adjusted net debt	%	47.8%	64.9%		
Assets turnover ratio	times	0.439	0.453		
Current liquidity	times	1.285	1.046		
Working capital	EUR million	-8.8	-34.0	25.2	74.3%
Working capital / Revenue	%	-0.8%	-3.1%		

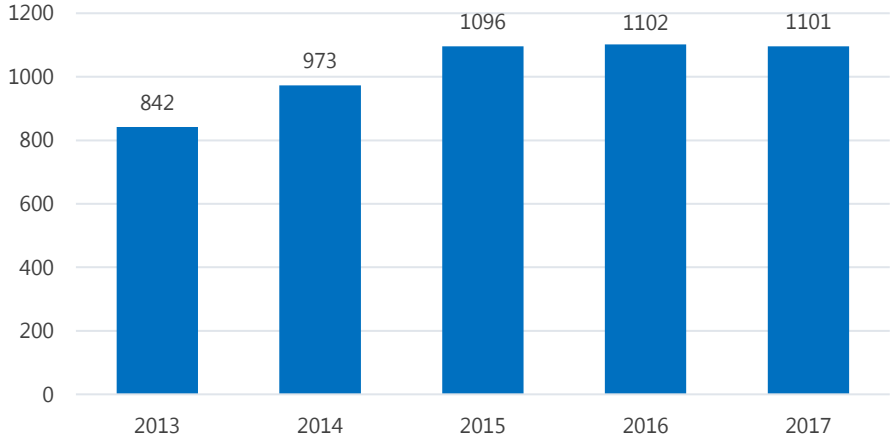
(1) The amount presented comprises additional EBITDA and net profit adjustments relating to the recalculation of regulated revenue of ESO, Litgas, LEG and LDT. These adjustments were not made in the 2016 year report, because such data is collected from the beginning of 2016.

(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.

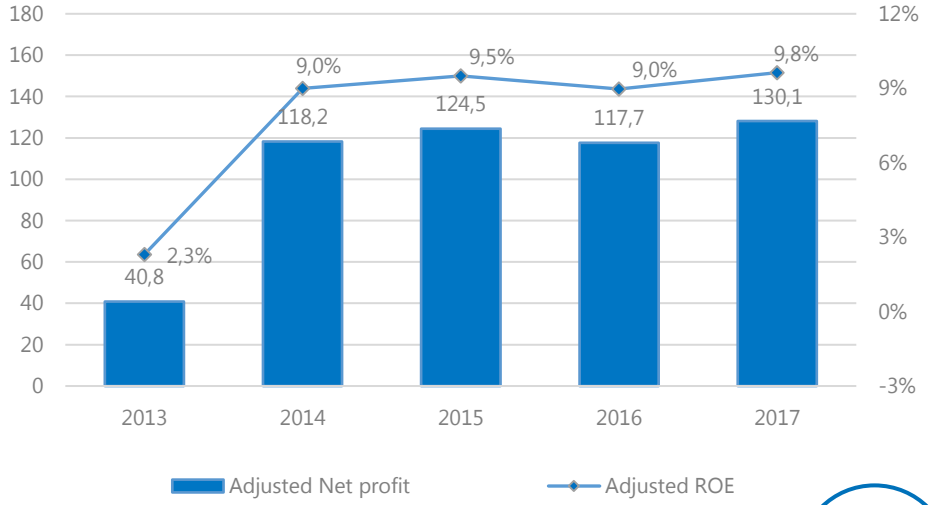
Revenue of the Lietuvos Energija group remained at a stable level regardless of decline in electricity and gas transmission prices for consumers.

↓0.1%



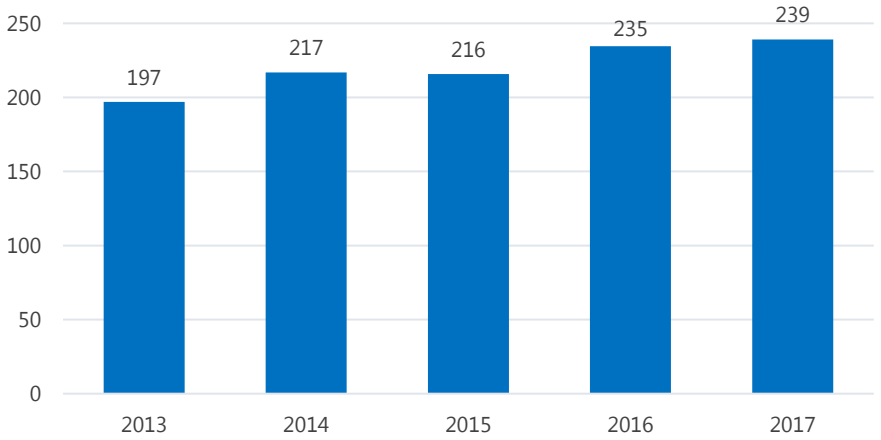
Adjusted **net profit** of the Lietuvos Energija group increased by 10,6% up to EUR 130.1 million. Adjusted **return on equity** reached 9.8%.

9.8%



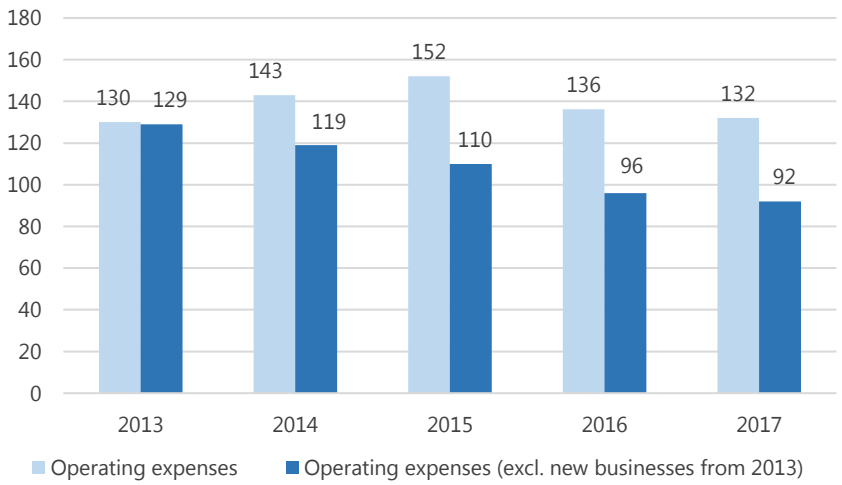
Adjusted **EBITDA** of the Lietuvos Energija group remained at a stable level irrespective of decline in electricity and gas transmission prices for consumers.

↑2%



Improved operational efficiency resulted in reduction of **operating expenses** of Lietuvos Energija by more than EUR 4 million.

↓3%



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.

CEO Foreword

Dear Customers, Partners, Employees and Shareholders,

By consistently implementing the defined strategy the energy company group Lietuvos Energija completed another successful year.

Despite the decreasing electricity and gas transmission prices for the customers, the profit and the overall revenues of the company group changed only marginally. The stable performance results were mainly due to the decreasing operating costs, enhanced efficiency, as well as the diversification in the operations yielding higher income from trade in electricity and gas.

The stable and consistent performance of Lietuvos Energija clearly demonstrated that the first stage in the corporate transformation process was a success. The changes put in place ensured sufficient financial stability and a solid return to the shareholder – the State of Lithuania. The refining of the operations, enhanced efficiency, and successfully implemented development projects were the major contributors in reducing the energy prices for customers, improving the existing and offering new services.

During the previous period the Company created a stable foundation for its further modernisation and transformation. Lietuvos Energija is entering a new year by opening a new stage in which major priorities will be focusing on customer needs, deployment of innovations, creation of new services, continuing development of group activities.

It is our aim to ensure that Lietuvos Energija become a new generation energy company – smart, able to compete not only locally, but also globally, as well as a significant contributor to the growth of the Lithuanian economy, and the well-being of its residents.

Darius Maikštėnas
Chairman of the Board and the CEO
Lietuvos Energija, UAB

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 2017 1,28 TWh of electricity was generated, 9,22 TWh of electricity was dristibuted 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

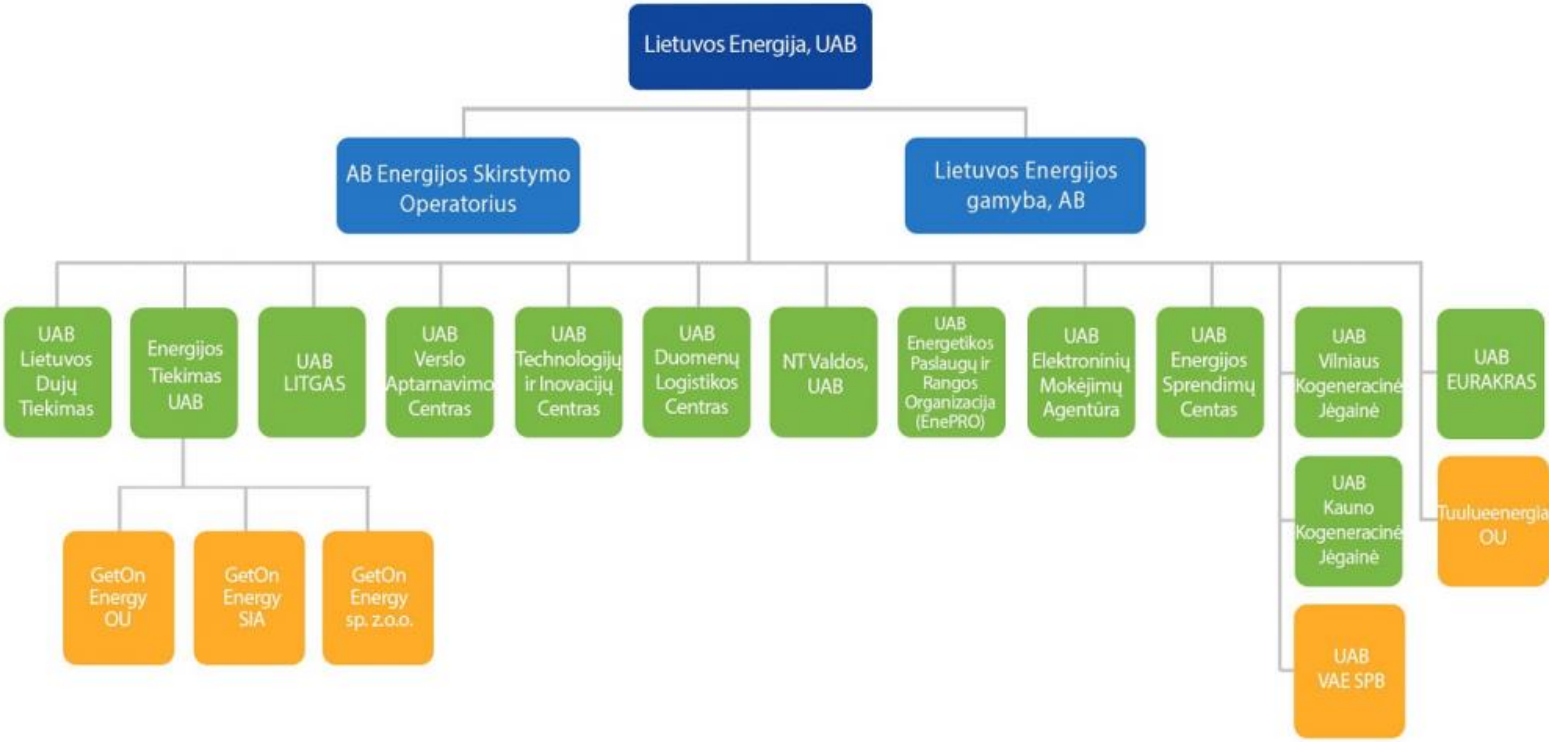
9,22 TWh of electricity distributed

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.



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

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

The Group's Strategy

The main goal of the strategy of the Lietuvos Energija group is to 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.

Major events in 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 diversity 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. KKJ concluded agreements on equipment supply and designing, procurement, and construction management services (EPCM) for a new energy plant.

2017 April

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

26 April. Vilnius authorities allowed to build a co-generation plant - Vilnius Board 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. KKJ signed the project funding contract with Swedbank providing the credit.

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

30 August. A new Supervisory Board of Lietuvos Energija was formed. Elected members of the Supervisory Board are: Mr Darius Daubaras (Project Manager at the Saudi Aramco Company), Ms Daiva Lubinskaitė-Trainauskienė (Personnel Director at UAB Thermo Fisher Scientific Baltics), Ms Agnė Bagočiutė (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 Bagočiutė resigned from the Supervisory Board. 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 Board of Lietuvos Energija elected an interim Board of the Group. Mr M. Keizeris, Ms I. Daugėlaitė, Mr D. Kašauskas, and Mr D. Tučkus who had held the 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 Lemminkainen Lietuva that will carry out site preparation, waste bunker pit and concrete pouring works.

22 November. Two new members took office at the Supervisory Board 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 Board 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 Board 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.

ANALYSIS OF THE GROUP`S FINANCIAL AND OPERATIONAL RESULTS

Analysis of the Group's Financial and Operating Results

Key operating indicators		2017	2016	Δ, +/-	Δ, %
Electricity					
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%
Quality indicators of electricity supply					
SAIDI, min. (with *force majeure*)	min.	137.83	172.92	-35.09	-20.3%
SAIFI, units (with *force majeure*)	units	1.32	1.25	0.07	5.6%
Technological costs in the distribution network	%	6.14%	6.49%		-5.5%
Gas					
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	166	160	6	3.7%
Quality indicators of gas supply					
SAIDI, min. (with *force majeure*)	min.	1.161	0.529	0.63	119.5%
SAIFI, units (with *force majeure*)	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 0.10 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.

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).

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. 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.

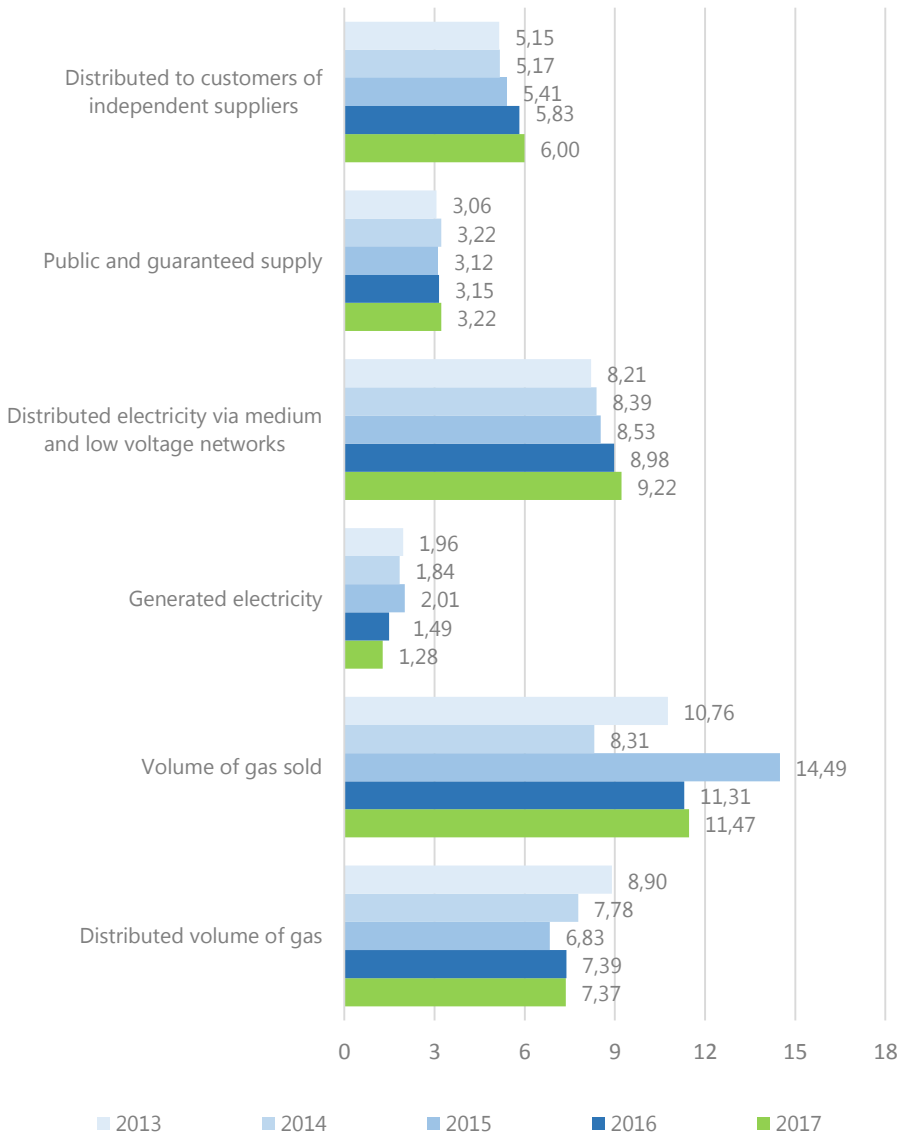
In 2017, technological costs in the electricity distribution network declined to 6.14% (6.49% in 2016). In 2017, SAIDI ratio, with the causes of *force majeure* circumstances, improved and was 137.83 minutes and SAIFI ratio was 1.32 times in 2017.

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 2.25% to 2.13%. 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.

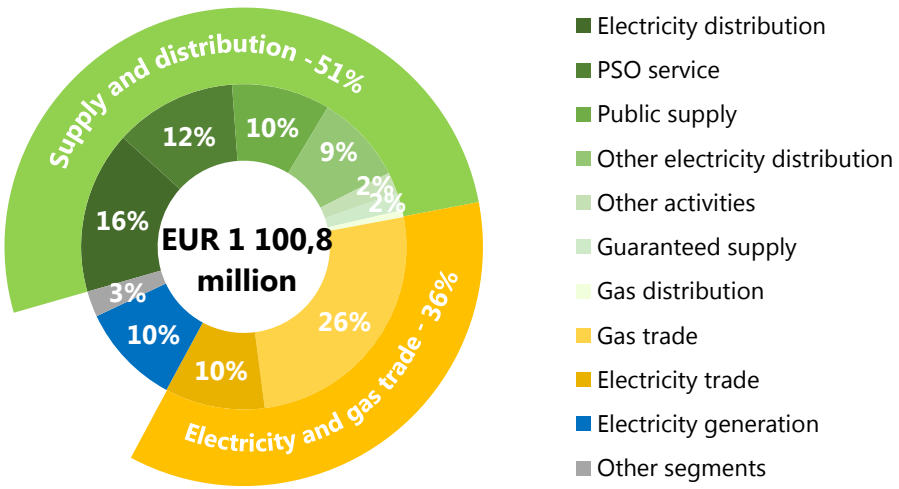
Revenue

Revenue of the Lietuvos Energija group decreased by 0.1% or EUR 0.8 million in 2017 compared to 2016 and totalled EUR 1,100.8 million. The main reasons causing revenue changes were as follows:

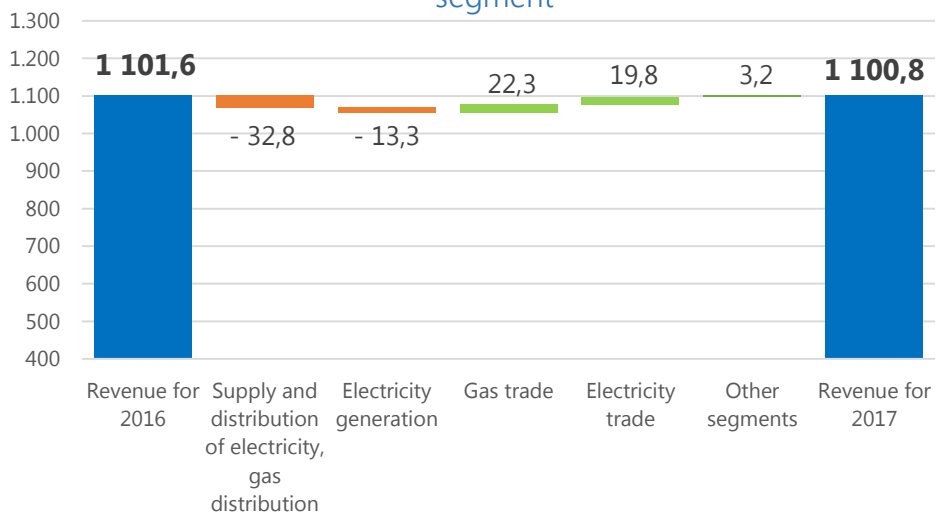
1. **Lower revenue from electricity transmission and public supply.** Revenue from electricity distribution and supply declined by EUR 32.8 million compared to 2016. Lower electricity and natural gas prices established for consumers was the main reason that caused this decline in revenue. The tariff 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 segments 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 19.8 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[1] (EUR 566.4 million in 2017) represents more than half (51%) 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



[1] *Information on the Group's operating segments is disclosed in Note 38 'Operating segments' to the consolidated and Company's financial statements.*

Operating and Purchase Expenses

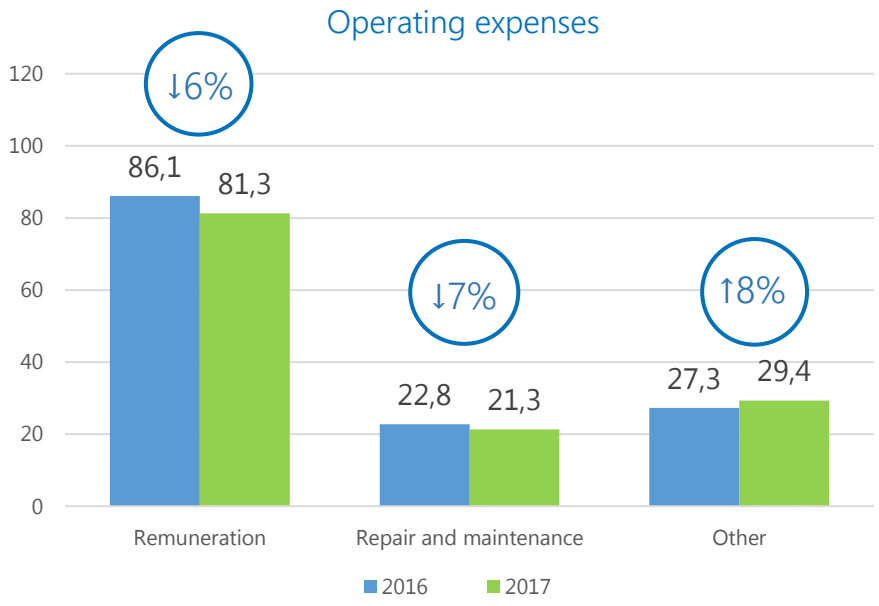
The Group's operating expenses decreased by 3.1% (EUR 4.2 million) compared to 2016 and amounted to EUR 132 million in 2017. The main reasons causing decline in operating expenses were as follows:

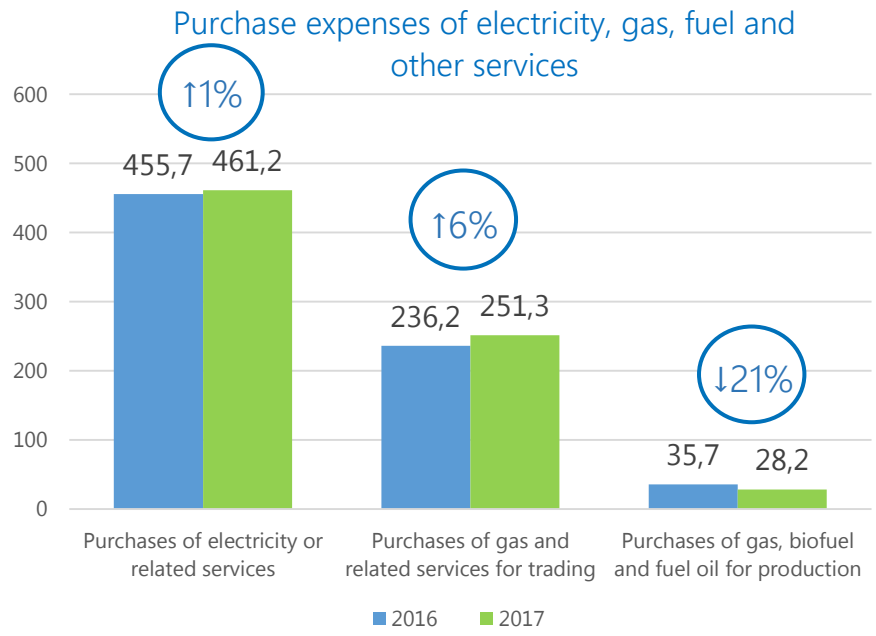
1. **Lower remuneration expenses.** Remuneration expenses declined by EUR 4.7 million or 5.5% as a result of a 7% decrease in the number of employees. As at 31 December 2017, the Group had 4,513 (31 December 2016: 4,861) employees (the number of employment contracts is presented).
2. **Lower repair and 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 1.5 million or 6.7% 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.





EBITDA

In 2017, the Group's adjusted EBITDA amounted to EUR 238.7 million, which is 1.7% or EUR 4.1 million more than adjusted EBIDTA of 2016, which was equal to EUR 234.6 million. The adjusted EBITDA margin reached 21.7% in the reporting period (21.3% in 2016).

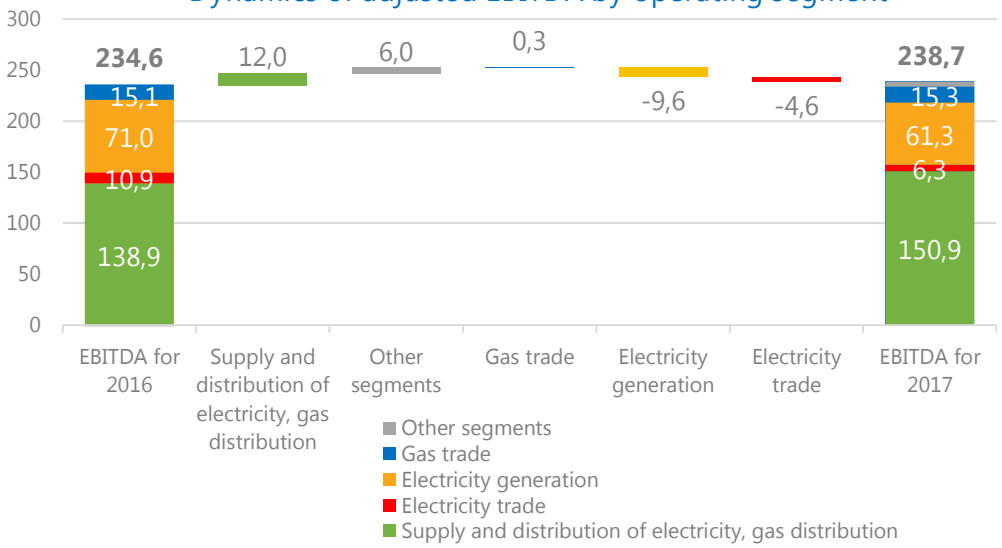
1. **Higher EBITDA of electricity and gas distribution activity.** The growth of the Group's adjusted EBITDA was determined by a positive change in the results of the activity of electricity and gas distribution (EUR +12 million). The increase resulted from improved operational efficiency, lower operating 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.
2. **Higher EBITDA of other activities.** The Group's EBITDA of other activities increased by EUR 6 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 Valdos (EUR 1 million). Results of operations of these companies improved as a result of lower operating expenses compared to 2016.
3. **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.
4. **Lower EBITDA of electricity trading activity.** Results of electricity trading activity for 2017 were lower by EUR 4.6 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.

*Adjusted EBITDA indicator is based on management adjustments that are not presented in the financial statements. A more detailed description of the management adjustments is presented in Consolidated and Company Financial statements, Note 38 "Operating segments"

	2017	2016	Δ, +/-
Operating profit	**97.1**	**147.4**	**-50.3**
Depreciation and amortisation expenses	87.4	78.5	8.9
Impairment expenses and write-offs of PPE	45.0	3.6	41.4
Revaluation expenses of emission allowances	-2.3	3.3	-5.6
EBITDA	**227.2**	**232.8**	**-5.6**
Management's adjustments*			
Change in market value of open financial derivative instruments	-1.1	-2.0	0.9
Write-offs of inventories and receivables	0.9	4.8	-3.9
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
Adjusted EBITDA	**238.7**	**234.6**	**4.1**

(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.

Dynamics of adjusted EBITDA by operating segment



Net Profit

In 2017, the Group earned net profit of EUR 93.5 million, which is EUR 24.9 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.

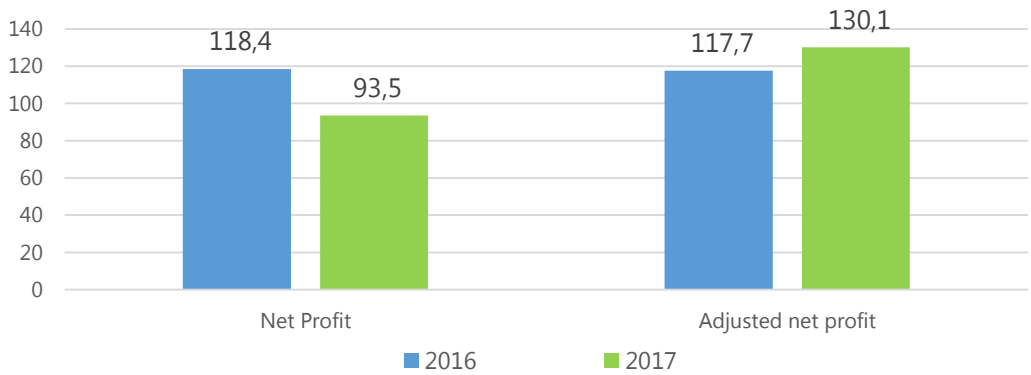
Deviation between actual and regulated revenue from designated supply activity carried out by the Group company Litgas had a significant impact on net profit for 2017 and 2016. Such results were also driven by the recalculation of regulated revenue of Energijos Skirstymo Operatorius, Lietuvos Dujų Tiekimas 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 130.1 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.

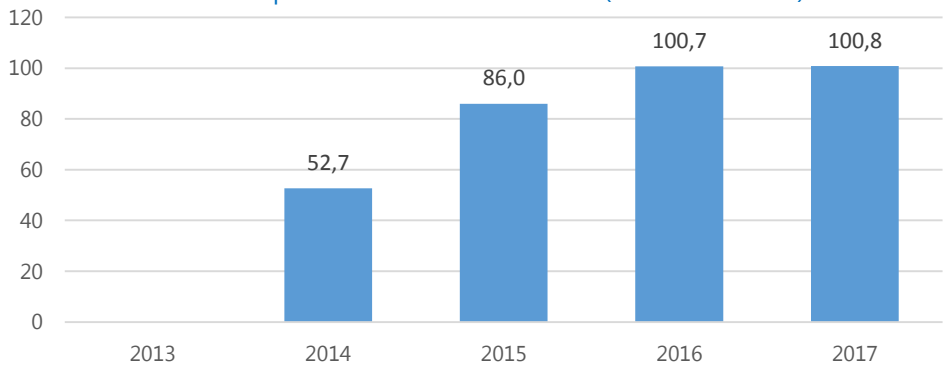
As at 31 December 2016, equity of the Lietuvos Energija group amounted to EUR 1,319.5 million. During 2017, equity increased by 1.8% or EUR 24.1 million and amounted to EUR 1,343.6 million as at 31 December 2017. Increase in the Group's equity was driven by a larger amount of net profit that remained 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, +/-
Net profit for the reporting period	**93,5**	**118,4**	**-24,9**
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
Adjusted net profit	**130,1**	**117,7**	**12,4**

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.

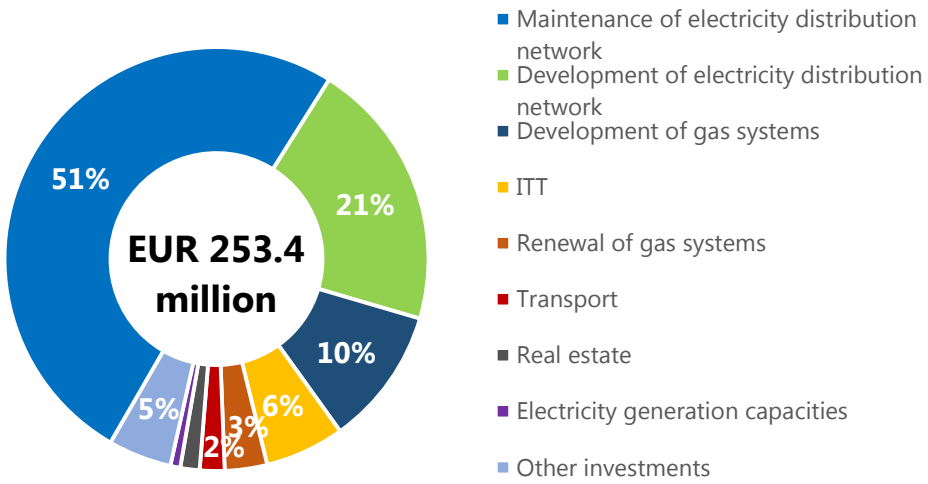
Investments in the renewal of the electricity distribution network increased in 2017 by EUR 43.5 million compared to 2016. Investments made by Energijos Skirstymo Operatorius (ESO) in the renewal of the electricity distribution network amounted to EUR 128.2 million in 2017. Investments allocated by ESO 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 3% or EUR 72.9 million during 2017 and amounted to EUR 2,505.1 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%
Total	**253.4**	**240.5**	**12.9**	**5.4%**

(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 40.1% or EUR 126.5 million compared to the amount of net debt at the end of 2016 and amounted to EUR 442.3 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.

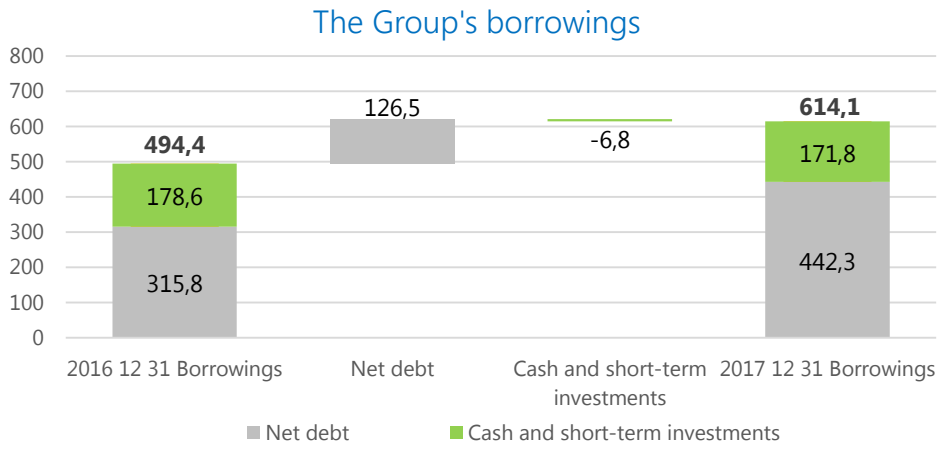
During 2017, the Group's borrowings increased by 24.2% or EUR 119.7 million and amounted to EUR 614.1 million as at 31 December 2017 compared to EUR 494.4 million as at 31 December 2016. Borrowings amounting to EUR 293.9 million were subject to a fixed interest rate (47.9% of the total borrowings) and the remaining amount of borrowings was subject to a variable interest rate. Weighted average interest rate was 1.3% (2016: 1.1%). 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).

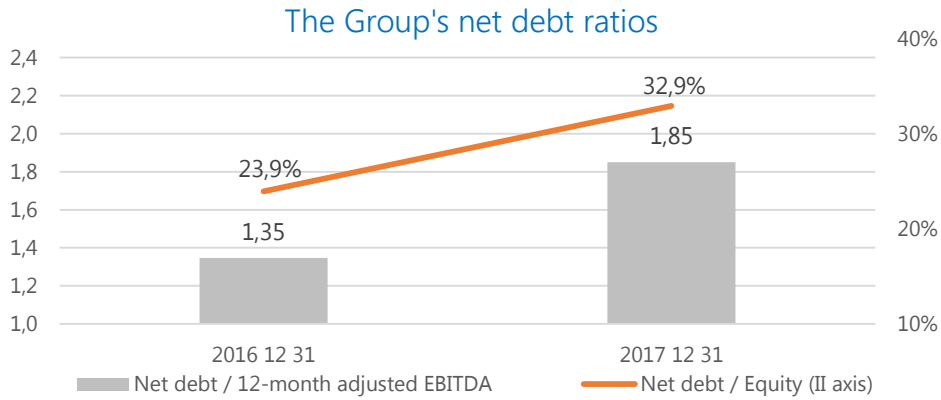
The Group's net debt to the last 12-month adjusted EBITDA ratio increased from 1.35 times at the 2016 year-end to 1.85 times at the 2017 year-end. The increase resulted from increase in the Group's net debt. The average repayment term of borrowings was 6.2 years as at 31 December 2017 (31 December 2016: 3.1 years). The repayment term increased as a result of the issue of bonds, the repayment term of which is 10 years.

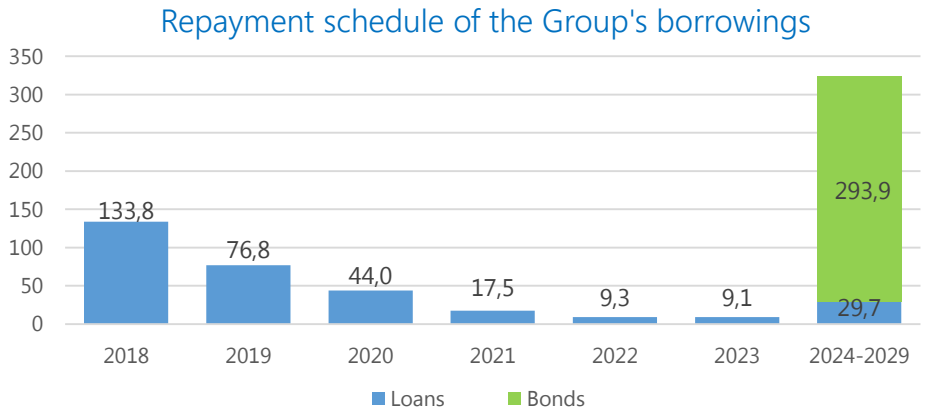
The Group's net debt to the Group's equity ratio increased from 23.9% at the 2016 year-end to 32.9% at the 2017 year-end. It should be noted that after the issue of bonds the level of the Group's net debt remains to be rather low with respect to profit earned and the capital structure.

The Group's current liquidity ratio increased from 1.05 at the 2016 year-end to 1.29. 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 1.08. 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.







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 profit (loss) of a respective reporting period restated at a annual value / average amount of equity during the reporting period
Adjusted 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

Key financial indicators of the Lietuvos Energija group for 2013–2017

Financial data		2017	2016	2015	2014	2013
Revenue	EUR million	1,100.8	1,101.6	1,095.8	972.7	842.2
Purchase of electricity, gas, fuel and related services	EUR million	740.5	727.5	774.0	612.4	517.0
Operating expenses	EUR million	132.0	136.2	151.9	143.3	129.5
EBITDA	EUR million	227.2	232.8	172.8	217.5	189.2
EBITDA margin	%	20.6%	21.1%	15.8%	22.4%	22.5%
Adjusted EBITDA	EUR million	238.7	234.6	215.8	216.9	197.1
Adjusted EBITDA margin	%	21.7%	21.3%	19.7%	22.3%	23.4%
Net profit	EUR million	93.5	118.4	55.3	-280.0	40.8
Net profit margin	%	8.5%	10.7%	5.0%	-28.8%	4.8%
Adjusted net profit	EUR million	130.1	117.7	124.5	118.2	40.8
Adjusted net profit margin	%	11.8%	10.7%	11.4%	12.2%	4.8%
Investments	EUR million	253.4	240.5	150.4	153.5	99.8
Dividends paid* to shareholders (on accrual basis)	EUR million	100.8	100.7	86.0	52.7	0.0
		At 31 Dec 2017	**At 31 Dec 2016**	**At 31 Dec 2015**	**At 31 Dec 2014**	**At 31 Dec 2013**
Total assets	EUR million	2,505.1	2,432.2	2,339.2	2,369.2	2,783.0
Equity	EUR million	1,343.6	1,319.5	1,304.5	1,308.9	1,781.7
Borrowings	EUR million	614.1	494.4	420.7	391.6	341.8
Net debt	EUR million	442.3	315.8	251.8	175.9	128.0
Return on equity (ROE)	%	7.0%	9.0%	4.2%	-18.1%	2.3%
Adjusted Return on equity (ROE)	%	9.8%	9.0%	9.5%	9.0%	2.3%
Equity ratio	%	53.6%	54.3%	55.8%	55.2%	64.0%
Net debt / Adjusted 12-month EBITDA	times	1.85	1.35	1.17	0.81	0.65
Net debt / Equity	%	32.9%	23.9%	19.3%	13.4%	7.2%
12-month FFO / Adjusted net debt	%	47.8%	64.9%	65.1%	102.8%	111.2%
Assets turnover ratio	times	0.439	0.453	0.468	0.411	0.303
Current liquidity ratio	times	1.285	1.046	1.049	1.073	1.264
Working capital	EUR million	-8.8	-34.0	-8.5	-39.8	-20.2
Working capital / Revenue	%	-0.8%	-3.1%	-0.8%	-4.1%	-2.4%

** Dividends for 2017 comprise dividends proposed to be paid to the shareholder for 2017.*

Key financial indicators of the Lietuvos Energija group for 2013–2017 (continued)

Operating indicators		2017	2016	2015	2014	2013
Electricity						
Generated electricity	TWh	1.28	1.49	2.01	1.84	1.96
Generated electricity using renewable energy sources	TWh	0.59	0.49	0.27	0.32	0.41
Distributed electricity via medium and low voltage networks	TWh	9.22	8.98	8.53	8.39	8.21
Public and guaranteed supply	TWh	3.22	3.15	3.12	3.22	3.06
Distributed to customers of independent suppliers	TWh	6.00	5.83	5.41	5.17	5.15
Sales in retail market	TWh	2.12	1.78	1.37	1.27	-
Number of newly connected customers	units '000	29.64	29.36	28.50	26.43	20.65
Duration of connection of new customers (average)	calendar days	49	66	78	-	-
Quality indicators of electricity supply						
SAIDI, min. (with *force majeure*)	min.	137.83	172.92	106.53	144.04	153.43
SAIFI, units (with *force majeure*)	units	1.32	1.25	1.06	1.29	1.43
Technological costs in the distribution network	%	6.14%	6.49%	6.76%	7.31%	7.42%
Gas						
Distributed volume of gas	TWh	7.37	7.39	6.83	7.77	8.90
Volume of gas sold	TWh	11.47	11.31	14.49	8.31	10.76
Volume of gas purchased	TWh	11.88	11.77	14.56	-	-
Volume of LNG purchased	TWh	6.35	7.55	4.81	-	-
Volume of natural gas purchased	TWh	5.53	4.22	9.75	-	-
Number of newly connected customers	units '000	12.53	5.29	4.08	3.59	3.04
Duration of connection of new customers (average)	calendar days	166	160	216	205	250
Quality indicators of gas supply						
SAIDI, min. (with *force majeure*)	min.	1.161	0.529	1.034	2.172	1.528
SAIFI, units (with *force majeure*)	units	0.007	0.006	0.007	0.009	0.004
Technological costs in the distribution network	%	2.13%	2.25%	2.48%	2.42%	2.19%

RESULTS OF OPERATIONS OF THE GROUP`S COMPANIES

Energijos Skirstymo Operatorius AB

Energijos Skirstymo Operatorius AB (ESO) started its operations on 1 January 2016 after the merger of LESTO AB and Lietuvos Dujos AB. The main functions of ESO include electricity supply and distribution, natural gas distribution, guaranteed electricity and gas supply, connection to electricity and gas networks, ensurance of safe and reliable operation of electricity and gas distribution networks, their operation, maintenance, management and development. ESO provides services to 1.6 million consumers across Lithuania. ESO operates electricity lines with the length of 121.7 thousand km, whereof 78.7% comprise overhead electricity lines and 21.3% – electricity cables. The company also operates gas distribution pipelines with the length of 8.1 thousand km.

Key financial results

ESO's revenue for 2017 amounted to EUR 612.3 million, which is a 5.8% decrease compared to 2016. Revenue dropped due to lower electricity and natural gas prices established to the company's customers. Electric power distribution is the main source of the company's revenue. In 2017, distribution revenue comprised 66% of the company's total revenue. Revenue from public supply of electricity represented 18% and revenue from natural gas distribution made up 8% of the company's total revenue. Adjusted EBITDA rose by 8.6% due to higher operational efficiency and larger investments in the modernisation and expansion of the networks.

In 2017, operating expenses decreased by 3.9% compared to 2016 and amounted to EUR 94.7 million. Employee benefits and related social security contributions, as well as repair and maintenance expenses saw the highest decline, i.e. a 7.2% and 15.3% decrease, respectively.

In 2017, ESO's investments in the electricity and gas distribution networks amounted to EUR 226.2 million, which is 51.6% more than in 2016 when they were equal to EUR 149.2 million. In 2017, investments in IT, management systems and other assets increased by 27.2% compared to 2016 and amounted to EUR 10.9 million. This increase was caused by the installation works of the new electricity distribution network management system. During 2017, 29.6 thousand new customers were connected to the electricity distribution network. In 2017, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 34.9 million or 111.7% more compared to 2016. In 2017, the company connected 12.5 thousand customers to the gas pipelines, which is 137% more than in 2016 when 5,288 customers were connected.

Financial indicators

in EUR million unless otherwise stated	2017	2016	Δ, +/-
Revenue	612.3	650.1	-37.8
Operating expenses (OPEX)	94.7	98.6	-3.9
EBITDA	140.1	163.3	-23.2
Adjusted EBITDA	150.9	138.9	12.0
Net profit	77.6	92.5	-14.9
Assets	1,277.8	1 112.1	165.7
Equity	607.6	623.2	-15.6
Borrowings	372.7	219.1	153.6
Net debt	366.2	208.4	157.8
Adjusted EBITDA margin, %	24.6%	21.4%	
Net debt / Equity, %	60.3%	33.4%	
Net debt / Adjusted EBITDA	2.43	1.50	
Return on equity, %	12.6%	15.5%	
Equity / Assets, %	47.6%	56.0%	

Lietuvos Energijos Gamyba AB

Lietuvos Energijos Gamyba (LEG) is a company of strategic importance that brings together the state-owned electricity generating facilities, namely, the reserve power plant and the combined cycle unit in Elektrėnai Complex, Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP) and Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas HPP). The company's main objective is to contribute to ensuring the country's energy security by consolidating production capacity. The company has permits of unlimited validity to engage in electricity generation activities. The company assumes the major responsibility for the improvement of effectiveness, competitiveness and transparency of the country's electricity sector and safeguarding interests of consumers. As from 1 January 2016, trade in electricity produced by the company is conducted under the agreement by Energijos Tiekimas UAB. Before that date, the company used to conduct trading on the wholesale electricity market on its own (i.e. within the communication environment between the producers and suppliers of electricity).

Key financial results

Electricity production by the power plants operated by the company and sale of electricity produced totalled 1.147 TWh, which is a 16.4% decrease compared to 2016 when 1.371 TWh of electricity were produced and sold. Such decrease resulted from significantly lower production volumes at Elektrėnai Complex compared to 2016. Whereas the volume of electricity produced and sold by Kruonis PSHP and Kaunas HPP increased. At the latter power plant production volume increased by even more than a quarter due to heavy rainfall and higher water level in the Nemunas river.

The company's revenue in 2017 decreased by 13.4% compared to 2016. Decline in revenue was mainly driven by lower production volumes at Elektrėnai Complex that resulted from lower electricity prices on the power exchange compared to 2016 and by a positive impact (EUR 15.4 million) of the disposal of a part of the business on revenue for 2016. In 2017, the company's operating expenses amounted to EUR 133.6 million. Expenses attributable to purchase of electricity, related services and fuel for electricity generation represented the major portion of the company's expenses (EUR 58.5 million or 43.8%). Operating expenses decreased by EUR 3.1 million in 2017 compared to 2016 and amounted to EUR 20.0 million. Increase in operating expenses was mainly caused by higher expenses for the dismantling project (units 5 and 6 of Elektrėnai Complex). In 2017, the company's depreciation and amortisation expenses amounted to EUR 25 million.

The company's adjusted EBITDA for 2017 is EUR 10.0 million lower from the previous year. Decline in the company's adjusted EBITDA was mainly influenced by expenses for dismantling works of units 5 and 6 at Elektrėnai Complex that commenced in 2017 and lower sale of active secondary power reserve services by Kruonis PSHP in 2017 compared 2016, as well as lower EBITDA of regulated activities of Elektrėnai Complex. The company's investments in property, plant and equipment and intangible assets amounted to EUR 1.9 million in 2017 (2016: EUR 3.3 million).

Financial indicators

in EUR million unless otherwise stated	2017	2016	Δ, +/-
Revenue	149.8	172.9	-23.1
Operating expenses (OPEX)	20.0	23.1	-3.1
EBITDA	70.5	58.1	12.4
Adjusted EBITDA	53.7	63.7	-10.0
Net profit	20.5	40.0	-19.5
Assets	636.3	819.4	-183.1
Equity	353.9	355.6	-1.7
Borrowings	55.6	132.9	-77.3
Net debt	-5.1	33.9	-39.0
EBITDA margin adjusted, %	35.9%	36.8%	
Net debt / Equity, %	-1.5%	9.5%	
Net debt / Adjusted EBITDA	-0.10	0.53	
Return on equity, %	5.8%	11.2%	
Equity / Assets, %	55.6%	43.4%	

Eurakras UAB

Eurakras UAB operates a park of 8 wind turbines with the overall capacity of 24 MW, located in Geišiai and Rotuliai II villages, Jurbarkas district. Wind turbines for this wind power park were produced by the German company Nordex. The installed capacity of each turbine is equal to 3 MW. The construction of this wind power park was completed and the permit for electricity generation was issued at the end of December 2015. With effect from January 2016, 75% of the company's shares were owned by Lietuvos Energija UAB. In September 2017, Lietuvos Energija UAB acquired the remaining 25% of the company's shares and currently has a 100% shareholding in the company.

Key financial results

In 2017, the company generated 75,449 MWh of electricity (2016: 71,261 MWh of electricity).

The company's sales revenue for 2017 increased compared to 2016 and amounted to EUR 5.3 million (2016: EUR 5.0 million). Revenue growth resulted from a higher quantity of electricity produced and sold. In 2017, the company's operating expenses amounted to EUR 0.7 million (2016: EUR 0.7 million). Net profit for 2017 reached EUR 1.7 million (2016: EUR 1.5 million).

Financial indicators

in EUR million unless otherwise stated	2017	2016	Δ, +/-
Revenue	5.3	5.0	0.3
Operating expenses (OPEX)	0.7	0.7	0.0
EBITDA	4.6	4.3	0.3
Net profit	1.7	1.5	0.2
Assets	32.3	35.8	-3.5
Equity	7.2	9.6	-2.4
Borrowings	24.4	24.9	-0.5
Net debt	23.1	22.6	0.5
EBITDA margin, %	86.6%	86.2%	
Net debt / EBITDA	5.07	5.26	
Return on equity, %	20.2%	16.9%	
Equity / Assets, %	22.5%	26.9%	

Tuuleenergia OU

Tuulueenergia operates a park of 6 wind turbines with the overall capacity of 18.3 MW, located in Mali and Tamba, Estonia. All six wind turbines for this wind power park were produced by the German company Enercon. The installed capacity of each turbine is equal to 3 MW. This wind power park was put into operation at the beginning of 2015. With effect from January 2016, 100% of the company's shares is owned by Lietuvos Energija UAB. In 2017, the company successfully continued its operations with results being further improved.

Key financial results

In 2017, the company generated 55,083 MWh of electricity (2016: 51,702 MWh of electricity).

The company's sales revenue for 2017 increased compared to 2016 and amounted to EUR 3.5 million (2016: EUR 3.3 million). Revenue growth resulted from a higher quantity of electricity produced and sold. In 2017, the company's operating expenses amounted to EUR 0.5 million (2016: EUR 0.4 million). Net profit for 2017 reached EUR 0.7 million (2016: EUR 0.8 million).

Financial indicators

in EUR million unless otherwise stated	2017	2016	Δ, +/-
Revenue	3.5	3.3	0.2
Operating expenses (OPEX)	0.5	0.4	0.1
EBITDA	3.0	3.0	0.0
Net profit	0.7	0.8	-0.1
Assets	31.4	31.9	0.5
Equity	1.2	0.5	0.7
Borrowings	24.0	23.3	0.7
Net debt	20.6	22.8	-2.2
EBITDA margin, %	85.5%	89.2%	
Net debt / EBITDA	6.87	7.70	
Return on equity, %	58.3%	159.4%	
Equity / Assets, %	3.8%	1.6%	

Lietuvos Dujų Tiekimas UAB

The core line of business of Lietuvos Dujų Tiekimas (LDT) is the purchase (import) and sale of natural gas to consumers. In 2014, LDT and Lietuvos Dujos signed the agreement on the purchase and sale of a part of the business, under which LDT acquired from Lietuvos Dujos the business of natural gas supply. The activity of natural gas supply was unbundled from Lietuvos Dujos in the implementation of the requirements of the Third Energy Package of the EU and the related legal acts. LDT started its licensed activities of natural gas supply with effect from 1 November 2014 and currently supplies natural gas to energy, industrial and business companies and household customers. The total number of the company's customers reaches over 580 thousand.

Key financial indicators

In 2017, LDT supplied 8,274 thousand MWh of natural gas to customers, excluding gas supplied under transactions for balancing of the natural gas supply schedule. Overall 4,854 thousand MWh of natural gas was supplied to corporate customers and 1,986 thousand MWh of natural gas was supplied to private customers in Lithuania. 1,249 thousand MWh of natural gas was supplied to customers in the Latvian market. The volume of LNG reloaded totalled 186 thousand MWh. The total quantity of natural gas supplied in 2017 increased by 10% compared to 2016 mainly as a result of gas sales in Latvia.In 2017, the company's revenue totalled EUR 239.9 million, i.e. 23% more compared to 2016. Increase in revenue was caused by higher sales. In 2017, the company earned net profit of EUR 7.6 million (2016: the company incurred net loss of EUR 16.2 million). The company's operations were negatively affected because part of reduction of the import price was passed to private and corporate customers due to retrospective reduction of the import price for the period between 1 January 2013 and 30 April 2014.

Financial indicators

in EUR million unless otherwise stated	2017	2016	Δ, +/-
Revenue	239.9	195.4	44.5
Operating expenses (OPEX)	4.2	4.1	0.1
EBITDA	4.8	-14.5	19.3
Adjusted EBITDA	14.1	13.2	0.9
Net profit	7.6	-16.2	23.8
Assets	85.6	52.9	32.7
Equity	21.3	13.6	7.6
Borrowings	31.3	0.0	31.3
Net debt	25.7	-19.9	45.6
EBITDA margin adjusted, %	5.9%	6.8%	
Net debt / Adjusted EBITDA	1.82	-1.51	
Return on equity, %	43.7%	-90.0%	
Equity / Assets, %	24.8%	25.8%	

LITGAS UAB

LITGAS is engaged in liquefied natural gas (hereinafter "LNG") supply through the LNG Terminal in Klaipėda, natural gas trading and LNG transhipment activities. The company acting as a designated supplier is recognised as being an enterprise of strategic importance to national security. The designated supplier ensures the supply of the required quantity of natural gas through the LNG Terminal in accordance with the procedure and terms established by the legal acts. The main customers of the company are the regulated energy producers.

Key financial indicators

In 2017, the company's sales revenue totalled EUR 88.1 million, cost of sales – EUR 94.0 million, operating expenses – EUR 0.8 million, net loss – EUR 6.0 million. In 2017, the company continued its operations as a designated supplier under the regulatory model adopted in 2016 and received revenue as a designated supplier not only from the energy producers, but also from all the users of the natural gas transmission system via the LNG security component. Revenue earned in 2017 decreased compared to 2016 due to reduction of the amount of the security component collected in 2017 by the excess amount collected in 2016, the majority of which occurred at the beginning of the year when the security component was collected under the terms of the old agreement with Statoil ASA. Consequently, the company's activities were loss-making in 2017. In 2017, the volume of LNG sold was equal to 3,208 thousand MWh (2016: 3,810 thousand MWh).

Financial indicators

in EUR million unless otherwise stated	2017	2016	Δ, +/-
Revenue	88.1	101.8	-13.7
Operating expenses (OPEX)	0.8	0.9	-0.1
EBITDA	-6.6	11.6	-18.2
Adjusted EBITDA	1.2	1.9	-0.7
Net profit	-6.0	8.9	-14.9
Assets	42.9	48.4	-5.5
Equity	15.7	24.7	-9.0
Borrowings	0.0	0.0	0.0
Net debt	-5.6	-9.8	4.2
EBITDA margin adjusted, %	1.3%	1.7%	
Net debt / Adjusted EBITDA	-4.77	-5.16	
Return on equity, %	-29.7%	42.6%	
Equity / Assets, %	36.7%	51.1%	

Energijos Tiekimas UAB

Energijos Tiekimas UAB is the largest independent Lithuanian capital electricity supplier. The company's core line of business, which generates more than a half of the company's revenue, is supply of electricity. The company has over 6.7 thousand customers in Lithuania. The company is also engaged in planning and (or) balancing of electricity consumption, trade in guarantees on origin, planning and optimisation of operations of power plants and wholesale electricity trading by exploiting fluctuations of electricity prices on the electric power exchange. The company owns a company operating in Estonia (Geton Energy OU) and in Latvia (Geton Energy SIA) that are engaged in power supply. As the company was implementing its strategic goals and pursued consistent expansion of its business, it entered the Polish market of wholesale trade in electricity, where on 5 June 2017 it registered a subsidiary Geton Energy Sp. z o.o. In October 2017, Geton Energy Sp. z o.o. obtained a licence to engage in wholesale trade in electricity in Poland.

Key financial results

After the Lithuanian market of commercial electricity consumers became fully liberalised, small and medium enterprises remained the Company's priority segment. The company had 6.7 thousand customers at the end of 2017.

Throughout 2017, the company continued its retail and wholesale electricity trade in Lithuania by further acquiring its electricity portfolio on the power exchange of the Northern European countries Nord Pool.

Throughout 2017, the company continued its trading at power derivatives' exchange NASDAQ Commodities. The company further remained a single Lithuanian electricity supplier that actively participates at this exchange. The trading in financial instruments enables to reduce the risks of fluctuations in the electricity price, engage in trading activities by exploiting fluctuations of market prices. In 2017, at the NASDAQ Commodities exchange the company entered into financial derivatives' transactions worth of more than 8.7 TWh as expressed in electricity units.

In 2017, the company continued its trading in electricity produced from renewable energy sources. At the end of 2017, the company had over 400 customers purchasing such electricity (their number increased more than twice compared to 2016).

In 2017, the quantity of electricity supplied by the company decreased to 1.653 TWh (-6.1% or -0.1 TWh) due to a more intense competition. The company's revenue for 2017 amounted to EUR 78.1 million (2016: EUR 84.5 million), and net profit – EUR 4.9 million (2016: EUR 10.1 million). Net profit decreased mainly due to a more intense competition in the market.

ENERGIJOS TIEKIMAS
„Lietuvos energijos" grupės dalis

Financial indicators

in EUR million unless otherwise stated	2017	2016	Δ, +/-
Revenue	78.1	84.5	-6.4
Operating expenses (OPEX)	2.4	2.1	0.3
EBITDA	7.2	12.9	-5.7
Adjusted EBITDA	6.4	10.9	-4.5
Net profit	4.9	10.1	-5.2
Assets	50.4	47.1	3.3
Equity	25.8	30.9	-5.1
Borrowings	16.3	4.4	11.9
Net debt	4.2	-6.4	10.6
EBITDA margin adjusted, %	8.0%	12.9%	
Net debt / Equity, %	16.2%	-20.8%	
Net debt / Adjusted EBITDA	0.65	-0.59	
Return on equity, %	17.3%	45.4%	
Equity / Assets, %	51.1%	65.6%	

REVIEW OF THE COMPANY`S AND THE GROUP`S ACTIVITIES

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.

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

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

Starting with the beginning of 2017, ESO will be submitting to its private customers who have acquired premises on the basis of immovable property purchase-sale, swap contracts, or other basis the electric energy purchase-sale service contracts. In case of a change of the owners of the premises the specialists will send the contracts by registered mail and upload them on the customer's account of the self-service portal www.manogile.lt. This innovation will allow the private customers of ESO to save much time, because they will not have to handle the documents. Every month ESO is expected to draw about 6,000 contracts. ESO draws the contracts within one week after the data on the change of the owner are updated at the Centre of Registers. Provided ESO knows the customer's email, the customer will receive an email with a special link by clicking which the customer will login to the self-service www.manogile 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 and the smart app *Gilė*. Having assessed the new habits of its customers, the Company reorganised the physical customer servicing centre. An increasing number of customers deal any issues related to electricity and gas consumption on the self-service website www.manogile.lt, the *Gilė* mobile application, or the short customer service phone 1802, without visiting the customer service centre. A survey carried by VAC showed that in exceptional cases (up to 1%), the customers were not able to deal with the problem without having to visit the customer service centre. Currently, the www.manogile.lt self-service website is accessible at 46 public libraries. If necessary, the employees at the libraries are ready to advise on the use of the website. Customers may also declare the consumption data at the closest Lithuanian post office and currently at 45 post offices throughout the country.

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

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

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

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 Board, decided to terminate the exploitation of the 7th unit of Lietuvos Elektrinė from 1 January 2018 and to put it into preservation mode.

Modern ant 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 Board, the Company has independent members and has elected an independent Chairman of the Supervisory Board. 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 Appoitment and Remuneration Committee, the Audit Committee, and the Risk Management Committee.

Social responsibility and disclosure of non-financial information

Lietuvos Energija prepares individual consolidated social responsibility reports annually in accordance with the United Nations Global Compact methodology. These reports disclose information on the social, environmental and economic impacts of a group of companies. A separate social responsibility report for 2017 is scheduled to be published after the publication of the annual report. Social responsibility reports are published in Lithuanian and English on the company's website at: https://www.le.lt/index.php/atsakingas-versla/taskai/2497

Group plans for 2018

In 2018 Lietuvos Energija group is planning to continue the diversification and efficiency of services and development of activities. During this year it is planned to develope the public electricity supply business. Also to continue the projects of Vilnius and Kaunas CHP plants by intensifying the construction of power plants. In the area of customer service and services it is planned to create legal, IT and process management tools that will ensure the safe processing of personal data in accordance with the latest legal requirements. Group will also focus on the development of organizational culture - its aim will be to further increase employee engagement rankings and to achieve a higher level of maturity of operational excellence in all group companies.

Corporate Governance

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

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

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

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

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.

Report of the Audit Committee of Lietuvos Energija

In 2017, in implementing the functions laid down in the regulations of the Audit Committee of the Company's Supervisory Board, the Audit Committee of Lietuvos Energija held 12 sittings. In 2016, the activities of the Audit Committee covered the following areas:

- monitoring of the audit process of the financial statements carried out by the independent auditor and discussion of draft independent auditor's reports on the financial statements of the Lietuvos Energija group;
- monitoring of the effectiveness of internal controls and risk management systems of the Lietuvos Energija group;
- assessment of effectiveness of operational processes of Lietuvos Energija and submission of recommendations on their improvement;
- monitoring of the effectiveness of the internal audit process organisation;
- familiarisation with the internal audit findings submitted to management of the Lietuvos Energija group;
- monitoring of the response of management of Lietuvos Energija to recommendations and comments presented by the independent auditor/audit firm;
- granting of permissions to the audit firm to participate in and submit proposals for the procurements of services other than the audit of the financial statements;
- familiarisation with the major projects and initiatives implemented at the Group;

The detailed information on the activities of the Audit Committee in 2017 was presented in the Audit Committee's reports and submitted to the Supervisory Board of Lietuvos Energija.

The Audit Committee declares that in 2017 there were no factors restricting the activity of the Audit Committee and the Audit Committee received from the Lietuvos Energija group all information necessary for the exercise of its functions. In 2017 the Audit Committee did not identify any significant findings having a negative impact on the activity of the Lietuvos Energija group of which the Company's Supervisory Board would not be informed.

Irena Petruškevičienė

Chair of the Audit Committee

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)
Education	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
Place of employment, position	SAUDI ARAMCO Finance and Development Project Division, Project Manager	Thermo Fisher Scientific Baltics, UAB, Director of Personnel; Association of Personnel Management Professionals (PVOA), Board Member; ISM Masters Club, Member	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 Mamber 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 Bagočiutė. 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 Bagočiutė** (member since 26 May 2016).

The main functions and responsibilities of the Supervisory Board 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 Board also addresses other matters within its competence.

The Supervisory Board 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 Board

For the purpose of effective fulfilment of its functions and obligations, the Supervisory Board forms the committees. The committees of the Supervisory Board provide their conclusions, opinions and proposals to the Supervisory Board within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Board 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 Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

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

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

Risk Management Supervision Committee (until 16 July 2017):

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

Main functions of the Committee are as follows:

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

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

On the report publication date the Audit Committee consists of:

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

Audit Committee (until 16 July 2017):

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

The term of current Audit Committe 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 Board;
- to perform other functions related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and in the Corporate Governance Code of companies listed on NASDAQ Vilnius Stock Exchange.

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

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
Daiva Lubinskaitė-Trainauskienė Committee Chairwoman Independent member	-	Thermo Fisher Scientific Baltics, UAB, Director of Personnel; Association of Personnel Management Professionals (PVOA), Board Member;
Aušra Vičkačkienė Member	-	Assets Management Department of the Ministry of Finance, Director
Gediminas Norkūnas Member (until 22/11/2017)	-	State Treasury Department of the Ministry of Finance, Deputy Director
Ramūnas Dilba 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
Virginijus Lepeška Independent member, Chairman of the Commitee (from 14/6/2016)	-	Chairman of the Board of Organizacijų Vystymo Centras UAB
Tomas Garasimavičius Member	-	Advisor to the Prime Minister of Lithuania for Energy
Agnė Bagočiūtė 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 Board.

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 Salietis** (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 in1976) Member of the Board, Organisational Development Director
Education	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
Place of employment, position		Energijos tiekimas UAB, CEO; Geton Energy SIA Chairman of the Board. Lietuvos dujų tiekimas, UAB, Member of the Board LITGAS, UAB, Member 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 Energetikos paslaugų ir rangos organizacija UAB, Chairman of the Board;	„Lietuvos energijos gamyba, AB, Member of the Supervisory Board; LITGAS, UAB, Chairman of the Board; Lietuvos dujų tiekimas, UAB, Chairman onf 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; Vilniaus kogeneracinė jėgainė, UAB, Member of the Board; KŪB Smart Energy Fund powered by Lietuvos Energija, Member of the Advisory Committee	

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 **Ilona 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 22/09/2017 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 **Ilona 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.

The average salary of the members of the Board of Lietuvos Energija, operating in the reporting period for 2017 (in euros):

Chairman of the Board and CEO Dalius Misiūnas	6809
Member of the Board, Director of Strategy and Development Mindaugas Keizeris	5648
Member of the Board, Production and Service Director Dominykas Tučkus	5614
Member of the Board, Finance and Treasury Director Darius Kašauskas	5648
Member of the Board, Organisational Development Director Ilona Daugėlaitė	5693

Guidelines for Ensuring the Transparency of State-Controlled Enterprises

	Paragraph of the Guidelines for Ensuring the Transparency of Activities of State-Controlled Enterprises (the Description)	Lietuvos Energija, UAB (the Company)	Comments
		DISCLOSURE OF INFORMATION	
1.	10. A State-controlled enterprise shall follow the provisions of the Corporate Governance Code regarding the disclosure of information as set out in Principle X of this Code ("Disclosure of Information"), other provisions detailing the principles established in the Corporate Governance Code in relation to public disclosure of information.	+	Following the recommendations stipulated in the Corporate Governance Code, the Company discloses information in several ways: (1) publishes as material events under the procedure set out by laws (e.g. election of new members of managing bodies, financial results of the Company, etc.); (2) information has been posted on the publicly accessible website of the Company (e.g. objectives of the Company), on NASDAQ Vilnius Stock Exchange; (3) publishes in the annual report (e.g. members of managing bodies of the Company, manager of the Company and his/her salary, foreseeable major risk factors, etc.). The Company provides information about the consolidated results of the whole Group of Companies (i.e., its subsidiaries). The Company provides information in Lithuanian and English at the same time through the information disclosure system used by NASDAQ Vilnius Stock Exchange. The Company publishes information before, during, or after a trade session of Vilnius Stock Exchange and provides it simultaneously to all markets where the Companies securities are traded. The information which can impact the price of the securities issued by it is not disclosed by the Company in any comments, interviews,

			or otherwise until such information is publicly announced through the information system of the Stock Exchange.
2.	11. A State-controlled enterprise shall publish, as stipulated by the institution representing the State, the Company's objectives and tasks, financial and other performance results, the existing number of employees, the annual salary fund, the monthly wages of the managers and deputy managers of the State-controlled enterprise, and procurements and investments completed, ongoing and planned in the financial year.	+	The main operational directions and strategic guidelines of the Company, the number of its employees, the annual salary fund, and the salaries of managers are published on the website of the Company, in the interim and annual reports of the Company. There is no position of a deputy manager in the Company.
3.	12. A State-controlled enterprise, which has been attributed to category I or II in the Description of the Procedure for the Implementation of Property and Non-Property Rights of the State, shall draw up an annual report and a 6-month interim report (hereinafter – the interim report)	+	
4.	13. Information about a State-controlled enterprise shall be accessible by the public (published on the website of the company and where a State-controlled enterprise does not have its own website, on the website of the institution representing the State).	+	
CONTENT OF THE ANNUAL REPORT AND THE INTERIM REPORT OF STATE-CONTROLLED ENTERPRISES			
5.	The annual report shall indicate (provide): 14.1.1. the business strategy and objectives (financial and non-financial), unless that is a commercial secret of a State-controlled enterprise (if there is information considered as a commercial secret in the business strategy and objectives of a State-controlled enterprise, a summary business strategy and objectives without such information shall be indicated (provided)); 14.1.2. conformity of achieved business results with the business objectives of a State-controlled enterprise; 14.1.3. major events of substantial relevance to the operations of a State-controlled enterprise over the reporting period; 14.1.4. information about the market of the services provided or the products produced, unless that is a commercial secret of a State-controlled enterprise;	+ + + +	

	14.1.5. major customers and their main groups, unless that is a commercial secret of a State-controlled enterprise. Where State-controlled enterprises disclose information of segments, major customers shall be indicated by separate segments;	+	
	14.1.6. investments over the reporting period, the largest ongoing or planned investment projects;	+	
	14.1.7. total annual salary fund, average monthly wage by positions and/or units;	+	
	14.1.8. implemented social and environmental initiatives and policies;	+	
	14.1.9. information about compliance with the provisions of the Description: indication how they are complied with, which provisions are not complied with and why;	+	
	14.1.10. main financial indicators describing the operations (profitability, liquidity, asset use efficiency), their change over 3 years;	+	
	14.1.11. managing bodies;	+	
	14.1.12. information about an undertaken annual audit of financial statements (the auditing entity, remuneration for the audit);	+	
	14.1.13. other important information which came to light until the publication of the annual report or the performance report and which is of relevance to the operations of a State-controlled enterprise;	+	
	14.2. companies controlled by a State-controlled enterprise:		
	14.2.1. information and reports to be disclosed by public limited liability companies in their annual report in accordance with the Republic of Lithuania Law on Financial Statements of Entities and the Corporate Governance Code, if their securities are traded on the regulated market;	+	
	14.2.2. dividend policy;	+	
	14.2.3. information about the implementation of the business strategy and objectives (financial and non-financial).	+	

6.	15. In the interim report of a State-controlled enterprise, the interim report of activities summarizes the most important information about indicators describing the activities of a State-controlled enterprise and their changes in comparison with previous periods.	+	
ACCOUNT KEEPING AND SETS OF FINANCIAL STATEMENTS			
7.	16. State-controlled enterprises shall keep their accounts in accordance with international accounting standards.	+	Following the Articles of Association of the Company, the Company keeps its account in accordance with IFRS. Audits of the annual financial statements are carried out in the Company. The audit company also verifies the conformity of the annual report with audited financial statements.
8.	A State-controlled enterpriseshall draw up a set of annual financial statements and a set of 6-month interim financial statements.	+	
9.	An audit of annual financial statements of State-controlled enterprises shall be carried out in accordance with the International Standards on Auditing.	+	
SUBMISSION AND PUBLISHING OF REPORTS, PERFORMANCE REPORTS AND SETS OF FINANCIAL STATEMENTS			
10.	19. A State-controlled enterprise shall publish its annual report, interim report, a set of financial statements and a set of 6-month financial statements, as well as information about the functions carried out by the State-controlled enterprise (special obligations) and the opinion of an independent auditor of annual financial statements on its website: 19.1. a State-controlled enterprise shall publish its annual report or annual performance report, a set of annual financial statements, information about the special obligations performed by it and the opinion of an independent auditor of annual financial statements, which shall be certified under the procedure set out by legal acts, **not later than on 30 April**; 19.3. a State-controlled enterprise shall publish a set of 6 month financial statements and its interim report or interim performance report **not later than on 31 August**.	+

	opinion of an independent auditor of annual financial statements and a set 6-month interim financial statements to the institution representing the State at the time set out in sub-paragraphs 19.1 and 19.3. The State-controlled company shall, together with the set of annual financial statements and the annual report, submit to the institution representing the State information about the salary of its managers for the previous year, the assessment indicators of performance results applicable for determining the variable part of the monthly wage of the managers, the achievement of such indicators, the variable part of the monthly salary applied for the managers (in euro and in per cent of the fixed part of the monthly wage applied for the managers) and the variable part of the disbursed monthly wage (in euro and in per cent of the fixed part of the monthly wage applied for the managers).		

Risk factors and their management

The risk management model, which is applicable across the entire Group of companies, has been based on the guidance of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the main principles of AS/NZS ISO 31000:2009 (Risk management - Principles and guidelines).

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

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

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

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

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

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

Risk management and control model

At the Group the main duties for internal control system are defined according to the three lines of defence principle:

- The first line of defence – employees of the departments of the Group companies determine and assess risks arising in their activities, ensure that decisions are made in view of the risk-benefit principle;
- The second line of defence – employees responsible for the risk management function independently assess risk, monitor the established risk limits and assist employees included in the first line of defence in managing risk;
- The third line of defence – assessment of optimal functioning of the risk and control system, evaluation of effectiveness of risk management measures applied by different departments.

The Risk Management Supervision Committee monitors whether the risk management system is functioning effectively across the Group, ensures management of the main risk factors and submits its opinion to the Group's Supervisory Board.

Risk factors for 2018 and management policies

Risk factor	Description	Main risk management policies
Health and safety of employees, residents and contractors	With regard to the principal business activity companies due to a specific character of the activity and nature of works the Company bears an inherent risk of health and safety of employees and residents. This risk remains a priority area for a number of years and the main causes of this risk, in addition to high-risk working environment, include the lack of awareness or experience/knowledge. The number of internal accidents did not change significantly in 2017, however, with regard to contractors and residents fatal accidents occurred. As for contractors, the Risk Management Supervision Committee invited representatives of the contractors to jointly search for solutions in order to prevent the occurrence of such accidents in the future. Speaking about residents, three fatal accidents were related to electricity equipment and a dangerously close proximity to it. To prevent the occurrence of such accidents in the future, public communication campaigns are being conducted.	• Motivational and disciplinary system for employees and contractors; • External and internal educational activity; • Modern training bases; • Regular control and monitoring of (employees'/contractors') occupational safety
Information security (cyber security)	By observing external factors, geopolitical situation the Group understands its strategic importance for the country's security and by cooperating with external establishments and by introducing internal measures it aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime. In 2017, processes related to cyber threat monitoring/detection were strengthened by introducing and updating current systems. In 2018, relevance of information security increases as a result of the newly adopted General Data Protection Regulation and internal and external changes being implemented (introduction of smart meters, digitalisation of processes, etc.).	• Improvement of resistance through tests/trainings; • Enhancement of detection/suspension; • Cooperation with external institutions.
Market changes and competitiveness	Market changes that range from fluctuations in prices of raw materials to strategic initiatives is an inherent risk of the energy sector. The major risk faced by the principal business activity companies includes the country's macroeconomic indicators that determine the level of consumption of electricity and gas. The energy sector is also affected by the competitive environment and changes in prices of raw materials. Trade in electricity is quite heavily influenced by new markets that emerged after the launch of the NordBalt and LitPolink interconnections. Companies operating in a competitive environment face traditional market risks that encourage the increase of service quality aiming to retain the existing and attract new clients. In 2017, there were no major changes in these areas. The Group continues to face a challenge of the margin's decrease in the long term and increase of competition, which is compensated by rising customers' satisfaction with the services and their loyalty and by expansion to foreign markets.	• The diversification policy is applied by the majority of companies encouraging search for supply of alternative raw materials and ensurance of long-term stability of the Group. • Risk management financial instruments and control measures are used in electricity and gas trading activity. • In view of changes in competitive environment the high quality services strategic policy is established for purpose of the market share retention.
Regulation and compliance	Regulatory risk manifests through a complicated planning of cash flows and risk of damage to reputation. The National Control Commission for Prices and Energy remains the main regulatory authority making the largest impact on the prices of services provided by the companies and their revenue by establishing ceilings for them. In 2017, the operations of Lietuvos Energijos Gamyba were mainly affected by changes in the market for the provision of reserve services and this risk factor remains relevant in 2018 as well. In 2018, special attention will be devoted to the implementation of regulatory requirements for personal data protection. The new National Energy Independence Strategy can also be regarded as a significant aspect for the Group's activities in 2018. The latter strategy may stipulate ambitious plans that could potentially result in changes in operations or affect the Group's abilities to properly distribute investments for projects that generate the highest rates of return.	• Efforts are made to fulfil the requirements of the regulatory authority in as specific manner as possible and to unify the principles of cooperation with the regulatory authority at the Group level. • To ensure compliance with new requirements, projects are organised at the Group level that engage the best specialists of the Group with regard to the issue concerned. • The compliance function is strengthened and formed at the Group.

Indicators on the implementation of strategic objectives

	Strategic direction Strategic objective	Indicators of strategic objectives	Measurement unit	Actual result of 2016	Actual result of 2017	Target for 2017	Budgeted result / Target for 2020
Increase in value							
Finances	Sustainable increase in value	Group's EBITDA	EUR million	235	238,7	233,5 [1]	319
		Group's ROE (return on equity)	%	9,0%	9,8%	5,7%	>9%
		Group's D/E (capital structure)	ratio	0,24	0,33	0,61	<1,1
High quality services							
	High quality customer service	GCSI (Global Customer Satisfaction Index)	index	79,1	79,9	≥75	≥75
Customers	Services meeting customer needs	Electricity SAIDI with *force majeure*	minutes	111,99	125,99	103	87
		Electricity SAIFI with *force majeure*	times	1,1132	1,23	1,03	0,94
		Natural gas SAIDI with *force majeure*	minutes	0,5290	1,16128	1,03367	1,03367
		Natural gas SAIFI with *force majeure*	times	0,00596	0,00719	0,00708	0,00708
	Contribution to the increase in the competitiveness of the country's economy	Duration of new customer connection to electricity networks	days	58,46	45,87	50	50
		Duration of new customer connection to natural gas networks	days	162,38	146,17	135	85
Diversification of activities							
Customers	Diversified activity	A part of new activities in the Group's EBITDA ratio	%	22,7%	22,1%	24%	24%
Operational efficiency							
Internal processes	Processes of the principal activities were clarified and optimised	EBITDA margin of the principal activities	% (generation)	36,8%	35,9%	30%	38%
			% (distribution)	21,4%	24,6%	18%	29%
			% (supply)	6,9%	5,3%	6%	5%
	Effective governance	Governance index set by the Management Coordination Centre	rating	A (2015)	A+ (2016)	A	A
Development of organisational culture							
Learning and development	Engaged employees	Engagement of employees	%	56%	58%	≥52%	≥ EU average
	Integration of operational excellence in organisational culture	Number of implemented improvements (KAIZEN) per employee	units per employee	0,0784 (381 KAIZEN)	0,8181 (3692 KAIZEN)	0,33	From 2019 operational excellence objectives were integrated in financial objectives
	Successors for management personnel and key employees ensured	Percentage of preparation of successors [2]	%	74%	67,7%	>90%	>90%
		Percentage of preparation of successors [3]	%	21%	16,3%	30%	60%

1 -Adjusted according to the Lietuvos Energija group's annual targets for 2017 (EUR 184 million was planned under the Lietuvos Energija strategy implementation map).
2, 3 - Modification of the indicator calculation methodology (calculated only fully prepared), recalculated in 2016. result and updated target values.

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.

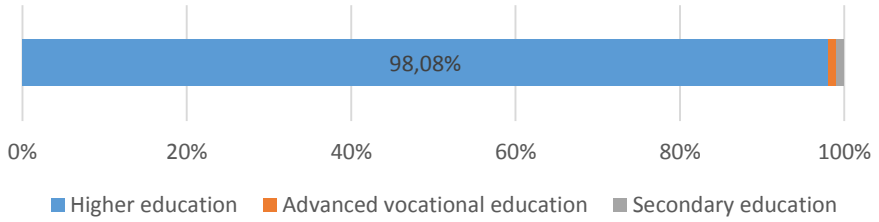
While implementing the objectives raised by the shareholder, and carrying out socially responsible business, we seek to attract and maintain skilled employees and create long-term partnership that would ensure mutually successful future.

As at 31 December 2017, the Group had 4513[2] 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
Total	**4513**

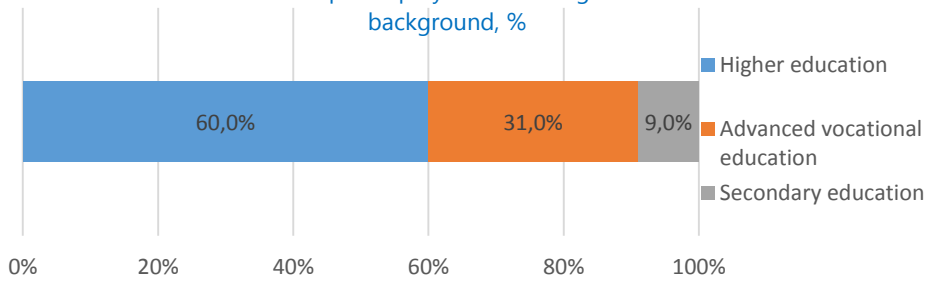
On 31 December 2017, the Company had 104 employees. The total of 98.08% of the Company's employees have higher university education, of whom 2 have doctoral degrees. 2 employees are certified professional project managers (PRINCE2 and PMP), 1 certified financial analyst (CFA), 1 certified internal auditor (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 Board of the Lithuanian Energy Institute; the Supervisory Board of the Lithuanian Energy Institute; Business Board 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, %



[2] *Number of existing contracts.*

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 in 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 in 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 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 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 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 2017, 68 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 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.

Intership Opportunities

Lietuvos energija Group provide opportunities for high school and vocational school students to apply their theoretical knowledge and to gain practical skills. In 2017, 59 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
Dalius Misiūnas Chairman	-	3/12/2015-4/10/2017	Lietuvos energija UAB, Chief Executive Officer (until 22 September 2017)
Ilona Daugėlaitė Member	-	3/12/2015-3/12/2019	Lietuvos energija UAB, Director of Organisational Development
Petras Povilas Čėsna Independent Member	-	3/12/2015-3/12/2019	

As at 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
Dalia Andrulionienė Chairwoman from 4/11/2016	-	3/12/2015-December 2019	Energijos skirstymo operatorius, AB, Chief Executive Officer
Rytis Borkys Member	-	3/12/2015-24/1/2018	Energijos skirstymo operatorius, AB, Director of the Network Operation Service
Saulius Vaičekauskas Member from 26/04/2017	-	26/4/2017–December 2019	Energijos skirstymo operatorius, AB, Director of the Network Development Service
Augustas Dragūnas Member	-	February 2016 – December 2019	Energijos skirstymo operatorius, AB, Director of the Finance and Administration Service
Ignas Pranckevičius Member	-	20/1/2017 – December 2019	Energijos skirstymo operatorius, AB, Director of the Services Service

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

As at 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
Mindaugas Keizeris Memeber	-	10/8/2017-10/8/2021	„Lietuvos energija", UAB, valdybos pirmininkas, Strategijos ir plėtros direktorius, l.e.p. generalinis direktorius
Dominykas Tučkus Member	-	10/8/2017-10/8/2021	„Lietuvos energija", UAB, gamybos ir paslaugų direktorius

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

As at 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
Eglė Čiužaitė Chairwoman since 25/9/2017	-	22/9/2017-22/9/2021	Lietuvos energijos gamyba,AB, Chief Executive Officer
Nerijus Rasburskis Member	-	22/9/2017-22/9/2021	Lietuvos energijos gamyba, AB, Project Manager; Lietuvos energija, UAB Head of CHP Department; Vilniaus kogeneracinė jėgainė, UAB, Board Member Kauno kogeneracinė jėgainė, UAB, Board Member
Darius Kucinas Member	-	22/9/2017-22/9/2021	Lietuvos energijos gamyba, AB, Director of Power Generation Department
Mindaugas Kvekšas Member	-	22/9/2017-22/9/2021	Lietuvos energijos gamyba, AB, Director of Finance and Legal Department

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

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

Main Information about the Company and the Group

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

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

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

On 13 February 2013, the Company's shares were transferred to the Ministry of Finance by the right of trust. With effect from 30 August 2013, the Company's name Visagino Atominė Elektrinė UAB was changed to Lietuvos Energija, UAB.

As of 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 Finance and Treasury Service is also responsible for drawing up consolidated annual and interim financial statements. 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.

Infomation on the opinion of the auditor that carried out an independent audit:

Year	Auditor	Opinion
2017	PricewaterhouseCoopers, UAB	Unqualified
2016	PricewaterhouseCoopers, UAB	Unqualified
2015	PricewaterhouseCoopers, UAB	Qualified*

* Qualified opinion issued in 2015 is related to the qualified opinion issued by the same independent auditor following the audit of the financial statement for 2013.

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 Valdos, 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	Darzciema 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
Lietuvos Energijos Gamyba, AB	184,174,248.35	LT0000128571	LNR1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	96.75%
Energijos Skirstymo Operatorius, AB	259,442,796.57	LT0000130023	ESO1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	94.98%

Information about agreements with securities intermediaries

Lietuvos Energija has issued an issue of green bonds with the value of 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
Lietuvos Energija, UAB	300,000,000.00	XS1646530565	14/7/2027

No agreements between the Issuer and the members of the bodies or employees that provide for compensation in case of their resignation or dismissal without a sound reason or in case of termination of their employment as a result of the change in the control of the Issuer have been concluded.

No significant agreements were concluded between the Issuer and which would enter into force, change or break as a result of the changed control of the Issuer, as well as their effect, except where the nature of the agreements would have caused significant disclosure to the Issuer.

During the reporting period, the issuer is liable for harmful transactions (which do not correspond to the Company's objectives, current market conditions that violate the interests of shareholders or other groups of persons, etc.) and transactions concluded in the event of a conflict of interests between the issuer's managers, the controlling obligations of shareholders or other related parties to the issuer and their private interests and / or other duties did not.

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

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

2017 January

2 January 2017. LITGAS, in cooperation with LDT, provided the LNG loading services to the first small-scale LNG carrier Coral Energy at the Klaipėda LNG terminal. 15,000 cubic metres of LNG loaded to the carrier will be delivered to one of the small terminals in the Baltic Sea. The second reloading transaction was completed at the end of February.

6. January 2017. Mindaugas Gražys elected as a new Member of the Board, Adomas Birulis was recalled from the Members of the Board.

16 January 2017. A fee introduced for payment operations at manogile.lt – EUR 0.15 per one operation. The operation fee is not charged upon customers paying for electricity and gas. The fee for the services provided to the customers (collection of fees and distribution of the same to all providers) is collected by EMA.

17 January 2017. VKJ signed a contract with the company AF-Consult that will be providing Engineer services under the FIDIC contract.

20 January 2017. Ignas Pranskevičius appointed a Member of the Board of ESO and the Director of the Service Office.

25 January 2017. LEG started implementing the project on the dismantling the decommissioned Units 5 and 6 of the reserve power plant of the Elektrėnai Complex.

31 January 2017. EMA allocated 80,000 ESO fee payments and in this respect overtook SEB bank and now holds the 2nd position in the electronic payment market (21 % of the market, second after Swedbank holding 31 % of the market). Within the entire payment market (including the payments in cash), EMA is holding the fifth position with its 8 % of the market. The National Association of Electric Energy and the Association of Gas merged and became the National Power Association

2017 February

2 February 2017. For the purpose of further specifying its activities, Lietuvos energija started the EMC sale procedure.

3 February 2017. With a view to ensuring a reliable supply of natural gas in Druskininkai, ESO intends to build a liquefied natural gas (LNG) regasification station.

8 February 2017. NTV announced a public immovable property auction offering to sell 29 objects the total value of which accounted for EUR 17.8 million.

14 February 2017. EMA achieved an agreement with TELIA – manogile.lt customers will be able to pay for the services provided by the TELIA group.

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

27 February 2017. The European Commission (EC) closed the case against Lithuania regarding the decision of the Government in 2014 decided to allow incineration of waste in State-owned plants only. The Decision of the EC means that the projects in Vilnius and Kaunas of construction of new CHP plants launched by the energy group Lietuvos energija can be continued. The decision of the Government was appealed to the Commission by Reenergy managed by the concern Icor and the City of Vilnius and a German capital company Danpower.

27 February 2017. EnePRO started providing gas pipeline design and construction works services.

28 February 2017. Publication of the ESO performance results for 2016: the operating costs decreased by 11.5 % (from EUR 113.3 million to EUR 98.6 million), the net profit increased by 8.2 % (from EUR 85.5 million to EUR 92.5 million), and the revenues increased by 1.9 % (from EUR 637.9 million to EUR 650.1 million).

28 February 2017. Publication of the performance results of LEG for 2016: the corporate income for 2016 accounted for EUR 172.9 million and was by 19.3 % lower than in 2015 (EUR 2014.4 million). The Company's sales revenues decreased by 25 % to a largest extent due to decreased output of electric energy at Elektrėnai Complex. Having abolished support to electric energy production, the Elektrėnai Complex produced only half of the volume of electric energy compared to 2015 (respectively, 0.491 TWh and 1.067 TWh). The decrease in the sales income was partly compensated by the proceeds from the sale of part of the business.

28 February 2017. Publication of Lietuvos energija Group results for 2016: EBITDA was recorded at EUR 256.3 million, i.e. 16 % or EUR 35.2 million more than in the accounting period of 2015, when EBITDA was equal to EUR 221.1 million. During 2016, revenues of Lietuvos energija Group, increased by EUR 7.9 million on a year-on-year basis and totalled EUR 1,103.7 million. During the nine months of 2016, Lietuvos energija Group earned EUR 122 million in net profit, i.e. up by EUR 66.7 million year-on-year (EUR 55.3 million). During 2016, the Group's operating costs totalled EUR 136.3 million, i.e. a fall by 9.2 % (EUR 13.8 million)..

2017 March

01 March 2017. With a view to diversifying the debt portfolio, Lietuvos energija announced its intention to place its bonds up to EUR 200 million in value. Lietuvos energija intends to invest the proceeds from the bond placement in green energy projects.

01 March 2017. The servicing of VAC customers in Alytus, Marijampolė, Utena, and Visaginas transferred to the remote channels – www.manogile.lt and customer service telephone. Physical customer service places were closed as of March 1.

10 March 2017. Lietuvos energija, a company managing its subsidiaries having strategic importance to national security, and the Police Department will cooperate in the fight against perpetrators and will be working on joint prevention projects. The agreement providing for the cooperation of the two entities was signed by Dalius Misiūnas, Director General of Lietuvos energija, and Linas Pernavas, the Police Commissioner General.

10 March 2017. Idle immovable property (NT) worth nearly EUR 1.2 million (incl. VAT) no longer used in the operations of the energy company group of Lietuvos energija was sold at the fifth public auction. The company successfully realised six objects at the public auction of immovable property. Total 29 objects were offered for sale at the auction and the remaining items will be repeatedly offered at other auctions.

17 March 2017. KKJ concluded the agreements regarding the supply of the equipment required for the new power plan, provision of design, procurement, and construction management services (EPCM).

24 March 2017. LEG shareholders decided to allocate EUR 12.7 million as dividends for H2 2016 and ESO declared EUR 51.8 million in dividends. In H2, LE Group proposed to disburse EUR 59.8 million to its shareholders; the dividends for 2016 will total EUR 100.7 million.

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

28. March 2017. ESO hosted in Vilnius a public discussion about the ways to support the development of electric energy producing customers and ensure their sustainable integration. ESO for the first time presented the plan for promotion of electricity producing customers, including the proposals to remove bureaucratic barriers and create the eco-system.

30 March 2017. The Seimas adopted the amendments to the Law on Natural Gas that will allow shortening the term for connecting customers to gas pipelines to 55 days. The amendments to the Law establish that low and medium-pressure gas pipelines, most of which in Lithuania are operated by the electricity and gas distribution company ESO, will be treated as movable items.

30 March 2017. EMA concluded the fee collection contracts with UAB Vilniaus šilumos tinklai and started the collection of fees on the manogile.lt portal.

31 March 2017. After the Government amended the Description of the Road Maintenance Procedure, the works of connecting to electricity and gas distribution networks will be carried throughout the year, irrespective of the season. Thus, the electricity and gas distribution company ESO will be able to faster complete the electricity and gas connection works to some 5,000 customers every year.

31 March 2017. The ESCO company modernised the lighting of one class-room at Adomas Mickevičius Gymnasium in Vilnius by using LED lamps. Within the first month alone, the class-room used four times less electric energy than in an identical class-room with the old-type lighting system. The estimations concluded that a replacement of old-type lamps at schools of Vilnius by modern LED lamps would lead to saving of more than EUR 2 million per year, without any initial investment.

31 March 2017. LEG completed the project on the dismantling the decommissioned Units 1 and 2 of the reserve power plant of the Elektrėnai Complex.Lietuvos Energija announced the ranking of potential implementers of the integrated business management system that participated in the international procurement. The consortium of companies with the best proposal will be offered to sign the agreement. The price of the best proposal is EUR 18.8 million (excl. VAT) and it was presented by NESS Czech s.r.o and InnoForce UAB, companies operating as a joint venture. During the implementation period NESS Czech s.r.o. will act as a responsible partner of the joint venture thus ensuring the use of the best practice accumulated by the implementer in introducing analogous SAP solutions in the energy sector in the Group's project.

2017 April

04. Aprli 2017. A meeting of VKJ with representatives of the public took place. The agenda of the meeting included presentation of the status of the Project, monitoring of the environment pollution, and a discussion on the way to present the monitoring data to the society.

05 Aprli 2017. Due to excessive prices ESO rejected the tenders submitted by participants of the public procurement procedure regarding the building of a LNG regasification station in Druskininkai.

10 Aprli 2017. Ieva Lauraitytė, currently heading the Legal Service of Lietuvos energija, was nominated the Director General of the Group company NT Valdos. Upon the completion of the public tender the candidacy of Ieva Lauraitytė was approved by the Appointment and Remuneration Committee and the Supervisory Board of Lietuvos energija. Officially Ieva Lauraitytė would perform the functions of the Head of NT Valdos after all the requisite formal procedures are completed.

11 Aprli 2017. ESO received a letter of Lietuvos energija notifying ESO that the Supervisory Board approved the candidacy of Saulius Vaičekauskas (area – grid operation) promoted by the Board of Lietuvos energija to the Board of ESO.

13 Aprli 2017. State-owned energy company group Lietuvos energija announced that in the course of the past four years of operations not only it successfully reorganised and specified the activities of the Group, but also ensured significant return to its shareholder – the State of Lithuania. Since 2013 Lietuvos energija is estimated to have paid in excess of EUR 180 million to the State budget. In the meantime for H2 2016 Lietuvos energija proposed to pay EUR 59.8 million as dividends, thus, subject to the approval of the shareholder, the amount of dividends paid in the course of the past years would exceed EUR 100 million.

14 Aprli 2017 Company ESO, the first one in the Baltic States, starts trying out joint smart meters for electricity and gas. The company installed smart devices that transmit data on energy consumption remotely to the ESO accounting system in 50 households of Vilnius consuming electricity and natural gas.

14 Aprli 2017 NCECP adopted a resolution not to approve the SMP investment project due to complexity and multidimensional nature of the project, as well as a great cross-subsidization risk that arises due to the investment intended for enhancing efficiency of regulated activities and non-regulated activities provided in one project. As it has been provided for in the procurement conditions, upon failure to obtain an approval of the NCECP plans have been made to appeal to the Public Procurement Office for termination of the SMP procurement.

26 Aprli 2017 Vilnius authorities allowed building a cogeneration plant – Vilnius Council approved a cooperation agreement between the municipality, VŠT and Lietuvos energija laying down that the holding TEC-3 should take it over until October 1, and approved bigger height of the plant.

27 Aprli 2017 During the first quarter of the current year ESO signed more than 3.2 thousand gas getting agreements – more by 1.7 times than during January -March 2016, when gas getting agreements were signed by 1.9 thousand customers.

27 Aprli 2017 LEG appealed to the Competition Council and the transmission system operator with a request to ascertain whether the existing regulation of this market does not establish different playing field for economic entities operating in it and this way is in conflict to the Law on Competition.

27 Aprli 2017 Saulius Vaičekauskas was appointed as a member of ESO Board and director of the Grids Operation Service.

28 Aprli 2017 EMA submitted an application to the Bank of Lithuania for obtaining an electronic money license.

28 Aprli 2017 ESO published the first social responsibility progress report.

2017 May

1 May 2017 A process of accompanying new users of Gilė was launched. Since now, a user who plans to get electricity or increase the electricity capacity will be proactively consulted during the process and informed about ongoing actions. This will enhance customer satisfaction and in some cases will significantly improve customer satisfaction.

4 May 2017 An application to the APVA (Environmental Project Management Agency) was filed officially due to support for the incineration part of the Vilnius cogeneration plant.

9 May 2017 The Environmental Protection Agency approved an environmental assessment report and lit a green light for the wind farm in the vicinities of Kruonis PSP.

10 May 2017 A change in optimizing the ESO voice prompt recording service MIRA was recorded. Result: more modern and several times cheaper solution.

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

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

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

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

16 May 2017 A notice to proceed was sent to contractors of the Vilnius cogeneration plant.

17 May 2017 The Board of NT Valdos UAB approved a new organisational structure.

22 May 2017 LEG repaid prematurely a part of the long-term credit in the amount of EUR 60.0 mln granted by AB SEB bank. The repayment was initiated in order to reduce the interest costs sustained by the Company.

25 May 2017 Ieva Lauraitytė was appointed as the director General of NT Valdos UAB.

23 May 2017 EnePRO launched the first customer survey that will hopefully help to improve customer service and cooperation.

26 May 2017 Lietuvos energija, by implementing its strategy and fostering innovations, selected a partner with which it sets up an innovation foundation that will make investments into energy start-ups and entrepreneurial start-up accelerator. Being set up together with the selected international partner team, the foundation will become the first corporate venture capital fund in the Baltic States.

26 May 2017 NCECP approved ESO investments into the modernisation of the gas distribution grid. Until 2018, ESO plans to install 14 progressive gas supply systems. This will help increase reliability and safety of the gas distribution system for approximately 55 thousand ESO customers.

29 May 2017 ESO submitted to the Ministry of Energy an action plan how it will strengthen resistance of the grid to extreme natural phenomena and improve customer informing.

31 May 2017 Kaunas cogeneration plant signed a project financing agreement with Swedbank bank that will grant a credit.

31 May 2017 NCECP approved the new prices for natural gas distribution to be valid from 01.07.2017. Due to greater efficiency of ESO activities, the prices reduced by 5-6 per cent in all seven price groups.

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

2017 June

1 June 2017 The service of capacity increase became cheaper by 19 per cent for ESO corporate and private customers. The rate of introducing electricity also reduced for new customers who plan the development of business or construction of housing in more remote locations when the distance up to the points of electricity grids is bigger.

2 June 2017 Lietuvos energija Support Foundations calls for applications.

5 June 2017 A secondary enterprise of Energijos tiekimas under the name of Geton Energy was registered in Poland.

5 June 2017 During the sixth auction held, 4 real estate objects were sold for a total amount of EUR 0.5 mln (inclusive of VAT).

6 June 2017 APVA (Environmental Project Management Agency) informed the Ministry of Finance that examination of a part of the application on waste submitted by Vilnius cogeneration plant was made and the suitability to finance the project was positively evaluated.

8 June 2017 ESO simplified the signing of agreements with corporate customers: no longer a tri-lateral arrangement with owners of premises is required.

12 June 2017 Reconstruction works of the gas distribution grid were started in Vilnius during which nearly 7 kilometres of gas pipelines will be renewed in Vilnius.

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

20 June 2017 A project for the transformation of Gilė Customer Service Centre was commenced. The project goal is to transform customer service units from serving centres into service sales and consultation centres by shifting customer service to remote channels.

20 June 2017 ESO suggested changing the Code of Administrative Violations of Law and tightening up the liability for violations of the rules for the protection of energy objects and installations that caused disturbances or termination of energy activity.

22 June 2017 LEG announced the results of feasibility assessment of installing the fifth hydro aggregate. The analysis shows that under current market conditions, the existing 900 MW capacity is sufficient for operation of the plant, however, its development is important in the future in ensuring sufficient electricity capacities and a competitive energy system.

26 June 2017 Lietuvos dujų tiekimas signed an agreement with the USA company Cheniere Marketing International and acquired a cargo of liquefied natural gas (LNG).

27 June 2017 Having received the highest credit rating in the Baltic States, Lietuvos energija intends to distribute the green debentures.

29 June 2017 The Competition Council (CC) refused to start an investigation into LEG actions due to participating primarily in the auction and subsequently also in negotiations regarding a tertiary active power reserve. The resolution published by the CC runs that there is no basis to suspect that by submitting an offer for the assurance of the tertiary reserve, LEG would have applied unfair abnormally low prices or that the company's actions would have had signs of abusing the dominating position.

30 June 2017 Repeat quality management and information safety certification audits were performed by TIC.

30 June 2017 In the Kaunas free economic zone, installation of the infrastructure of Kaunas cogeneration plant (water supply and sewerage networks, access road, slip road from A1 highway) was completed.

30 June 2017 By improving customer informing, ESO introduced an interactive map where information on works of the electricity distribution grid is published in real time. The map (www.eso.lt/zemelapis) shows in which locations installations of the electricity distribution grid were disconnected, also notifies on electricity supply disruptions.

30 June 2017 During Q II, EMA signed direct agreements with Vilniaus šilumos tinklai, Vilniaus vandenys, actively advertised their services as a result whereof the number of regular payers on the www.manogile.lt portal increased up to 98 thousand, EMA market share reached 10.1% (by assessing the electricity contributions).

30 June 2017 LEG published the company's social responsibility progress report for 2016.

2017 July

1 July 2017. ESO launched an interactive map showing real-time information on the operation of the electricity distribution network.

3 July 2017. LITGAS reduced costs of the designated supply to the Klaipėda LNG Terminal by around 18% or EUR 3 million.

5 July 2017. The project was initiated aimed at separating the electricity public supply activity conducted by ESO from the electricity distribution activity by transferring the latter supply activity to another company of the LE group.

5 July 2017. In the first half of 2016, private and corporate customers in Lithuania paid the lowest price for electricity compared to other Baltic countries.

5 July 2017. The biofuel part of the project on the co-generation power plant in Vilnius was added to the list of projects of the high economic importance to the State.

5 July 2017. Lietuvos Energijos Gamyba signed the agreement with SEB Bankas for the credit of up to EUR 60 million.

7 July 2017. The Board of Lietuvos Energija decided to revise the nominal value of the bond issue, the start date of the validity period of the bond issue, its maturity, redemption date, annual interest rate and regularity of payments. The nominal value of bonds issued was increased from EUR 200 million to EUR 300 million.

7 July 2017. Lietuvos Energija issued bonds with a value of up to EUR 300 million.

10 July 2017. The Board of Lietuvos Energija approved the coverage of losses of VAE by the amount of EUR 100 thousand.

10 July 2017. The Board of Lietuvos Energija approved the agreement with OP Corporate Bank on the overdraft of EUR 70 million.

11 July 2017. The Lietuvos Energija group published the corporate responsibility report for 2016.

11 July 2017. The concept project of the co-generation power plant in Vilnius was uploaded on the portal *Infostatyba* for public release.

14 July 2017. The self-service function of Technologijų ir Inovacijų Centras UAB for service requests was updated and simplified.

16 July 2017. The term of office of the Supervisory Council of Lietuvos Energija ended.

17 July 2017. The General Meeting of Shareholders of Kauno Kogeneracinė Jėgainė passed a decision to increase the authorised share capital up to EUR 40 million; a new version of the company's Articles of Association was approved.

21 July 2017. Lietuvos Dujų Tiekimas signed the agreement with Latvenergo on the supply of gas.

22 July 2017. The term of office of the Board of Lietuvos Energija ended.

24 July 2017. Energijos Tiekimas started trade in a new product *Green Electricity*.

24 July 2017. Lietuvos Energijos Gamyba announced its plans to evaluate a current condition of Vilnius thermal power plant No 3. The aim is to determine the power plant's exploitation possibilities in the future.

24 July 2017. During the first half of 2017, ESO laid nearly 645 km of underground electricity cables, which is 2.6 times more than a year ago.

25 July 2017. Lietuvos Energija signed agreements with Contrarian Ventures, a management company of the Innovation Fund.

28 July 2017. ESO submitted a proposal to the Ministry of Energy on the facilitation of legal regulation of newly connected corporate and private electricity consumers and producers.

28 July 2017. Tuuleenergia received a temporary permit to operate wind turbines located in Tamba until 30 September 2017.

28 July 2017. Lietuvos Dujų Tiekimas completed the allocation of the accumulated discount of EUR 93.16 million that arose as a result the negotiated additional discount for the price of natural gas supplied in 2013–2014. The accumulated discount was allocated as follows: EUR 81.41 million for corporate customer and EUR 11.75 million to private customers.

28 July 2017. Lietuvos Energija initiated the sale process of the transport activity of NT Valdos.

2017 August

2 August 2017. The number of customers of Lietuvos Dujų Tiekimas using natural gas for heating homes rose by nearly 10% and reached 100 thousand.

2 August 2017. The project on Vilnius co-generation power plant was given a positive assessment by the independent experts of the European Commission.

3 August 2017. Engineering proposals for Vilnius co-generation power plant were released to the public and discussed.

7 August 2017. Lietuvos Dujų Tiekimas offered customers to acquire gas-fired condensing boilers, which are to reduce gas consumption up to 20%, water heaters, their installation services as a package and order gas supply.

7 August 2017. Duomenų Logistikos Centras shareholders, Lietuvos Energija and Litgrid signed the agreement with Telia Lietuva on the sale and purchase of the company's shares.

7 August 2017. ESO announced its plans to construct a branch of the natural gas distribution network nearby Marijampolė Free Economic Zone (FEZ) designated for Danish window and door manufacturer Dovista starting its business activities in FEZ and planning to build one of the biggest production facilities in Lithuania.

10 August 2017. In 2017–2018, ESO plans to automate 142 most vulnerable parts of the distribution network. As a result, the quality of energy services will be improved for 138 thousand customers.

10 August 2017. At the Extraordinary General Meeting of Shareholders Mr Mindaugas Keizeris and Mr Dominykas Tučkus were elected as members of the Supervisory Council of Lietuvos Energijos Gamyba for a four-year term.

14 August 2017. Lietuvos Energija sold the Training Centre for Energy Specialists. The Centre's shareholder rights were acquired by public institution Kauno Virpstas that placed the highest bid.

17 August 2017. JetGas won the tender announced by ESO on a temporary lease of the LNG station in Druskininkai.

21 August 2017. The first shipment of natural gas extracted in the USA was transported to Lithuania. Gas were acquired by Lietuvos Dujų Tiekimas from Cheniere and a part of which is stored at the Inčukalnis Natural gas Repository.

21 August 2017. The first up to now project on the installation of electricity and communications networks in one of the residential districts of Vilnius region was implemented by ESO in cooperation with Telia.

28 August 2017. Reconstruction works of the electricity distribution network of the Curonian Spit were presented at the sitting of the Council of Neringa Municipality.

30 August 2017. A new Supervisory Council of Lietuvos Energija was formed. Mr Darius Daubaras and Mrs Daiva Lubinskaitė-Trainauskienė were as elected as its independent members. The Ministry of Finance appointed Ms Agnė Bagočiutė, Chief Advisor to the Ministry of Finance, and Ms Aušra Vičkačkienė, Director of State-owned Property Management Department, to take positions at the Supervisory Council.

30 August 2017. During six months of 2017, Lietuvos Energijos Gamyba earned revenue of EUR 63.31 million (-8%), EBITDA of EUR 27.08 million (+25%), net profit of EUR 10.28 million (42% less from the previous year).

31 August 2017. During six months of 2017, ESO earned revenue of EUR 307.79 million (-7.8%), EBITDA of EUR 76.6 million (-12.7%), net profit of EUR 46.3 million (13% less from the previous year). Investments in the electricity and natural gas distribution networks amounted to EUR 74.14 million (+44.7%).

2017 September

5 September 2017. ESO presented the plan on investments in the network in the Utena region amounting to more than EUR 11 million and the replacement of overhead lines with underground cables.

6 September 2017. ESO started the provision of a new service, i.e. installation of the internal electricity network in customers' homes.

8 September 2017. Chief Executive Officer of Lietuvos Energija Mr Dalius Misiūnas resigned.

8 September 2017. Chief Advisor to the Ministry of Finance Ms Agnė Bagočiutė resigned from the Supervisory Council of Lietuvos Energija. She was replaced by Mr Gediminas Norkūnas, Deputy Director of State Treasury Department of Ministry of Finance.

8 September 2017. Mrs Eglė Šimė, General Manager of Verslo Aptarnavimo Centras, submitted a request on the resignation from the position held.

12 September 2017. The Bank of Lithuania issued the licence of an electronic money institution to Elektroninių Mokėjimų Agentūra (EMA).

12 September 2017. Lietuvos Energija acquired 25% shares of Eurakras, a company operating a wind farm in Lithuania.

13 September 2017. Lietuvos Energijos Gamyba performed monitoring tests of emissions from old units (No 7 and 8).

13 September 2017. At the sitting of the Supervisory Council of Lietuvos Energija independent member Mr Darius Daubaras was elected as the Chairman of the Supervisory Council.

14 September 2017. The Supervisory Council of Lietuvos Energija decided to form the Company's new Board from the candidates who have been selected through a public procedure. The selection of the Board members is carried out by the Appointment and Remuneration Committee of Lietuvos Energija.

15 September 2017. New free-of-charge telephone number *1852* for reporting power supply failures was brought into use.

18 September 2017. Lietuvos Dujų Tiekimas supplied to Shell Western LNG B.V the quantity of LNG required for the adjustment and launch of the new ground LNG distribution station in Klaipėda.

18 September 2017. The ruling was passed in the lawsuit initiated in 2014 in which Vilniaus Energija UAB requested to be awarded losses of EUR 10 million from ESO for not purchasing a full maximum established volume of supported electricity. The claim was rejected in full.

19 September 2017. ESO completed reconstruction works of Mažeikiai transformer substation and ensured a more reliable electricity supply and distribution for more than 12 thousand ESO's customers.

22 September 2017. The Supervisory Council of Lietuvos Energija elected an interim Board consisting of Mr Mindaugas Keizeris, Ms Ilona Daugėlaitė, Mr Darius Kašauskas and Mr Dominykas Tučkus. Mr Mindaugas Keizeris was elected as the Chairman of the Board and the CEO.

22 September 2017. The Board of Lietuvos Energijos Gamyba was elected for a new term of four years. It consists of the members of the Board of the previous term: Ms Eglė Čiužaitė, Mr Darius Kucinas, Mr Mindaugas Kvekšas and Mr Nerijus Rasburskis.

22 September 2017. Vilnius City Municipality Administration issued a permit for installation works of the construction site for Vilnius co-generation power plant.

25 September 2017. The Board of Lietuvos Energijos Gamyba elected the Board member Ms Eglė Čiužaitė as the Chair of the Board. She was also appointed to continue to hold the position of the CEO of Lietuvos Energijos Gamyba.

25 September 2017. After the strengthening of *Gilė* webchat service group, requests from clients of *manogile.lt* will be answered after working hours as well.

28 September 2017. Tuuleenergia was issued a new temporary permit to operate wind turbines located in Tamba until 31 May 2018.

25 September 2017 (Vilniaus Kogeneracinė Jėgainė) and 28 September 2017 (the Lithuanian Government). A request was filed with the General Court of the European Union for the participation in the case as a third party where Danpower filed the claim against the European Commission regarding state aid granted to Vilnius co-generation power plant.

26 September 2017. ESO offered a new service for private customers – an autonomous gas supply system that can be installed within 10 days.

28 September 2017. Based on plans to move the Group companies to a joint office, Lietuvos Energija announced a public tender for the selection of the best proposals offered by real estate management consultants.

29 September 2017. The biofuel part of the project on the co-generation power plant in Vilnius was given a positive assessment by the independent experts of the European Commission.

29 September 2017. The General Meeting of Shareholders of ESO resolved to pay out dividends of EUR 0.046 per share for the first half of this year. The total of EUR 41.153 million were allocated for interim dividends.

29 September 2017. At the Extraordinary General Meeting of Shareholders it was resolved to pay out dividends of EUR 0.017 per share for the shareholders of Lietuvos Energijos Gamyba. The total of EUR 10.796 million were allocated for interim dividends.

29 September 2017. ESO's account on social network Facebook was launched.

30 September 2017. Due to failure to agree on contractual terms, the agreement between EMA and Mokėjimo Paslaugos UAB on intermediation in collecting utility payments was terminated. The termination of the agreement was compensated by signing direct contracts with the service providers.

30 September 2017. Following the resignation of CEO of EnePRO Mr Simonas Šileikis, Director of the Finance and Property Management Department Mr Laurynas Jocys was appointed to the position of the Acting CEO.

30 September 2017. The second LNG freight from the USA was transported to Lithuania. Gas from Sabine Pass export terminal to Lietuvos Dujų Tiekimas was transported by the Spanish gas supply company Gas Natural Fenosa.

2017 October

1 October 2017. The structure of the Network Operation and the Network Development Services of ESO was renewed.

1 October 2017. A new function was introduced at customer service centre *Gilė* – provision of guidance for new gas customers of ESO during specified steps of the process.

1 October 2017. Lietuvos Dujų Tiekimas reduces the gas price for corporate customers by 6% by the end of the year.

2 October 2017. ESO and the Ministry of Energy signed the agreement on energy savings. Initiatives on energy savings will allow saving 1.6 TWh of energy by 2020.

4 October 2017. Lietuvos Dujų Tiekimas won the international tender for the supply of natural gas announced by the largest poultry sector company in Latvia Putnu Fabrika Kekava AS.

4 October 2017. The last day of Mr Dalius Misiūnas in the position as a member (chairman) of the Supervisory Council of ESO.

4 October 2017. The Board of NT Valdos approved the sale of real estate objects in Vilnius (A. Juozapavičiaus str. 13, Žvejų str. 14, P. Lukšio str. 1, 3, 5, 5B and Aguonų str. 24, 26) by way of tender.

5 October 2017. The building permit was issued for the installation of the site for contractor works of the biofuel part of a co-generation power plant in Vilnius.

5 October 2017. Head of Legal Services Centre of Verslo Aptarnavimo Centras Ms Ingrida Kudabienė was appointed to the position of the Acting General Manager of Verslo Aptarnavimo Centras.

5 October 2017. The customer satisfaction index of LITGAS calculated under the GCSI methodology was scored at 83 (77 in 2016).

10 October 2017. The first LNG supply by land transaction in Lithuania: LITGAS signed the agreement with Polish company DUON on the supply of LNG by land from the new LNG distribution station in Klaipėda.

12 October 2017. The third co-generation power plant in Vilnius ('TE-3') was transferred to Lietuvos Energija.

13 October 2017. ESO borrowed EUR 100 million from green bonds issued by Lietuvos Energija that are planned to be invested in the modernisation of electricity networks.

16 October 2017. Lietuvos Dujų Tiekimas sold more than 6,000 cubic metres of LNG (around 40 GWh or nearly 3.5 million cubic metres in gaseous form) to Shell that were reloaded using LNG stocks from floating storage unit Independence. This was the fifth small-scale LNG reload transaction.

18 October 2017. The agreement was signed with the Environmental Project Management Agency on the allocation of financial support of EUR 49 million for the waste part of the project on the co-generation power plant in Vilnius.

19 October 2017. A guarantee was provided in respect of the loan granted to Kauno Kogeneracinė Jėgainė.

20 October 2017. EMA received the licence of an electronic money institution issued by the Bank of Lithuania.

20 October 2017. Funds received from the issuance of green bonds were used to refinance the long-term bank borrowing of Eurakras.

21 October 2017. The self-service website *www.manogile.lt* reached 500 thousand registered users. Such a number of the website users was achieved in less than two years, i.e. from 1 January 2016. All these customers have uploaded more than one million contracts to their accounts.

24 October 2017. A new LNG station in Druskininkai was put in operation that will serve as an alternative source of gas for the town.

26 October 2017. A traditional annual event for large customers of Lietuvos Dujų Tiekimas was held, at which the updated smart self-service system was presented.

27 October 2017. Lietuvos Energijos Gamyba signed the agreement with state enterprise Turto Bankas on the sale of the company's total ownership interest in Geoterma UAB.

30 October 2017. The customer satisfaction index of Lietuvos Dujų Tiekimas calculated under the GCSI methodology was scored at 81 (80 in 2016).

30 October 2017. The National Control Commission for Prices and Energy ('the Commission') set 12.5% higher (equal to 19.6 EUR/MWh) projected market price of natural gas for the first half of 2018, which is paid by the regulated energy producers when acquiring the quantity required for the operation of the LNG Terminal from LITGAS. The price rises due to higher prices of futures contracts in the international exchanges during the cold season.

31 October 2017. The selection procedure of the Board members and the CEO of Lietuvos Energija was announced.

31 October 2017. The agreement was signed with the Project Management Association of Lithuania on the allocation of financial support of EUR 90 million for the biofuel part of the project on the co-generation power plant in Vilnius.

31 October 2017. ESO's efforts to improve conditions for access to electricity networks resulted in a higher competitiveness rating assigned to Lithuania - it moved to the ranking of 33, upward by 22 positions compared with the previous year.

2017 November

3 November 2017. The Support Foundation of Lietuvos Energija allocated support for 41 projects.

7 November 2017. The contractors of Vilnius co-generation power plant (LOT 2 - the biofuel power plant) started works of the construction site installation and pit filling.

7 November 2017. Kauno Kogeneracinė Jėgainė signed the contractor works agreement with Lemminkainen Lietuva UAB regarding the works for the preparation of the site (the fuel bunker).

8 November 2017. LITGAS and Lietuvos Dujų Tiekimas jointed the established LNG platform.

10 November 2017. The Board of NT Valdos approved the eighth real estate sale auction (40 objects).

15 November 2017. Following the payment of a land tax the procedures related to the termination of agreements on the lease of land plots for the construction of Visaginas nuclear power plant were finalised.

17 November 2017. Sales revenue of Lietuvos Energijos Gamyba for nine months of 2017 were 4% lower compared to the same period last year and amounted to EUR 96.7 million. EBITDA amounted to EUR 38.4 million, which is a 21% increase from 2016.

17 November 2017. ESO's results for nine months of 2017: revenue totalled EUR 446.3 million and decreased by 6.8% compared to a respective period of the previous year, EBITDA totalled EUR 102.2 million or 16.8% less than in the same period last year. Investments in electricity and natural gas distribution networks were 51.3% higher than a year ago and amounted to EUR 135.6 million.

18 November 2017. At Kaunas Hydroelectric Power Plant operated by Lietuvos Energijos Gamyba the testing of the Lithuanian electricity system recovery after the total accident was carried out.

21 November 2017. The Board of Technologijų ir Inovacijų Centras (TIC) appointed Ms Irma Kaukienė, Acting CEO of TIC, to the position of a permanent CEO.

21 November 2017. The Commission approved the prices for the natural gas distribution service for 2018: the prices are decreased in respect of all seven price categories from 14 to 24% compared to the prices of the second half of 2017.

22 November 2017. Two new members of the Supervisory Council of Lietuvos Energija Mr Andrius Pranckevičius and Mr Ramūnas Dilba started their activities at the Supervisory Council.

23 November 2017. The first payment of the EU aid (EUR 4.9 million) for the waste part of the co-generation power plant in Vilnius was received.

27 November 2017. Head of Duomenų Logistikos Centras Mr Nerijus Dumbrava was appointed to the position of the Head of Elektroninių Mokėjimų Agentūra. Mr Darius Zailskas was appointed to serve as the Acting General Manager of Duomenų Logistikos Centras.

27 November 2017. The land plot for the co-generation power plant in Kaunas was transferred to the contractor, physical works for the installation of the waste bunker were started.

27 November 2017. During the period of the first and third quarters of 2017, financial performance of Lietuvos Energija improved at a moderate rate. The Group's revenue dropped by 2.5% following decline in electricity and gas transmission and distribution prices set for customers. However, the adjusted EBITDA grew by 5% (up to EUR 166 million). Return on equity (ROE) ratio of Lietuvos Energija remained high and was equal to 9.3% in this period.

29 November 2017. The court rejected the claim of DanPower regarding the detailed plan of Vilnius co-generation power plant as ungrounded.

29 November 2017. The Commission announced that the General Managers of ESO and TIC did not violate the requirements of the Law on the Adjustment of Public and Private Interests in the Public Service with regard to the reporting of private interests.

30 November 2017. The Commission agreed prices of natural gas for private customers for the first half of 2018 proposed by Lietuvos Dujų Tiekimas. Prices for private customers using natural gas for the preparation of food decreased by 5 cents from EUR 0.64 to EUR 0.59 for a cubic metre. Other prices that are one of the lowest in ten years remained unchanged.

2017 December

1 December 2017. Lietuvos Dujų Tiekimas started the supply of natural gas to residents of Druskininkai town who will be paying less for natural gas.

1 December 2017. The team was formed at subsidiary Geton Energy Sp. z o.o. in Poland and activities in the wholesale market were started.

1 December 2017. The team was formed at subsidiary Geton Energy SIA in Latvia and active sales operations were started.

3 December 2017. Funds from green bonds issue were used to refinance the long-term bank borrowing of Tuleenergia.

5 December 2017. The first payment of the EU aid (EUR 2.4 million) for the biofuel part was received.

7 December 2017. Lietuvos Dujų Tiekimas and LITGAS concluded the first large-scale transaction on the supply of LNG by land with four buyers. The total of 4,000 cubic metres of LNG will be transported from floating storage unit Independence to a small-scale LNG terminal on land, from which around 100 tank trucks will transport gas to Estonia, Poland and Druskininkai until spring.

8 December 2017. The Board of NT Valdos approved the renewal of the agreements on the lease of premises concluded with ESO, other companies of Lietuvos Energija and Litgrid.

8 December 2017. The opening ceremony of the construction site of the co-generation power plant in Kaunas took place.

11 December 2017. The nine-month LNG market review prepared by LITGAS was published. The main message – LNG demand in Asia prevented prices in Europe to decline despite the rise in LNG supply.

11 December 2017. The Board of Lietuvos Energijos Gamyba passed a decision on the termination of exploitation of unit No 7 of Lietuvos Elektrinė from 1 January 2018.

12 December 2017. The reorganisation terms of NT Valdos were prepared. Under these terms the transport activity is separated from NT Valdos by establishing a subsidiary of Lietuvos Energija and transferring to it all assets and liabilities related to the transport activity.

14 December 2017. The sale of real estate objects in Vilnius (A. Juozapavičiaus str. 13, Žvejų str. 14, P. Lukšio str. 1, 3, 5, 5B and Aguonų str. 24, 26) by way of tender was held. None of the objects were sold during the sale.

18 December 2017. The shareholder (Lietuvos Energija) passed a decision to increase the authorised share capital of Vilniaus Kogeneracinė Jėgainė.

20 December 2017. The involvement index of employees of LITGAS reached 91% (79% in 2016).

20 December 2017. At the eight auction NT Valdos sold 11 real estate objects for EUR 10.5 million, including VAT.

14 December 2017. TIC completed the project on the renewal of the data transmission network.

21 December 2017. The contractors of Vilnius co-generation power plant (the waste power plant) started works of the construction site installation and works related to the foundations of the building for the waste bunker.

22 December 2017. At the request of the State Nuclear Power Safety Inspectorate VAE SPB analysed the results report (WITHOUT stress tests) of the Astravas nuclear power plant and submitted comments.

22 December 2017. Lietuvos Energijos Gamyba signed the contract with LITGRID AB on the sale and purchase of the tertiary active capacity reserve.

22 December 2017. The Commission announced the prices of electricity public supply for 2018 – prices for private customers declined on average by 1.2% The prices of electricity to private customers continue to decline for a fifth year in a row. From 2013, the average price of electricity to private customers decreased by 23%.

28 December 2017. Lietuvos Energijos Gamyba filed the claim with the court in disagreement with the price cap for 2018 set by the resolution of the Commission and with the principles applied by the Commission in the calculation of costs incurred by Lietuvos Energijos Gamyba.

29 December 2017. The tertiary capacity reserve service was successfully tested in Elektrėnai – during the testing the combined cycle block reached the established capacity of 260 MW.

29 December 2017. EnePRO completed the implementation of a large value (EUR 8.5 million) project - the engineering, delivery and installation works of a new boiler (No 4, 100 MW) for the client based in Estonia VKG Energia OU were carried out.

After the reporting period:

2 January 2018. The building permit was issued for the co-generation power plant in Vilnius.

2 January 2018. Lietuvos Energija was assigned with the highest A+ rating according to the good governance index.

10 January 2018. At the sitting of the Board of Verslo Aptarnavimo Centras Ms Eglė Šatkovskienė was approved as the General Manager of the company.

2 February 2018. New Board and CEO of Lietuvos Energija has been elected. Mr. Darius Maikštėnas, Mr. Dominykas Tučkus, Mr. Darius Kašauskas, Mrs. Živilė Skibarkienė and Mr. Vidmantas Salietis 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.

NASDAQ Structured table for disclosure

PRINCIPLES / RECOMMENDATIONS	YES / NO / IRRELEVANT	COMMENT
Principle I. Basic Provisions. The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The main activities of the Company and its strategic framework are publicly displayed at the Company's internet webpage and in the Company's interim and annual reports.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The Company's management bodies work to the benefit of the Company and its shareholders while doing their best to succeed in the Company's business objectives.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	Legal acts, statutes and labour regulations regulating activities of the supervisory and management bodies of the Company establish collaboration principles and methods between the supervisory and management bodies of the Company and also ensure that the supervisory and management bodies operate to the best interests of the Company and its shareholders.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's bodies respect the rights and interests of the persons involved in or associated with the Company's performance. The Company executes its financial and other obligations to creditors. The Company's subsidiaries implement measures for the Company's customer service improvement. The Company has established a Lithuanian Energy Support Fund which, as a part of the social responsibility policy, sponsors projects in the fields of life important to society and local community. The Fund also supports gifted students. Information on ongoing initiatives is provided on the Company's website and in the annual report.

Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	According to the Company's Articles of Association a collegial Company's business supervising body – the Supervisory Board and a collegial Company's management body – the Board are formed.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	According to the Company's Articles of Association, the Board is responsible for proper strategic management of the Company (it approves operations strategy and budget for the Company's activities, organisational structure of the Company's management, makes decision regarding other issues, specified in the legislation and assigned to the Board competence by the Company's Articles of Association). The Supervisory Board is responsible for the effective supervision of the Company's management bodies (it elects and dismisses Board members, provides the General Shareholder Meeting with offers and comments on the Company's business strategy, the Company's annual financial statements, the Company's profit (loss) allocation project, the Company's annual report, performance of the Board and the manager of the Company; provides the Company's Board with responses and offers regarding the Company's business strategy and budget for the Company's activities, submits an opinion on candidatures to the management bodies of subsidiaries, makes

		decisions regarding other issues, specified in the legislation and assigned to the Board competence by the Company's Articles of Association).
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Irrelevant	According to the Company's Articles of Association, a collegial Company's business supervising body – the Supervisory Board and a collegial Company's management body – the Board are formed.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[3]	Yes	According to the Company's Articles of Association, the Company elects a collegial body supervising over the Company's business – the Supervisory Board. The recommendations laid out in the principles III and IV are not implemented fully in the Company, however, the Company complies with all the requirements, as per legal acts, for setting up of the collegial body. It should be noted that the Company carries out patronising functions of the group of energy companies. Activities of some daughter companies are strictly regulated by legal acts and supervised by respective state institutions (National Control Commission for Prices and Energy and others). This way, the clarity and timeliness of the above-mentioned decision-making is ensured, as well as the principles of the Company's client non-discrimination, the Company's expenses reduction, and other.

[3] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[4]	Yes	According to the Corporate Governance Guidelines and the Company's Articles of Association, the Company's Supervisory Board consists of 5 (five) members. At least 1/2 (half) of the Supervisory Board consists of independent members. Currently, the Supervisory Board consists of 3 independent members and 2 shareholder's representatives. The Company's Board consists of 5 (five) members. From the perspective of the Company, the number of members of the Board and the Supervisory Board is sufficient to ensure the proper supervision over the Company's business and timely and efficient Company's management, whereas involvement of independent members into the Company's Supervisory Board establishes the conditions for efficient supervision of activities, separate persons or their groups do not have a possibility to dominate during decision-making (a meeting of the Supervisory Board is deemed to have been held when it is attended by more than a half of members, and of the Board – when it is attended by at least 4 members)
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The members of the Supervisory Board are elected according to the maximum term of office, specified in the Law on Companies of the Republic of Lithuania – for 4 years per term of office. Limitations concerning re-election of the members of the Supervisory Board and the Board are not provided in the Company's Articles of Association, nevertheless, limitations provided by valid legal acts are applied to candidates to members of the mentioned bodies. The Company's Articles of Association provide a possibility to revoke (dismiss) both separate members of the collegial boards and the whole collegial body *in corpore,* without waiting for their mandates' terms to end. The members of the Board (separate or the body itself) may be dismissed by the Supervisory Board, and the members of the Supervisory Board (separate or the body itself) may be dismissed by the General Shareholder Meeting.

[4] *Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.*

2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The chairperson of the Supervisory Board which is elected by the General Meeting of Shareholders and the manager of the Company is not the same person. Members and the chairperson of the Supervisory Board have never been the members of the Board of the Company or the manager of the Company. The manager of the Company is a member and a chairperson of the Board, but this does not create assumptions for possible impartial behaviour, since the Company has a properly installed Company's activities supervising body – the Supervisory Board.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies. [5]		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	According to the Articles of Association, each candidate to the Supervisory Board members is required to submit to the General Meeting of Shareholders the candidate's declaration of interests indicating any circumstances that could lead to the candidate and the company's conflict of interest by stating any possible risks of the conflict of interests and their management measures (including withdrawal during decision-making, non-participation in the discussion of specific issues, etc.). The Supervisory Board is elected by the General Meeting of Shareholders, according to the requirements set out by the Law on Companies of the Republic of Lithuania and the Company's Articles of Association, also other legal acts governing the procedure of election to a collegial body of state-owned companies by the General Meeting of Shareholders.

[5] Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the ompany, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information on candidates to a collegial body of a state-owned company elected by the General Meeting of Shareholders is provided under the procedure established in the laws. The selection procedures and selection requirements are set by separate legal acts. Information on the candidate's education, work experience, competence, position held and former positions (CV), declaration of interests and other documents specified in the legal acts are provided. An opinion on the suitability of candidates is submitted by the Selection Commission formed in accordance with the procedure established by legal acts. The declarations of interest disclose all circumstances that could give rise to a conflict of interest between a candidate and the Company, as well as the measures for managing it. If new circumstances emerge that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company and the Supervisory Board of such new circumstances in writing. Information on offices held by members of the Supervisory Board or their involvement in activities of any other companies is constantly collected, accumulated, and published in the annual report, as well as on the Company's website.

3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	The information on the candidates for the Company's Supervisory Board members is presented to the General Meeting of Shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders (see the comment for Item 3.2). The information presented at the General Meeting of Shareholders covers the professional experience of and offices/positions held by the candidates, also any other information evidencing a candidate's competence. The information on the offices held by the members of the Supervisory Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as the Company's website.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes Yes	The model of forming the Supervisory Board and the Board enables to ensure diverse competence of members with consideration to the specifics of activities pursued by the Group; also recommendations submitted by OECD regarding the formation of collegial bodies in state-owned companies are taken into consideration. The Supervisory Board and the Board have members with knowledge of energy activity, also competences in strategic management, risk management, finance, organisational development, and other skills, enabling them to ensure effective performance of the supervision and management functions. The Audit Committee has been formed in the Company which members have necessary knowledge in the fields of finance and audit. At least one member of the Nomination and Remuneration Committee has knowledge and experience in the field of determining remuneration and implementation of selection procedures.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities.	Yes	Members of the Supervisory Board (including also new members) are regularly informed on the Company's activity and changes in it, essential changes in the legal acts governing the Company's activity, also other circumstances affecting the Company's activity during meetings of the Supervisory Board and individually,

The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	subject to the need. The improvement of competence of members of the Supervisory Board is governed by the Supervisory Board Training Guidelines. At least once a year the Company's supervision and management bodies make an assessment of their activity where they identify the areas (if necessary) in which they should renew their knowledge and skills. To this end, the Company reserves a part of the budget funds under the procedure laid down in the Training Guidelines.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient11 number of independent [6] members.	Yes	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders. The Corporate Governance Guidelines and the Company's Articles of Association provide for that the Company's Supervisory Board is formed of 5 (five) members, of which at least 1/2 (half) should be independent. As of the date of submitting this report, there are (three) independent members of the Supervisory Board out of the total 5 (five) members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:	Yes	According to the Company's Articles of Association, following the requirements provided by legal acts and the Company's good management practice, the criterion of independence is set by the General Meeting of Shareholders and assessed by the Selection Commission under the procedure established in the laws. While assessing the independency of members, reference is made to the requirements established in the Corporate Governance Code for companies listed on NASDAQ Vilnius, 2015 June 17 (No. 631) On Approval of the Resolution of the Government of the Republic of Lithuania on the Approval of the Selection Schedule for the Selection of a Selection Board for Collegiate Supervisory or Management Bodies elected by the General Meeting of Shareholders of a State Enterprise or a Municipal Enterprise and candidates for a general meeting of shareholders of a state or municipality

[6] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance. 12 It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associatedcompany;		According to article 22 of the Company's Articles of Association, each candidate to members of the Supervisory Board must submit to the General Meeting of Shareholders a declaration of the candidate's interests, stating all the circumstances that may give rise to a conflict of interests between the candidate and the Company. Upon emergence of the new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company, the Supervisory Board, and the General Meeting of Shareholders of such new circumstances in writing.

He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; He/she has not been in the position of a member of the collegial body for over than 12 years; He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances..	Yes / No	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders (see also the Comment for Item 3.6). According to the Corporate Governance Guidelines and the Company's Articles of Association, the criterion of independence is set by the General Meeting of Shareholders following the requirements provided by legal acts and Company's good management practice (see also the Comment for Item 3.7). The Corporate Governance Guidelines and the Company's Articles of Association also lay down what persons may not be members of the Supervisory Board (CEO, a member of the supervision body, management body or administration of the legal entity engaged in electricity or gas transmission or production (generation), and any person who has no right to hold his office according to legal acts).

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders (see also the Comment for Item 3.6). The information on elected independent members of the Supervisory Board is provided in interim and annual reports, as well as on Company's website.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Irrelevant	Until now there have not been occasions in the Company when the need to apply this recommendation has emerged. The agreement, concluded with the independent member of the Supervisory Board regarding activity as the independent member of the Supervisory Board, incorporates an obligation to notify the Company and the Supervisory Board in writing about any new circumstances that may give rise to a conflict of interests between the member of the Supervisory Board and the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds[7]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	The independent member of the Supervisory Board is remunerated for his/her activity in the Supervisory Board according to the procedure and terms established in the agreement signed with him on activity as an independent member of the Supervisory Board.

[6] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

		The conditions of the agreement with the independent member of the Supervisory Board are approved by the General Meeting of Shareholders. According to the Corporate Governance Guidelines, the amount of remuneration to the independent member of the Supervisory Board has been limited to a maximum amount sum calculated in proportion to the remuneration of the Director General of the Company (1/4 of the Director General's remuneration to an independent member of the Supervisory Board and 1/3 of the Independent Chairman of the Supervisory Board).
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring14 of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	The Supervisory Board, the collegial body elected by the General Meeting of Shareholders, is responsible for efficient supervision of the Company's management bodies performance (it elects members of the Board and revokes them from office, submits proposals and responses to General Meeting of Shareholders concerning strategy of the Company, the Company's annual financial reports, profit (loss) allocation project, the Company's annual report, performance of the Board and the manager of the Company; submits to the Board of the Company proposals and responses concerning performance strategy of the Company, as well as budget of the performance, takes decisions on other questions attributed to the competence of the Supervisory Board by legal acts and Articles of Association).
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial	Taip	Members of the Supervisory Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare. Members of the Supervisory Board have the right to express their opinion concerning all questions included in the agenda that according to work regulations of the Supervisory Board must be properly reflected in the minutes of the meeting.

[8] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it shouldprovide recommendations to the company's single-person body of management, i.e. the company's chief executiveofficer.

body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective companynot-pertaining body (institution).		
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half16 of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of the Supervisory Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. In 2017 there were 14 (fourteen) Supervisory Board's meetings. All members of the Supervisory Board participated in more than half of the organized meetings. Members of the Supervisory Board also participated in activities of committees (Risk Management, Nomination and Remuneration, Audit Committees), submitted an opinion on issues relevant in activities of the Company).
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	Collegial bodies of the Company follow the prescribed recommendations. Before taking decisions, members of the collegial bodies discuss their influence to the Company's performance and the shareholder. The Company's Articles of Association oblige the collegial bodies of the Company and also each of their members to act on behalf of the Company and its shareholders. Communication with the shareholders and obligations for them are established in accordance with requirements of legal acts. The Company's Supervisory Board informed the institution holding the rights of the Company's shareholder on its activity at least once (1) a quarter, submitted quarterly reports on the Company's performance.

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Irrelevant	Agreements on activities in the Supervisory Board are made with members of the Supervisory Board at the decision of the General Meeting of Shareholders. Conditions of agreements with members and the Chairperson of the Board regarding their activity in the Board are set by the Supervisory Board. Conditions of the agreement with the manager of the Company are set by the Board. Collegial bodies of the Company conclude transactions and approve them by observing the requirements set in legal acts and the Company's Articles of Association. There have not been any transactions between the persons indicated in this recommendations and the Company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies [9]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human	Yes Yes No	The Company's Supervisory Board is independent from the Company's management bodies and takes decisions that are significant to the Company's activities and strategy, acts independently in accordance with requirements of legal acts. The Company ensures that the Supervisory Board is supplied with all of the resources required for its activities (monitors technical aspects of the Supervisory Board meetings, provides all the required information, and performs other functions specified in the Work Regulations of the Company's Supervisory Board). See the comment for Item 4.13.

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

resources department, executive directors or collegial management organs of the company concerned.		
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company'sdirectors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees [10]. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes Yes	The Supervisory Board acts and makes decisions according to the requirements of the legal acts and the Company's Articles of Association, also when making decisions on issues specified in this Item. The Risk Management, Nomination and Remuneration, and Audit Committees are being formed within the Company which act on the level of the Group. In the opinion of the Company, work of the Supervisory Board is sufficiently effective, balanced, and well organised; therefore, the Supervisory Board may properly perform all the functions assigned to it. No special or exclusive voting rights are granted to independent members of the Supervisory Board. Independent members of the Supervisory Board always have the right to express their opinion that is recorded in the minutes of their meetings.

[10] The Law of the Republic of Lithuania on Audit (Official Gazette, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state)..

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsiblefor the decisions taken in its field of competence.	Yes	According to the Corporate Governance Guidelines and the working procedure regulations, the Committees are aimed to ensure the advisory function, whereas the final decision is made by the Supervisory Board.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Committees consist of at least 3 members by involving also independent members. Chairpersons of the Supervisory Board, Nomination and Remuneration Committee and Audit Committee are independent members of the Supervisory Board.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annuallya statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the	Yes Yes / No	Committees are advisory bodies of the Supervisory Board. Their regulations are approved and members are appointed by the Supervisory Board. Committees prepare reports on their performance at least once every 6 (six) months that is delivered at the meeting of the Supervisory Board. The number of meetings is not disclosed in the annual report; however, the Supervisory Board and the institution implementing the rights of the Company's shareholder inform on the main decisions adopted in them at least once every 6 months.

independence of the audit process and describe briefly the actions it has taken to reach this conclusion.		
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	All chairpersons of committees are members of the Supervisory Board. The members of the Supervisory Board have the right to attend meetings of committees. If necessary, at the invitation of committees, particular employees or experts attend the meetings. Chairpersons of committees have a possibility to maintain direct relationships with the institution implementing the shareholder's rights.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial 15 body elected by the general shareholders' meeting is the supervisory board) and senior management, chief	Yes	The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and conform with, however, not limited to, the functions laid down in this principle. The Nomination and Remuneration Committee submits an opinion on candidatures to the management and supervision bodies of the Group's companies (if necessary, it may submit an opinion also regarding other candidatures). Decisions on the approval of such candidatures are adopted by the Supervisory Board. An opinion on the suitability of the mentioned candidatures is also submitted by the Company's Board (including the CEO).

executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;	Yes	The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and comply with, however, are not limited to, the functions listed in this principle. The Nomination and Remuneration Committee submits an opinion on the guidelines for the top-level management policy to the Supervisory Board. The Supervisory Board adopts decisions on the approval of such remuneration guidelines with consideration to the opinion of the Nomination and Remuneration Committee. The Committee does not participate in the General Meeting of Shareholders; however, the Supervisory Board and the institution implementing the rights of the shareholder are regularly (once every 6 months) informed about its activity.

6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other sharebased incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		

4.14. Audit Committee 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and	Yes	The main functions of the Audit Committee are described in the Corporate Governance Guidelines and conform with, however, are not limited to, the functions laid down in this principle. Meetings of the Audit Committee are attended by the Head of the Internal Audit Unit, and, if necessary, by other employees when discussing specific issues. The Audit Committee also cooperates with other committees, and, if necessary, joint meetings are organised. If necessary, a meeting of the Audit Committee is attended by representatives of the company conducting an independent audit of financial statements. The Audit Committee submits an opinion on annual plans of internal audit that is approved by the Supervisory Board. The Internal Audit Unit informs the Audit Committee on the implementation of internal audit plans and submits reports. So far there has not been any need to examine employees' complaints on violations or suspicions. The Audit Committee submits its performance reports at least once every 6 months.

apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the manaement bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnishedwith report disclosing all relationships between theindependent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisionsregarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial		

body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate followup action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Supervisory Board makes an assessment of its activity every year. The Supervisory Board assesses the organisation of meetings, efficiency, the need for competences, mutual cooperation, and sufficiency of the information furnished by the management for decision-making. Information on the working procedure regulations of the Supervisory Board, applied practices, adopted decisions is not published; however, the Supervisory Board informs the institution implementing the right of the Company's shareholder thereof at least once a quarter.
Principle V: The working procedure of the company's collegial bodies The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	The Supervisory Board and the Board are under the management of their chairpersons. The chairperson of the Supervisory Board is an independent member. Meetings are held according to a pre-set schedule and their regularity is abided by; if necessary, extraordinary meetings are organised. All members of collegial bodies have even opportunities to become familiar with information necessary for decision–making in advance.

5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.[11]	Yes	Meetings of collegial bodies proceed according to the pre-approved schedule. An annual plan of meetings and their agendas are formed for the Supervisory Board which, with consideration to activities of the group of Companies and processes going on in them, is supplemented in the course of the year. Meetings of the Supervisory Board are held once a month and of the Board – once a week. Members of the Supervisory Board suggest issues to be discussed during meetings. Members of the Supervisory Board are familiarised with activities pursued not only by the Company, but also those of separate companies of the Group.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Members of the collegial body are informed on the agenda of a meeting in advance. The agenda of the future meeting is discussed at the end of the current meeting, and issues are included into the agenda of the future meeting by consensus. In the course of the meeting, the agenda is not usually changed. All members of collegial bodies receive the material necessary for decision-making on issues on the agenda in advance and have a possibility to become familiar with them, also to ask questions before the meeting and during the meeting; they have the right to suggest that materials of the issue discussed should be supplemented, or ask to specify it. All members of the collegial bodies are informed about any received comments or specification.

[11] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision making process, chairpersons of the company's collegial bodies of supervision and management should closely cooperate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	Meetings of the Supervisory Board are also attended by the Board of the Company. Dates and agenda of the meetings are coordinated in such a way that they could be attended by all members of collegial bodies. The Supervisory Board and the Board cooperate in forming agendas of the meetings by including relevant issues on activities of the Company or the Group's companies.
Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's total authorised capital consists of ordinary nominal shares with a par value of EUR 0.29 each that grant equal property and non-property rights to all holders thereof.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Irrelevant	The rights carried by shares are specified in the Company's Articles of Association and are not different from those referred to in the Law on Companies of the Republic of Lithuania. The recommendation is not relevant, as the Company's sole shareholder is the state. Special legal regulation is applied for the acquisition of the Company's shares, as the Company is attributed to the companies having special significance for national security.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of	Yes	The Company's transactions are made according to the order specified in the Law on Companies of the Republic of Lithuania and the Company's Articles of Association. Important transactions, setting up of new companies or change of the capital structure (increase, reduction, formation of share premiums) of separate companies of the Group, reorganization, etc., making important crediting transactions may be carried out only on approval by the General Meeting of Shareholders.

encumbrance should be subject to approval of the general shareholders' meeting[12]. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.		
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Company convenes the General Meeting of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania.

[12] The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company..

6.5. If possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Irrelevant	The Company's sole shareholder is the State. The rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania. There are no shareholders residing overseas; therefore, this recommendation is not relevant.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The institution implementing the rights of the Company's shareholder may exercise its right to attend the General Meeting of Shareholders under the procedure laid down in the legal acts and this right is not restricted.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In suchcases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	Irrelevant	As the rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, the adoption of decisions at General Meetings of Shareholders takes place according to the internal procedures of the Ministry.

Principle VII: The avoidance of conflicts of interest and their disclosure The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company does observe the recommendations. According to the Company's Articles of Association, each candidate to a member of the collegial body is obliged to provide a declaration of interest to the body electing him/her stating all of circumstances which could lead to a conflict of interests between the candidate and the Company. In the event a new circumstance emerge that may give rise to a conflict of interest between a member of the collegial body and the Company, a member of the Supervisory Board must immediately inform in writing the Company and the Supervisory Board of such new circumstances. Besides, according to the Company's Articles of Association, members of the Board may not have any other job or hold any other office that would be incompatible with their activity on the Board, including the holding of management positions in other legal entities (except for the position and work in the company or the Group of companies), work in civil service, statutory service. Members may hold any other position or have other job, except for the position held in the Company and other legal entities the participant whereof the Company is, also engage in educational, creative, or authorship activity only on receipt of prior consent from the Supervisory Board.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	The Company does observe the recommendations.

7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The Company does observe the recommendations.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	According to the laws and the Company's legal acts regulating activities of members of the Company's Supervisory Board and management body, members of the Company's bodies are obliged to avoid situations when their personal interests are or may be in conflict with the Company's interests. They are also prohibited to vote, whenever the meeting decides on the issues related to their responsibilities or activities in the respective company body. Besides, measures for the management of the conflict of interest, including withdrawal during decision-making, and, where appropriate, also non-participation in a meeting when discussing particular issues are indicated in the declarations of interest.

Principle VIII: Company's remuneration policy Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	Yes	General information on the Company's salary policy and the average salary sizes for different groups of the Company's employees are published in the Company's interim and annual reports. Also in Company's website. The Company publicly announces salary fixed to members of the Company's management bodies, as well as any other benefits related with functions as members of the management bodies.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	See the comment for Item 8.1. The remuneration policy for the company's directors for the next and further years is not provided in the annual report. Information on the amounts of money (salaries, other benefits) calculated to members of the Company's bodies is furnished in interim and annual reports.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;	No	See the comment for Item 8.1. Information on the amounts of money calculated for members of the Company's bodies (salaries, other benefits, bonus shares, other payments from the profit), information on assigned property and other guarantees granted to members of the bodies, also other information related with remuneration to members of the bodies is furnished in the interim and annual reports.

5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplemntary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.		
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See the comment for Item 8.1.
8.5. Remuneration statement should also contain detailed information on the entire amount of to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emolumentsrelated information should be disclosed:	No	See the comment for Item 8.1.

1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemesrelated information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.		

8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	The determination and payment of the variable part of remuneration is regulated in the Company by the guidelines for remuneration to top-level executives approved by the Supervisory Board and applied at the Group level. A more detailed procedure is regulated by the policy of remuneration. The variable part up to 40 percent of the annual fixed part of remuneration to the CEO is fixed by the Board of the Company. An opinion for such a decision is provided by the Company's Supervisory Board. It is noteworthy that uniform principles for the determination and payment of the variable part of remuneration are applied in the whole group of "Lietuvos energija", UAB companies.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	The determination of the variable part of remuneration to executives and employees is linked with pre-approved goals of the Company and employees and depends on the achievement thereof. The variable part of remuneration to the CEO is allocated for achievement of goals (indicators). Goals (indicators) are set for the CEO and are approved by the Company's Board with consideration to the opinion of the Company's Supervisory Board.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the	Yes	The policy of remuneration lays down that the variable part of remuneration to top-level executives is paid in (two) instalments: the first variable part of remuneration, constituting 80 percent of the total gross and allocated variable part of remuneration

relative weight of the variable component compared to the non-variable component of remuneration.		(for achieved goals (indicators) of the reporting period), is paid within 30 calendar days of taking a decision on the payment of the variable part of remuneration; the second variable part of remuneration, constituting 20 percent of the gross variable part of remuneration (for goals (indicators) achieved during the reporting period No. 1), seeking to ensure loyalty of the top-level executives to the Company and continuity of the performance results, is reserved and is payable in 1 (one) year within 30 calendar days of making a decision on the payment of the second variable part of remuneration, by paying it together with the 80 percent variable part of remuneration calculated for goals (indicators) achieved during the last reporting period. The procedure for determination of performance indicators for the CEO and calculation of the variable part of remuneration does not differ from the described one.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Irrelevant	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	Severance compensations are calculated and paid in accordance with provisions of the Labour Code of the Republic of Lithuania.
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	See the comment for Item 8.10.
8.12. The information on preparatory and decisionmaking processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services	No	See the comment for Item 8.1.

have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.		
8.13. Shares should not vest for at least three years after their award.	Irrelevant	
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Irrelevant	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Irrelevant	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	Independent members of the Supervisory Board are paid the remuneration fixed in the Corporate Governance Guidelines. No other remuneration is paid to members of the Supervisory Board.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Irrelevant	See the comment for Item 8.1.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put	Irrelevant	See the comment for Item 8.1.

for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.		
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Irrelevant	Remuneration consists of the main (fixed) and variable parts. No other remuneration has been provided for.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Irrelevant	See the comment for Item 8.19.

8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Irrelevant	See the comment for Item 8.19.
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Irrelevant	See the comment for Item 8.19.
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on schemerelated expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	Irrelevant	See the comment for Item 8.19.

Principle IX: The role of stakeholders in corporate governance The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company's management system ensures that such rights of interest holders are respected which are protected by the law.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	The Company observes these recommendations when establishing the general rules applied to the Group of companies. Interest holders (e.g. trade unions of employees of daughter companies) may participate in the management of daughter companies to the extent provided for by the laws.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company does observe these recommendations.
Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		

10.1. The company should disclose information on: 1. The financial and operating results of the company; 2. Company objectives; 3. Persons holding by the right of ownership or in control of a block of shares in the company; 4. Members of the company's supervisory and management bodies, chief executive officer of the companyand their remuneration; 5. Material foreseeable risk factors; 6.Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7. Material issues regarding employees and other stakeholders; 8. Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	Information on the company's operation and financial results, strategy, members of the supervisory and management bodies and the CEO, remuneration fixed for members of the Company's supervision and management bodies, also other benefits associated with functions as members of management bodies is disclosed in the Company's annual and interim reports. Information specified in Items 4 and 6 of the recommendation is published to the extent compulsory under valid legal acts and requirements set for the preparation of annual financial statements.
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	The Company discloses the Group's consolidated results.
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	10.1 The information specified in Item 4 of the recommendation is published in the Company's annual report and on the Company's website. The Company makes public the salary to the Company's CEO and other benefits associated with the functions as members of the management bodies.

10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of recommendation 10.1 is under disclosure.	Yes	10.1 The information specified in Item 7 of the recommendation is published to the extent compulsory under valid legal acts of the Republic of Lithuania. Information on relationships between the Company and interest holders is published in press releases and on the Company's website.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on NASDAQ OMX Vilnius, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company is not recorded in the official list; however, this recommendation is complied with by the Company's listed daughter companies. The Company approved the policy on confidentiality assurance and disclosure of inside information by the officially listed companies of "Lietuvos energija", UAB Group of companies that is compulsory for listed daughter companies. The listed companies also comply with the rules for confidentiality assurance and disclosure of inside information approved by resolution No 03-46 of the Board of the Bank of Lithuania of February 28 of 2013.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	In addition to the method of information disclosure referred to Item 10.5, the Company uses various information disclosure instruments (published electronic publications for public announcements published by State Company Centre of Registers, news agencies, publicly available Company's website) to ensure that the disseminated information reaches as many stakeholders as possible. Information provided on websites of the Company and its daughter companies is published in the Lithuanian and English languages.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events	Yes	The Company publishes all the information specified in this recommendation on its webpage. Notices on essential events are published on websites of the listed daughter companies.

and changes in the price of the company's shares on the Stock Exchange on the company's website too.		
Principle XI: The selection of the company's auditor The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	An audit of the Company's annual financial statements is conducted. The audit firm also verifies the compliance of the Company's annual report with its audited financial statements
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	No	The audit firm is being selected according to the procedure laid out in the Law on Public Procurement of the Republic of Lithuania, the selected audit firm is proposed to the General Shareholder Meeting by the Company's Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The Company does observe the recommendations.

INDEPENDENT AUDITOR`S REPORT

pwc

Independent auditor's report

To the shareholder of Lietuvos energija UAB

Report on the audit of the stand-alone and consolidated financial statements

Our opinion

In our opinion, the stand-alone and consolidated financial statements give a true and fair view of the stand-alone and consolidated financial position of Lietuvos energija UAB ("the Company") and its subsidiaries ("the Group") as at 31 December 2017, and of their stand-alone and consolidated financial performance and their stand-alone and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited
The Company's and the Group's stand-alone and consolidated financial statements comprise:

- the stand-alone and consolidated statement of financial position as at 31 December 2017;
- the stand-alone and consolidated statements of profit or loss and other comprehensive income for the year then ended;
- the stand-alone and consolidated statement of changes in equity for the year then ended;
- the stand-alone and consolidated statement of cash flows for the year then ended; and
- the notes to the stand-alone and consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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PricewaterhouseCoopers UAB, company code 111473315, is a private company registered with the Lithuanian Register of Legal Entities.

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in the Republic of Lithuania and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014 considering the exemptions of Regulation (EU) No 537/2014 endorsed in the Law of the Republic of Lithuania on the Audit of Financial Statements.

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2017 to 31 December 2017, are disclosed in note 31 to the financial statements.

Our audit approach

Overview

Materiality

- Overall Company materiality is EUR 5 million
- Overall Group materiality is EUR 5.3 million

Audit Scope

- We conducted audit work at 8 reporting units, all of them are in Lithuania
- Our full scope audit addressed 94 % of group assets and revenue.

Key Audit matters

Company: Impairment of investments in subsidiaries and receivables from them

Group:

- Property, plant and equipment accounted for at revalued amount
- Property, plant and equipment accounted for at cost less depreciation and impairment

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the stand-alone and consolidated financial statements (together "the financial statements"). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality for the stand-alone and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	EUR 5 million (2016: 5.8 million)
Overall Group materiality	EUR 5.3 million (2016: EUR 7.2 million)
How we determined it	Overall Company materiality represents 5% of average profit before tax for the years 2015-2017. Overall Group materiality represents 5% of profit before tax adjusted for one-off losses of impairment of property, plant and equipment (EUR 32 million) and one-off revenue from regulated activities (EUR 17 million).
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark for the Company because, in our view, it is the generally accepted measure and it is the measure against which the performance of the company is most commonly assessed. The Company's current year performance depends on results of its subsidiaries in the current and prior periods, and on subsequent dividend payments, thus we chose average figure to eliminate unusual deviations.

	Group profit before tax was adjusted for one-off items because these are of non-recurring nature. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 250 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of investments in subsidiaries and receivables from them (refer to notes 4, 8, 37) The carrying value of investments in subsidiaries (EUR 1,149 million) and receivables from subsidiaries (EUR 499 million) as at 31 December 2017 represents 87 % of total assets of the Company. During the year ended 31 December 2017, the Company has recognised an impairment loss of investments in subsidiaries and loans granted of EUR 12.1 million and recorded a provision for guarantees issued in amount of EUR 2.9 million in respect of liabilities of a subsidiary. To assess recoverability of loans receivable from subsidiaries and the need for a guarantee provision the management used the same impairment tests as were used to assess recoverability of investments in subsidiaries.	We obtained understanding of the management's process for the monitoring of the performance of the subsidiaries and for assessment of the recoverable value of investments in subsidiaries. We have obtained the management's assessment whether impairment indicators exist, analysed and discussed it with the management. For those entities, where impairment indicators were identified, we obtained impairment tests, discussed with management the basis for expected future performance, analysed the major inputs in the calculations including profitability, discount rate assumptions and sensitivity to selected assumptions. When assessing impairment indicators and analysing the inputs used in the impairment tests, we leveraged our knowledge from audit of subsidiaries and audit procedures applied to property, plant and equipment as discussed in key audit matters below. Our work gave us sufficient audit evidence to conclude that management's estimates used in determining the carrying values of

We focused on this area because of the magnitude of the balances and significant dividends paid by subsidiaries, which might be considered impairment indicator. The management of the Company applied significant judgement is assessment whether impairment indications exist and made significant assumptions in determining recoverable amounts of investments and receivables from these entities using discounted cash flows analysis.	investments, receivables and the provision for guarantees issued is supportable and appropriate in light of the evidence obtained.
Property, plant and equipment accounted at revalued amount (refer to notes 4, 6) Property, plant and equipment is the most significant item of assets on the consolidated statement of financial position and as at 31 December 2017 amounted to EUR 1,761 million. The property, plant and equipment accounted for at revalued amount had a net book value of EUR 1,041 million and the most significant component was the electricity distribution network with a net book value of EUR 989 million. Assets of the electricity distribution network were last revalued in 2014; in the current year the management has assessed whether the carrying amount of these assets does not differ materially from the fair value. The management has identified the electricity network to be a separate cash generating unit (CGU) and forecasted expected cash flows. Based on the model, management has determined that fair value of the CGU is slightly higher than net book value as at 31 December 2017. The management concluded that as no significant changes in electricity related regulatory and operating environment occurred compared to prior period, the estimated increase in fair value by less than 5% is not material, and, therefore, the management did not account for this increase in the financial statements.	We obtained, understood and evaluated management's process for the assessment of the fair value of property, plant and equipment. We discussed with the management whether significant changes in the legal environment in respect of electricity distribution and the Group's strategic plans occurred in 2017, that would have a material impact on the future cash flows from electricity distribution network and its value. We took into account our knowledge of the Group's business activities and accumulated knowledge related to the industry where the Group operates, including changes in the regulatory environment. Also, we obtained the cash flow models used by the management to monitor the value of assets employed in electricity businesses. We tested the model as to whether it is mathematically accurate and that the results are accurately compared to the carrying value of assets; we discussed with the management their key assumptions, traced them to external or Group's internal information, where appropriate, and assessed sensitivity of the cash flow models to changes in selected assumptions. We also involved our internal valuation expert who assessed the appropriateness of the model used as the basis of the valuation and the reasonableness of the discount rate applied. Our work gave us sufficient audit evidence to conclude that management's judgement on the appropriateness of the carrying

Assessment of fair values of property, plant and equipment is an area of significant management judgements, and they are, therefore, given special audit attention.

values of property, plant and equipment is supportable and appropriate in light of the evidence obtained.

Property, plant and equipment accounted at cost less depreciation and impairment

(refer to note 4, note 6)

The property, plant and equipment accounted for at cost less depreciation and impairment had a net book value of EUR 720 million as at 31 December 2017.

The management has assessed whether impairment indications exist for the most significant assets.

The changes in an economic and regulatory environment, as well as the changes in the purpose of use and expected useful life of assets, occurred in 2017, had a negative impact on the performance of Thermal power plant (or Elektrėnai Complex), and indicated that the recoverable amount of these assets might be below their carrying amount. In addition, the changes in setting public service obligation and tertiary capacity reserve services of the Group for 2018 resulted in a separation of two cash generating units (CGU) in Elektrėnai Complex as compared to one CGU that existed at the end of 2016.

The management performed impairment tests in respect of both CGUs of Elektrėnai Complex and recognised an impairment loss of EUR 31 million, net of grants, in respect of CGU of units 7 and 8, while the recoverable amount of the other CGU was higher than its carrying amount of EUR 377 million.

The management also performed impairment tests for the gas distribution networks with a carrying value of EUR 149 million. Management has identified the gas distribution network to be a separate cash generating unit, forecasted expected cash flows and

We assessed for which CGUs of the Group impairment indicators existed. We took into account our knowledge of the Group and its business activities, as well as our accumulated knowledge related to the industry where the Group operates, including the changes in the regulatory environment. In addition, we performed inquiries with the management and key employees and inspected internal documents of the Group. We found the management's conclusions regarding the existence of impairment indicators of assets to be consistent with the evidence we obtained.

We evaluated the appropriateness of the impairment tests performed by the management, by:

- assessing the reasonableness of the assumptions related to the expected future operational performance of CGUs, such as forecasts of earning before interests, tax, depreciation and amortisation, capital investments and regulated rate of return on regulated asset base;
- involving our internal valuation experts to analyse the methodology used in the impairment calculations and the reasonableness of the discount rates and perpetual decrease factor used by the management for Elektrėnai complex and to assess the reasonableness of the discount rate applied for the gas distribution network;
- challenging the management's assumptions by comparing them to the actual performance, and internal documents, such as budget forecasts for 2018 - 2024;
- assessing the sensitivity of the impairment test to key inputs.

determined, based on the model, that there is no further impairment loss. Impairment assessment of these assets is subjective and requires significant management judgements, due to these reasons, we considered this area to be a key audit matter.	In respect of some inputs or future forecasts used in the impairment tests, we formed a different view from that of the management, but the differences were within a reasonable range of outcomes. We also verified if impairment models were mathematically correct and whether the results were accurately compared to the carrying amounts of assets. Based on the audit evidence obtained from the above procedures, we did not identify any material misstatements in the calculation of the recoverable amount and impairment loss recognised for property, plant and equipment. We also read the disclosures in the financial statements regarding impairment tests and did not identify any material deficiencies or missing information.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises more than 20 subsidiaries which operate in Lithuania, Latvia, Estonia and Poland (refer to note 8). For Group audit purposes, based on our risk and materiality assessment we determined that a full scope audit was required for the following Group entities:

- Lietuvos Energija UAB
- Energijos skirstymo operatorius AB
- Lietuvos energijos gamyba AB
- NT Valdos UAB
- Energetikos paslaugų ir rangos organizacija UAB
- Energijos tiekimas UAB
- Litgas UAB
- Lietuvos dujų tiekimas UAB

The audit of these entities was performed by PwC Lithuania and covered 94 % of Group's revenue and assets. For other subsidiaries, the Group audit team performed group level analytics to obtain sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Reporting on other information including the consolidated annual report

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

Our opinion on the financial statements does not cover the other information, including the consolidated annual report.

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

With respect to the consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

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

- the information given in the consolidated annual report for the financial year ended 31 December 2017, for which the financial statements are prepared, is consistent with the financial statements; and
- the consolidated annual report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated annual report which we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group for the year 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 9 years.

Non- financial information

In Accordance with article 101 of the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Group plans to present the separate consolidated social responsibility report, which is expected to be made available to us after 22 March 2018.

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

On behalf of PricewaterhouseCoopers UAB

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
22 March 2018

CONSOLIDATED AND COMPANY`S FINANCIAL STATEMENTS

CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS

for the year ended 31 December 2017
prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, presented together with the independent auditor's report

Translation note:

This version of the accompanying documents has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over the English version.

The Company's and the Group's consolidated financial statements were approved by Lietuvos Energija UAB management and signed on 22 March 2018:

Darius Maikštėnas Chief Executive Officer	**Darius Kašauskas** Finance and Treasury Director	**Giedruolė Guobienė** Verslo Aptarnavimo Centras UAB, Head of Accounting Services Centre acting under Order No IS17-80 of 28 August 2017

Lietuvos Energija UAB, company code 301844044, address: Žvejų g. 14, LT-09310, Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION
At 31 December 2017
All amounts in EUR thousands unless otherwise stated

	Notes	Group	
		At 31 December 2017	At 31 December 2016
ASSETS			
Non-current assets			
Intangible assets	5	36,360	32,261
Property, plant, and equipment	6	1,761,082	1,770,814
Prepayments for non-current assets	12	21,911	-
Investment property	7	14,878	46,207
Amounts receivable after one year	9	170,488	203,582
Other financial assets	15	426	-
Other non-current assets	10	3,239	2,620
Deferred income tax assets	21	7,084	5,699
Total non-current assets		**2,015,468**	**2,061,183**
Current assets			
Inventories	11	56,866	38,117
Prepayments and deferred expenses	12	38,119	6,967
Trade receivables	13	112,563	111,884
Other amounts receivable	14	27,800	29,363
Other current assets	27	1,093	4,606
Prepaid income tax		2,102	589
Cash and cash equivalents	16	171,756	178,565
		410,299	**370,091**
Non-current assets held for sale	17	79,301	878
Total current assets		**489,600**	**370,969**
TOTAL ASSETS		**2,505,068**	**2,432,152**

	Notes	Group	
		At 31 December 2017	At 31 December 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	18	1,212,156	1,212,156
Reserves	19	99,380	92,171
Retained earnings (deficit)		(13,706)	(35,952)
Equity attributable to owners of the parent		**1,297,830**	**1,268,375**
Non-controlling interest		45,796	51,172
Total equity		**1,343,626**	**1,319,547**
Liabilities			
Non-current liabilities			
Non-current borrowings and bonds	20	480,068	364,957
Finance lease liabilities		187	316
Grants and subsidies	22	200,311	284,929
Deferred income tax liability	21	36,049	40,481
Provisions	24	1,893	3,254
Deferred revenue	23	54,509	52,214
Other non-current amounts payable and liabilities	25	7,306	11,780
Total non-current liabilities		**780,323**	**757,931**
Current liabilities			
Current portion of non-current borrowings	20	119,599	90,008
Current borrowings	20	14,082	38,953
Current portion of finance lease liabilities		145	157
Trade payables	26	98,338	96,118
Prepayments received		27,765	27,636
Income tax liabilities		3,695	9,355
Provisions	24	2,498	12,883
Other current amounts payable and liabilities	27	114,663	79,564
		380,785	**354,674**
Liabilities related to non-current assets held for sale		334	-
Total current liabilities		**381,119**	**354,674**
Total liabilities		**1,161,442**	**1,112,605**
TOTAL EQUITY AND LIABILITIES		**2,505,068**	**2,432,152**

Lietuvos Energija UAB, company code 301844044, address: Žvejų g. 14, LT-09310, Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION
At 31 December 2017
All amounts in EUR thousands unless otherwise stated

	Notes	Company	
		At 31 December 2017	At 31 December 2016
ASSETS			
Non-current assets			
Property, plant, and equipment	6	421	348
Prepayments for non-current assets	12	3,899	-
Investments in subsidiaries	8	1,148,917	1,172,187
Amounts receivable after one year	9	492,938	196,511
Other financial assets	15	426	-
Deferred income tax assets	21	549	93
Total non-current assets		**1,647,150**	**1,369,139**
Current assets			
Prepayments and deferred expenses	12	42	5,011
Other amounts receivable	14	5,322	14,294
Prepaid income tax		147	160
Short-term loans	15	169,395	4,902
Cash and cash equivalents	16	52,517	73
		227,423	**24,440**
Non-current assets held for sale	17	14,717	4,782
Total current assets		**242,140**	**29,222**
TOTAL ASSETS		**1,889,290**	**1,398,361**

	Notes	Company	
		At 31 December 2017	At 31 December 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	18	1,212,156	1,212,156
Reserves	19	14,516	9,758
Retained earnings (deficit)		117,103	75,699
Total equity		**1,343,775**	**1,297,613**
Liabilities			
Non-current liabilities			
Non-current borrowings and bonds	20	433,668	23,440
Provisions	24	2,903	-
Other non-current amounts payable and liabilities	25	9,807	9,358
Total non-current liabilities		**446,378**	**32,798**
Current liabilities			
Current portion of non-current borrowings	20	95,013	2,131
Current borrowings	20	2,794	64,759
Trade payables	26	506	343
Prepayments received		1	-
Other current amounts payable and liabilities	27	823	717
Total current liabilities		**99,137**	**67,950**
Total liabilities		**545,515**	**100,748**
TOTAL EQUITY AND LIABILITIES		**1,889,290**	**1,398,361**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017
All amounts in EUR thousands unless otherwise stated

	Note	Group		Company	
		2017	2016	2017	2016
Revenue					
Sales revenue	28	1,064,459	1,070,542	2,972	1,802
Other income	29	36,372	31,088	516	2
Dividend income	35	-	-	124,704	69,525
Total revenue		**1,100,831**	**1,101,630**	**128,192**	**71,329**
Operating expenses					
Purchases of electricity, gas for trade, and related services	30	(712,298)	(691,738)	-	-
Purchases of gas and heavy fuel oil		(28,193)	(35,689)	-	-
Depreciation and amortisation	5,6,22	(87,357)	(78,518)	(3)	(3)
Wages and salaries and related expenses		(81,336)	(86,065)	(4,105)	(3,372)
Repair and maintenance expenses		(21,318)	(22,765)	-	-
Revaluation of non-current assets	6,7,17	(7,103)	336	-	-
Reversal of impairment of investments in subsidiaries		-	-	(9,414)	20,869
Reversal of (impairment) of amounts receivable and loans		1,003	(2,189)	(2,701)	(4,181)
Impairment of property, plant and equipment	6,17,22	(33,387)	(566)	-	-
Other expenses	31	(33,709)	(37,085)	(5,810)	(1,792)
Total operating expenses		**(1,003,698)**	**(954,279)**	**(22,033)**	**11,521**
Finance income	32	2,163	3,720	3,588	13,526
Finance costs	33	(9,098)	(6,856)	(4,291)	(1,232)
Profit (loss) before income tax		**90,198**	**144,215**	**105,456**	**95,144**
Current year income tax (expenses)/benefit	34	(2,682)	(13,373)	2	(23)
Deferred income tax (expenses)/benefit	34	6,009	(12,404)	456	34
Profit for the year		**93,525**	**118,438**	**105,914**	**95,155**
Attributable to:					
Owners of the parent		89,103	108,105	105,914	95,155
Non-controlling interest		4,422	10,333	-	-

	Note	Group		Company	
		2017	2016	2017	2016
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss					
Gain/(loss) on revaluation of property, plant and equipment	5.6	259	385	-	
Items that will not be reclassified subsequently to profit or loss, total		**259**	**385**	**-**	**-**
Items that will be reclassified subsequently to profit or loss					
Change in fair value of available-for-sale financial assets		-	(48)	-	(48)
Other income/(expenses) recognised directly in equity during the period	24	(187)	-	-	-
Translation of net investments in foreign operations into the Group's presentation currency	19	42	-		-
Items that will be reclassified subsequently to profit or loss, total		**(145)**	**(48)**	**-**	**(48)**
Total other comprehensive income (loss)		**114**	**337**	**-**	**(48)**
Total comprehensive income (loss) for the period		**93,639**	**118,775**	**105,914**	**95,107**
Attributable to:					
Owners of the parent		89,217	108,442	105,914	95,107
Non-controlling interest		4,422	10,333	-	-

STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2017
All amounts in EUR thousands unless otherwise stated

Group	Notes	Equity attributable to owners of the Company						Non-controlling interest	Total
		Share capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Subtotal		
Balance at 1 January 2016		**1,212,156**	**28,777**	**62,323**	**48**	**(49,264)**	**1,254,040**	**50,445**	**1,304,485**
Revaluation of property, plant and equipment, net of deferred income tax effect		-	-	385	-	-	385		385
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	(48)	-	(48)	-	(48)
Total other comprehensive income (loss)		**-**	**-**	**385**	**(48)**	**-**	**337**	**-**	**337**
Profit for the reporting period		-	-	-	-	108,105	108,105	10,333	118,438
Total comprehensive income for the period		**-**	**-**	**385**	**(48)**	**108,105**	**108,442**	**10,333**	**118,775**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(5,523)	-	5,523	-	-	-
Transfer to reserves and movement in reserves		-	5,768	-	-	(5,768)	-	-	-
Dividends	35	-	-	-	-	(97,194)	(97,194)	(3,453)	(100,647)
Acquisition of subsidiary (Eurakras UAB)		-	-	-	-	-	-	5,199	5,199
Change in non-controlling interest on reorganisation		-	85	284	-	9	378	(378)	-
Acquisition of shares from non-controlling interest	8	-	66	6	-	2,637	2,709	(11,764)	(9,055)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB	8	-	-	-	-	-		790	790
Balance at 31 December 2016		**1,212,156**	**34,696**	**57,475**	**-**	**(35,952)**	**1,268,375**	**51,172**	**1,319,547**
Balance at 1 January 2017		**1,212,156**	**34,696**	**57,475**	**-**	**(35,952)**	**1,268,375**	**51,172**	**1,319,547**
Revaluation of non-current assets, net of deferred income tax effect	5,6	-	-	218	-	-	218	41	259
Translation of net investments in foreign operations into the Group's presentation currency	19	-	-	-	42	-	42	-	42
Result of change in actuarial assumptions	24	-	-	-	-	(187)	(187)	-	(187)
Total other comprehensive income (loss)		**-**	**-**	**218**	**42**	**(187)**	**73**	**41**	**114**
Profit for the reporting period		-	-	-	-	89,103	89,103	4,422	93,525
Total comprehensive income for the period		**-**	**-**	**218**	**42**	**88,916**	**89,176**	**4,463**	**93,639**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(4,867)	-	4,867	-	-	-
Transfer to reserves, movement in reserves		-	11,816	-	-	(11,816)	-	-	-
Dividends	35	-	-	-	-	(59,752)	(59,752)	(5,598)	(65,350)
Change in non-controlling interest due to changes in the Group's structure		-	-	-	-	31	31	(31)	-
Acquisition of shares from non-controlling interest in Eurakras UAB	8	-	-	-	-	-	-	(5,182)	(5,182)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB attributable to minority interest	8	-	-	-	-	-	-	972	972
Balance at 31 December 2017		**1,212,156**	**46,512**	**52,826**	**42**	**(13,706)**	**1,297,830**	**45,796**	**1,343,626**

STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2017
All amounts in EUR thousands unless otherwise stated

Company	Note	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016		**1,212,156**	**4,207**	**48**	**83,289**	**1,299,700**
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	(48)	-	(48)
Total other comprehensive income (loss)		**-**	**-**	**(48)**	**-**	**(48)**
Profit for the reporting period		-	-	-	95,155	95,155
Total comprehensive income for the period		**-**	**-**	**(48)**	**95,155**	**95,107**
Transfers to legal reserve		-	5,551	-	(5,551)	-
Dividends	35	-	-	-	(97,194)	(97,194)
Balance at 31 December 2016		**1,212,156**	**9,758**	**-**	**75,699**	**1,297,613**
Balance at 1 January 2017		**1,212,156**	**9,758**	**-**	**75,699**	**1,297,613**
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	-	-
Total other comprehensive income (loss)		**-**	**-**	**-**	**-**	**-**
Profit for the reporting period					105.914	105.914
Total comprehensive income for the period		**-**	**-**	**-**	**105,914**	**105,914**
Transfers to legal reserve			4,758		(4,758)	-
Dividends	35				(59,752)	(59,752)
Balance at 31 December 2017		**1,212,156**	**14,516**	**-**	**117,103**	**1,343,775**

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2017	2016	2017	2016
Cash flows from operating activities					
Net profit for the period		93,525	118,438	105,914	95,155
Adjustments for non-cash items:					
Depreciation and amortisation expenses	5,6	107,579	90,925	3	3
Impairment of property, plant and equipment	6,17	106,259	566	-	-
Grants attributable to impaired property, plant and equipment	22	(72,872)	-		
Result of revaluation of property, plant and equipment		(1,379)	(122)	-	-
Result of revaluation of investment property		3,929	(214)	-	-
Revaluation of derivatives		(2,165)	(2,036)	-	-
Impairment of financial assets (reversal of impairment)		(1,003)	1,019	2,701	-
Impairment/(reversal of impairment) of investments in subsidiaries	8	-	-	9,414	(20,869)
Income tax expenses		(3,327)	25,777	(458)	(11)
(Depreciation) of grants	22	(20,222)	(12,407)	-	-
Increase (decrease) in provisions		(11,362)	(10,481)	2,903	-
Inventory write-down allowance/(reversal)	31	(98)	275	-	-
Emission allowance revaluation expenses/(income)	31	(2,296)	3,346	-	-
Emission allowances utilised	5	932	1,742	-	-
Elimination of results of investing activities:					
- Dividend (income)	35	-	-	(124,704)	(69,525)
- (Gain)/loss on disposal/write-off of property, plant and equipment		2,258	2,285	-	(9)
- (Gain) loss on disposal of investments in subsidiaries and associates	24	(352)	-	(24)	-
Other (income)/expenses of investing activities		-	-	217	-
Elimination of results of financing activities:					
- Interest (income)	32	(1,520)	(2,858)	(3,147)	(3,871)
- Interest expenses	33	7,858	5,760	3,802	732
- Other (income)/expenses of financing activities	32,33	597	234	48	(9,155)
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		3,672	3,803	(891)	3,265
(Increase) decrease in inventories, prepayments and other current assets		(55,678)	31,057	(32)	(5)
Increase (decrease) in amounts payable, deferred income and advance amounts received		(10,112)	(3,188)	347	1,191
Income tax (paid)		(9,663)	(2,229)	15	(255)
Net cash flows generated from (used in) operating activities		**134,560**	**251,692**	**(3,893)**	**(3,354)**

	Notes	Group		Company	
		2017	2016	2017	2016
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets		(232,548)	(172,946)	(10,011)	(65)
Disposal of property, plant and equipment and intangible assets		5,525	4,327	-	-
Loans (granted)		-	-	(218,983)	(5,191)
Loan repayments received		34,759	29,201	51,091	29,500
(Acquisition) disposal of investments in subsidiaries	8	62	(27,378)	(19,060)	(104,726)
Grants received	22	7,798	2,157	-	-
(Acquisition) of bonds		-	-	-	-
Disposal of bonds		-	4,534	-	4,534
Interest received		1,498	2,858	1,910	4,289
Dividends received		-	-	124,704	69,525
Net cash flows used in investing activities		**(182,906)**	**(157,247)**	**(70,349)**	**(2,134)**
Cash flows from financing activities					
Proceeds from borrowings	20	97,305	172,189	-	90,330
Issue of bonds	20	293,759	-	293,759	-
Repayments of borrowings	20	(284,904)	(96,689)	(106,662)	-
Finance lease payments	20	(158)	(155)	-	-
Interest paid		(4,436)	(5,760)	(786)	(754)
Dividends paid		(65,350)	(100,537)	(59,752)	(97,194)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB		-	1.317	-	-
Redemption of shares from non-controlling interest	8	(4,284)	(9,055)	-	-
Result of the closing of derivative financial instruments	26	(1,050)	-	127	-
Net cash flows generated from (used in) financing activities		**30,882**	**(38,690)**	**126,685**	**(7,618)**
Increase (decrease) in cash and cash equivalents (including overdraft)	20	**(17,464)**	**55,755**	**52,444**	**(13,106)**
Cash and cash equivalents (including overdraft) at the beginning of the period		178,565	122,810	73	13,179
Cash and cash equivalents (including overdraft) at the end of period	16	**161,101**	**178,565**	**52,517**	**73**

1 General information

Lietuvos Energija UAB (hereinafter "the Company") is a private limited liability company registered in the Republic of Lithuania. The Company's registered office address is Žvejų g. 14, LT-09310, Vilnius, Lithuania. The Company is a limited liability profit-oriented entity registered on 28 August 2008 with the Register of Legal Entities managed by the public institution the Centre of Registers. Company code 301844044, VAT payer's code LT10004278519. The Company has been founded for an indefinite period.

The Company is a parent company, which is responsible for the management and coordination of activities of group companies engaged in electricity and heat generation (including electricity generation from renewable energy sources), supply, electricity import and export, distribution and trade, natural gas distribution and supply, as well as in service and development of electric energy industry.

The Company analyses the activities of group companies, represents the whole group, implements its shareholders' rights and obligations, defines operation guidelines and rules, and coordinates the activities in the fields of finance, law, strategy and development, human resources, risk management, audit, technology, communication and others.

The Company seeks to ensure effective operation of group companies, implementation of goals related to the group's activities set forth in the National Energetic Independence Strategy and other legal acts, ensuring that it builds a sustainable value in a socially responsible manner.

The Company is wholly owned by the State of the Republic of Lithuania.

Company's shareholder	At 31 December 2017		At 31 December 2016	
	Share capital, in EUR '000	%	Share capital, in EUR '000	%
Republic of Lithuania represented by the Lithuanian Ministry of Finance	1,212,156	100	1,212,156	100

As at 31 December 2017, the Group and the Company had 4,513 and 104 employees, respectively (31 December 2016: 4,859 and 103 employees, respectively).

The Company's management approved these financial statements on 28 February 2018. The Company's shareholders have a statutory right to approve or not to approve these financial statements and require that management prepare a new set of financial statements.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Company's and the Group's financial statements for the year ended 31 December 2017 are summarised below.

2.1 Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Group's and the Company's financial statements as at and for the year ended 31 December 2017 have been prepared on a historical cost basis, except for property, plant and equipment measured at revaluated amount, investment property, emission allowances and certain financial instruments measured at fair value.

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

IFRSs and their amendments adopted by the Group and the Company for the first time in the financial year ended 31 December 2017 are as follows:

Disclosure Initiative – Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The reconciliation of movements in outstanding balances of the Group's and the Company's financial liabilities to cash flows from financing activities is presented in Note 20.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 1(effective for annual periods beginning on or after 1 January 2017). The amendments have clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax assets for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. In 2017, the Group and the Company had no significant unrealised tax losses related to debt instruments and differences between the tax base and carrying amount of debt financial instruments relating to discounting were not significant.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2017 are not relevant to the Group and the Company.

b) New standards, amendments and interpretations that are not yet effective

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2018 or later and that have not been adopted when preparing these financial statements:

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018). The main features of the new standard are as follows:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group and the Company will apply IFRS 9 starting from 1 January 2018 using the modified retrospective approach.

Based on estimates of the Group and the Company the standard will not have any impact on the classification of the Company's financial assets as at 31 December 2017:

a) amounts receivable, loans will continue to be classified as financial assets that are measured subsequently at amortised cost,
b) financial assets at fair value through profit or loss will continue to be measured using the same method.

The Group and the Company have no financial assets that could be subsequently measured at fair value through other comprehensive income.

The new standard will have no impact on the classification of the Group's and the Company's financial liabilities because changes are introduced only with respect to the classification of financial liabilities reported through profit or loss and neither the Group nor the Company have such financial liabilities.

The Company estimated expected credit losses on trade receivables and loans receivable by assessing the clients on an individual basis as all services are provided to the subsidiaries and the loans are mainly granted to the subsidiaries as well. The assessment of expected credit losses as at 31 December 2017 was performed in view of historical data on client settlements and settlements received from clients after 31 December 2017. The amount of expected credit losses as at 31 December 2017 attributable to the Company's trade receivables and loans receivables does not significantly differ from impairment balances reported in the financial statements as at 31 December 2017.

The Group's assessment of expected credit losses on trade receivables indicates a EUR 148 thousand increase in expected credit losses compared to losses estimated under IAS 39. On 1 January 2018, the Group recognised impairment in respect of amounts receivable and retained earnings amounting to EUR 148 thousand, which indicates the impact of the first-time adoption of IFRS 9 on the Group's financial statements.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the commitment to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Group and the Company will apply IFRS 15 starting from 1 January 2018 using the modified retrospective approach.

The Company's management assessed the impact of the adoption of IFRS 15, *Revenue from Contracts with Customers* and amendments thereto on the Company's financial statements and established that the new standard and amendments thereto have no significant impact on the timing and scope of revenue recognition by the Company.

The Group's management assessed the impact of the adoption of IFRS 15, *Revenue from Contracts with Customers* and amendments thereto on the Group's financial statements and established that the requirements of the new standard will affect the recognition of revenue from new customer connection.

Following the application of IFRS 15 with respect to revenue from new customer (NC) connection to the electricity system, the Group will be required to recognise such revenue over time unlike the currently applied approach (revenue is recognised upon the fulfilment of an obligation). As effective legal acts require that a new customer conclude the transmission or public/guaranteed supply agreement with the Company, it means that a customer's connection to the network is not a separate performance obligation under IFRS 15, but it is interdependent with the electricity transmission service, therefore, NC connection revenue should be recognised over a period during which the electricity distribution service is provided. In view of this change, accrued NC connection revenue that had been recognised as revenue immediately between the period from 2 July 2009 and 31 December 2017 will need to be recalculated retrospectively and recognised over the estimated period of the provision of electricity distribution services to NC. Based on management's judgement such a method of revenue recognition will reduce the Group's retained earnings by EUR 73 million (the amount was determined without taking into consideration the impact of discounting) and will increase deferred revenue by a respective amount. The tax impact is estimated to be equal to EUR 11 million and would be accounted for within retained earnings as well. The entry into force of IFRS 15 will not affect revenue from NC connection to the electricity networks that were accrued before 1 July 2009, because such revenue were recognised over time.

It should be noted that amendments to the Law on Electricity, which regulates the public supply function, have been currently initiated that could bring significant changes to the regulatory

environment. Following the implementation of these amendments the regulatory environment will allow customers to ensure the provision of electricity transmission services without entering into a direct contract for the provision of services and instead signing a contract with a supply company. In such a case a method for the recognition of revenue from NC connection to the electricity networks could change resulting in NC revenue received being recognised upon the provision of the connection service.

As a result of the application of IFRS 15 in the gas segment, NC connection service revenue that were accrued and recognised in the statement of financial position over the useful life of property, plant and equipment created during the connection (i.e. deferred revenue) will be recognised upon the fulfilment of the connection obligation. Such estimation made by management is based on the fact that the Company's customers have a possibility to ensure the provision of natural gas distribution services by concluding a supply agreement with a natural gas supply company. A majority of the Group's customers make use of such a possibility. Consequently, the sole agreement concluded with the consumer is the NC connection agreement, under which all obligations assumed with respect to the consumer are deemed to be fulfilled when the connection service has been provided. Based on management's estimate such a method of revenue recognition will increase the Group's retained results by EUR 8 million and will reduce deferred revenue by a respective amount. However, deferred NC connection revenue had impact on the value of property, plant and equipment used in the gas segment (i.e. the impairment test showed that deferred NC connection revenue reduced the carrying amount of property, plant and equipment used in the gas segment). As a result, such an accounting treatment of revenue could have a potential negative impact on the carrying amount of property, plant and equipment used in the gas segment as it would exceed the recoverable value and the adjustment to the value would be reported within the Group's retained earnings (deficit) upon the initial adoption of IFRS 15. The total amount of these reclassifications in the gas segment, including a tax impact, would be equal to zero.

The overall impact of the entry into force of IFRS 15 on 1 January 2018 is presented in the table below:

in EUR million

	Electricity segment	Natural gas segment	Total
Property, plant, and equipment	-	(8)	(8)
Deferred income tax assets	11	2	13
	11	(6)	5
Deferred income	73	(8)	65
Deferred income tax liability	-	2	2
	73	(6)	67
Retained earnings	(62)	-	(62)

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

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

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group and the Company did not conduct share-based payment transactions during 2017.

Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply the temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. This standard will have no impact on the Group's and the Company's financial position or results of operations as insurance services are not provided.

Annual improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or 2018 (changes to IFRS 1 and IAS 28)); not yet adopted by the EU). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The Group and the Company are currently assessing the impact of these amendments on their financial statements.

Transfers of investment property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. The Group and the Company are currently assessing the impact of the amendment to the standard on their financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Company does not conduct settlements in foreign currencies, therefore the amendment to the interpretation has no impact on the Company's financial statements. The Group is assessing the impact of the amendment to the standard on its financial statements.

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

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

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

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

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

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

The Group and the Company are currently assessing the impact of the new standards on their financial statements.

2.2 Consolidation

Consolidation

The consolidated financial statements of the Group include the financial statements of the parent company Lietuvos Energija UAB and its directly and indirectly controlled subsidiaries. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by holding more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of subsidiaries have been prepared using uniform accounting policies and for the same reporting period as that covered by the financial statements of the parent company. On consolidation, all inter-company transactions, balances and unrealized gains and/or losses on transactions among the Group companies are eliminated.

Non-controlling interest represents a part of profit or loss and net assets which is not controlled by the Group. Non-controlling interest is reported separately in the consolidated statement of comprehensive income. The share of equity attributable to the non-controlling interest and to the owners of the parent is shown separately in the consolidated balance sheet.

Business combinations

Acquisition of subsidiaries which are not part of the Company's group are accounted for using the acquisition method. The consideration transferred is measured as the fair value of the assets transferred, the equity interest issued and liabilities incurred or assumed at the date of exchange. All acquisition-related costs are expensed when incurred. The acquirer's assets acquired, liabilities and contingent liabilities meeting recognition criteria laid down in IFRS 3 'Business Combinations' are identified. They are recognised at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in profit (loss). Afterwards, decrease/increase in contingent consideration is accounted through profit (loss).

Non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportional share of the fair value of the net assets, liabilities and contingent liabilities recognised.

Changes in ownership interest in a subsidiary that do not result in changes in control

Transactions with non-controlling interests that do not result in a loss of control are presented within equity, i.e. as transactions with equity owners. The difference between the fair value of the consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded as equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 Investments in subsidiaries (Company)

A subsidiary is an entity directly or indirectly controlled by a parent company. In the parent company's balance sheet investments in directly controlled subsidiaries are stated at acquisition cost less impairment loss, where the investment's carrying amount in the parent company's balance sheet exceeds its estimated recoverable amount. Contingent consideration is included to acquisition cost at its fair value as at acquisition date. Afterwards, decrease / increase in consideration payable is accounted through profit (loss) and trigger impairment test for investment in the subsidiary.

2.4 Investments in associates and joint ventures

An associate is an entity over which the Group/Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

In the parent company's balance sheet investments in associates are stated at acquisition cost less impairment loss, where the investment's carrying amount in the parent's balance sheet exceeds its estimated recoverable amount.

In the consolidated financial statements of the Group results of operations, assets and liabilities of associates are accounted for using an equity method, except when the investment is classified as held-for-sale and it is recognised according to IFRS 5 'Non-current assets held for sale and discontinued operations'. Under the equity method, investments in associates at initial recognition are carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the investee, less any impairment in the value of individual investments. Profit and other distributions received by the Group from an associate reduce the carrying amount of the investment in the associate. Adjustments to the investment's carrying amount are also performed for changes in the Group's share of the net assets in the associate arising from changes in the associate's other comprehensive income

Losses of an associate in excess of the Group's share of assets in that associate are not recognised, unless the Group had incurred legal or indirect obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the fair value of the Group's share of net identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognised as deemed goodwill. The goodwill is included in the net book amount of the investment and is assessed for impairment as part of the investment. Any excess of the fair value of the Group's share of net identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where the Group company conducts transactions with an associate of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the relevant entity.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in the euros (EUR), which is the Company's functional and presentation currency as from 1 January 2015.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the profit (loss).

2.6 Property, plant, and equipment

Property, plant and equipment is stated at cost or revalued amount. Property, plant and equipment, including categories of assets of the Hydro Power Plant, Pumped Storage Power Plant, structures and machinery of Thermal Power Plant (Combined Cycle Unit and Reserve Power Plant), gas distribution pipelines, gas technological equipment, wind power plants, as well as IT and telecommunication equipment, is accounted for at cost less accumulated depreciation and impairment. All other property, plant and equipment are shown at revaluated amounts, based on periodic valuations by external independent valuers or by the Group's management, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

Cost includes replacement costs of components of property, plant and equipment when incurred and when these costs meet the recognition criteria of property, plant and equipment. All other repairs and maintenance costs charged to the statement of comprehensive income as incurred.

Increases in the carrying amount arising on revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated to the revaluation reserve in shareholders' equity. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Decreases in the carrying amount of an asset arising on revaluation are recognised in profit or loss; decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation reserve. Each year the difference between depreciation based on the revalued amount of the asset (when the carrying amount increases after revaluation) is charged to profit or loss and depreciation based on the asset's original acquisition cost is transferred from revaluation reserve to retained earnings, net of deferred income tax.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the acquisition cost/revalued amounts to their residual values over their estimated useful lives (number of years), as follows:

Category of property, plant and equipment	Useful lives (number of years)
Buildings	8-75
Structures and machinery	
- electricity and communications equipment	20-25
- electricity distribution equipment	15-45
- electricity equipment	15-35
- other equipment	5-50
Wind power plants	20
Assets of Hydro Power Plant, Pumped Storage Power Plant, Reserve Power Plant and Combined Cycle Unit	
Assets of Hydro Power Plant and Pumped Storage Plant:	
- hydrotechnical waterway structures and equipment	75
- pressure pipelines	50
- hydrotechnical turbines	25-40
- other equipment	8-15
Assets of Reserve Power Plant:	
- structures and infrastructure	10-70
- thermal and electricity equipment	10-60
- measuring devices and equipment	5-30
- other equipment	8-15
Assets of Combined Cycle Unit:	
- structures and infrastructure	20-50
- electricity lines	20-40
- electricity generation equipment	20-50
Gas distribution pipelines and their equipment	18 - 55
Motor vehicles	2-35
IT and telecommunication equipment	3-10
Other property, plant and equipment:	
- tools, other property, plant and equipment	4-10

Property, plant and equipment include spare parts, spare equipment and maintenance equipment when they meet the definition of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets (Note 2.17).

When property is retired or otherwise disposed of, the cost and related accumulated depreciation are derecognized and any related gains or losses are included in profit or loss. Gains or losses on disposal of property, plant and equipment are determined as proceeds received on disposal less the book value of assets disposed. When revalued assets are disposed, the corresponding portion of revaluation reserve is transferred to retained earnings (deficit).

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with these costs will flow to the Group and the Company and the costs can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognised as expenses in profit or loss during the financial period in which they are incurred.

Construction in progress is transferred to appropriate categories of property, plant and equipment when it is completed and ready for its intended use

2.7 Intangible assets

(a) Patents and licenses

Patents and licenses are stated at cost. Trademarks and licenses acquired in business combination are recognised at fair value at the date of acquisition. Trademarks and licenses are accounted for at cost less accumulated amortisation. Amortisation is calculated using a straight-line basis over the estimated useful life of 3 to 5 years or a specific validity term of a license and/or patent, if any. Useful life is reviewed on year-by-year basis.

For the license acquired in a business combination (license to produce electricity with incentive tariff), useful life is determined to be 12 years.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (2 to 4 years).

(*c) Emission allowances*

For detailed description of accounting policy for emission allowances see Note 2.22.

(d) Other intangible assets

Intangible assets expected to provide economic benefits in future periods are valued at acquisition cost less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over the estimated economic useful life of 3 to 4 years.

2.8 Impairment of non-financial assets

At each reporting date, the Group/Company reviews the book values of its property, plant and equipment and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, otherwise they are allocated to the smallest groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit.

2.9 Investment property

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

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

2.10 Non-current assets held for sale

Non-current assets held for sale are stated at the lower of the carrying amount and fair value less costs of disposal if the carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.11 Financial assets

The Group/Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans granted and receivables. The classification of financial assets is based on the purpose of financial assets acquired, the management's intentions and whether the investments are quoted in active market. The management determines the classification of financial assets at initial recognition.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group/Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs for investments not carried at fair value through profit or loss.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

The Group's financial assets measured at fair value through profit or loss includes the derivative financial instruments only (see Note 2.12).

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Management determines the appropriate classification of its investments at the time of the purchase.

Available-for-sale securities are measured at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealized gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised through other comprehensive income except for impairment losses and foreign exchange gains or losses. When such financial assets are derecognized the cumulative revaluation gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. However, interest income on such financial assets calculated using the effective interest rate is recognised as income of the reporting period.

Contingent consideration which is due to the Group / Company from disposals of subsidiaries is classified as available-for-sale financial assets.

Loans and receivables

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

Loans and receivables are initially recognised at acquisition cost (fair value of consideration transferred) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when these assets are derecognized, impaired or amortised.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment of financial assets

At each reporting date the Group and the Company assess whether there is an indication that financial assets may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows, estimated using the original effective interest rate.

The carrying amount of the financial assets measured at amortised cost is reduced by the amount of estimated impairment loss through allowance account. The carrying amount of the financial assets measured at fair value is adjusted by directly recording changes in value of the assets. Impaired trade receivables are written-off when they are identified as irrecoverable.

If subsequent to the reporting date the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date that would have been determined had no impairment loss been recognised for the asset in prior years.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows from the asset is retained, but an obligation is assumed to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the rights to receive cash flows from the asset are transferred and either (a) substantially all the risks and rewards of the asset have been transferred, or (b) substantially all the risks and rewards of the asset have neither been transferred nor retained, but control of the asset has been transferred.

2.12 Derivative financial instruments

Derivative financial instruments are classified as held for trading and they initially recognised at fair value, and subsequently are also measured at fair value. The fair value is determined with reference to quoted market prices or using valuation techniques encompassing the present market values or contractual prices of assets relating to financial instruments, and all other inputs. Derivative financial instruments are classified as assets when their fair value is positive, and they are classified as liabilities when their fair value is negative. Gain or loss on these financial instruments is recognised in profit or loss within finance income or finance costs or within revenue, depending on their purpose.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method, expect for natural gas and liquefied natural gas, the cost of which is determined using the weighted average costing method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group and the Company from the tax authorities), transportation, handling and other costs directly attributable to the acquisition of inventories. Cost does not include borrowings costs. Net realisable value is the estimated selling price in the ordinary course of business, less attributable variable selling expenses.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown under liabilities within current borrowings in the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity.

When an entity acquires its own shares, the shares acquired are deducted from equity. For the purpose of the statement of comprehensive income, no gain or loss is recognised on the purchase, sale, issue or cancellation of the entity's own equity instruments.

Share premium represents the difference between the nominal value of the new share issue and the fair value of consideration received for shares sold.

2.16 Trade payables

Trade payables are recognised when the other party has performed its obligations under the contract. Trade payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the amount at initial recognition and the redemption value is recognised in profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company and the Group has an unconditional right to defer settlement of the liability for at least 12 months after the financial reporting date.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income that relate to temporary investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

2.18 Income tax and deferred income tax

Income tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of income tax are those that are enacted or substantively enacted at the balance sheet date.

Current income tax is calculated on profit before tax. Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation.

In 2017 and 2016, a standard income tax rate of 15% was applicable to the companies in Lithuania.

Tax losses can be carried forward for indefinite period, except for losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company terminates the activities that caused these losses, except when the Company discontinues its activities due to the reasons that are beyond the Company's control. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax

Deferred income tax is accounted for using the liability method. Deferred tax assets and deferred tax liability are recognised for future tax purposes to reflect differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised on all temporary differences that will increase the taxable profit in future, whereas deferred tax assets are recognised to the extent that is probable to reduce the taxable profit in future. Deferred income tax assets and liabilities are not recognised when temporary differences arise from goodwill or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available against which such deferred income tax assets could be utilised in full or in part. Deferred income tax assets are reduced to an amount which is likely to reduce the taxable profit in future.

Deferred income tax is determined using tax rates that are expected to apply when the related deferred income asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Current and deferred income tax

Current and deferred income tax are recognised as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognised directly in equity or other comprehensive income in the same or subsequent period or on business combination.

2.19 Employee benefits

Social security contributions

The Company and the Group pay social security contributions to the State Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group and the Company pay fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within remuneration expenses.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and the Group recognise termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Non-current benefits are recognised at present value discounted using market interest rate.

Actuarial gains or losses arising from adjustments based on experience or from changes in actuarial assumptions are recognised immediately within the Group's and the Company's other comprehensive income. All past service costs are recognised immediately.

Long-term employee benefits

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2 monthly salaries according to Lithuanian laws. A liability for such pension benefits is recognised in the statement of financial position and it reflects the present value of these benefits at the date of the balance sheet. The aforementioned non-current liability for pension benefits to employees at the reporting date is estimated with reference to actuarial valuations using the projected relative unit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government bonds denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

2.20 Provisions

Provisions are recognised when the Group/Company has a legal obligation or irrevocable commitment as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses related to provisions are recorded in loss, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provisions for onerous contract

Provisions for onerous contract represent unavoidable costs of meeting contractual obligations in excess of the economic benefits expected to receive. Provisions are measured at present value using the effective interest rate method.

2.21 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group or the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services, net of value added tax, returns and discounts.

Revenue from sale of electricity to end customers

The Group's revenue from sale of electricity to end customers includes production, transmission, distribution, supply, public service obligations (PSO) and other services rendered in the process of sale of electricity to end customers. The prices of transmission, distribution and PSO services provided by the Group companies are regulated by the National Commission for Energy Control and Prices (hereinafter "the Commission").

Revenue from electricity sales to household customers is recognised when electricity is supplied, declared based on meter data and paid. An estimate of accrued revenue is made to record electricity supplied but not yet declared by household customers at the end of each reporting period. This estimate is based on historical experience and average payment for electricity period by the customers.

Revenue from electricity sales to business customers is recognised when electricity is supplied based on the actual consumption of electricity which is determined with reference to meter readings.

Regulation of tariffs and profitability

Profitability of individual Group companies and their individual activities is regulated by the Commission through the service tariffs approved for the next periods. The level of tariffs depends on the projected costs and volume of services for the next period, the extent to which the previous period earnings are at variance with the regulated level, and other factors.

Actual costs of regulated activities incurred by the Group during the year may be at variance with the projected costs that are considered during the approval of the tariffs, and the actual volume of services may be at variance with the projected one. Accordingly, actual earnings from regulated activities may be at variance with the regulated level, and the resulting difference will affect the future tariffs of services.

The Group does not recognise assets and liabilities of the regulated activities that are intended to eliminate the mismatches between the current year earnings and the regulated level, provided the difference will be recovered/refunded through the provision of services in the future.

Tariffs for electricity and gas distribution are regulated by the Commission by establishing the price caps. The specific prices for the distribution services are established by the Group company, which is a distribution network operator, within the limits approved by the Commission.

Sale of liquefied gas to regulated consumers is regulated through setting the sale prices.

Tariffs for electricity transmission and PSO services are regulated by the Commission by establishing the price caps for the services. The specific prices and tariffs for the transmission and PSO services are established by the service provider that is not part of the Group and within the limits approved by the Commission.

Tariffs of electricity sold by the producers and independent suppliers as well as tariffs for capacity reserve services are not regulated, except when the producer or independent supplier holds more than 25% of the market, in which case the procedure for tariff setting is established by the Commission.

Tariffs for import and export of electricity are not regulated.

Revenue from provision of PSO services

The Group ensures security of electricity supply and the reserves of energy system. When providing these PSO services the Group earns income and incurs expenses. PSO service fees are the fees paid to the suppliers of electricity under public service obligations scheme (based on pre-set annual quantities and prices of services). Subsequently, these services are provided to the distribution system operators and electricity users at a tariff established by the Commission.

The Group's company engaged in the production of electricity generates income from public service obligation fees (PSO service fees). PSO service fees are the fees payable to the producers of electricity under a public service obligations scheme based on pre-determined annual quantities and prices of services set by the Commission. The tariff is established by the Commission based on the estimates of variable electricity production costs provided by the producers.

The Group's subsidiary, which is a distribution network operator, collects PSO service fees from users at tariffs established by the Commission and transfers the fees to the electricity transmission system operator (a company which does not belong to the Group), which is responsible for the allocation of PSO service fees to electricity producers. Fees collected from users for PSO services, which are later allocated to electricity producers that do not belong to the Group, are recognised based on the actual amount of electricity consumed and at tariffs established by the Commission. PSO service fees that are later allocated to the Group's subsidiary engaged in electricity production are recognised as revenue based on the estimates of variable and fixed electricity production costs provided by the producers, although monthly payments made by the electricity transmission system operator to the electricity producer are established based on pre-determined quantities and prices. The Commission approves the actual receivable amount of PSO services fees within a year after the end of the reporting period and the difference is paid to the electricity transmission system operator within a second year after the end of the reporting period.

Thus, the difference between accrued revenue and actually paid amounts during a year is recognised as a non-current amount receivable/payable (under the line items 'Amounts receivable after one year' or 'Other non-current amounts payable and liabilities'). At the end of the upcoming year, this amount is reclassified as a current amount receivable/payable (under the line items 'Other amounts receivable' or 'Trade payables'). Amounts payable each month by the distribution network subsidiary to the electricity transmission system operator are recognised as current amounts payable (under the line item 'Trade payables').

Revenue from distribution and supply of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised on a monthly basis with reference to the readings of measuring devices reported by the customers or, if such readings have not been reported by the customers, with reference to the quantities of gas calculated according to the methodology for the calculation of quantities of natural gas approved by the distributor.

Revenue from non-household customers for supply of natural gas is recognised on a monthly basis with reference to the readings of measuring devices reported by the customers and checked by the distribution system operator (on an accrual basis). Revenue from household customers is recognised on a monthly basis with reference to the readings of measuring devices reported by the customers and taking into account the adjustments for mismatches between the quantities of gas declared and the quantities of gas actually consumed (on an accrual basis).

Revenue from supply of liquefied natural gas

Liquefied natural gas is sold to regulated energy producers at the market price set and approved by the Commission. Non-regulated sales of natural gas are conducted at the prices agreed between the parties. Revenue is recognised on monthly basis according to quantity supplied.

Revenue from the LNGT security component

Due to changes in regulations, the approved market price for liquefied natural gas for 2016 is lower than its actual cost; the difference is compensated by the Liquefied Natural Gas Transmission (LNGT) security component. Revenue from the LNGT security component is considered to be part of regulated revenue and is recognised with reference to the reports received from natural gas transmission system operator (hereinafter "TSO") who administers collection and distribution of these payments.
Pursuant to Article 5.2 of the Law on LNG Terminal, all users of natural gas transmission system (including the end users) are required to pay additional security component together with other fees payable for natural gas transmission services. The payments are collected by the TSO directly from the consumers or from natural gas suppliers in case the consumers have no direct contracts with the TSO. The Commission decides annually on the amount of the security component in proportion to the quantities of natural gas consumed by the users (either through direct consumption or resale). Based on the Commission's Resolution, part of the collected TSO funds are transferred to the Group.

Reload and storage services

The Group acts as an intermediary in rendering LNG reload and storage services and does not incur any inventory price risk, the Group does not account for LNG acquired for reload purposes as its inventory, but rather accounts for revenue from provision of reload services in the profit or loss upon the completion of these services.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by reference to the work actually completed at the end of each reporting period, i.e. using the stage of completion (otherwise referred to as the percentage of completion) method for long-term contracts. Under this method, contract revenue and contract costs are measured by reference to the percentage of actual costs incurred and actual revenue earned to date to estimated total contract costs and contract revenue.

Income from new customer connection

Fees received after 1 July 2009 for the connection of new customers and producers to electricity network and for the dislocation and reconstruction of electricity network facilities on request of the customer, producer or any other entity, are recognised as revenue upon connection.

The above-mentioned fees received before 1 July 2009 were initially recognised as deferred income and subsequently recognised as income on a proportionate basis over the useful life of the related newly created property, plant and equipment. The related costs comprising the acquisition cost of property, plant and equipment and other costs were capitalised and depreciated over the estimated useful life of the assets capitalised.

Payments made by users for the connection to the gas system are recorded as deferred income and recognised as income over the depreciation period of the capitalised assets concerned.

Revenue from sale of services

Income from sale of services is recognised in the period when the services have been rendered with reference to the stage of completion of the specific transaction, which is determined as a percentage of services actually rendered compared with the total services to be rendered.

Income from sale of services is recognised when it is probable that economic benefits will be received in relation to the services rendered and a reliable estimate of the amount of income can be made. Income is recognised when services are rendered.

Income from sale of goods

Income from sale of goods is recognised when all risks associated with loss or damage to goods, as well as any incremental costs arising from events occurring subsequent to the delivery of goods to the carrier or to the agreed place of destination, are transferred from the Group to a buyer under the standard sale terms (INCOTERMS) agreed with the buyer, and the recoverability of the related amounts receivable is probable.

Interest income

Interest income is recognised on accrual basis using the effective interest rate method. For the purpose of the cash flow statement, interest received is attributed to investing activities, whereas for the purpose of the statement of profit or loss, interest received is recognised as finance income.

Dividend income

Dividend income is recognised after the shareholders' rights to receive payment have been established. Dividends received are attributed to investing activities in the statement of cash flows. Dividends of subsidiaries, attributable to the parent company, are eliminated in the consolidated financial statements.

Lease income

Lease income is recognised on a straight-line basis over the lease period.

Expense recognition

Expenses are recognised in the statement of comprehensive income as incurred by the accrual method.

2.22 Emission allowances

Based on the EU Directive 2003/07/EC, the greenhouse gas emissions trading scheme was developed which came into force on 1 January 2005. The first period of operation of this scheme covered 3 years from 2005 to 2007; the second period covered 5 years from 2008 to 2012, and the third period covers 7 years from 2013 to 2020. The Scheme's operation period is in line with the period established under the Kyoto Agreement. The system functions on 'cap' and 'trade' basis. The governments of the EU Member States are required to set caps for each emission unit in the scheme and for the period of implementation. These caps are specified in the National Allocation Plan to be developed by a responsible authority of each Member State (in Lithuania – the Ministry of Environment). The National Allocation Plan determines the annual emission amount (measured as tons of carbon dioxide equivalent) for each emission unit and each period and allocates annual emission allowances.

A Member State has an obligation to allocate emission allowances by 28 February of each year in accordance with the National Allocation Plan. A Member State is to assure that an operator of each emission unit will submit data on the unit's actual amount of greenhouse gas emissions during the current calendar year not later than by 30 April of the next year.

Intangible assets

The EU emission allowances are treated as intangible assets. These assets are provided by the state as a non-monetary grant or acquired by an entity and are recognized at fair value at inception.

After the initial recognition emission allowances are carried using the revaluation method using the active market prices. Increases in the carrying amount arising on the revaluation of emission allowances are presented in other comprehensive income and credited against revaluation reserve directly to equity and decreases in excess of the previously accumulated amount in the revaluation reserve are recognised in the profit or loss. On realization of emission allowances, the respective positive balance of the revaluation reserve is taken directly to retained earnings.

Government grant

The EU emission allowances provided to the Group at no consideration are treated as a non-monetary government grant which is recognised at fair value at the date of its receipt or issuance. Subsequently, the government grant is recognised as income in proportion to emission allowances utilised during the validity period of emission allowances or upon their disposal.

Provision for the utilisation of emission allowances

As the Group makes emissions, a liability arises to pay for these emissions to the state using emission allowances, the nominal value of which is equal to the quantity of emissions. Such liability is a provision which is estimated at a value equal to expenses to be incurred by the Group for the settlement of liability at financial reporting date. The liability can be offset against intangible assets only when the actual quantity of emissions is approved by an appropriate regulatory state authority. Changes in the value of liability are recognised in the profit or loss.

Lending of emission allowances

Lending of emission allowances is a sale transaction during which assets is disposed and the right to receive emission allowances is acquired. The right to receive emission allowances is recognised as other non-current assets. Such assets are initially recognised at acquisition cost, and subsequently such assets are tested for impairment as described in Note 2.8.

2.23 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases where substantially all the risks and rewards of ownership of assets leased are transferred to the lessee are classified as finance lease. An operating lease is a lease other than a finance lease.

Where the Company and (or) the Group are lessors

Finance leases are presented as amounts receivable at an amount equal to the net investment in the lease; payments received are treated as repayments of principle and finance income. Finance income is recognized based on a constant periodic rate of return on net investment in the finance lease.

Operating lease income is recognised on a straight-line basis over the lease term. Initial direct costs are added to the carrying amount of the asset leased and recognised over the lease term similarly as lease income.

Where the Company and (or) the Group are lessees

Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the property leased and at the present value of the minimum lease payments. Respective finance lease liability is recorded in the balance sheet. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant rate of interest on the outstanding balance of the liability. Finance charges are charged to profit or loss.

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

2.24 Grants and subsidies

Asset-related grants

Government and the EU asset-related grants comprise grants received in the form of non-current assets or in the form of cash intended for the acquisition of non-current assets. Grants are initially recorded at the fair value of the asset received and subsequently recognised in profit or loss by reducing the depreciation charge of the related asset over the expected useful life of the asset.

Upon the revaluation of non-current assets grants related to non-current assets in respect of which impairment was recognised on revaluation are written off.

Income-related grants

Government and the European Union grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all the grants, which are not grants related to assets, are considered as grants related to income. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. These grants are presented as a credit in the statement of comprehensive income.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.26 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of income or economic benefits is probable.

2.27 Events after the reporting period

All events after the reporting period (adjusting events) are accounted for in the financial statements provided that they are related to the reporting period and have a significant impact on the financial statements. Events after the reporting period that are significant but are not adjusting events are disclosed in the notes to the financial statements.

2.28 Related parties

Related parties are defined as shareholders, heads of administration and their deputies, their close family members, state-owned enterprises and companies that directly or indirectly (through the intermediary) control the Group or are controlled by, or are under common control with the Group, provided such relationship empowers one of the parties to exercise control or significant influence over the other party in making financial and operating decisions.

2.29 Inter-company offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when a certain IFRS specifically requires such set-off.

2.30 Fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels in the fair value hierarchy:

Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value of assets is based on other observable market data, directly or indirectly.

Level 3: fair value of assets is based on non-observable market data.

2.31 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2.32 Financial guarantee contracts

The Company provides financial guarantees in relation to loans or other liabilities of the subsidiaries for compensation, which is recognised in profit and loss on an accrual basis. The financial liability is initially measured at fair value, and subsequently at the higher of the amount determined in accordance with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised.

2.33 Put option arrangements

The Group has a written put option over the equity of subsidiary Kauno Kogeneracinė Jėgainė which permit the holder to put their shares in the subsidiary back to the group in a deadlock situation at the value of funds invested (period of construction and one year after the end of construction) and the market price (one year after start-up) less 15 %. The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount within liabilities with a corresponding charge directly to non-controlling interest in equity, The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the option first becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

3 Financial risk management

3.1 Financial risk factors

The Group and the Company are exposed to a variety of financial risks in their operations: market risk (including foreign exchange risk, interest rate risk in relation to cash flows), credit risk and liquidity risk. In managing these risks the Group companies seek to mitigate the impact of factors which could adversely affect the Group's and the Company's financial performance results.

Market risk

Foreign exchange risk

As from 1 January 2015, Lithuania adopted the euro as its official currency. The sale/purchase contracts of the Group and the Company are mainly denominated in the euro. Foreign exchange risk is mainly characteristic to contracts concluded by the Company's subsidiaries for the purchase of natural gas from third parties. Aiming to reduce foreign exchange risk the agreement on natural gas purchase and supply is concluded in the same currency. When settlements for natural gas purchased are made in a foreign currency, in such a case foreign exchange risk is managed by concluding transactions involving derivative financial instruments.

In 2017, the Company's subsidiary Energijos Tiekimas established in Poland a company controlled by the Group Geton Energy sp.z.o.o. whose assets and liabilities are recorded in Polish zloty. The expansion of the subsidiary's activities in the future may expose the Group to foreign exchange risk due to fluctuations in exchange rates of the Polish zloty against the euro.

Transactions denominated in other currencies (USD) are insignificant at the Group and the Company level.

In 2017 and 2016, the Company did not use any derivative financial instruments intended to manage the foreign exchange risk.

Interest rate risk

The Group's income and cash flows are affected by fluctuations in market interest rates because the Group's loans and borrowings had fixed and variable interest rates as at 31 December 2017. The Company has financial assets measured amortised costs with fixed interest rates, therefore, it is exposed to interest rate risk.

The following table demonstrates the sensitivity of the Group's and the Company's profit to potential shift in interest rates.

Group	Increase/decrease, percentage points	(Decrease)/increase in profit
2017	0.3/-0.3	(65)/65
2016	0.3/-0,3	(63)/63

Company	Increase/decrease, percentage points	(Decrease)/increase in profit
2017	0.3/-0.3	60/(60)
2016	0.3/-0,3	56/(56)

As at 31 December 2017, the Group and the Company had no valid interest rate swaps. As at 31 December 2016, the Group and the Company had valid interest rate swaps (Note 26) that were concluded with the purpose to manage interest risk attributable to long-term bank loans (Note 20).

Fair values of financial instruments

The Company's and the Group's derivative financial instruments (Level 1) , the Company's and the Group's available-for-sale financial assets (Level 1), the Company's and the Group's Contingent considerations payable and receivable on acquisition of subsidiaries (Level 3) are measured at fair value. All other financial assets and financial liabilities are recognised initially at cost and subsequently measured at amortised cost, less impairment loss.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined on the basis of quoted market prices, discounted cash flow models and option pricing models as appropriate.

The carrying amount of the Group's and the Company's financial assets and financial liabilities measured at amortised cost approximated their fair value, except for borrowings of the Group company Lietuvos Energijos Gamyba AB (Note 20) and amounts receivable on disposal of Litgrid AB (Note 9).

As at 31 December 2017, the carrying amount of the Group's and the Company's amounts receivable on disposal of Litgrid AB (Note 9) was equal to EUR 169,856 thousand (31 December 2016: EUR 205,793 thousand), and the fair value amounted to approx. EUR 169,967 thousand (31 December 2016: EUR 203,004 thousand). The fair value was determined on the basis of discounted cash flows using a discount rate of 0.614% (31 December 2016: 1.43%). Their fair value is attributed to Level 3 in the fair value hierarchy.

The bond issue debt of EUR 293,981 thousand (Note 20), the fair value of which is equal to EUR 297,680 thousand, was reported in the Company's statement of financial position as at 31 December 2017. The fair value was calculated by discounting future cash flows related to the coupon payments and the payment of EUR 300,000 thousand on 14 July 2027. The cash flows were discounted using a post-tax discount rate of 2.0865%. The bond issue debt is attributed to Level 3 of the fair value hierarchy.

On 8 November 2017, the Company took over debt liabilities of its subsidiary Energijos Skirstymo Operatorius AB to creditors, i.e. the banks OP Corporate Bank Plc and SEB AB. The subsidiary's debt to the Company amounts to EUR 234,700 thousand as at 31 December 2017 (Notes 9 and 15). Accordingly, the carrying amount of debt liabilities to OP Corporate Bank Plc and SEB AB that were taken over by the Company was equal to EUR 234,700 thousand as at 31 December 2017 (Note 20). The fair value of financial assets and financial liabilities related to the debts taken over, which is calculated by discounting future cash flows, is equal to EUR 232,771 thousand. The cash flows were discounted using a post-tax discount rate of 0.944%. The measurement of financial assets and financial liabilities related to the debts taken over is attributed to Level 3 of the fair value hierarchy.

As at 31 December 2017, the fair value of the Company's amounts receivable related to EUR 100,000 thousand green bond amounts receivable of the subsidiary Energijos Skirstymo Operatorius AB approximately amounts to EUR 101,283 thousand. The fair value is estimated by discounting cash flows using a post-tax discount rate of 2.0865%.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:
a) The carrying amount of current trade and other receivables, current trade and other payables and current interest-bearing borrowings approximates their fair value.
b) The fair value of non-current interest-bearing borrowings (including current and non-current portion) is estimated by discounting contractual future cash flows at interest rate established based on the quoted market price for the same or similar loans or on the current rates available for debt with the same maturity profile. The fair value of the mentioned borrowings, except for borrowings of Lietuvos Energijos Gamyba AB (Note 20) and amounts receivable from Epso-G UAB on sale of Litgrid AB, approximates their carrying amounts.

Credit risk

The Group's and the Company's exposure to credit risk arises from operating activities of the companies (trade and other amounts receivable) and from financing activities (cash and cash equivalents, loans granted).

The Group is not exposed to significant credit risk concentration related to trade receivables and other amounts receivable. Principally all loans granted, trade receivables and other amounts receivable of the Company are due from related parties (see Note 37). As at 31 December 2017, other receivables of the Group principally consist of the EPSO-G outstanding receivables for sale of Litgrid AB shares in 2012 (Notes 4, 9).

The priority objective of the Group's and the Company's treasury management is to ensure security of funds and maximize return on investments in pursuance of this objective. Risk of counterparties defaulting is managed by entering into transactions with reliable financial institutions with a long-term credit rating (in foreign currency) not lower than 'A-' according to the rating agency Fitch Ratings (or an equivalent rating of other credit rating agencies).

The credit risk on cash in banks is limited because the Group and the Company conduct transactions with the banks with credit ratings assigned by international credit rating agencies. The Group and the

Company hold cash balances and time deposits in accounts of the major banks in Lithuania assigned with a long-term credit rating not lower than 'A-' according to the rating agency *Fitch Ratings*.

The maximum exposure to credit risk as at 31 December 2017 and 2016 is equal to the carrying amount of financial assets and the nominal value of guarantees issued.

	Note	Group		Company	
		2017	2016	2017	2016
Loans and receivables:					
Amounts receivable after one year	9	170,488	203,582	492,938	196,511
Trade receivables	13	112,563	111,884	-	-
Other amounts receivable	14	22,007	23,951	3,547	14,294
Short-term loans	15	-	-	169,395	4,902
Financial assets at fair value through profit or loss in the statement of comprehensive income					
Derivative financial instruments	27	1,084	4,606	-	-
Cash and cash equivalents	16	171,756	178,565	52,517	73
Total		**477,898**	**522,588**	**718,397**	**215,780**
Off-balance sheet commitments:					
Open guarantees issued	36	-	-	15,428	35,830
Total		**477,898**	**522,588**	**733,825**	**251,610**

Liquidity risk

The liquidity risk is managed by planning future cash flows of each Group company and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support their operating activities. The refinancing risk is managed by ensuring that borrowings over a certain period were repaid from available cash, from cash flows expected from operating activities of the Group companies over that period, and from unwithdrawn committed credit facilities which have to be repaid in later periods.

As at 31 December 2017, the Group's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 1.251 and 1.101, respectively (31 December 2016: 1.046 and 0.938, respectively). As at 31 December 2017, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 382,645 thousand (31 December 2016: EUR 135,955 thousand).

As at 31 December 2017, the Company's current ratio (total current assets / total current liabilities) was 2.482 (31 December 2016: 0.43). As at 31 December 2017, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 180,000 thousand (31 December 2016: EUR 71,052 thousand).

The Company issued securities and guarantees in the amount of EUR 15,428 thousand as at 31 December 2017 (31 December 2016: EUR 35,830 thousand) to secure the fulfilment of obligations of the Group companies to credit institutions and other creditors (Note 36).

The table below summarises the Group's and the Company's financial liabilities by category:

	Note	Group		Company	
		2017	2016	2017	2016
Amounts payable measured at amortised cost					
Borrowings	20	613,749	493,918	531,475	90,330
Finance lease liabilities		332	473	-	-
Non-current trade payables	25	852	813	9,807	-
Trade payables	26	98,338	96,118	506	343
Other current amounts payable and liabilities	27	80,387	44,923	-	94
Financial liabilities at fair value through profit or loss in the statement of comprehensive income					
Amounts payable for shares acquired	25	-	-	-	9,272
Derivative financial instruments	25.27	57	3,758	-	15
Off-balance sheet commitments:					
Open guarantees issued	36	-	-	15,428	35,830
Total		**793,715**	**640,003**	**557,216**	**135,884**

The tables below summarise the maturity profile of the Group's and the Company's financial liabilities under the contracts (based on contractual undiscounted payments of interest-bearing financial liabilities and the carrying amounts of other financial liabilities):

Group	2017				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Borrowings and finance lease liabilities	34,864	104,592	167,633	378,140	685,229
Trade payables and non-current amounts payable to suppliers	24,585	73,754	852	-	99,190
Other amounts payable	20,097	60,290	-	-	80,387
Derivative financial instruments	57	-	-	-	57
At 31 December 2017	**79,602**	**238,636**	**168,485**	**378,140**	**864,863**

Group	2016				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 year	
Borrowings and finance lease liabilities	10,312	122,565	304,171	70,002	507,050
Trade payables and non-current amounts payable to suppliers	55,458	40,660	813	-	96,931
Other amounts payable	38,393	4,481	-	-	42,874
Derivative financial instruments	-	3,758	-	-	3,758
At 31 December 2016	**104,163**	**171,464**	**304,984**	**70,002**	**650,613**

Company	2017				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 year	
Borrowings and finance lease liabilities	25,815	77,445	132,629	364,585	600,474
Trade payables and non-current amounts payable to suppliers	506	-	108	-	614
Other amounts payable	-	-	-	-	-
Amounts payable for shares acquired	-	-	9,699	-	9,699
Open guarantees issued	15,428	-	-	-	15,428
At 31 December 2017	**41,749**	**77,445**	**142,436**	**364,585**	**626,215**

Company	2016				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 year	
Borrowings and finance lease liabilities	696	66,595	11,531	13,067	91,889
Trade payables and non-current amounts payable to suppliers	343	-	-	-	343
Other amounts payable	45	-	-	-	45
Amounts payable for shares acquired	-	-	9,272	-	9,272
Derivative financial instruments	-	-	15	-	15
Open guarantees issued	35,830	-	-	-	35,830
At 31 December 2016	**36,914**	**66,595**	**20,818**	**13,067**	**137,394**

3.2 Capital risk management

Pursuant to the Lithuanian Law on Companies, the authorised share capital of a public limited liability company must be not less than EUR 40 thousand, the authorised share capital of a private limited liability company must be not less than EUR 2.5 thousand, and the shareholders' equity must be not lower than 50% of the company's authorised share capital. As at 31 December 2017, the Company and all the companies of the Group complied with these requirements. As at 31 December 2016, the Company and all the companies of the Group, except for Energetikų Mokymo Centras VŠĮ (Public Institution Training Centre for Energy Specialists), complied with these requirements. On 31 December 2016, Public Institution Training Centre for Energy Specialists obtained a confirmation from the Company certifying that financial support will be provided for not less than 12 months after the approval of its financial statements.
When managing the capital risk in a long run, the Group seeks to maintain an optimal capital structure of subsidiaries to ensure a consistent implementation of capital cost and risk minimization objectives. The Group companies form their capital structure in view of internal factors relating to operating activities, the expected capital expenditures and developments and in view of business strategy of the Group companies, as well as based on external current or expected factors significant to operations relating to markets, regulation and local economic situation.

On 27 December 2016, the Board of Lietuvos Energija UAB group approved a common dividend policy, which sets uniform principles for the payment of dividends for all the group companies. The dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by the Company and the Group companies will depend on the ratio of return on equity and net profit earned. According to the dividend policy, appropriation of profit for

the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for the payment of dividends, implementation of economic projects important for the State and other circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period.

- A company is not obliged to distribute dividends when it incurs net loss. A company will not pay any dividends when its financial debts at the end of the reporting period are equal to or exceed four times EBITDA amount for the last twelve months as from the end of the reporting period.
- Dividends will not be paid if the Group company's equity (after the payment of dividends) becomes lower than the sum of its share capital, legal reserve, revaluation reserve and reserve for acquisition of own shares, and also if a company becomes insolvent or would become insolvent upon payment of dividends. A company will also be able not to pay dividends if its financial debts to equity ratio becomes equal to or exceeds 1.0.

4 Critical accounting estimates and judgements used in the preparation of the financial statements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements according to International Financial Reporting Standards as adopted by the European Union requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. Change in the underlying assumptions, estimates and judgements may have a material effect on these consolidated financial statements of the Group and stand-alone financial statements of the Company.

Revaluation of property, plant and equipment
The Group accounts for Land, Buildings, Structures and machinery, Motor vehicles, Other property, plant and equipment and Construction in progress at revalued amount in accordance with International Accounting Standard 16 'Property, plant and equipment'.

Revaluation of Property, plant and equipment stated at revalued amount are performed regularly, using independent appraisers revaluations when there is indication, that market value of assets has changed significantly due to internal or external factors.

Recent revaluations by the group of assets were performed:

Group	Recent revaluations performed
Land	2013
Buildings	2017
Structures and machinery	2014
Motor vehicles	2014
Other property, plant and equipment	2014
Construction in progress	2014

In 2017 the Group performed revaluation of Buildings. Revaluations were performed by independent valuer using the comparable sales price approach and the income approach. Based on revaluation results, impairment of EUR 471 thousand was recognised. Detailed revaluation results are disclosed in Note 6.

As at 31 December 2017, other Group assets stated at revalued amounts were not revalued, because there were no indications of a significant difference between the net book amount and market value of assets stated at revalued amount.

In 2017 the Group performed a separate assessment for buildings, structures and machinery and construction in progress which are used in electricity supply and distribution activities performed by subsidiary Energijos Skirstymo Operatorius AB, i.e. assessed whether there was an indication that the market value of these assets had changed significantly due to internal or external factors. The carrying amount of the assessed assets was EUR 989,600 thousand as at 31 December 2017. The fair value of these assets was tested by making cash flow forecast for the period until 2056, because the electricity supply activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – electricity lines (useful life of 40 years).

Key assumptions used in making cash flow forecast in 2017 were as follows:

1. When setting the price cap for electricity distribution services for 2018 in its Report of 14 October 2016, the NCC approved the rate of return on investments equal to 4.88% for this period. This rate is used to determine return on investments for the period 2018–2020. The rate of return on investments of 3.76% is applied to the entire remaining cash flow forecast period (based on calculation data publicly available on the NCC's website);
2. A pre-tax discount rate of 4.89% was used for discounting cash flows;
3. Continuous cash flows are determined by making the rate of return on investments equal to the discount rate;.
4. Operating expenses of Energijos Skirstymo Operatorius AB for the period 2017–2025 are planned with reference to long-term plans approved by Energijos Skirstymo Operatorius AB. For the period 2021-2025, operating expenses are planned based on management's estimates with reference to the projected trends in reduction of operating expenses. After 2026, changes are planned in view of the projected changes in the average annual consumer price index and work pay;
5. Part of operating expenses incurred by Energijos Skirstymo Operatorius AB is not included in the regulated prices of distribution and supply activities in accordance with the provisions of the Description of Accounting Separation and Cost Allocation of Electric Power Sector Companies and Requirements Related to Accounting Separation ("the Description") approved by the Commission's Resolution No O3-507 of 18 September 2015 and subsequent amendments thereto;
6. It is considered that additional profit will be earned during different regulatory periods as a result of the planned operational efficiency (such possibility is established by law);
7. Investments are shown for the period 2017–2026 with reference to the reviewed ten-year investment plan. After 2027, investments are reduced proportionately assuming that all items of technological assets that are currently depreciated or will become depreciated over the period until 2057 will be recovered until 2057;
8. The cost of capital (return on investments and depreciation of non-current assets) is calculated and considered when determining the prices of distribution services for other regulatory periods in accordance with the long-run average incremental cost (LRAIC) model approved by the Commission.

In view of the fact that there were no significant changes in electricity regulatory environment, also in view of all above-described assumptions, and based on fair value impairment test of the assets, the Group's management concluded that there would be an immaterial increase (up to 5%) in the carrying amount of property, plant and equipment used in the electricity operating segment as at 31 December 2017. Accordingly, the Group's management decided not to make any adjustments to the fair value of assets. The Group performed the sensitivity analysis on impairment test in respect of changes in unobservable inputs using the following scenarios:

1. Establishment by the Commission of the level of revenue as from 2021 and introduction of a 10% lower rate of return on investments equal to 3.89% (compared to projected rate of 3.76%) would result in decrease in the fair value of property, plant and equipment down to EUR 900,000 thousand;
2. If the rate of return on investments (which is currently 3.76%) became equal to pre-tax discount rate of 4.89% starting from the new regulation period (2021), the fair value of property, plant and equipment in electricity operating segment would amount to EUR 1,434,000 thousand;
3. If pre-tax discount rate reached 5%, the fair value of assets would approximate their carrying amount. If discount rate became higher and reached 5.2%, the fair value of the Company's assets would be in variance with the carrying amount by more than 5%, and the Company would carry out revaluation of assets.

As at 31 December 2016, revaluation was carried out for buildings, structures and machinery and construction in progress that are used in electricity supply and distribution activities and the value of which amounted to EUR 849,000 thousand as at 31 December 2016. The Group determined that the carrying amount of property, plant and equipment used in electricity supply and distribution activities would increase insignificantly (up to 5%) as at 31 December 2016.

The revaluation of Motor vehicles was performed in 2014. Selected freight (special) motor vehicles were valued by an independent valuer using the comparable price method, the values of other freight (special) motor vehicles were established by management with reference to values determined by the valuers. Valuation of cars was conducted by management with reference to the market values.

Impairment test for assets carried at cost

The Group accounts for Gas distribution pipelines, Gas technological equipment and installations, Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant, Structures and machinery of Thermal Power Plant, Wind power plants and IT and telecommunication equipment at cost. In 2017 and 2016 the Group considered impairment of property, plant and equipment as described below.

a) Impairment test for property, plant and equipment of Gas distribution pipelines, Gas technological equipment and installations in 2017

The Group's property, plant and equipment of Gas distribution pipelines, Gas technological equipment and installations with the carrying amount of EUR 149,118 thousand as at 31 December 2017 are owned by the Company's subsidiary Energijos Skirstymo Operatorius, AB. In 2017 the recoverable amount of these assets was tested for impairment by making forecast of Energijos Skirstymo Operatorius AB cash flow in natural gas distribution activities for the period until 2071, because the gas distribution activity is regulated on the basis of regulated asset base, which mainly consists of assets with long useful life – gas pipelines (useful life of 55 years).

Key assumptions used by the Group in making cash flow forecast in 2017 were as follows:

1. When setting the price cap for natural gas distribution services for 2014–2018, the Commission approved the rate of return on investments equal to 7.09% for this period. This rate is used to determine return on investments for 2018. The rate of return on investments of 3.76% is applied to the entire remaining cash flow forecast period starting from 2019 (based on calculation data publicly available on the Commision's website);
2. A pre-tax discount rate of 4.89% was used for discounting cash flows;
3. Continuous cash flows are determined by making the rate of return on investments equal to the discount rate;
4. Operating expenses of Energijos Skirstymo Operatorius AB for the period 2018–2020 are planned with reference to long-term plans approved by Energijos Skirstymo Operatorius AB. For the period 2021-2025, operating expenses are planned based on management's estimates with reference to the projected trends in reduction of operating expenses. After 2026, changes are planned in view of the projected changes in the average annual consumer price index and work pay;
5. Part of operating expenses incurred by Energijos Skirstymo Operatorius AB is not included in the regulated prices of distribution and supply activities in accordance with the provisions of the Description of Accounting Separation and Cost Allocation of Natural Gas Sector Companies and Requirements Related to Accounting Separation approved by the Commission's Resolution No O3-316 of 18 July 2013 and subsequent amendments thereto;
6. Investments are shown for the period 2017–2026 with reference to the approved ten-year investment plan of Energijos Skirstymo Operatorius AB. After 2027 until 2072, a moderate decrease is projected annually;
7. When calculating the level of revenue it was considered that starting from the new regulation period (2019), a new incentive mechanism will be introduced to ensure higher operational efficiency in the area of gas. Based on OPEX savings and evidence of higher operational efficiency, no limitations will be applied to obtain maximum incentive of 4% from the rate of return on investments, and there will be a possibility to obtain efficiency amount of 50 to 100% OPEX savings, and by this amount the level of revenue will not be reduced;

Having considered all above-described assumptions and having performed impairment test, the Group did not determine any impairment for property, plant and equipment attributed to gas distribution operating segment as at 31 December 2017, nor identified it any indications of increase in value and necessity of reversal of current impairment.

The Group performed the sensitivity analysis on impairment test in respect of changes in unobservable inputs using the following scenarios:

1. Establishment by the Commission of the level of revenue as from 2019 and introduction of a 10% lower rate of return on investments equal to 3.38% would result in decrease in the recoverable amount of property, plant and equipment attributed to gas distribution operating segment by EUR 20 thousand.
2. If pre-tax discount rate reached 5%, impairment of recoverable amount of property, plant and equipment in gas distribution operating segment would be EUR 5,000 thousand.
3. If the new incentive mechanism to ensure higher efficiency of operations of Energijos Skirstymo Operatorius AB did not come into force starting from the new regulation period and the maximum amount limitation of 4% from the rate of return on investments was still applied, the recoverable amount of the Group's property, plant and equipment in gas distribution operating segment would decrease by EUR 9,000 thousand.

At 31 December 2016, the Group assessed whether the recoverable amount of its property, plant and equipment used in gas distribution activities was higher than its carrying amount and concluded that no impairment existed. The assessment was based on discounted cash flows and the requirements of legal acts and methodologies regulating gas distribution and supply activities effective as at the 31 December 2016.

b) Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant and Structures and machinery of Thermal Power Plant

Structures and machinery of Hydro Power Plant and Pumped Storage Power Plant, and Structures and machinery of Thermal Power Plant" are owned by the Company's subsidiary Lietuvos Energijos Gamyba AB.

As at 31 December 2017, the Group's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets, and identified impairment indications for the Group's property, plant and equipment category 'Structures and machinery of Thermal Power Plant' consisting of the Reserve Power Plant, Combined-Cycle Unit and new Biofuel and Steam Boiler Plants (hereinafter "the Elektrėnai Complex"). No impairment indications were identified for the Group's property, plant and equipment category 'Structures and machinery of Hydro Power Plant and Pumped Storage Power Plant' consisting of Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant.

Considering the resolutions adopted by the Commission in relation to the establishment of prices of public service obligation (PSO) services for the year 2018, and in view of the position taken by the Ministry of Energy in relation to the scope and future demand for the PSO services rendered by Lietuvos Energijos Gamyba AB, the Group's management decided to divide the category 'Structures and Machinery of Thermal Power Plant' into two separate cash generating units: (1) the Elektrėnai Complex's Combined-Cycle Unit together with the Biofuel and Steam Boiler Plants, including the Elektrėnai Complex's commonly shared infrastructure necessary for electricity generation, and (2) the Elektrėnai Complex's Units 7 and 8. In addition, the Group's management decided to review the assumptions pertaining to the expected earnings from the Elektrėnai Complex's Units 7 and 8.

The Elektrėnai Complex's Combined-Cycle Unit together with Biofuel and Steam Boiler Plants, including the Elektrėnai Complex's commonly shared infrastructure, are treated as a single cash generating unit based on the following:

1. The Elektrėnai Complex's commonly shared infrastructure, which is necessary for electricity generation facilities, is expected to be required only for the services rendered by the Combined-Cycle Unit as from 2020, and therefore, the major portion of cash flows generated from those commonly shared facilities will be linked only with the Combine-Cycle Unit in a long run perspective;
2. Without actively operating the Combined-Cycle Unit, the Elektrėnai Complex's commonly shared facilities would not be able to generate cash flows pertaining to electricity market services;
3. The electricity and thermal power generation as well as the provision of capacity reserve services at the Elektrėnai Complex are considered to be regulated activities;
4. The Biofuel and Steam Boiler Plants share the same infrastructure with other facilities of the Elektrėnai Complex (electricity connections, thermal power networks, other pipelines, pumps, chemical bar, etc.), which represents the major part of all assets operated by the Elektrėnai Complex. The steam boilers have been mounted in the same building, which is used for the services provided by Combined-Cycle Unit, and the main purpose of use of the boilers (99.3% of assets of the Steam Boiler Plant are attributed to this area) is to activate the electricity generation units of the Elektrėnai Complex from "cold" operation mode and to generate steam energy that is necessary to support the infrastructure of the Elektrėnai Complex;
5. The Biofuel and Steam Boiler Plants also supply thermal power that is necessary to support the infrastructure of the Elektrėnai Complex and to activate the electricity generation units of the Elektrėnai Complex.

Units 7 and 8 of the Elektrėnai Complex are treated as a single cash generating unit based on the following:

1. The Government has established the PSO scope in respect of both Units 7 and 8 of the Elektrėnai Complex for the year 2018 in view of the projected performance of these facilities in the year 2019 and considering the information that the tertiary power reserve services are rendered by the Combined-Cycle Unit;
2. Units 7 and 8 of the Elektrėnai Complex share common infrastructure, which is not used by the Combined-Cycle Unit;
3. The Government's resolution regarding the establishment of the PSO scope for the year 2018 stipulates that the facilities rendering PSO (Units 7 and 8) and tertiary power reserve services shall not be treated as substitutable for one another;
4. Based on the Commission's resolution regarding the establishment of the prices for the PSO services for the year 2018, the resulting projected negative cash flow generated from Unit 7 pertains to the provision of the PSO services. Accordingly, if Units 7 and 8 were assessed individually, in isolation, the cash flow generated from electricity generation facilities would be reflected inaccurately, i.e. relatively underestimated in terms of Unit 7, and relatively overestimated in terms of Unit 8;
5. In view of the position taken by the Ministry of Energy that Units 7 and 8 should be kept until the testing of operating mode to be carried out in 2019, and in view of the lack of an actively operating long-term strategic power reserve mechanism, in the Company's opinion, Units 7 and 8 are not likely to generate any revenue as from 2020.

The recoverable amount of cash generating units was estimated with reference to the value in use calculations. These calculations take into account the forecasts of financial performance results prepared by the management for the period of seven years. Continuous cash flow is estimated using the discounted cash flow in the seventh year.

The management estimated the projected operating profit in view of historical data, forecasts of market position and the legal acts in effect, as well as based on the relevant resolutions of the Commission, the Ministry of Energy, and the Government. Key assumptions used in performing the impairment test as at 31 December 2017 were as follows:

1. The value in use was estimated with reference to the most up-to-date budget for the year 2018 and the management's forecast covering the period 2019-2024, the projected pre-tax discounted cash flows using a pre-tax weighted average capital cost (WACC) of 4.07%. The WACC was estimated with reference to long-term borrowing cost in the market, based on the terms and conditions of the new credit agreement, and equity cost;
2. Cash flow forecasts are prepared by the management as a result of financial projections based on the financial performance results, market development expectations and regulatory environment. The forecast of revenue from regulated activities also take into account the depreciation expenses of property, plant and equipment and the return on investments, which is calculated on the value of assets used in the regulated activities. When estimating return on investments, the management used the rate of return on investments set by the Commission for the year 2018, which was 4.95%. Cash flow forecasts were prepared in view of the position taken by the Ministry of Energy that Units 7 and 8 should be kept until the testing of operating mode to be carried out in 2019, and in view of the lack of an actively operating long-term strategic power reserve mechanism. For this reason, in the Company's opinion, Units 7 and 8 are not likely to generate any revenue as from 2020.

As a result of the analysis, the Group's management determined that it was necessary to account for an impairment loss as of 31 December 2017 based on the net book amount of assets attributed to Units 7 and 8 of the Elektrėnai Complex. The impairment loss relating to Units 7 and 8 of the EC amounted to EUR 31,384 thousand, impairment of assets amounted to EUR 104,256 thousand, and impairment of a grant, designated for assets in respect of which impairment was identified, amounted to EUR 72,872 thousand. Had the WACC (discount rate) increased/decreased by 0.5 p.p., the value in use of Units 7 and 8 of the Elektrėnai Complex would not change.

As at 31 December 2017, impairment test was carried out for property, plant and equipment of the Elektrėnai Complex's Combined-Cycle Unit and Biofuel and Steam Boiler Plants together with the Eelektrėnai Complex's commonly shared infrastructure. As a result of the impairment test, it was determined that the recoverable amount of assets exceeded their carrying amount of EUR 377,055 million. Accordingly, no impairment was recognised. Had the WACC (discount rate) increased/decreased by 0.5 p.p., the value in use of the Elektrėnai Complex's Combined-Cycle Unit and Biofuel and Steam Boiler Plants together with the Elektrėnai Complex's commonly shared infrastructure would significantly exceed the carrying amount of assets. The value in use is not sensitive to assumptions regarding the volume of investments, because any growth in the volume of investments would lead to growth of return on investments from assets used in the provision of regulated services and growth of depreciation expenses (as well as growth of the respective cash flows).

As at 31 December 2017, impairment of EUR 1,096 thousand and reversal of impairment of EUR 45 thousand was recognised in respect of individual items of assets of Lietuvos Energijos Gamyba AB.

As at 31 December 2016, the Group's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets, and did not identify any impairment indications in respect of property, plant and equipment of:

1. "Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant" that includes sites of Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant;
2. "Structures and machinery of Thermal Power Plant" that includes sites of Reserve Power Plant, Combined-Cycle Unit, the new Biofuel and Steam Boiler Plants (hereinafter collectively "the Elektrėnai Complex").

As at 31 December 2016, impairment of EUR 613 thousand and reversal of impairment of EUR 45 thousand was recognised in respect of individual items of assets of Lietuvos Energijos Gamyba AB.

Depreciation rates of property, plant and equipment

When assessing the remaining useful life of property, plant and equipment, Group's management takes into consideration the conclusions provided by employees responsible for technical maintenance of assets.

In 2017 and 2016, the Group reviewed the depreciation rates used for property, plant and equipment category "Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant". As a result, new depreciation rates were established for non-current assets of Units 7 and 8 of the Reserve Power Plant with effect from 1 January 2017, which became shorter in view of technical depreciation and introduction of more stringent requirements applicable as from 2024:

Items	Former depreciation rate (number of years)	New depreciation rate (number of years)
High pressure steam boilers and equipment	40	13
Equipment for mechanical, chemical and electrical treatment of flue-gas	40	13
Other equipment of the boiler plant	40	13
Computerised technological systems	15	11

During the year, depreciation of non-current assets (net of amortisation of grants) increased by EUR 4,980 thousand, amortisation of grants increased by EUR 8,713 thousand, and depreciation (excluding grants) increased by EUR 13,693 thousand.

Impairment test for investments into subsidiaries and amounts receivable

Although the shares of the Company's subsidiaries Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB are traded on Nasdaq Vilnius Stock Exchange, the Group's management believes this market is not active enough so that the quoted stock price could be treated as equivalent to the fair value of investments in subsidiaries at the reporting date.

As at 31 December 2017, the Company's management carried out an impairment test to determine existence of indications of impairment for investments into subsidiaries and amounts receivable with reference to the external factors (changes in economic and regulatory environment, market composition, interest rate, etc.) and internal factors (return on investments, results of operations, etc.) that might have impact on impairment of investments into subsidiaries and amounts receivable.

Energijos Skirstymo Operatorius AB

As at 31 December 2017, the Company performed an impairment test for investment into subsidiary Energijos Skirstymo Operatorius AB and determined no impairment for investments into Energijos Skirstymo Operatorius AB as at 31 December 2017.

Lietuvos Energijos Gamyba AB

As at 31 December 2017, the Company performed an impairment test for investment into subsidiary Lietuvos Energijos Gamyba AB and determined no impairment for investments into Lietuvos Energijos Gamyba AB as at 31 December 2017.

Energetikos Paslaugų ir Rangos Organizacija UAB

As at 31 December 2017, the Company performed an impairment test for its investment into subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB and recognised impairment of the investment in amount of EUR 1,626 thousand (2016: EUR 7,320 thousand). Following the recognition of impairment, the recoverable amount of the investment (which is treated as the fair value) was EUR 191 thousand (31 December 2016: EUR 1,817 thousand).

As at 30 June and 31 December 2017, the Company estimated impairment of EUR 7,001 thousand in respect of amounts receivable from Energetikos Paslaugų ir Rangos Organizacija UAB. In 2017, the Company made a number of decisions to cover the operating losses of Energetikos Paslaugų ir Rangos Organizacija UAB against monetary contributions (Note 8) by offsetting them against EUR 4,300 thousand loans repayable by Energetikos Paslaugų ir Rangos Organizacija UAB to the Company as per the statement of financial position. The loans offset and their impairment were recognised in the Company's statement of financial position as 'Investments into subsidiaries'.

Impairment was largely caused by worse results of operations for 2017 than those projected, and accordingly, by more conservative forecasts.

As at 31 December 2017, the subsidiary had obtained a loan of EUR 6,824 thousand from the Group's cash pool account. Given that the forecast of future cash flows of the subsidiary showed that the subsidiary would not be able to repay the loan in full, provision of EUR 2,903 thousand was recognised in the Company's statement of financial position as at 31 December 2017 in relation to execution of the cash pool agreement signed between the Company and the Group companies.

As at 31 December 2017, impairment test of Energetikos Paslaugų ir Rangos Organizacija UAB was based on the following key assumptions:

1. Discount rate of 9.5% (after tax) was used to calculate discounted cash flows.
2. Annual growth rate of 2.0% was used.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The changes in discount rate have a significant impact decision to account for provision of guarantees provided by the Coimpany to it's subsidiaries under intercompany cashpool agreement. The sensitivity analysis showed that a 1.0 p.p. change in discount rate would result in decrease of provision down to EUR 2,020 (at a discount rate of 8.5%) or would result in increase of provision up to EUR 3,577 thousand (at a discount rate of 10.5%).

Litgas UAB

As at 30 June 2017, the Company performed impairment test for its investment into subsidiary LITGAS UAB using the discounted cash flow method, and accounted for impairment of EUR 3,225.23 thousand, which was largely caused by payment of dividends in 2017. As at 31 December 2017, the Company repeatedly performed impairment test for its investment, but did not identify any additional impairment. Following the impairment test, the recoverable amount of the investment (which was treated as the fair value) was EUR 8,631 thousand (31 December 2016: EUR 11,856 thousand).

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The changes in discount rate have a significant impact on the result of valuation. The sensitivity analysis showed that a 1.0 p.p. change in discount rate would result in increase of investment value by EUR 797 thousand (at a discount rate of 7.2%) or would decrease investment by EUR 384 thousand (at a discount rate of 9.2%).

VAE SPB UAB

As at 30 June 2017, the Company performed an impairment test for its investment into subsidiary VAE SPB UAB and recognised impairment of EUR 92 thousand (2016: EUR 201 thousand). Following the impairment, the recoverable amount of the investment (which is treated as fair value) was EUR 0 (31 December 2016: EUR 90 thousand).

Other investments into subsidiaries of the Company

As at 31 December 2017, no impairment indications existed for other investments into subsidiaries of the Company.

Impairment test for goodwill in EURAKRAS UAB

In 2016 the Company has accounted for EUR 1,461 thousand goodwill recognised on acquisition of UAB EURAKRAS. At 31 December 2017 The Company carried out goodwill impairment test, applying the value in use method. Test of goodwill impairment completed applying following key assumptions:

1. Cash flow projection compiled for period up to 2045 as standard operating periods of wind parks are 30 years;
2. For the first twelve years of operation price of the electricity is 70.96 EUR / MWh, based on the preferential rate. After the expiry of the preferential rate period, there is used rate determined according to research of wind park completed by third-party;
3. Discounting cash flows applied 3.7 per. the discount rate (after tax).

Results of carried out test do not indicate presence of goodwill impairment.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. Changes in key assumptions do not affect the result of the goodwill impairment test.

Judgements and accounting estimates pertaining to control over Kauno Kogeneracinė Jėgainė UAB

As at 31 December 2017, the Company held 51% shareholding in Kauno Kogeneracinė Jėgainė UAB, and the remaining 49% of shares was held by FORTUM HEAT LIETUVA UAB (hereinafter "FORTUM").

Both shareholders have signed the Shareholders' Agreement under which key decisions over the business should be taken unanimously by the shareholders and / or by the Board which consists of equal number of representatives from both shareholders and one independent member. If the shareholders fail to reach the consensus on the deadlock situation, the Company has an option to buy (call option) all the shares of KKJ held by FORTUM, whereas FORTUM has an option to sell (put option) to the Company its shareholding in KKJ, for the price, the calculation of which is defined in the Shareholders' Agreement.

In the Group's management view, the call option's exercise price that the Company will have to pay to FORTUM for buyout of KKJ shares owned by FORTUM, in case the Company opts to buy them, approximates the fair value of the shares within the limits of the materiality (materiality threshold is based on the best estimate practice, such as +/- 15% of the market value), and thus the call option gives to the Group control over KKJ.

At 31 December 2017, the Group accounted for EUR 9,996 thousand (31 December 2016: EUR 4,481 thousand) put option exercise liability (Note 27) which is measured as net present value of the single future cash outflow, that would be paid to FORTUM for KKJ shares in a deadlock situation in case the put option is exercised.

Deferred payment on disposal of shares of Litgrid AB

In 2012, the shares of Litgrid AB held by the Company were transferred to a newly established private limited liability company EPSO-G UAB in return for a certain consideration based on the market value of the shares established by independent valuers

The purchase-sale agreement of shares of Litgrid AB provides for the final price premium, the amount of which depends on return of regulated asset base of electricity transmission business in 2014-2018.

On 19 January 2015, the Commission approved the price caps for electricity transmission services of Litgrid AB via high voltage networks for the period 2016-2020.

In 2017, the rate of return on regulated asset base in electricity transmission business of Litgrid AB decreased due to the resolutions adopted by the Commission. In view of these regulatory changes, the Company and the Group assessed the price premium and concluded that according to the purchase-sale agreement of shares of Litgrid AB, the price premium was negative and amounted to EUR 4,679 thousand at 31 December 2017 (31 December 2016: EUR 4,182 thousand). In the statement of financial position the receivable on disposal on Litgrid AB was reduced by EUR 4,679 thousand as the sales price will be adjusted by the price premium (Note 9).

Decrease in price premium by EUR 497 thousand was recognised in the Company's and the Group's statement of profit and loss and other comprehensive income under the line item 'Other expenses'. In the opinion of the Group's management, the amount of price premium will not change significantly, and accordingly, no significant contingency existed in respect of the final amount of the price premium at 31 December 2017. In view of this, no sensitivity analysis was performed for the price premium in terms of changes in unobservable data. The deferred payment on disposal is attributed to level 3 in the fair value hierarchy.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. However, other factors, such as technical or commercial obsolescence and physical wear and tear, result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following key factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions.

Accrued revenue

Revenue from household customers is recognised when meter data is declared and payments are received. Accordingly, at the end of each reporting period the amount of income earned but not yet paid by household customers is estimated and accrued by the management of the Group company operating the distribution networks. Accrued revenue is estimated as 1/3 of total payments for electricity received in December. Accrued revenue is based on past experience and average term of settlement for electricity. The management has estimated that the majority of household customers declare and make payments for the electricity consumed on approx. the 20th day of the month, while electricity is supplied for a full month (30 or 31 days). Consequently, the electricity consumed during the remaining 10 days is proportionally calculated referring to the total volume of electricity provided to the electricity supply network (the actually known variable) and the total volume of electricity declared by household customers during December and multiplied by the average rate per 1 kWh (Note 14).

Impairment of amounts receivable

Impairment losses for amounts receivables are determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the management could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Amounts receivable are assessed to determine their value and impairment individually or collectively in a group of similar receivables. In case of individually assessed receivables for impairment, the Group takes into account the available or accessible data from external sources of information on market trends and forecasts, the possible credit enhancements (collateral) provided for receivables and events providing evidence of impairment of receivables such as, for example, fulfilment of contractual terms, the borrower's actual performance, etc. In case of collectively assessed receivables for impairment, the Group takes into account the historical statistics, and reviews annually whether the provisioning rates used for collectively assessed receivables are in line with the historical data of impairment of receivables, and that the provisioning rates used for collectively assessed receivables are approved for the upcoming year.

Accrued revenue from PSO and capacity reserve service fees

Part of funds for PSO and tertiary capacity reserve services are allocated for the maintenance of infrastructure of the Elektrėnai Complex and for the compensation of the necessary trial costs of electricity generation facilities. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes. Allocated amount of PSO funds and the price for capacity reserve services are Group. In the Group's financial statements, income from these services is recognised on accrual basis based on actually incurred costs.

As at 31 December 2017, the Group recognised PSO funds of EUR 5,034 thousand within 'Other non-current amounts payable and liabilities' (Note 25) to be refunded in 2019 (31 December 2016: PSO funds of EUR 9,404 thousand to be refunded in 2018). PSO funds to be refunded in 2019 arose from lower than established actual fixed and variable costs incurred in the provision of regulated services. As at 31 December 2017, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 0.92% (31 December 2016: 1.02%) was used, and the discounting effect of EUR 51 thousand (31 December 2016: EUR 185 thousand) was recognised within 'Other financial income'.

The Group's and the Company's non-current assets held for sale

The Group and the Company classify property, plant and equipment and disposal groups as held for sale, if their carrying amount is recovered through a disposal rather than through continuing use, the assets and disposal groups are available for immediate sale, and a sale is considered highly probable in their current condition and under the conditions that are usual for sale of such assets and disposal groups. The Group and the Company are committed to a plan to sell these assets and disposal groups, and initiate an active programme to locate a buyer. The sale of assets is to be performed within one year of classification as held for sale and there are no indications that the plan will be significantly changed or withdrawn.

The Group's non-current assets held for sale consists of property, plant and equipment and disposal group, which includes transport business of the subsidiary NT Valdos UAB (Note 17). The transport business comprises motor vehicles, agreements on lease of motor vehicles that are expected to be disposed all together, as well as other assets and liabilities related to transport business. The transport business is classified in the Group's financial statements as assets held for sale based on the Group's management decision to sell the business and initiation of location of the future investor to enter into sale transaction of transport business.

The Company's non-current assets held for sale consist of as follows:
1. Investment into subsidiary Duomenų Logistikos Centras UAB; and
2. Property, plant and equipment of Vilnius Third Thermal Power Plant, which was acquired by the Company with intention so sell it (Note 17).

In 2018 the Group's and the Company's management plan to continue active sales of assets and believe that the sale transactions started in 2017 will be finalised in 2018.

5 Intangible assets

Group	Patents and licenses	Computer software	Emission allowances	Other intangible assets	Goodwill	Total
At 31 December 2015						
Acquisition cost	2,836	10,760	16,438	1,259	-	31,293
Accumulated amortisation	(1,984)	(7,492)	-	(278)	-	(9,754)
Net book amount	**852**	**3,268**	**16,438**	**981**	**-**	**21,539**
Net book amount at 1 January 2016	**852**	**3,268**	**16,438**	**981**	**-**	**21,539**
Increase on acquisition of subsidiaries	14,900	-	-	-	1,461	16,361
Additions	44	588	9	2,470	-	3,111
Reclassified to/from PP&E categories	1,031	1,544	-	(2,442)	-	133
Emission allowances utilised (Note 24)	-	-	(2,999)	-	-	(2,999)
Revaluation of emission allowances	-	-	(3,346)	-	-	(3,346)
Grant received on emission allowances	-	-	1,733	-	-	1,733
Amortisation charge	(1,673)	(2,544)	(1)	(53)	-	(4,271)
Net book amount at 31 December 2016	**15,154**	**2,856**	**11,834**	**956**	**1,461**	**32,261**
At 31 December 2016						
Acquisition cost	17,957	13,572	11,838	1,435	1,461	46,263
Accumulated amortisation	(2,803)	(10,716)	(4)	(479)	-	(14,002)
Net book amount	**15,154**	**2,856**	**11,834**	**956**	**1,461**	**32,261**
Net book amount at 1 January 2017	**15,154**	**2,856**	**11,834**	**956**	**1,461**	**32,261**
Additions	483	316	-	4,376	-	5,175
Reclassified to/from PP&E categories	89	3,202	-	(3,000)	-	291
Write-offs/Emission allowances utilised	-	(2)	(932)	-	-	(934)
Revaluation of emission allowances	-	-	2,808	-	-	2,808
Grant received on emission allowances	-	-	1,128	-	-	1,128
Reclassification to assets held for sale	-	(15)	-	-	-	(15)
Amortisation charge	(1,668)	(2,631)	-	(55)	-	(4,354)
Net book amount at 31 December 2017	**14,058**	**3,726**	**14,838**	**2,277**	**1,461**	**36,360**
At 31 December 2017						
Acquisition cost	19,370	17,002	14,838	2,773	1,461	55,444
Accumulated amortisation	(5,312)	(13,276)	-	(496)	-	(19,084)
Net book amount	**14,058**	**3,726**	**14,838**	**2,277**	**1,461**	**36,360**

The fair value of emission allowances is determined with reference to the prices available on the active market, and accordingly, it is within Level 1 of the fair value hierarchy. At the end of each reporting period, emission allowances are measured with reference to year-end market prices.

In 2016 the Group accounted for patents and licenses identified in business combination that comprise License to produce electricity with incentive rate. The fair value of the license, at the moment of business acquisition, was determined to be EUR 14,900 thousand, amortisation period of the license was set to be 12 years. The net book amount of the license was EUR 12,520 thousand at 31 December 2017 (31 December 2016: EUR 13,762 thousand).

The table below includes information on the results of revaluation of emission allowances conducted in 2017:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	1.167	1.641	2.808
	1.167	**1.641**	**2.808**

6 Property, plant and equipment

The Group's property, plant and equipment:

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, Gas technological equipment and installations	Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant	Wind power plants	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
At 31 December 2015												
Cost or revalued amount	2,011	60,698	766,198	120,742	205,122	-	887,174	23,801	34,604	8,145	18,567	2,127,062
Accumulated depreciation	-	(4,719)	(36,627)	(5,462)	(79,295)	-	(307,330)	(5,922)	(16,711)	(2,089)	-	(458,155)
Accumulated impairment	-	-	-	-	-	-	(37,567)	-	-	-	(223)	(37,790)
Net book amount	**2,011**	**55,979**	**729,571**	**115,280**	**125,827**	**-**	**542,277**	**17,879**	**17,893**	**6,056**	**18,344**	**1,631,117**
Net book amount at 1 January 2016	**2,011**	**55,979**	**729,571**	**115,280**	**125,827**	**-**	**542,277**	**17,879**	**17,893**	**6,056**	**18,344**	**1,631,117**
Additions	-	129	862	7	8	-	89	13,282	4,564	708	152,311	171,960
In-kind contributions received	-	-	-	-	-	-	-	-	-	-	3,954	3,954
Revaluation	-	674	(99)	-	-	-	-	-	-	-	-	575
Disposals	-	(621)	(247)	-	-	-	(2)	(206)	(30)	(4)	(10)	(1,120)
Write-offs	-	(8)	(3,337)	(12)	-	-	(2)	(9)	(22)	(3)	-	(3,393)
Reclassifications between groups	-	687	114,970	14,112	1,338	-	1,834	-	1,021	1,996	(135,958)	-
Reclassified to assets, intangible assets	-	-	-	-	-	-	-	-	(8)	-	(125)	(133)
Reclassified to assets held for sale	-	(226)	(3)	-	-	-	-	(1,351)	-	-	-	(1,580)
Reclassified to investment property	-	3,430	(191)	-	-	-	-	-	-	-	(2,812)	427
Reclassified to finance lease	-	-	-	-	-	-	-	(7,617)	-	-	-	(7,617)
Reclassified from (to) inventories	-	-	-	-	51	-	(36)	-	(11)	-	840	844
Impairment	-	-	-	-	-	-	(613)	-	-	-	-	(613)
Reversal of impairment	-	-	2	-	-	-	45	-	-	-	-	47
Depreciation charge	-	(2,364)	(35,926)	(4,461)	(7,975)	(1,684)	(23,361)	(4,736)	(4,433)	(1,714)	-	(86,654)
Increase on acquisition of subsidiary	365	602	-	-	-	62,029	-	-	1	3	-	63,000
Net book amount at 31 December 2016	**2,376**	**58,282**	**805,602**	**124,926**	**119,249**	**60,345**	**520,231**	**17,242**	**18,975**	**7,042**	**36,544**	**1,770,814**
At 31 December 2016												
Cost or revalued amount	2,376	65,579	876,992	134,046	206,492	62,029	888,633	27,725	39,315	10,904	36,767	2,350,858
Accumulated depreciation	-	(7,297)	(71,390)	(9,120)	(87,243)	(1,684)	(330,267)	(10,483)	(20,340)	(3,862)	-	(541,686)
Accumulated impairment	-	-	-	-	-	-	(38,135)	-	-	-	(223)	(38,358)
Net book amount	**2,376**	**58,282**	**805,602**	**124,926**	**119,249**	**60,345**	**520,231**	**17,242**	**18,975**	**7,042**	**36,544**	**1,770,814**

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(Cont'd)

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, Gas technological equipment and installations	Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant	Wind power plants	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
Net book amount at 1 January 2017	**2,376**	**58,282**	**805,602**	**124,926**	**119,249**	**60,345**	**520,231**	**17,242**	**18,975**	**7,042**	**36,544**	**1,770,814**
Additions	-	130	3,387	(118)	22	-	139	4,814	3,120	843	235,314	247,651
Revaluation	-	(642)	1,113	-	-	-	-	-	-	-	-	471
Disposals	-	(414)	(265)	(11)	-	-	-	(455)	(4)	(1)	(35)	(1,185)
Write-offs	-	(24)	(4,329)	(89)	-	-	(11)	(13)	(30)	(8)	(60)	(4,564)
Reclassifications between groups	-	1,760	164,035	29,911	835	-	1,265	-	1,483	3,119	(202,408)	-
Reclassified to assets, intangible assets	-	2	(13)	-	-	-	-	67	(71)	(3)	(217)	(235)
Reclassified to assets held for sale	(52)	(23,261)	(456)	(781)	(1)	-	-	(9,825)	(345)	(265)	-	(34,986)
Reclassified from (to) investment property	-	(1,601)	-	-	-	-	-	-	-	-	(1,264)	(2,865)
Reclassified to finance lease	-	-	-	-	-	-	-	(4,579)	-	-	-	(4,579)
Reclassified from inventories	-	-	(1)	-	(19)	-	(3)	20	(5)	-	-	(8)
Impairment	-	(87)	(388)	-	-	-	(105,352)	-	-	-	(513)	(106,340)
Reversal of impairment	-	98	-	-	-	-	45	-	-	-	-	143
Depreciation charge	-	(2,635)	(40,128)	(4,720)	(7,296)	(1,311)	(37,180)	(3,874)	(3,713)	(2,368)	-	(103,225)
Decrease on disposal of subsidiary	-	-	-	-	-	-	-	(4)	(3)	(3)	-	(10)
Net book amount at 31 December 2017	**2,324**	**31,608**	**928,557**	**149,118**	**112,790**	**59,034**	**379,134**	**3,393**	**19,407**	**8,356**	**67,361**	**1,761,082**
At 31 December 2017												
Cost or revalued amount	2,324	41,432	1,037,447	167,712	207,279	64,229	779,526	7,605	37,051	14,130	68,804	2,427,539
Accumulated depreciation	-	(9,824)	(108,890)	(18,019)	(94,489)	(5,195)	(293,722)	(4,212)	(17,644)	(5,774)	(1,108)	(558,877)
Accumulated impairment	-	-	-	(575)	-	-	(106,670)	-	-	-	(335)	(107,580)
Net book amount	**2,324**	**31,608**	**928,557**	**149,118**	**112,790**	**59,034**	**379,134**	**3,393**	**19,407**	**8,356**	**67,361**	**1,761,082**

In 2017 and 2016, the Group's property, plant and equipment (excluding structures and machinery of Hydro Power Plant, Pumped Storage Power Plant and Thermal Power Plant (Combined Cycle Unit, Reserve Power Plant), gas distribution pipelines, gas technological equipment, wind power plans, and IT and telecommunication equipment) was accounted for at revalued amount.

During September-December 2017, the Group performed valuation of buildings and structures with the carrying amount of EUR 11,405 thousand. The valuation was carried out by an independent property valuer using the sales comparison approach (analogous sales price) and the income approach. In the opinion of the Group's management, the value of buildings and structures adjusted by those approaches approximated their fair value at 31 October 2017.

The table below contains information on the results of revaluation performed in 2017:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	(908)	1,379	471
	(908)	**1,379**	**471**

The table below contains information on the results of revaluation performed in 2016:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	453	122	575
	453	**122**	**575**

In the opinion of the Group's management, the carrying amount of substantially all assets stated at revalued amount as at 31 December 2017 did not differ significantly from their fair value. The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2017 (see Note 2.31 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	1,880	444	2,324
Buildings	-	7,286	24,322	31,608
Structures and machinery	-	3,114	925,443	928,557
Motor vehicles	-	1,329	2,064	3,393
Other property, plant and equipment	-	85	8,271	8,356
Construction in progress	-	-	67,734	67,734
Total	**-**	**13,694**	**1,028,278**	**1,041,972**

The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2016 (see Note 2.31 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	2,032	344	2,376
Buildings	-	6,237	52,045	58,282
Structures and machinery	-	3,174	802,428	805,602
Motor vehicles	-	14,708	2,534	17,242
Other property, plant and equipment	-	95	6,947	7,042
Construction in progress	-	-	36,544	36,544
Total	**-**	**26,246**	**900,842**	**927,088**

Land was largely attributed to Level 2 of the fair value hierarchy. The valuation was based on the market approach.

Buildings were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of buildings attributed to Level 2 was based on the comparative value method approach. The valuation of assets attributed to Level 3 was based on the income approach, comparative value method approach, the cost approach or mix of these approaches.

Structures and machinery were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of assets within Level 2 was based on the market approach. The valuation of assets within Level 3 was based on the income approach, comparative value method approach, the cost approach or mix of these approaches.. The valuation was based on data and information available to the valuer to make accurate forecasts of future cash flows.

Motor vehicles were attributed to Levels 2 and 3 of fair value hierarchy. The valuation was based on the market approach and cost approach.

Construction in progress and other PP&E were mostly attributed to Level 3 of fair value hierarchy, valuation was based on income method or depreciated replacement cost method. The management considers, that cost of these assets approximate its fair value.

During 2017, the Group companies capitalized EUR 64 thousand of interest expenses on borrowings intended to finance development of non-current assets (2016: zero). The average capitalised interest rate was 0.82% in 2017.

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2017, the Group's commitments to purchase or construct property, plant and equipment amounted to EUR 294,177 million (31 December 2016: EUR 362 million).

As at 31 December 2017, the Group had pledged to the banks its property, plant and equipment in amount of EUR 316,136 thousand (31 December 2016: EUR 353,686 thousand) (Note 20).

The Company's property, plant and equipment

Company	Other PP&E	Construction in progress	Total
At 31 December 2015			
Cost or revalued amount	28	280	308
Accumulated depreciation	(22)	-	(22)
Net book amount	**6**	**280**	**286**
Net book amount at 1 January 2016	**6**	**280**	**286**
Additions	-	65	65
Depreciation charge	(3)	-	(3)
Net book amount at 31 December 2016	**3**	**345**	**348**
At 31 December 2016			
Cost or revalued amount	28	345	373
Accumulated depreciation	(25)	-	(25)
Net book amount	**3**	**345**	**348**
Net book amount at 1 January 2017	**3**	**345**	**348**
Additions	40	36	76
Depreciation charge	(3)	-	(3)
Net book amount at 31 December 2017	**40**	**381**	**421**
At 31 December 2017			
Cost or revalued amount	69	381	450
Accumulated depreciation	(29)	-	(29)
Net book amount	**40**	**381**	**421**

7 Investment property

Group	Investment property
Carrying amount at 31 December 2015	**48,519**
Reclassification from property, plant and equipment	(427)
Increase in value	4,323
Decrease in value	(4,109)
Disposal	(2,099)
Carrying amount at 31 December 2016	**46,207**
Carrying amount at 31 December 2016	**46,207**
Additions	6,842
Reclassification from property, plant and equipment	2,865
Increase in value	7,009
Decrease in value	(10,938)
Reclassification to assets held for sale	(37,107)
Carrying amount at 31 December 2017	**14,878**

In 2017, the Group's income from lease of investment property amounted to EUR 3,086 thousand (2016: EUR 2,707 thousand).

In 2017 and 2016, the Company had no investment property.

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2017 (see Note 2.31 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Buildings	-	-	11,753	11,753
Structures	-	-	3,125	3,125
Total	**-**	**-**	**14,878**	**14,878**

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2016 (see Note 2.31 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Buildings	-	-	44,756	44,756
Structures	-	-	1,451	1,451
Total	**-**	**-**	**46,207**	**46,207**

The fair value of investment property as at 31 December 2017 and 2016 was determined in September-October 2017 and November 2016, respectively. Valuations were carried out by independent property valuers using the market approach and income approach. Investment property is attributed to Level 3 of fair value hierarchy. The valuation was based on data and information available to the valuer for making accurate forecasts of future cash flows. Future cash inflows were estimated with reference to comparable object rental prices, adjusted for location, condition and other factors affecting the value, and with reference to the actual rental prices of the subject object, adjusted for the occupancy rate. In the opinion of the Group's management, the value of investment property determined using the above-mentioned approach represented its fair value as at 31 December 2017 and 2016.

8 Investments in subsidiaries and associates

Company	2017	2016
Net book amount at 1 January	**1,172,187**	**1,102,286**
Acquisition of subsidiaries	-	23,717
Increase in share capital of subsidiaries	28,375	20,834
Decrease in share capital of subsidiaries	(50,862)	-
Buyout of shares of Lietuvos Energijos Gamyba AB	-	5,103
Acquisition of shares of non-controlling interest	4,284	3,952
Disposal of investments	(123)	-
Coverage of losses	4,470	131
Reclassification to assets held for sale	-	(4,705)
(Decrease) increase in value of investments into subsidiaries	(9,414)	20,869
Net book amount at 31 December	**1,148,917**	**1,172,187**

Increase in share capital of subsidiaries

Increase in share capital of the Group companies in 2017:

Subsidiary	Issue date	Number of newly issued shares*	Nominal value per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
UAB Energijos sprendimų centras	28 Aug 2016	520,000	1.00	520	322	-	9 Sep 2016
UAB Vilniaus kogeneracinė jėgainė	19 Dec 2016	68,965,518	0.29	20,000	15,000	-	19 Jan 2017
UAB Kauno kogeneracinė jėgainė	28 Dec 2016	6,753,000	1.00	6,753	6,753	-	26 Jun 2017
UAB Energijos sprendimų centras	20 Jun 2017	700,000	1.00	1,000	1,000	-	22 Sep 2017
UAB Elektroninių mokėjimų agentūra	18 Jul 2017	300,000	1.00	300	300	-	1 Aug 2017
Offset prepayments							
UAB Vilniaus kogeneracinė jėgainė	19 Dec 2016	68,965,518	0.29	20,000	5,000	-	19 Jan 2017
Total:				**48,573**	**28,375**	**-**	

** Newly issued shares attributable to the Company*

Contributions made to increase the share capital were accounted for at the end of the reporting period within prepayments:

Subsidiary	Issue date	Number of newly issued shares	Nominal value per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
UAB Vilniaus kogeneracinė jėgainė	21 Dec 2017	53,781,379	0.29	15,597	3,899	11,698	-
Total:				**15,597**	**3,899**	**11,698**	

On 20 June 2017, based on the Company's decision of 20 June 2017, the Company and its subsidiary Energijos Sprendimų Centras UAB entered into Share Subscription Agreement and increased the subsiidary's share capital from EUR 530 thousand to EUR 1,230 thousand by issuing additional 700 thousand ordinary registered intangible shares with the nominal value of EUR 1 each and issue price of EUR 1.429 each. The total nominal value of all the newly issued shares was EUR 700 thousand, and the total issue price was EUR 1,000 thousand. The difference between the issue price and the nominal value of shares resulted in share premium of EUR 300 thousand, which was recognised in the subsidiary's balance sheet. The amendments to the Articles of Association were registered on 22 September 2017.

On 26 June 2017, the share capital of Kauno Kogeneracinė Jėgainė UAB was increased by EUR 13,241 thousand and totalled EUR 24,000 thousand at 31 December 2017. The Company acquired the shares with the nominal value of EUR 6,753 thousand or 51% of the newly issued shares. At 31 December 2017, the Company held 51% of share capital of Kauno Kogeneracinė Jėgainė UAB, i.e. EUR 12,240 thousand.

On 18 July 2017, based on the Company's decision of 18 July 2017, the Company and its subsidiary Elektroninių Mokėjimų Agentūra UAB entered into Share Subscription Agreement and increased the subsidiary's share capital from EUR 700 thousand to EUR 1,000 thousand by issuing additional 300 thousand ordinary registered intangible shares with the nominal value of EUR 1 each. The amendments to the Articles of Association were registered on 1 August 2017.

On 21 December 2017, the Company and its subsidiary Vilniaus Kogeneracinė Jėgainė UAB entered into Share Subscription Agreement, under which the subsidiary's share capital was increased by EUR 15,597 thousand by way of issuing additional 53,781,379 ordinary registered shares with the nominal value of EUR 0.29 each. Based on the Agreement, the Company's initial contribution represented ¼ of the subscribed value of shares or EUR 3,899 thousand. The increase in the subsidiary's share capital had not been registered with the Centre of Registers at 31 December 2017. Accordingly, the Company's contribution of EUR 3,899 thousand was accounted for as the Company's prepayments. The remaining subscribed value of shares of EUR 11,698 thousand will be paid by the Company within 12 months after the date of the Share Subscription Agreement.

Increase in share capital of the Group companies in 2016:

	Issue date	Number of newly issued shares*	Nominal value per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
UAB Energijos sprendimų centras	9 Feb 2016	10,000	1	150	150	-	17 Feb 2016
UAB Energijos sprendimų centras	29 Aug 2016	520,000	1	520	198	322	9 Sep 2016
UAB Lietuvos dujų tiekimas	19 May 2016	25,862,070	0.29	7,500	7,500	-	13 Jun 2016
UAB Kauno kogeneracinė jėgainė	15 Mar 2016	5,484,292	1	5,484	5,484	-	17 Mar 2016
Energijos tiekimas UAB	23 Dec 2015	16,240,000	1	16,240	7,240	-	30 Dec 2015
UAB Elektroninių mokėjimų agentūra	1 Dec 2015	434,000	1	434	262	-	23 Dec 2015
Total:				**30,328**	**20,834**	**322**	

** Newly issued shares attributable to the Company*

Contributions made to increase the share capital were accounted for at the end of the previous reporting period within prepayments:

Subsidiary	Issue date	Number of newly issued shares	Nominal value per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
UAB Vilniaus kogeneracinė jėgainė	19 Dec 2016	68,965,518	0.29	20,000	5,000	15,000	19 Jan 2017
Total:				**20,000**	**5,000**	**15,000**	

Decrease in share capital

Decrease in share capital of the Group companies in 2017:

Subsidiary	Carrying amount at 31 December 2016	Decrease in share capital	Acquisition of non-controlling interest	Carrying amount at 31 December 2017
NT Valdos UAB	80,337	(48,256)	-	32,081
UAB EURAKRAS	17,057	(2,606)	4,284	18,735
	97,394	**(50,862)**	**4,284**	**50,816**

On 19 April 2017, the Company passed a decision to reduce the share capital of NT Valdos UAB from EUR 85,550 thousand to EUR 37,295 thousand by way of annulment of 1,666,284 ordinary registered intangible shares with the nominal value of EUR 28.96 each. The total nominal value of the annulled shares of NT Valdos UAB was EUR 48,257 thousand. The share capital of NT Valdos UAB was reduced to pay out funds to the Company. On 14 July 2017, the Company received a partial payment for share capital reduction in amount of EUR 10,000 thousand. Based on the agreement signed between the Company and NT Valdos UAB on 12 October 2017, the remaining amount of EUR 38,256 thousand will be paid to the Company no later than by 11 August 2022. The amendments to the Articles of Association were registered on 11 July 2017.

On 5 May 2017, the Company and Renargo UAB (the holder of non-controlling interest in Eurakras UAB) passed a decision to reduce the share capital of Eurakras UAB from EUR 8,096 thousand to EUR 4,621 thousand by way of annulment of 120,000 ordinary registered intangible shares with the nominal value of EUR 28.96 each. The total nominal value of the annulled shares of Eurakras UAB was EUR 3,475 thousand. The share capital of Eurakras UAB was reduced to pay out funds to the Company. On 28 July 2017, the Company received a partial payment for the share capital reduction in amount of EUR 2,606 thousand, which represented 75% of the Company's interest in Eurakras UAB. The amendments to the Articles of Association were registered on 20 July 2017.
There were no decreases in share capital of the Group companies during 2016.

Acquisition of shares of non-controlling interest

On 18 May 2017, the Company acquired 1,000 ordinary shares of Technologijų ir Inovacijų Centras UAB from Litgrid AB (the holder of non-controlling interest in Technologijų ir Inovacijų Centras UAB) with the nominal value of EUR 290 each, for the amount of EUR 847.

On 16 September 2017, the Company acquired 25% of ordinary registered shares of Eurakras UAB from Renagro UAB (the holder of non-controlling interest in Eurakras UAB) for the amount of EUR 4,283 thousand. The Company is the sole shareholder of Eurakras UAB.

Disposal of VšĮ Energetikų Mokymų Centras

On 8 August 2017, the Company sold its investment into VšĮ Energetikų Mokymų Centras with the carrying amount of EUR 123 thousand for the price of EUR 147 thousand. In the Group's consolidated financial statements at 31 July 2017, net assets of VšĮ Energetikų Mokymų Centras was negative and amounted to EUR 205 thousand. The result of disposal amounting to EUR 352 thousand was accounted for in the Group's consolidated statement of comprehensive income within 'Other income'.

Contributions against losses and impairment

Contributions against losses of the Group companies and impairment of investments into subsidiaries during the year ended 31 December 2017:

Subsidiary	Carrying amount at 31 December 2016	Contribution against losses	(Impairment) reversal	Carrying amount at 31 December 2017
UAB Energetikos paslaugų ir rangos organizacija	1,818	4,300	(5,927)	191
UAB LITGAS	11,855	-	(3,225)	8,630
UAB VAE SPB	92	170	(262)	-
	13,765	**4,470**	**(9,414)**	**8,821**

On 30 September 2017, the Company passed a decision to cover the operating losses of Energetikos Paslaugų ir Rangos Organizacija UAB with a monetary contribution by way of offsetting it against EUR 1,500 thousand loan repayable to the Company as per the balance sheet of Energetikos Paslaugų ir Rangos Organizacija UAB. In the Company's balance sheet as at 30 June 2017, impairment was recognised for the corresponding receivable amount of the loan of EUR 1,500 thousand. The offset part of the loan and impairment were accounted for in the Company's statement of financial position within 'Investment into subsidiaries'.

On 27 December 2017, the Company passed a decision to cover the operating losses of Energetikos Paslaugų ir Rangos Organizacija UAB with a monetary contribution by way of offsetting it against EUR 2,800 thousand loan repayable to the Company as per the balance sheet of Energetikos Paslaugų ir Rangos Organizacija UAB. In the Company's balance sheet as at 30 June 2017, impairment was recognised for the corresponding receivable amount of the loan of EUR 2,800 thousand. The offset part of the loan and impairment were accounted for in the Company's statement of financial position within 'Investment into subsidiaries'.

On 10 July 2017, the Company passed a decision to cover in part the operating losses of VAE SPB UAB with a monetary contribution of EUR 100 thousand. On 12 December 2017, the Company passed a decision to cover in part the operating losses of VAE SPB UAB with a monetary contribution of EUR 70 thousand. The payment transfers were made on 17 August and 27 December, respectively. Impairment of investments into VAE SPB UAB amounted to EUR 262 thousand in 2017.
Contributions against losses of the Group companies and impairment of investments into subsidiaries during the year ended 31 December 2016:

Subsidiary	Carrying amount at 31 December 2016	Contribution against losses	(Impairment) reversal	Acquisition of non-controlling interest	Carrying amount at 31 December 2017
NT Valdos UAB	89,373	-	(9,036)	-	80,337
Energijos Skirstymo Operatorius AB	673,616	-	37,305	-	710,921
Energetikos Paslaugų ir Rangos Organizacija UAB	9,137	-	(7,320)	-	1,817
LITGAS UAB	7,597	-	307	3,952	11,856
VšĮ Energetikų mokymo centras	309	-	(186)	-	123
VAE SPB UAB	162	131	(201)	-	92
Total	**780,194**	**131**	**20,869**	**3,952**	**805,146**

Foundation of indirectly controlled entity

On 6 June 2017, the Company's subsidiary Energijos Tiekimas UAB founded a subsidiary Geton Energy Sp.z.o.o with its share capital divided into 20,000 ordinary shares and amounting to PLN 1,000 thousand. On 18 September 2017, Energijos Tiekimas UAB's subsidiary increased the share capital of its subsidiary Geton Energy Sp.z.o.o by way of issuing additional 180,000 ordinary shares with the nominal value of PLN 50 each. As at 31 December 2017, the share capital of Geton Energy Sp.z.o.o was divided into 200,000 ordinary shares and amounted to PLN 10,000 thousand. Energijos Tiekimas UAB holds 200,000 shares of the newly founded entity. The Company holds 100% of voting rights during the shareholders meeting of Energijos Tiekimas UAB. Accordingly, the Group's effective ownership interest in Geton Energy Sp.z.o.o. was 100% as at 31 December 2017.

Decision on disposal of Duomenų Logistikos Centras UAB

In November 2016, the Company's shareholder made a decision to initiate disposal of Duomenų Logistikos Centras UAB, thereby contributing to further attempts of identifying clearly the Group's activities and focusing on the main ones. In the Company's statement of financial position as at 30 June 2017, the investment into Duomenų Logistikos Centras UAB was classified as non-current assets held for sale. As at 30 December 2017, the carrying amount of the investment was EUR 4,705 thousand. The sale price of the investment was not lower than its carrying amount. On 7 August 2017, the Company informed that together with Ligrid AB it entered into the Agreement on Sale/Purchase of Shares with Telia Lietuva. Lietuvos Energija sold 79.64%, whereas Litgrid sold 20.36% of shares of Duomenų Logistikos Centras. The disposal of Duomenų Logistikos Centras is expected to be finalized in 2018 upon receipt of concentration permit from the Competition Council, which initiated examination of the transaction on 1 March 2018. Unit such receipt, the amount of the transaction will not be made available to public. In the Company's statement of financial position as at 31 December 2017, the investment into Duomenų Logistikos Centras UAB amounting to EUR 4,705 thousand was classified as non-current assets held for sale. In the Group's statement of financial position as at 31 December 2017, the investment into Duomenų Logistikos Centras UAB amounting to EUR 5,106 thousand was classified as non-current assets held for sale.

Cash flows from investments into subsidiaries

Reconciliation of the factors that had impact on cash flows from the Group's and the Company's investments into subsidiaries to data reported in the statement of cash flows:

	Group		Company	
	2017	2016	2017	2016
Acquisition of subsidiaries	-	(23,717)	-	(23,717)
Increase in share capital of subsidiaries	-	-	(23,375)	(20,834)
Contributions to share capital of subsidiaries recognised as prepayments	-	-	(3,899)	(5,000)
Decrease in share capital of subsidiaries	-	-	12,606	-
Acquisition of shares of non-controlling interest	-	(3,952)	(4,284)	(9,055)
Proceeds on disposal of VšĮ Energetikų Mokymų Centras	62	-	62	-
Contributions against losses	-	-	(170)	(131)
Payments for the shares of subsidiaries acquired in previous periods	-	-	-	(45,989)
Other cash inflows (outflows)	-	291	-	-
Carrying amount	**62**	**(27,378)**	**(19,060)**	**(104,726)**

The Group's and the Company's cash flows related to buyout of shares from non-controlling interest:

	Group		Company	
	2017	2016	2017	2016
Buyout of shares of Lietuvos Energijos Gamyba AB	-	(5,103)	-	-
Acquisition of shares of LITGAS UAB	-	(3,952)	-	-
Acquisition of shares of EURAKRAS UAB	(4,283)	-	-	-
Acquisition of shares of Technologijų ir Inovacijų Centras UAB	(1)	-	-	-
	(4,284)	**(9,055)**	**-**	**-**

The Group's structure as at 31 December 2017:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's ownership interest, %	Profile of activities
Lietuvos Energija UAB	Lithuania	Parent company	-	-	Parent company
Subsidiaries:					
AB Energijos skirstymo operatorius	Lithuania	Subsidiary	94.98	5.02	Supply and distribution of electricity to consumers; distribution of natural gas
Lietuvos energijos gamyba AB	Lithuania	Subsidiary	96.75	3.25	Electricity generation, supply, import, export and trade.
NT Valdos UAB	Lithuania	Subsidiary	100.00	-	Operation of real estate, other related activities and provision of services
UAB Duomenų logistikos centras	Lithuania	Subsidiary	79.64	20.36	Provision of IT and telecommunication support services.
UAB Energetikos paslaugų ir rangos organizacija	Lithuania	Subsidiary	100.00	-	Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
UAB LITGAS	Lithuania	Subsidiary	100.00	-	Supply of liquefied natural gas via the terminal and trade in natural gas (100% of votes)
UAB Elektroninių mokėjimų agentūra	Lithuania	Subsidiary	100.00	-	Provision of payment collection services
Energijos tiekimas UAB	Lithuania	Subsidiary	100.00	-	Supply of electricity and natural gas.
Geton Energy OÜ	Estonia	Indirectly controlled subsidiary	100.00	-	Supply of electricity
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.00	-	Supply of electricity
Geton Energy sp.z.o.o.	Poland	Indirectly controlled subsidiary	100.00	-	Supply of electricity
UAB Technologijų ir inovacijų centras	Lithuania	Subsidiary	97.89	2.11	Provision of IT, telecommunication and other services.
UAB VAE SPB	Lithuania	Subsidiary	100.00	-	Business consulting and other management activities
UAB Verslo aptarnavimo centras	Lithuania	Subsidiary	98.40	1.60	Organisation and execution of public procurement, accounting, legal, personnel administration services
UAB Lietuvos dujų tiekimas	Lithuania	Subsidiary	100.00	-	Supply of gas
Lietuvos energijos paramos fondas	Lithuania	Subsidiary	100.00	-	Provision of support for projects, initiatives and activities of public interest.
UAB Vilniaus kogeneracinė jėgainė	Lithuania	Subsidiary	100.00	-	Modernisation of district heating supply in Vilnius city.
UAB Kauno kogeneracinė jėgainė	Lithuania	Subsidiary	51.00	49.00	Modernisation of district heating supply in Kaunas city.
Tuuleenergia OÜ	Lithuania	Subsidiary	100.00	-	Electricity generation from renewable energy sources
UAB Eurakras	Lithuania	Subsidiary	100.00	-	Electricity generation from renewable energy sources
UAB Energijos sprendimų centras	Lithuania	Subsidiary	100.00	-	Provision of energy saving services

The Group's structure as at 31 December 2016:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's ownership interest, %	Profile of activities
Lietuvos energija UAB	Lithuania	Parent company	-	-	Holding company
Subsidiaries:					
AB Energijos skirstymo operatorius	Lithuania	Subsidiary	94.98	5.02	Supply and distribution of electricity and natural gas, operation, maintenance and management of distribution networks and assurance of their security and reliability.
Lietuvos energijos gamyba, AB	Lithuania	Subsidiary	96.75	3.25	Electricity generation, supply, import, export and trade.
NT Valdos UAB	Lithuania	Subsidiary	100.00	-	Operation of real estate, other related activities and provision of services.
UAB Duomenų logistikos centras	Lithuania	Subsidiary	79.64	20.36	Provision of IT and telecommunication support services.
UAB Energetikos paslaugų ir rangos organizacija	Lithuania	Subsidiary	100.00	-	Transfer of electricity voltage, technical maintenance and operation of electric equipment of distribution network.
UAB LITGAS	Lithuania	Subsidiary	100.00	-	Supply of liquid natural gas via terminal and trade in natural gas.
UAB Elektroninių mokėjimų agentūra	Lithuania	Subsidiary	100.00	-	Provision of payment collection services
Energijos tiekimas UAB	Lithuania	Subsidiary	100.00	-	Electricity and natural gas supply
Geton Energy OÜ	Estonia	Indirectly controlled subsidiary	100.00	-	Electricity supply
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.00	-	Electricity supply
UAB Technologijų ir inovacijų centras	Lithuania	Subsidiary	97.80	2.20	Provision of IT, telecommunication and other services
UAB VAE SPB	Lithuania	Subsidiary	100.00	-	Business consulting and other management activities.
UAB Verslo aptarnavimo centras	Lithuania	Subsidiary	97.00	3.00	Organisation and execution of public procurement, accounting, legal, personnel administration and customer support services
UAB Lietuvos dujų tiekimas	Lithuania	Subsidiary	100.00	-	Gas supply
Lietuvos energijos paramos fondas	Lithuania	Subsidiary	100.00	-	Provision of support for projects, initiatives and activities of public interest
UAB Vilniaus kogeneracinė jėgainė	Lithuania	Subsidiary	100.00	-	Modernisation of district heating supply in Vilnius city.
UAB Kauno kogeneracinė jėgainė	Lithuania	Subsidiary	51.00	49.00	Modernisation of district heating supply in Kaunas city
Tuuleenergia OÜ	Estonia	Subsidiary	100.00	-	Development, construction of wind power plants, and electricity generation.
UAB Eurakras	Lithuania	Subsidiary	75.00	25.00	Development of wind farms.
UAB Energijos sprendimų centras	Lithuania	Subsidiary	100.00	-	Provision of energy saving services, implementation of development of renewable energy sources and other related works.
Všį Energetikų mokymo centras	Lithuania	Subsidiary	100.00	-	Professional development and continuing training of energy specialists.

As at 31 December 2017, the Company had ownership interest in the following Group companies:

Group company name	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Company's ownership interest (%)	Group's effective ownership interest (%)
Subsidiaries:						
AB Energijos skirstymo operatorius	710,921	-	-	710,921	94.98	94.98
Lietuvos energijos gamyba AB	299,936	-	-	299,936	96.75	96.75
NT Valdos UAB	41,117	(9,036)	-	32,081	100.00	100.00
Energijos Tiekimas UAB	23,906	-	-	23,906	100.00	100.00
UAB Vilniaus kogeneracinė jėgainė	21,003	-	-	21,003	100.00	100.00
UAB EURAKRAS	18,735	-	-	18,735	100.00	100.00
UAB Kauno kogeneracinė jėgainė	12,240	-	-	12,240	51.00	51.00
UAB LITGAS	12,640	(4,010)	-	8,630	100.00	100.00
UAB Lietuvos dujų tiekimas	8,369	-	-	8,369	100.00	100.00
Tuuleenergia OÜ	6,659	-	-	6,659	100.00	100.00
UAB Technologijų ir inovacijų centras	3,219	-	-	3,219	50.00	97.89
UAB Elektroninių mokėjimų agentūra	1,058	-	-	1,058	100.00	100.00
UAB Energijos sprendimų centras	1,670	-	-	1,670	100.00	100.00
UAB Verslo aptarnavimo centras	296	-	-	296	51.00	98.40
UAB Energetikos paslaugų ir rangos organizacija	9,137	(13,246)	4,300	191	100.00	100.00
Lietuvos energijos paramos fondas	3	-	-	3	100.00	100.00
UAB VAE SPB	1,117	(1,632)	515	-	100.00	100.00
Indirectly controlled entities:						
Geton Energy sp.z.o.o.	-	-	-	-	-	100.00
	1,172,026	**(27,924)**	**4,815**	**1,148,917**		

As at 31 December 2016, the Company had ownership interest in the following Group companies:

Group company name	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Company's ownership interest (%)	Group's effective ownership interest (%)
AB Energijos skirstymo operatorius	710,921	-	-	710,921	94.98	94.98
Lietuvos energijos gamyba AB	299,935	-	-	299,935	96.75	96.75
NT Valdos UAB	89,377	(9,036)	-	80,341	100.00	100.00
Energijos tiekimas, UAB	23,906	-	-	23,906	100.00	100.00
UAB Vilniaus kogeneracinė jėgainė	1,003	-	-	1,003	100.00	100.00
UAB EURAKRAS	17,058	-	-	17,058	75.00	75.00
UAB Kauno kogeneracinė jėgainė	5,487	-	-	5,487	51.00	51.00
UAB LITGAS	12,641	(785)	-	11,856	100.00	100.00
VšĮ Energetikų mokymų centras	309	(186)	-	123	100.00	100.00
UAB Lietuvos dujų tiekimas	8,369	-	-	8,369	100.00	100.00
Tuuleenergia OÜ	6,659	-	-	6,659	100.00	100.00
UAB Technologijų ir inovacijų centras	3,218	-	-	3,218	50.00	97.80
UAB Elektroninių mokėjimų agentūra	758	-	-	758	100.00	100.00
UAB Energijos sprendimų centras	348	-	-	348	100.00	100.00
UAB Verslo aptarnavimo centras	295	-	-	295	51.00	97.00
UAB Energetikos paslaugų ir rangos organizacija	9,137	(7,320)	-	1,817	100.00	100.00
Lietuvos energijos paramos fondas	3	-	-	3	100.00	100.00
UAB VAE SPB	1,014	(1,369)	445	90	100.00	100.00
	1,190,438	**(18,696)**	**445**	**1,172,187**		

The Group's investments in associates and joint ventures as at 31 December 2017 and 2016 were as follows:

Group	2017		Group	2016	
	Carrying amount	Group's ownership interest (%)		Carrying amount	Group's ownership interest (%)
Geoterma UAB	2,142	23.44		2,142	23.44
Total	**2,142**			**2,142**	
Group's share of losses of associates	(2,142)			(2,142)	
Carrying amount	**-**			**-**	

As at 31 December 2017, the Group did not account for its share of losses of associate Geoterma UAB for 2017, because the total amount of losses accumulated as at 31 December 2016 exceeded the Group's cost of investment and the Group did not have a commitment to cover these losses. The share of losses not recognised amounted to EUR 438 thousand as at 31 December 2016.

No data is available about associate's Geoterma UAB financial position as at 31 December 2017 and financial performance results for the year ended 31 December 2017. The table below presents the financial position and financial performance results of associates as at and for the year ended 31 December 2016 (unaudited):

	Assets	Liabilities	Sales revenue	Net profit/(loss) for the year
Geoterma UAB	6,042	7,390	1,228	(456)

Summarised statement of financial position of the Group companies with non-controlling interest as at 31 December 2017 and 2016:

Name	Current assets and liabilities			Non-current assets and liabilities			Name
Year	Assets	Liabilities	Total net current assets	Assets	Liabilities	Total net current assets	Net assets
Energijos skirstymo operatorius AB							
31 December 2017	80,367	(282,516)	(202,149)	1,161,462	(326,563)	834,899	632,750
31 December 2016	80,886	(182,514)	(101,628)	995,392	(243,716)	751,676	650,048
Lietuvos energijos gamyba AB							
31 December 2017	117,662	(46,148)	71,514	520,705	(236,578)	284,127	355,641
31 December 2016	150,910	(47,334)	103,576	668,520	(416,530)	251,990	355,566
Technologijų ir inovacijų centras UAB							
31 December 2017	3,893	(5,361)	(1,468)	8,413	(153)	8,260	6,792
31 December 2016	2,979	(3,221)	(242)	7,180	(47)	7,133	6,891
Duomenų logistikos centras UAB							
31 December 2017	(3,811)	(354)	(4,165)	4,683	(317)	4,366	201
31 December 2016	995	(1,353)	(358)	5,278	(335)	4,943	4,585
Verslo aptarnavimo centras UAB							
31 December 2017	3,653	(2,706)	947	92	-	92	1,039
31 December 2016	2,443	(1,788)	655	72	-	72	727
Kauno kogeneracinė jėgainė UAB							
31 December 2017	9,977	(470)	9,507	14,057	(3)	14,054	23,561
31 December 2016	6,248	(328)	5,920	4,703	-	4,703	10,623

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

Summarised statement of profit or loss and other comprehensive income of the Group companies with non-controlling interests for 2017 and 2016:

Name/Year	*Revenue*	*Profit (loss) before income tax*	*Income tax expense (benefit)*	*Net profit (loss) from continuing operations*	*Other comprehensive income (loss)*	*Total comprehensive income (loss) for the year*	*Profit (loss) attributable to non-controlling interest*	*Dividends paid to non-controlling interest*
Energijos skirstymo operatorius AB								
2017	**609,673**	83,002	(6,956)	76,046	(187)	**75,859**	3,808	4,663
2016	**647,425**	105,400	(14,638)	90,762	-	**90,762**	4,554	2,164
Lietuvos energijos gamyba AB								
2017	**149,814**	15,617	4,850	20,467	1,285	**21,752**	707	764
2016	**172,922**	48,330	(8,355)	39,975	-	**39,975**	1,396	887
Technologijų ir inovacijų centras UAB								
2017	**14,321**	339	(155)	184	-	**184**	4	6
2016	**14,500**	311	95	406	-	**406**	9	-
Duomenų logistikos centras UAB								
2017	**3,836**	491	(55)	436	-	**436**	89	15
2016	**4,359**	166	(7)	159	-	**159**	41	-
Verslo aptarnavimo centras UAB								
2017	**11,209**	544	(98)	446	-	**446**	7	2
2016	**9,724**	314	(52)	262	-	**262**	8	-
Kauno kogeneracinė jėgainė UAB								
2017	**-**	(280)	(22)	(302)	-	**(302)**	(148)	-
2016	**-**	(157)	22	(135)	-	**(135)**	-	-

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

Summarised statement of cash flows of the Group companies with non-controlling interest for the years 2017 and 2016:

Name/Year	Cash flows from operating activities	Income tax (paid) recovered	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase (decrease) in cash flows	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of the year
Energijos skirstymo operatorius AB								
2017	136,439	(7)	136,432	(199,304)	48,004	(14,868)	10,662	(4,206)
2016	180,180	(36)	180,144	(123,794)	(51,524)	4,826	5,836	10,662
Lietuvos energijos gamyba AB								
2017	59,993	-	59,993	3,659	(101,997)	(38,345)	99,045	60,700
2016	60,513	-	60,513	14,499	(42,143)	32,869	66,176	99,045
Technologijų ir inovacijų centras UAB								
2017	1,894	140	2,034	(4,338)	2,113	(191)	297	106
2016	2,782	(162)	2,620	(2,982)	(202)	(564)	862	298
Duomenų logistikos centras UAB								
2017	1,233	(23)	1,210	(318)	(887)	5	351	356
2016	1,495	-	1,495	(227)	(2,391)	(1,123)	1,474	351
Verslo aptarnavimo centras UAB								
2017	371	(137)	234	-	(134)	100	527	627
2016	175	(25)	150	-	(2)	148	379	527
Kauno kogeneracinė jėgainė UAB								
2017	(4,325)	-	(4,325)	(5,285)	13,241	3,631	6,130	9,761
2016	(150)	-	(150)	(524)	6,802	6,128	2	6,130

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

9 Amounts receivable after one year

Amounts receivable after one year consist of as follows:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Amount receivable on disposal of Litgrid AB (Notes 3, 4)	169,856	193,571	169,856	193,571
Finance lease	-	7,600	-	-
Deposited guarantees	9	943	-	-
Unbilled accrued revenue from electricity-related sales (Note 4)	-	246	-	-
Amounts receivable on emission allowances lent	103	157	-	-
Loans granted (Notes 9, 15)	470	599	325,744	2,900
Other non-current receivables	728	1,388	39	40
Total	**171,166**	**204,504**	**495,639**	**196,511**
Less: impairment allowance	(678)	(922)	(2,701)	-
Carrying amount	**170,488**	**203,582**	**492,938**	**196,511**

Information on the fair value of amount receivable from EPSO-G on disposal of Litgrid AB is presented in Note 3.1. The key contractual terms of the amount receivable from EPSO-G on disposal of Litgrid AB were reviewed in 2016 in relation to repayment terms and variable part of interest rate. Interest rate is based on 1 year EURIBOR.

According to agreement between the Company and EPSO-G, during the period of 2017-2021 EPSO-G will have to cover the debt for the shares of Litgrid AB. The final amount to be paid by EPSO-G is subject to final recalculation of the price premium. The non-current amount receivable is presented net of contingent consideration (Note 4) which had negative value of EUR 4,679 thousand as at 31 December 2017 (31 December 2016: 4,182 thousand).

Movements on the impairment allowance of amounts receivable during the years ended 31 December 2017 and 2016.

	Group		Company	
	2017	2016	2017	2016
At 1 January	**922**	**1,089**	**-**	**-**
Impairment	4,261	11	7,001	-
Coverage of subsidiaries' losses by loans granted	-	-	(4,300)	-
Reversal of impairment	(4,505)	(178)	-	-
At 31 December	**678**	**922**	**2,701**	**-**

In 2017, the Company recorded impairment of loans granted to subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB amounting to EUR 7,001 thousand. After a decision was made to cover the subsidiary's operational losses by offsetting against receivable loans, the impairment of loans amounting to EUR 4,300 thousand was reclassified to 'Investments in subsidiaries' in the statement of financial position.

Non-current loans

The Company's non-current borrowings as at 31 December 2017 consist of loans granted to subsidiaries:

	Company			
	Interest rate type	Within one year (Note 15)	After one year	Total
Energijos Skirstymo Operatorius AB, green bonds	Fixed interest	-	100,000	100,000
Energijos Skirstymo Operatorius AB, loans taken over	Variable interest	95,012	139,688	234,700
Tuuleenergia OÜ	Fixed interest	3,300	20,746	24,046
Eurakras UAB	Fixed interest	-	24,355	24,355
Energetikos Paslaugų ir Rangos Organizacija UAB	Variable interest	-	2,700	2,700
NT Valdos UAB	Variable interest	-	38,255	38,255
Carrying amount		**98,312**	**325,744**	**424,056**

On 13 October 2017, the Company and its subsidiary Energijos Skirstymo Operatorius AB signed the Proportional Transfer Agreement for Green Bonds for the transfer of a EUR 100 million portion of the green bonds issue to the subsidiary. The funds will be used for long-term investments in the upgrade of distribution networks. Liabilities assumed under the Agreement are to be fulfilled by 14 July 2027. The fixed interest rate was set for 2.23%. The Agreement does not provide other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

On 8 November 2017, the Company, its subsidiary Energijos Skirstymo Operatorius AB, and the creditors of the subsidiary, i.e. OP Corporate Bank Plc and SEB Bankas AB, signed trilateral agreements on the transfer of debt and rights and obligations. Under these agreements, the Company takes over from the subsidiary its entire debt obligation to creditors arising from loan agreements, together with all other rights and obligations arising from loan agreements, from the moment the contracts enters into force. As at 31 December 2017, the carrying amount of the loans taken over was EUR 234,700 thousand. The loans bear variable interest rate. As at 31 December 2017, the average weighted interest rate was 0.857% annual interest rate.

Under the loan agreement of 12 October 2017 signed between the Company and its subsidiary NT Valdos UAB, the debt of EUR 38,256 thousand arising from the reduction of the subsidiary's authorised share capital performed with the purpose of paying out funds to the Company (Note 8) will be repaid to the Company no later than by 11 August 2022.

Non-current loans by maturity:

	Group		Company	
	2017	2016	2017	2016
Between 1 and 2 years	54	61	60,362	2,900
Between 2 and 5 years	162	184	87,543	-
After 5 years	254	353	177,839	-
Carrying amount	**470**	**599**	**325,744**	**2,900**

The weighted average interest rates (%) on non-current loans granted with fixed and variable interest rates:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Fixed interest rate	0,550	0,550	2,474	-
Variable interest rate	-	-	0,871	1,181

10 Other non-current assets

Other non-current assets consist of as follows:

	Group		Company	
	2017	2016	2017	2016
Right to receive emission allowances in future	5,090	3,288	-	-
Less: impairment	(1,851)	(668)	-	-
Carrying amount	**3,239**	**2,620**	**-**	**-**

The Group's other non-current assets consist of emission allowances held by subsidiary Lietuvos Energijos Gamyba AB. Impairment of emission allowances was estimated with reference to the market prices of emission allowances as at 31 December 2017 and 2016.

11 Inventories

The inventories of the Group and the Company consist of as follows:

	Group		Company	
	2017	2016	2017	2016
Natural gas	46,084	28,514	-	-
Consumables, raw materials and spare parts	8,493	6,772	-	-
Heavy fuel oil	4,585	5,025	-	-
Other	957	961	-	-
Total	**60,119**	**41,272**	**-**	**-**
Less: write-down allowance	(3,253)	(3,155)	-	-
Carrying amount	**56,866**	**38,117**	**-**	**-**

The Group's inventories expensed during the year ended 31 December 2017 were as follows:

	Group		Company	
	2017	2016	2017	2016
Natural gas	249,739	250,735	-	-
Heavy fuel oil	1,546	494	-	-
Other inventories	13,086	17,650	-	-
Total	**264,371**	**268,879**	**-**	**-**

Movements on the account of inventory write-down to net realisable value during 2017 and 2016 were as follows:

	Group		Company	
	2017	2016	2017	2016
Carrying amount as at 1 January	**3,155**	**2,880**	**-**	**-**
Additional impairment	224	400	-	-
Reversal of impairment	(126)	(125)	-	-
Carrying amount at 31 December	**3,253**	**3,155**	**-**	**-**

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2017 amounted to EUR 4,406 thousand (31 December 2016: EUR 4,436 thousand).

Movements on the account of inventory write-down to net realisable value were recognised in the statement of comprehensive income within 'Other expenses'.

12 Prepayments and deferred expenses

The Group's and the Company's non-current prepayments as at 31 December 2017 and 2016 were as follows:

	Group		Company	
	2017	2016	2017	2016
Prepayments for property, plant, equipment	21,911	-	-	-
Prepayments for subsidiaries' authorised share capital (Note 8)	-	-	3,899	-
Carrying amount	**21,911**	**-**	**3,899**	**-**

The Group's and the Company's current prepayments as at 31 December 2017 and 2016 were as follows:

	Group		Company	
	2017	2016	2017	2016
Prepayments for natural gas	27,881	101	-	-
Deposits related to power exchange	5,930	4,539	-	-
Prepaid expenses	1,072	901	33	4
Prepayments for services	2,229	1,110	9	7
Prepayments for inventories	349	-	-	-
Payment for share capital issue of Vilniaus Kogeneracinė Jėgainė UAB (Note 8)	-	-	-	5,000
Other prepayments	658	316	-	-
Carrying amount	**38,119**	**6,967**	**42**	**5,011**

As at 31 December 2017, the Group's prepayments for natural gas mostly consisted of prepayments for natural gas of subsidiary Lietuvos Dujų Tiekimas UAB to PAO Gazprom in the amount of EUR 27,881 thousand.

13 Trade receivables

	Group		Company	
	2017	2016	2017	2016
Receivables on sales of electricity in Lithuania	71,221	76,941	-	-
Receivables on sales of gas from non-household users	36,008	30,907	-	-
Receivables on sales of gas from household users	2,616	2,887	-	-
Receivables on contract works	2,325	1,960	-	-
Receivable for the sales of heat	1,071	1,574	-	-
Receivable for rent of property	1,742	1,508	-	-
Receivables on exports of electricity and electricity produced abroad	1,771	1,228	-	-
Receivables for information technology and telecommunications services	819	735	-	-
Other trade receivables	5,146	5,219	-	-
Total	**122,719**	**122,959**	**-**	**-**
Less: impairment of trade receivables	(10,156)	(11,075)	-	-
Carrying amount	**112,563**	**111,884**	**-**	**-**

As at 31 December 2017, the Company had not pledged the claim rights to trade receivables.

As at 31 December 2016, Lietuvos Dujų Tiekimas UAB had a credit agreement with AB SEB bank for the maximum credit amount of EUR 30 million. As at 31 December 2016, amount of EUR 1,207 thousand was withdrawn as a security under the agreement performance guarantee issued by AB SEB bank. Deadline for the repayment of credit is 31 December 2017. To secure the repayment of credit, Lietuvos Dujų Tiekimas UAB pledged to the bank – all claim rights against amounts receivable under the agreement on supply of natural gas. The maximum amount that can be pledged is EUR 9.0 million.

Movements on the account of provision for impairment during 2017 and 2016 were as follows:

	Group		Company	
	2017	2016	2017	2016
At 1 January	11,075	12,978	-	-
Impairment charge for the year	(1,145)	1,381	-	-
Write-down of doubtful receivables	(97)	-	-	-
(Reversal) of impairment	323	(3,284)	-	-
At 31 December	**10,156**	**11,075**	**-**	**-**

Impairment of receivables was recognised in the statement of comprehensive income within 'Other expenses'.

The table below presents the ageing analysis of trade receivables that were not identified as doubtful:

	Group		Company	
	2017	2016	2017	2016
Not past due	99,964	99,703	-	-
Up to 30 days	7,049	5,034	-	-
30–60 days	2,177	1,635	-	-
60–90 days	542	614	-	-
90–120 days	745	306	-	-
Over 120 days	2,086	4,592	-	-
Carrying amount	**112,563**	**111,884**	**-**	**-**

The fair values of trade receivables as at 31 December 2017 and 2016 approximated their carrying amount.

14 Other amounts receivable

	Group		Company	
	2017	2016	2017	2016
Value added tax	5,793	5,412	1,775	-
Unbilled accrued revenue from electricity sales (including related VAT)	8,199	6,121	-	-
Accrued amounts receivable for electricity produced	8,487	267	-	-
Accrued amounts receivable for natural gas	1,770	-	-	-
Accrued revenue from contract works	1,815	774	-	-
Current portion of finance lease	-	1,990	-	-
Amount receivable on disposal of Litgrid AB (Notes 4,9,37)	-	12,222	-	12,222
Accrued interest and revenue from suretyship charges	277	435	302	435
Amount receivable on revision of Kauno Energetikos Remontas UAB shares price	-	-	1,056	1,056
Amount receivable on disposal of Energetikų Mokymo Centras VŠĮ	55	-	55	-
Other amounts receivable	1,819	2,429	2,134	581
Total	**28,215**	**29,650**	**5,322**	**14,294**
Less: impairment for other amounts receivable	(415)	(287)	-	-
Carrying amount	**27,800**	**29,363**	**5,322**	**14,294**

The fair value of other amounts receivable as at 31 December 2017 and 2016 approximated their carrying amount.

15 Current loans

Current borrowings of the Group and the Company as at 31 December 2017 and 2016 consist of as follows:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Current portion of non-current loans	-	-	98,312	-
Current loans	-	-	71,083	4,702
Interest receivable	-	-	-	200
Carrying amount	**-**	**-**	**169,395**	**4,902**

All current loans the Company accounted for as at 31 December 2017 were granted to subsidiaries and are subject to a variable interest rate, established by adding interest margin to the basic interest rate linked with EURIBOR. The weighted average interest rates (%) on current loans:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Fixed interest rate	-	-	-	4,485
Variable interest rate	-	-	0,683	-

16 Cash and cash equivalents

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Cash at bank	171,756	178,565	52,517	73
	171,756	**178,565**	**52,517**	**73**

Cash, cash equivalents and a bank overdraft include the following for the purposes of the cash flow statement:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Cash and cash equivalents	171,756	178,565	52,517	73
Bank overdraft	(10,655)	-	-	-
Carrying amount	**161,101**	**178,565**	**52,517**	**73**

The fair value of cash and cash equivalents as at 31 December 2017 and 2016 approximated their carrying amount.

Under the loan agreements signed with the banks, the Group has pledged current and future cash inflows (Note 20). As at 31 December 2017, the balance of cash pledged amounted to EUR 12,610 thousand (31 December 2016: EUR 139 thousand).

17 Non-current assets held for sale

Non-current assets held for sale consist of as follows:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Property, plant and equipment and investment property	56,360	878	10,012	77
Disposal group	22,941	-	-	-
Investments in subsidiaries	-	-	4,705	4,705
	79,301	**878**	**14,717**	**4,782**

Movements of non-current assets held for sale during 2017 and 2016 were as follows:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Net book value at 1 January	**878**	**209**	**4,782**	**77**
Disposals	(1,797)	(909)	-	-
Write-offs	(3)	-	-	-
Purchase of non-current assets for sale purposes	-	-	9,935	-
Revaluation of non-current assets	(4,553)	-	-	-
Reclassified (to) from:				
Intangible assets	*15*	-	-	-
Property, plant, and equipment	*34,986*	*1,580*	-	-
Incl.: impairment	*(62)*			
Investment property	*37,107*	-	-	-
Non-current finance lease receivables	*8,062*	-	-	-
Other items of non-current assets	*706*			
Investments in subsidiaries	-	-	-	*4,705*
Current finance lease receivables	*3,217*	-	-	-
Other items of current assets	*683*	*(2)*	-	-
Net book value at 31 December	**79,301**	**878**	**14,717**	**4,782**

The assets of subsidiary NT Valdos UAB related to its transport activities, which the Group plans to dispose of, are accounted for under the line item 'Disposal groups'. Liabilities disposed of together with these assets are accounted for under the line item 'Liabilities related to non-current assets held for sale'. On 11 December 2017, the Group approved the terms and conditions of unbundling according to which part of the assets and liabilities of subsidiary NT Valdos UAB that are related to the transport activity will be transferred to Transporto Valdymas UAB (Note 39). All vehicles and special heavyweight machinery of NT Valdos UAB will be transferred to Transporto Valdymas UAB.

As at 31 December 2017, assets and liabilities related to the transport activity that the Group plans to dispose of and that were accounted for in the Group's consolidated statement of financial position consisted of as follows:

	At 31 Dec 2017
ASSETS	
Non-current assets	
Intangible assets	15
Property, plant, and equipment	10,469
Amounts receivable after one year	8,371
Total non-current assets	**18,855**
Current assets	
Inventories	19
Prepayments	158
Other current assets	3,910
Total current assets	**4,087**
TOTAL ASSETS	**22,942**
LIABILITIES	
Non-current liabilities	
Provisions	21
Total non-current liabilities	**21**
Current liabilities	
Advance accounts received	184
Other current amounts payable and liabilities	129
Total current liabilities	**313**
TOTAL LIABILITIES	**334**

Finance lease

Information on the Group's financial lease receivables which were accounted for under the line item 'Assets held for sale' is given in the table below:

	Group		Company	
	2017	2016	2017	2016
Minimal lease payments				
Within a year	3,917	2,582	-	-
Years 2 through 5 combined	6,836	5,789	-	-
Beyond five years	3,303	3,954	-	-
Total	**14,056**	**12,325**	**-**	**-**
Unearned finance income			-	-
Within a year	(700)	(592)	-	-
Years 2 through 5 combined	(1,554)	(1,457)	-	-
Beyond five years	(523)	(686)	-	-
Total	**(2,777)**	**(2,735)**	**-**	**-**
Carrying amount	**11,279**	**9,590**	**-**	**-**

The Group during 2015 and 2017 entered into vehicles repurchase agreements that specify repurchase consideration for vehicles used by the Group for long-term rental services. Under all repurchase agreements, the agreed repurchase amount of a vehicle as at 31 December 2017 is EUR 4,905 thousand (31 December 2016: EUR 3,472 thousand). Periods for execution of vehicle repurchase agreements are in the range from 1 to 5 years.

With respect to (1) assessment of income from long-term lease, (2) the leased asset residual values at the end of the lease term, (3) the consideration that will be received on repurchase of vehicles, in 2017 reclassification of tangible assets to the long-term financial leasing amounted to EUR 10,662 thousand (2016: EUR 7,617 thousand).

The Group does not earn any contingent rent revenue related to financial lease agreements.

18 Equity

As at 31 December 2017 and 2016, the Company's share capital amounted to EUR 1,212,156.294. As at 31 December 2017 and 2016, the Company's share capital was divided into 4,179,849,289 ordinary registered shares with the nominal value of EUR 0.29 each.

As at 31 December 2017 and 31 December 2016, all shares were fully paid.

19 Reserves

Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Companies in Lithuania are required to transfer 5% of net profit from distributable profit until the total reserve reaches 10% of the share capital. The legal reserve cannot be used for the payment of dividends and it is formed to cover future losses only.

As at 31 December 2017, the Group's legal reserve amounted to EUR 46,512 thousand (31 December 2016: EUR 34,696 thousand).

In 2017, the Company transferred EUR 4,758 thousand (2016: EUR 5,551 thousand) to the legal reserve. The Company's legal reserve as at 31 December 2017 did not reached 10% of the share capital.

Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment due to increase in value. The revaluation cannot be used to cover losses.

As at 31 December 2017, the Group's revaluation reserve amounted to EUR 52,826 thousand (31 December 2016: EUR 57,475 thousand).

This reserve was not formed by the Company as company's property, plant and equipment is carried at cost.

Other reserves

Other reserves are formed based on the decision of shareholders and can be redistributed on the appropriation of the next year's profit. As at 31 December 2017, the Group accounted for the result of the translation of the Group's net investments (EUR 42 thousand) in Geton Energy sp.z.o.o., a Poland-based company indirectly controlled by the Company, into the Group's presentation currency within the item of other reserves. There were no other reserves neither at the Group nor at the Company as at 31 December 2016.

20 Borrowings

	Group		Company	
	2017	2016	2017	2016
Non-current				
Bank borrowings	186,087	364,957	139,687	23,440
Bonds issued	293,981	-	293,981	-
Current				
Current portion of non-current borrowings	119,599	90,008	95,013	2,131
Current borrowings	-	38,948	-	64,759
Bank overdrafts	10,655	-	-	-
Accrued interest	3,427	5	2,794	-
Total borrowings	**613,749**	**493,918**	**531,475**	**90,330**

Non-current borrowings by maturity:

	Group		Company	
	2017	2016	2017	2016
Between 1 and 2 years	66,124	112,341	57,362	2,131
Between 2 and 5 years	73,039	181,793	48,587	6,393
After 5 years	340,905	70,823	327,719	14,916
Total	**480,068**	**364,957**	**433,668**	**23,440**

The carrying amounts of the Group and the Company borrowings are denominated in Euros.

As at 31 December 2017, the fair value of borrowings approximated their carrying amount, except for borrowings of Lietuvos Energijos Gamyba AB with the carrying amount of EUR 55,247 thousand (31 December 2016: EUR 132,459 thousand). The fair value of these borrowings was approx. EUR 50,064 thousand as at 31 December 2017 (31 December 2016: EUR 127,743 thousand). The fair value was measured as present value of discounted cash flows at a discount rate of 2.37% (31 December 2016: 2.37%). The fair value of borrowings is attributed to Level 2 in the fair value hierarchy.

The loan agreements contain financial and non-financial covenants that the individual Group companies are obliged to comply with. All Group companies complied with the covenants as at 31 December 2017 and 2016.

As at 31 December 2017, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 382,645 thousand (31 December 2016: EUR 180,412 thousand).

As at 31 December 2017, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 180,000 thousand (31 December 2016: EUR 71,052 thousand).

Under the agreement for the loan of EUR 190 million designated for the funding of the construction of a co-generation power plant in Vilnius signed between Vilniaus Kogeneracinė Jėgainė UAB and the European Investment Bank (EIB) on 5 December 2016, the Company and the Group have to comply with the requirements related to equity and other financial indicators. The Company is committed to:

a) The State of Lithuania, directly or indirectly, will retain control over the Company;
b) The Company's financial commitments that are not secured with collateral (a pledge or guarantee) will not exceed EUR 300,000 thousand.

The Group is committed to:

a) Group net debt-to-equity ratio will not exceed one;
b) Net debt and EBITDA ratio will not exceed four;
c) The Group's borrowings and property, plant and equipment ratio will not exceed the rate of 0.40.

As at 31 December 2017 and 2016, the Group and the Company complied with the requirements defined in the agreement with the European Investment Bank.

On 14 July 2017, the Company issued bonds worth EUR 300 million at Luxembourg Stock Exchange, ISIN code of bonds: XS1646530565. The Company pays 2.000% interest per annum on the issued bonds. Net cash inflows related to the issued bonds amounted to EUR 293,834 thousand. Bonds will be redeemed on 14 July 2027. In the statement of financial position as at 31 December 2017, the Company accounted for the bond issue debt of EUR 293,981, the fair value of which was EUR 297,680 thousand. In 2017, expenses related to interest on the issued bonds totalled EUR 3,017 thousand. The accrued amount of coupon payables as at 31 December 2017 amounted to EUR 2,794 thousand.

On 8 November 2017, the Company, its subsidiary Energijos Skirstymo Operatorius AB, and the creditors of the subsidiary, i.e. OP Corporate Bank Plc and SEB Bankas AB, signed trilateral agreements on the transfer of debt and rights and obligations. Under these agreements, the Company takes over from the subsidiary its entire debt obligation to creditors arising from loan agreements, together with all other rights and obligations arising from loan agreements. Refinanced borrowings bear variable interest rate with repricing period up to 3 months. No assets are provided as collateral for borrowings. The agreements provide partly quarterly repayments.

As at 31 December 2016, the Company's non-current borrowings consisted of the loan granted by SEB Bankas AB for the purpose of funding the Company's activities, i.e. the acquisition of new wind power parks. The outstanding balance of the loan amounted to EUR 25,571 thousand as at 31 December 2016.

The Company's current borrowings as at 31 December 2016 consist of as follows:

a) Under the credit line agreement, the debt to SEB Bankas AB is EUR 38,948 thousand;
b) Under the cashpool agreement (Note 36), current borrowings amounted to EUR 25,811 thousand.

The weighted average interest rates (%) on the Group's and the Company's borrowings payable with fixed and variable interest rates:

	Group		Company	
	At 31 Dec 2017	At 31 Dec 2016	At 31 Dec 2017	At 31 Dec 2016
Non-current				
Fixed interest rate	2.234	-	2.234	-
Variable interest rate	0,934	1,173	0,798	1,260
Current				
Variable interest rate	0,550	0,630	-	0,630

Net debt reconciliation

This Note sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt balances as at 31 December 2017 and 31 December 2016:

	Group		Company	
	2017	2016	2017	2016
Cash and cash equivalents	(171,756)	(178,565)	(52,517)	(73)
Borrowings payable after one year	480,068	364,957	433,668	23,440
Borrowings payable within one financial year (including overdraft)	133,681	128,961	97,807	66,890
Finance lease liabilities	332	473	-	-
Net debt	**442,325**	**315,826**	**478,958**	**90,257**
Cash and cash equivalents	(171,756)	(178,565)	(52,517)	(73)
Borrowings – fixed interest rates	293,981	-	293,981	-
Borrowings – variable interest rates	320,100	494,391	237,494	90,330
Net debt	**442,325**	**315,826**	**478,958**	**90,257**

For the purpose of net debt calculation, borrowings comprise only debts to financial institutions and other debts relating to financing.

Reconciliation of the Group's net debt balances and cash flows from financing activities of 2017:

Group	Assets	Borrowings					Total
	Cash	Current portion of finance lease liabilities	Non-current portion of finance lease liabilities	Current borrowings	Current portion of non-current borrowings	Non-current portion of non-current borrowings	
Net debt as at 1 January 2017	**(178,565)**	**157**	**316**	**38,953**	**90,008**	**364,957**	**315,826**
Cash changes							
Increase (decrease) in cash and cash equivalents (including overdraft)	6,809	-	-	10,655	-	-	17,464
Proceeds from borrowings	-	-	-	-	-	97,305	97,305
Issue of bonds	-	-	-	-	-	293,759	293,759
(Repayments) of borrowings	-	-	-	(35,526)	(90,008)	(159,370)	(284,904)
Finance lease payments	-	(158)	-	-	-	-	(158)
Non-cash changes							
Additions – financial lease	-	-	17	-	-	-	17
Interest payables	-	-	-	-	-	3,016	3,016
Reclassifications between items	-	146	(146)	-	119,599	(119,599)	-
Net debt as at 31 December 2017	**(171,756)**	**145**	**187**	**14,082**	**119,599**	**480,068**	**442,325**

Reconciliation of the Company's net debt balances and cash flows from financing activities of 2017:

Company	Assets	Borrowings			Total
	Cash	Current borrowings	Current portion of non-current borrowings	Non-current portion of non-current borrowings	
Net debt as at 1 January 2017	**(73)**	**64,759**	**2,131**	**23,440**	**90,257**
Cash changes					
Increase (decrease) in cash and cash equivalents (including overdraft)	(52,444)	-	-	-	(52,444)
Loans received	-	-	-	-	-
Issue of bonds	-	-	-	293,759	293,759
(Repayments) of borrowings	-	(64,759)	(2,131)	(39,772)	(106,662)
Non-cash changes					
Loans taken over	-	-	-	251,032	251,032
Interest payables	-	2,794	-	222	3,016
Reclassifications between items	-	-	95,013	(95,013)	-
Net debt as at 31 December 2017	**(52,517)**	**2,794**	**95,013**	**433,668**	**478,958**

21 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax relates to the same fiscal authority. Movements on the accounts of deferred income tax assets and liabilities during the reporting period were as follows:

Group	At 31 Dec 2015	Recognised in profit or loss	Recognised in other comprehensive income	Increase upon acquisition of subsidiary	At 31 Dec 2016	Recognised in profit or loss	Realisation of unrecognised tax losses	Recognised in other comprehensive income	At 31 Dec 2017
Deferred income tax assets									
Difference on recognition of revenue from new customer connection services	166	(182)	-	-	(16)	16	-	-	-
Deferred income	4,451	(2,267)	-	-	2,184	1,463	-	-	3,647
Accrued expenses	1,983	(1,487)	-	-	496	1,721	-	-	2,217
Impairment of assets	5,257	(146)	-	-	5,111	738	-	-	5,849
Tax losses not utilised	5,210	3,694	-	52	8,956	(202)	-	-	8,754
Difference of financial and tax value of assets identified in business combination	-	2,785	-	-	2,785	(198)	-	-	2,587
Other	-	(649)	-	72	(577)	2,366	-	-	1,789
Deferred income tax assets before write-down to net realisable value	**17,067**	**1,748**	**-**	**124**	**18,939**	**5,904**	**-**	**-**	**24,843**
Less: write-down to net realisable value	(3,241)	(5,019)	-		(8,260)	34	3,505	-	(4,721)
Deferred income tax assets, net	**13,826**	**(3,271)**	**-**	**124**	**10,679**	**5,938**	**3,505**	**-**	**20,122**
Deferred income tax liabilities									
Valuation of PP&E (increase/decrease in value) and differences in depreciation rates	22,610	9,354	67	49	32,080	8,197	-	192	40,469
Tax relief on acquisition of PP&E	2,709	(533)	-	-	2,176	1,980	-	-	4,156
Increase in value of assets	10	(1)	(9)	-	-	-	-	-	-
Accrued expenses	-	(166)	-	-	(166)	166	-	-	-
Difference on recognition of revenue from new customer connection services	2,788	(39)	-	-	2,749	(245)	-	-	2,504
Effects from revaluation of financial assets	-	689	-	-	689	(609)	-	-	80
Difference of financial and tax value of assets identified in business combination	-	(171)	-	2,235	2,064	(186)	-	-	1,878
Other	5,869	-	-	-	5,869	(5,869)	-	-	-
Deferred income tax liability, net	**33,986**	**9,133**	**58**	**2,284**	**45,461**	**3,434**	**-**	**192**	**49,087**
Deferred income tax, net	**(20,160)**	**(12,404)**	**(58)**	**(2,160)**	**(34,782)**	**2,504**	**3,505**	**(192)**	**(28,965)**

Group statement of financial position presented separately deferred tax assets (EUR 6,569 thousand) and deferred tax liabilities (EUR 36,049 thousand) if they relate to different subsidiaries, the net balance of deferred tax is liability of EUR 29,480 thousand.

Company	At 31 Dec 2015	Recognised in profit or loss	Recognised in other comprehensive income	At 31 Dec 2016	Recognised in profit or loss	Recognised in other comprehensive income	At 31 Dec 2017
Deferred income tax assets							
Accrued expenses	59	34	-	93	19	-	112
Tax losses not utilised	-			-	437		437
Deferred income tax assets, net	**59**	**34**	**-**	**93**	**456**	**-**	**549**
Deferred income tax liabilities							
Valuation result of financial assets	9	-	(9)	-	-	-	-
Deferred income tax liability, net	**9**	**-**	**(9)**	**-**	**-**	**-**	**-**
Deferred income tax, net	**50**	**34**	**9**	**93**	**456**	**-**	**549**

As at 31 December 2017, the Group did not recognise deferred income tax assets on accumulated tax loss from operations of EUR 46,493 thousand (31 December 2016: EUR 55,067 thousand).

22 Grants and subsidies

The balance of grants comprises grants to finance acquisition of assets, funds received from the International Fund for Support of Decommissioning of Ignalina Nuclear Power Plant, from the EU structural funds, and property, plant and equipment and intangible assets received in return for no consideration from the Government of the Republic of Lithuania. Movements on the account of grants in 2017 and 2016 were as follows:

Group	Asset-related grants		Grants for emission allowances	Total
	Asset-related grants and other projects of the Group	Projects for renovation, improvement of environmental and security standards		
Balance at 31 December 2015	**44,465**	**251,941**	**31**	**296,437**
Depreciation of property, plant and equipment	(1,609)	(10,798)	-	(12,407)
Grants received	424	-	1,733	2,157
Emission allowances utilised	-	-	(1,257)	(1,257)
Grants reversed	(1)	-	-	(1)
Balance at 31 December 2016	**43,279**	**241,143**	**507**	**284,929**
Depreciation of property, plant and equipment	(1,446)	(18,776)	-	(20,222)
Grants received	7,724	74	1,128	8,926
Emission allowances utilised	-	-	(436)	(436)
Grants reversed due to recognised impairment of PP&E (Note 4) and other reasons	(14)	(72,872)	-	(72,886)
Balance at 31 December 2017	**49,543**	**149,569**	**1,199**	**200,311**

Amortisation of grants is included to profit and loss and charged against the depreciation expenses of the related property, plant and equipment. Grants reversed are reported within revaluation/impairment of assets and these expenses are presented net of grants reversed.

In 2017, grants reversed due to recognised impairment of property, plant, and equipment of subsidiary Lietuvos Energijos Gamyba AB amounted to EUR 72,872 thousand.

23 Deferred revenue

	Group		Company	
	2017	2016	2017	2016
At 1 January	**52,214**	**53,602**	**-**	-
Received during the period	4,902	1,156	-	-
Utilised during the period	(2,607)	(2,544)	-	-
Total	**54,509**	**52,214**	**-**	**-**

Deferred revenue represents income from connection of new customers to natural gas system and to the electricity grid.

Income from connection of new customers to natural gas system is recognised over the average useful life of related items of property, plant and equipment.

As from 1 July 2009, all income from connection of new customers to the electricity grid and from relocation of electricity network facilities is recognised in the period when the works are performed. Until 1 July 2009, deferred revenue was recognised over the average useful life of related items of property, plant and equipment (see Note 2.21).

Income from connection of customers is included to revenue line in profit and loss.

24 Provisions

	Group		Company	
	2017	2016	2017	2016
Non-current	1,893	3,254	2,903	-
Current	2,498	12,883	-	-
Total	**4,391**	**16,137**	**2,903**	**-**

	Provisions for onerous contracts	Emission allowance liabilities	Provisions for employee benefits	Other provisions	Total
At 31 December 2015	**21,368**	**3,735**	**3,189**	**125**	**28,417**
Increase during the period	8,100	442	839	-	9,381
Revaluation of provisions for emission allowances	-	138	-	-	138
Utilised during the period	(19,176)	(2,999)	(32)	-	(22,207)
Decrease/increase on change of assumptions	-	-	533	(125)	408
At 31 December 2016	**10,292**	**1,316**	**4,529**	**-**	**16,137**
Increase during the period	-	913	537	-	1,450
Utilised during the period	(10,292)	(1,316)	(1,369)	-	(12,977)
Revaluation of utilised emission allowances	-	(384)	-	-	(384)
Result of change in actuarial assumptions	-	-	187	-	187
Reclassified to liabilities related to assets held for sale	-	-	(22)	-	(22)
At 31 December 2017	**-**	**529**	**3,862**	**-**	**4,391**

Provisions for employee benefits include a statutory retirement benefit payable to the Group's employees. The balance of provisions at the reporting date is reviewed with reference to actuarial calculations to ensure that estimation of retirement benefit liabilities is as much accurate as possible. The liabilities are recognised at discounted value using the market interest rate.

In establishing the price of gas for customers from 1 July 2017, the additional discount on the price of gas agreed between Lithuania and Gazprom for gas supplied from the beginning of 2013 to April 2014 is no longer applied as the entire amount of the discount was utilised as at 1 July 2017. In this respect, no provisions for onerous contracts were established as at 31 December 2017.

As at 31 December 2017, the Company's provisions consisted of the guarantee issued to the subsidiaries for the loans granted to Energetikos Paslaugų ir Rangos Organizacija UAB under cashpool agreements.

25 Other non-current amounts payable and liabilities

	Group		Company	
	2017	2016	2017	2016
Advance amounts of PSO service fees received	5,494	9,219	-	-
Non-current trade payables	819	813	-	-
Amounts payable to LITGRID for shares acquired	33	31	33	31
Non-current amounts payable for acquired shares of subsidiaries	-	-	9,666	9,272
Derivative financial instruments (Note 27)	-	851	-	15
Other	960	866	108	40
Carrying amount	**7,306**	**11,780**	**9,807**	**9,358**

The current portion of advance amounts of PSO service fees received is attributed to prepayments received. The Company's subsidiary Lietuvos Energijos Gamybe AB will repay EUR 5,545 thousand of advance amounts of PSO service fees received, the discounted value of which was equal to EUR 5,494 thousand as at 31 December 2017.

Deferred payment for the shares of NT Valdos UAB

In April 2015, the Company acquired the shares of NT Valdos UAB from LESTO AB, Lietuvos Energijos Gamyba AB, Duomenų Logistikos Centras UAB and Litgrid AB, thereby resulting in 100% direct control over NT Valdos UAB. Under the agreement valid as at 31 December 2017, the Company was obliged to settle for the acquired shares of NT Valdos UAB until 31 March 2019. However, on 8 February 2018 the Company made an agreement (Note 39) according to which the debt for the shares of NT Valdos UAB will be settled by 31 March 2018. As at 31 December 2017, the fair value of the Company's deferred payment for the shares of NT Valdos UAB approximated its carrying amount and was equal to EUR 9,699 thousand (2016: EUR 9,257 thousand). The deferred payment is attributed to Level 3 of the fair value hierarchy.

26 Trade payables

	Group		Company	
	2017	2016	2017	2016
Amounts payable for electricity and heavy fuel oil	48,844	48,600	-	-
Amounts payable for construction works, services	7,517	10,113	-	-
Amounts payable for gas	28,734	28,046	-	-
Other amounts payable	13,243	9,359	506	343
Carrying amount	**98,338**	**96,118**	**506**	**343**

27 Other current amounts payable and liabilities

	Group		Company	
	2017	2016	2017	2016
Employment-related liabilities	4,857	6,561	729	612
Accrued expenses and deferred revenue for electricity and gas	2,130	1,666	-	-
Amounts payable for property, plant and equipment	65,189	34,149	-	45
Taxes (other than income tax)	9,494	9,224	-	11
Accrued expenses and deferred revenue	17,738	16,283	94	-
Derivative financial instruments	57	2,907	-	-
Put option redemption liability (Note 4)	9,996	4,481	-	-
Non-controlling interest dividends	2,687	2,553	-	
Other amounts payable and liabilities	2,515	1,740	-	49
Carrying amount	**114,663**	**79,564**	**823**	**717**

Derivative financial instruments

As at 31 December 2017, assets and liabilities related to the Group's and the Company's agreements on derivative financial instruments were as follows:

	Group		Company	
	2017	2016	2017	2016
Other current assets				
Derivative financial instruments linked to the market price of electricity	856	4,593	-	-
Derivative financial instrument linked to the market price of gas	228	13	-	-
Total	**1,084**	**4,606**	**-**	**-**
Other non-current amounts payable and liabilities				
Interest rate swaps	-	851	-	15
Other non-current amounts payable and liabilities				
Interest rate swaps	-	493	-	-
Derivative financial instruments linked to the market price of electricity	57	2,414	-	-
Total	**57**	**3,758**	**-**	**15**

The Group's and the Company's revenue earned and expenses incurred during 2017 and 2016 related to derivative financial instruments are summarised as follows:

	Group		Company	
	2017	2016	2017	2016
At 1 January	**848**	**-**	**(15)**	**-**
Change on acquisition of a subsidiary	-	(972)	-	-
Realized result recognised in profit or loss	1,110	781	142	-
Closure of derivative financial instruments	(1,986)	(954)	(127)	-
Unrealised result recognised in profit or loss	1,055	1,993	-	(15)
At 31 December	**1,027**	**848**	**-**	**(15)**

In 2017, the realised result of interest-rate derivative hedging instruments amounted to a loss of EUR 1,050 thousand at the Group, and a profit of EUR 127 thousand at the Company. As at 31 December 2017, the Group and the Company did not have any valid interest-rate derivative hedging instruments.

At 1 January 2016 The Company's subsidiary Energijos Tiekimas UAB joined the electricity derivatives exchange NASDAQ Commodities. Energijos Tiekimas UAB is currently the only Lithuanian electricity provider, active in the stock market. Trading of derivative products can reduce electricity price fluctuation risks, as well as to carry out commercial activities, making use of fluctuations in market

prices. Energijos Tiekimas UAB performs the market maker functions in respect of financial instruments linked to Latvian electricity market prices (EPAD Riga).

Measurement of fair value of derivative financial instruments

The Group and the Company recognise derivative financial instruments at fair value. The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2017:

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Assets:				
Derivative financial instruments linked to the market price of electricity	405	451	-	856
Derivative financial instrument linked to the market price of gas	228	-	-	228
Liabilities:				
Derivative financial instruments linked to the market price of electricity	-	(57)	-	(57)
Interest rate swaps	-	-	-	-
Total	**633**	**394**	**-**	**1,027**

Derivative financial instruments linked to the market price of electricity acquired at the Nasdaq Commodities exchange are attributed to Level 1 of the fair value hierarchy. These instruments are measured according to the prices of products announced by the Nasdaq Commodities exchange.

The Group attributes to Level 2 of the fair value hierarchy derivative financial instruments linked with the Lithuanian/Latvian and Estonian/Finish electricity price areas. Derivative financial instruments acquired directly from other market participants (over-the-counter contracts) and physical transmission rights acquired are estimated based on the prices of the NASDAQ Commodities exchange by additionally adding price area differences (a potential risk) that are evaluated using the expert method.

The interest swap fair value is determined using the discounted cash flow method and corresponds to Level 2 of the fair value hierarchy.

28 Sales revenue

	Group		Company	
	2017	2016	2017	2016
Revenue from sale of electricity	751,480	773,344	-	-
Revenue from sale of gas	295,068	282,040	-	-
Other sales revenue	17,911	15,158	2,972	1,802
Total	**1,064,459**	**1,070,542**	**2,972**	**1,802**

29 Other income

	Group		Company	
	2017	2016	2017	2016
Repair services	13,323	8,960	-	-
IT and communications services	3,571	5,090	-	-
Lease income	7,840	7,242	136	2
Interest received on finance lease	236	402	-	-
Result on disposal of investments in subsidiaries	352	-	24	-
Interest on late payments equivalent to interest	1,085	-	-	-
Other income	9,965	9,394	356	-
Total	**36,372**	**31,088**	**516**	**2**

The Group companies provide repair services that comprise maintenance, operation, repair and construction of electricity voltage transmission and distribution network electricity equipment.

The Group provides motor vehicle and real estate lease services under operating lease contracts concluded for definite period, which may be extended for additional period ranging from several hours to several years. Income from lease of motor vehicles and real estate is recognised as income in profit or loss on a proportionate basis over the entire lease term.

30 Purchases of electricity, gas for trade, and related services

	Group		Company	
	2017	2016	2017	2016
Costs of purchases of gas for trade	251,164	236,159	-	-
Purchases of electricity and related services	450,005	446,887	-	-
Purchases of subcontract services	11,129	8,692	-	-
Total	**712,298**	**691,738**	**-**	**-**

31 Other expenses

	Group		Company	
	2017	2016	2017	2016
Taxes	6,450	6,684	182	53
Write-off of property, plant, and equipment (Note 6)	4,564	3,393	-	-
Customer service	4,048	3,399	-	-
Telecommunications and IT services	3,822	3,622	285	232
Utility services	2,479	2,310	44	71
Transport	1,853	1,601	124	117
Leases	1,439	2,107	191	180
Expenses of low-value inventories	1,274	1,183	-	-
Write-offs of non-current and current amounts receivable (bad debts)	1,145	2,021	-	
Consultation services	1,126	975	309	394
Personnel development	797	711	108	69
Utility services for leased out assets	564	-	564	-
Business trips	429	439	61	55
Business support services	-	-	251	232
Expenses on revaluation and provisions for emission allowances	(2,296)	3,278	-	-
Whereof:				
revaluation of emission allowances lent	(616)	332	-	-
provision expenses for emission allowances (Note 24)	(384)	138	-	-
Expenses (income) on impairment of other non-current assets (Note 10)	1,183	(1,131)	-	-
Write-down allowance for inventories (reversal) (Note11)	(98)	275	-	-
Impairment of goodwill identified on acquisition of Tuuleenergia	-	296	-	
Provision for guarantees for the fulfilment of obligations of the subsidiaries	-	-	2,903	-
Other expenses	4,930	5,922	788	389
Carrying amount	**33,709**	**37,085**	**5,810**	**1,792**

Presented below are all services rendered by the audit firm to the Group and the Company in 2017:

	Group	Company
Audit of the financial statements under the agreements	169	11
Assurance and other related services	101	75
Tax consultation services	-	-
Expenses of other services	34	22
Carrying amount	**304**	**108**

32 Finance income

	Group		Company	
	2017	2016	2017	2016
Interest income	1,520	2,858	3,147	3,871
Interest on late payments equivalent to interest	-	470	-	-
Derivative financial instruments revaluation result (Note 27)	319	136	142	-
Other finance income	324	256	299	9,655
Total	**2,163**	**3,720**	**3,588**	**13,526**

The Company's interest income mostly relates to a loan granted to EPSO-G UAB.

As at 31 December 2017, the Company accounted for the reversal of deferred payment for subsidiary NT Valdos UAB equal to EUR 248 thousand, which was included in other finance income as the agreements signed on 8 February resulted in the disappearance of uncertainty relating to the amount of deferred payment for shares of NT Valdos UAB.

As at 31 December 2016, the Company accounted for the reversal of deferred payment for subsidiary NT Valdos UAB equal to EUR 9,036 thousand as based on management's judgement risk existed that the maximum financial indicators set in the sale agreement will not be achieved.

33 Finance costs

	Group		Company	
	2017	2016	2017	2016
Interest expenses	7,858	5,760	3,802	732
Derivative financial instruments revaluation result (Note 27)	-	370	-	15
Other finance costs	1,240	726	489	485
Total	**9,098**	**6,856**	**4,291**	**1,232**

34 Income tax expenses

Income tax expenses for the period comprise year period income tax and deferred income tax. Profit for 2017 is taxable at a rate of 15 per cent (2016: 15 per cent) in accordance with the Lithuanian regulatory legislation on taxation.

	Group		Company	
	2017	2016	2017	2016
Current year income tax expenses	2,682	13,373	(2)	23
Deferred income tax expenses (benefit)	(6,009)	12,404	(456)	-34
Income tax expenses (benefit) recognised in profit or loss	**(3,327)**	**25,777**	**(458)**	**(11)**

Income tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Company:

	Group		Company	
	2017	2016	2017	2016
Profit (loss) before tax	90,198	144,215	105,456	95,144
Income tax expenses (benefit) at tax rate of 15%	13,530	21,632	15,818	14,272
Expenses not deductible for tax purposes	915	7,010	2,432	1,161
Income not subject to tax	(3,146)	(3,904)	(18,706)	(15,444)
Income tax relief for the investment project	(8,719)	(4,098)	-	-
Adjustments in respect of prior years	(2,436)	48	(2)	-
Tax losses utilised	-	70	-	-
Realisation of unrecognised tax losses	(3,505)	-	-	-
Unrecognised deferred income tax on tax losses	34	5,019	-	-
Income tax expenses (benefit)	**(3,327)**	**25,777**	**(458)**	**(11)**

35 Dividends

Dividends declared by the Company in 2017 and 2016:

	2017		2016	
	EUR '000	Dividends per share	EUR '000	Dividends per share
Lietuvos energija, UAB	59,752	0.0143	97,194	0.0233
Number of shares	4,179,849,289		4,179,849,289	

Dividends declared by the Group companies in 2017:

Date on which dividends were declared	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Dividends attributable to the Group's non-controlling interest
24/03/2017	AB „Energijos skirstymo operatorius"	second half of 2016	0.05786	51,763	49,166	2,597
24/03/2017	„Lietuvos energijos gamyba", AB	second half of 2016	0.02000	12,702	12,289	413
29/03/2017	UAB Verslo aptarnavimo centras	the year 2016	0.06690	134	68	2
3/04/2017	UAB LITGAS	the year 2016	0.06700	3,000	3,000	-
4/04/2017	Energijos tiekimas UAB	the year 2016	0.58000	10,000	10,000	-
7/04/2017	UAB Duomenų logistikos centras	the year 2016	0.00500	76	60	15
7/04/2017	UAB Technologijų ir inovacijų centras	the year 2016	0.01280	284	143	6
5/05/2017	UAB „EURAKRAS"	the year 2016	2.12000	592	444	148
29/09/2017	AB „Energijos skirstymo operatorius"	first half of 2016	0.04600	41,153	39,088	2,066
29/09/2017	„Lietuvos energijos gamyba", AB	first half of 2017	0.01700	10,796	10,446	351
				130,500	**124,704**	**5,598**

Dividends declared by the Group companies in 2016:

Date on which dividends were declared	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Dividends attributable to the Group's non-controlling interest
29/03/2016	AB „Energijos skirstymo operatorius"	second half of 2015	0.03420	30,596	29,061	1,535
30/03/2016	NT Valdos UAB	the year 2015	0.42310	1,250	1,250	-
8/04/2016	UAB Technologijų ir inovacijų centras	second half of 2015	0.00900	200	100	4
12/04/2016	UAB LITGAS	second half of 2015	0.02650	1,194	796	398
26/09/2016	„Lietuvos energijos gamyba", AB	first half of 2016	0.04300	27,309	26,421	888
26/09/2016	AB „Energijos skirstymo operatorius"	first half of 2016	0.01400	12,525	11,897	628
				73,074	**69,525**	**3,453**

Basic and diluted earnings per share (in EUR)

As at 31 December 2017 and 31 December 2016, the weighted average number of shares, based on which the earnings per share are calculated was 1,212,156. As at 31 December 2017 and 31 December 2016 as well as during the periods ending at these dates, the Company had no dilutive options outstanding, therefore, basic and diluted earnings per share do not differ. In 2017 and 2016, basic and diluted earnings per share were as follows:

	Company	
	2017	2016
Net profit for the year attributable to shareholders	105,914	95,155
Weighted average number of shares (units)	1,212,156	1,212,156
Basic and diluted earnings (loss) per share (EUR)	**87.38**	**78.50**

36 Contingent liabilities and off-balance sheet commitments

Guarantees issued and received by the Company

Name of the subsidiary	Beneficiary of the guarantee	Date of issue of the guarantee	Maturity	Maximum amount of the guarantee	At 31 December 2017	At 31 December 2016
UAB „EURAKRAS“	AB SEB bankas	5/04/2016	-	-	-	24,929
UAB „EURAKRAS“	AB SEB bankas	5/04/2016	-	-	-	836
UAB Vilniaus kogeneracinė jėgainė	European Investment Bank	30/12/2016	6/12/2033	190,000	-	-
UAB Kauno kogeneracinė jėgainė	"Swedbank", AB	18/10/2017	18/10/2022	61,200	-	-
UAB Energijos sprendimų centras	Luminor (Nordea)	4/10/2016	30/09/2020	735	-	-
Companies of „Lietuvos energija“, UAB group	Companies of „Lietuvos energija“, UAB group	the year 2016	31/12/2018	-	15,428	10,065
				251,935	**15,428**	**35,830**

The Group companies can lend each other their funds by virtually transferring them to the Group's corporate account (cashpool) opened at the bank Swedbank AB. The Company guarantees that funds borrowed by the Group companies at the cashpool account are timely repaid to the Group companies that have lent funds. As at 31 December 2017, the amount lent and borrowed by the Group companies at the Group's cashpool account totalled EUR 89,414 thousand, including the amount of EUR 71,083 thousand lent by the Company (Note 15). As at 31 December 2017, the Company's guarantee amounted to EUR 15,428 thousand (31 December 2016: EUR 10,065 thousand).

As at 31 December 2017, the Company accounted for a provision of EUR 2,903 thousand related to borrowings of EUR 6,824 thousand obtained by the subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB at the Group's cashpool account. The provision was established on the grounds that the cash flow forecasts of the Company's subsidiary show that a 50% probability exists that the subsidiary will not be able to repay a full amount of funds borrowed. Therefore, the Company formed a provision as it acts as a guarantor for the repayment of funds lent to the participants of the Group's cashpool account.

On 5 December 2016, the Company and the European Investment Bank (Luxembourg) signed a guarantee and indemnity agreement under which the Company secured fulfilment of all current and future obligations of subsidiary Vilniaus Kogeneracinė Jėgainė UAB in the amount of EUR 190,000 thousand under the credit agreement signed on 5 December 2016 with the European Investment Bank for the term of 17 years. The guarantee cover the repayment of all types of amounts payable related to the usage of the provided loan to the European Investment Bank. The maximum amount of the guarantee has not been established. As at 31 December 2017 and 31 december 2016, no amounts were withdrawn by Vilniaus Kogeneracinė Jėgainė UAB from the loan provided by the European Investment Bank.

Contractual obligations

In December 2017, the Company and PAO Gazprom agreed on supply of natural gas in 2018. The agreement contains 'take-or-pay' clause under which the Company has a commitment to purchase the agreed minimum quantity of natural gas. Based on forecast consumption data, the Company plans to purchase all agreed quantity of natural gas during 2018.

Tariff adjustments for prior period profit in excess of the return on investments permitted by the Commission

Based on its Resolution No O3-305 of 14 October 2016 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2017*, the Commission set the price cap for the distribution service for 2017 on the basis of Report No O5-258 of 13 October 2016 where it also stated that in the period 2014–2015 subsidiary Energijos Skirstymo Operatorius AB earned additional return on investments amounting to EUR 84,961.6 thousand, which exceeded the level of profit permitted by the Commission. The Commission decided to adjust the price caps for the distribution services for 2017 by 1/3 of the 2014–2015 return on investments presented in excess of the level of profit permitted by the Commission. Consequently, the Commission established the level of revenue from distribution activities for 2017, which was lower by EUR 28,320.5 thousand.

Based on its Resolution No O3E-447 of 7 October 2017 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2018*, the Commission set the price cap for the distribution service for 2018 and also stated that the level of revenue from electricity distribution activities carried out by Energijos Skirstymo Operatorius AB is reduced by the 2014-2015 return on investments in excess of the level set by the Commission , i.e. EUR 43,421.6 thousand in view of time value of money equal to EUR 1,942.8 thousand. The remaining part of the 2014-2015 return on investments in excess of the level set by the Commission, i.e. EUR 13,219.5 million, will be assessed in the upcoming years of the regulatory period, however not later than before the end of the regulatory period (before 2020).

Based on its Resolution No O3E-481 of 9 November 2017 *On adjusting the price caps for natural gas distribution services provided by Energijos Skirstymo Operatorius AB for the year 2018*, the Commission set the price cap for the natural gas distribution service to be applicable from 1 January 2018 and also stated that in the period between 2015 and 2016 Energijos Skirstymo Operatorius AB

in conducting the natural gas distribution activity earned additional return on investments amounting to EUR 27,333 thousand, which exceeded the level of profit permitted by the Commission. The Commission decided to adjust the price caps for the natural gas distribution service for 2018 by the amount of the 2014–2016 return on investments in excess of the level of return permitted by the Commission. Consequently, the Commission decreased the level of revenue from natural gas distribution activity for 2018 by EUR 13,667 thousand. The remaining part of the 2014-2016 return on investments in excess of the level set by the Commission will be assessed when establishing the gas distribution price for the upcoming periods.

The overall level of electricity and gas activity revenue for 2018 was approved to be lower by EUR 57,088.6 thousand due to the difference between the return on investments permitted by the Commission and the Company's actual return on investments that results from the refund of prior period profit in excess of the permitted return on investments.

Based on the judgement of the Group's management, Energijos Skirstymo Operatorius AB earned excess profits in 2016 and 2017 as well and these amounts will have impact on the Group's revenue and profit for 2019 and subsequent periods.

One-off compensation for statutory servitudes

On 1 November 2017, amendments to the Law on Energy of the Republic of Lithuania (hereinafter "the Energy Law") came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Energy Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensation of damages related with the establishment of statutory servitudes (which came into effect by 10 July 2004).
The Energy Law also provides that, when signing agreements on the establishment of servitudes after 1 November 2017, the Company's subsidairy Energijos Skirstymo Operatorius AB will be obliged to pay compensation to or make other arrangements with land owners.

It is expected that one-off compensations for statutory servitudes (which came into effect by 10 July 2004) will be paid from 1 May 2018, after the Lithuanian Government approves the methodology establishing the conditions for the payment of such compensations. The methodology approved by the Lithuanian Government will also lay down the rules on the compensation for contractual servitudes after 1 November 2017.

In the period from 10 July 2004 to 1 November 2017, pursuant to the provisions of the Energy Law that were effective at the time, the construction of new networks could be carried out only under agreement with land owners. As a result, during that period, the Company made arrangements with land owners individually (by means of notarial acts, consent of land owners, etc.), the Energy Law does not provide obligation to the Company to compensate for the servitudes established during this period.

The Group's management currently cannot reliably assess the effect of the 1 November 2017 amendments to the Energy Law on the results of the Group's operations, however, all the expenses related to the compensation for servitudes are expected to be included in the prices for regulated services.

As at 31 December 2017, the Group did not make any provision for the compensation of servitudes, as, with the Lithuanian Government having not yet approved the methodology on the calculation of compensations, it cannot reliably assess the possible amount of compensations since there is no approved methodology establishing the conditions for the payment of such compensations: the process of payment, conditions of payment and related documentation, the formula component for the calculation of compensations for servitudes. In addition, the Company does not have access to reliable data on persons and the servitudes of land they own.

Litigations

AB "Energijos skirstymo operatorius" litigation with the State Price and Energy Control Commission (herein after – the Commision)

On 17 November 2014, AB "Energijos skirstymo operatorius" (former LESTO AB) brought a claim before Vilnius Regional Administrative Court whereby it requested to annul resolution No O3-841 of the National Control Commission for Prices and Energy (the Commission) of 17 October 2014 and resolution No O3-845 of 17 October 2014, and to oblige the Commission to eliminate violations made when making calculations. On 22 December 2015, the claim was rejected by Vilnius Regional Administrative Court. On 13 March 2018 the Supreme Administrative Court of Lithuania decided to annul the parts of the Commission's decisions, which extended 2011 – 2013 regulatory period for 2015 and caused incorrect price caps recalculation for 2015.

On 8 July 2015, AB "Energijos skirstymo operatorius" (former LESTO AB) filed the complaint to Vilnius Regional Administrative Court with the request to annul the Commission's 4 June 2015 resolution no. O3-351 and to recognise the imposed fine of EUR 300 thousand as ungrounded. On 25 October 2017 the court completely rejected the complaint. The case is being examined by the court of appeal. The date of the hearing has not yet been set.

AB „Energijos skirstymo operatorius" litigation with UAB „Vilniaus energija"

On 27 March 2014, UAB „Vilniaus energija" brought a claim before Vilnius Regional Court whereby it requested to award damages of EUR 10,712 thousand from Energijos Skirstymo Operatorius AB, to recognise the provisions of the agreement on the purchase and sale of electricity as null and void as of the moment of its conclusion, to oblige the respondent to purchase the supported production volume of electricity. The oral hearing in Vilnius Regional Court was scheduled to take place on 29 May 2017. The court's hearing was postponed to 28 August 2017 as the court decided to request that Energijos Skirstymo Operatorius AB provide additional evidence relating to electricity prices. On 18 September 2017 the court dismissed the action in its entirety. The applicant filed an appeal. Date of court hearing has not been set. If the court rules in favour of AB „Energijos skirstymo operatorius" it would prevent the additional costs of complying with the claim in the future.

„Lietuvos energijos gamyba", AB

On 14 November 2014 Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions No O3-852 of 17 October 2014 and No O3-866 of 30 October 2014. According to the AB, according to AB, the Commission submits inaccurate and incorrect calculations of the return on investment of AB "Lietuvos energija gamyba", the AB "Lietuvos energija gamyba". Vilnius District Administrative Court at 15 June rejected complaint. "Lietuvos energija gamyba", AB in 2017 July 17 filed an appeal, the date of its investigation is not yet known. The court decision in favor of „Lietuvos energijos gamyba", AB would result in the increase of regulating revenue for the year 2015 for the prices of electricity power reserve services and the purchase price of electricity.

On 19 December 2014 Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions No O3-939 of 19 December 2014. Adopting resolution the Commission reduced the budget of PSO services fees allocated to Lietuvos Energijos Gamyba AB for the year 2015. On 3 November 2015 The Vilnius Regional Administrative Court has suspended the investigation of the case. The court decision in favor of "Lietuvos energija

gamyba", AB, would result in an increase in the revenue of the PSO.

On 23 November 2015 Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions No. O3-562 of 22 October 2015, No. O3-685 of 23 December 2015, No. O3-579 of 30 October 2015 and No. O3-687 of 23 december 2015. The Lietuvos Energijos Gamyba AB belives that the calculation of return on investment presented in the decision is inaccurate and wrong due to unreasonable application of the proportional allocation of costs to the secondary active power reserve service. Vilnius District Administrative Court at 2 June 2017 rejected complaint. At 3 July 2017 "Lietuvos energija gamyba", AB filed an appeal, the date of its investigation is not yet known. The court decision in favor of "Lietuvos energija gamyba", AB, would result in an increase in the revenue of the PSO.

On 29 December 2016 Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions No. O3-391 of 29 November 2016. The Lietuvos Energijos Gamyba AB belives that application of the proportional allocation of costs to the secondary active power reserve service is unreasonable. The negative impact of the ruling on Lietuvos Energijos Gamyba AB financial performance in 2017 resulted with increase of costs.

On 7 November 2015 Lietuvos Energijos Gamyba AB Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court (a revised complaint was filed on 7 November 2017) with request to declare as invalid the NCC's Resolution No O3-274 of 28 September 2012 *On the results of survey of electricity capacity reserve market*, to repeal part 6 of the NCC's official letter of 19 September 2017, and, as a matter of urgency, to commit the NCC to initiate a new survey of electricity capacity reserve market (or two separate surveys of type I and type II reserve markets). In the Company's opinion, the NCC's Resolution of 28 September 2012, based on which the Company was declared as an undertaking with significant power in electricity capacity reserve market, should be declared as no longer valid and any related obligations should not be binding upon the Company with effect from 28 September 2017. The hearing of the case was scheduled on 13 March 2018 and re-scheduled on 22 March 2018.

On 28 December 2017 Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions No. O3E-559 of 30 November 2017, and resolutions no. O3E-598, no. O3E-599 of 20 December 2017. The Commission disputed the complaints of imposing a proportional method of cost allocation in establishing price cap for provision of secondary and tertiary reserve services and unreasonable application of the proportional allocation of costs to PSO service. The court decision in favor of "Lietuvos energija gamyba", AB, would result in an increase in the regulated revenue.

Tuuleenergia OU litigation

In 2006 Varbla municipal government issued occupancy permits to the Company to erect two Tamba wind turbines. In 2013 appeal was presented to Tallinn Administrative Court to annul occupancy permits issued by Varbla municipal government at the reason of erected wind turbines are not in accordance with detailed spatial plan and also the noise was not in satisfactory conditions. Appeal was not satisfied by Tallinn Administrative Court and also by Tallinn Circuit Court in the second instance in 2015. Cassation appeal was satisfied by Supreme Court in 2016. As a result occupancy permits were annulled. On 28 September 2017 Varbla municipal government granted Tuuleenergia OU temporary operating permits valid until 31 May 2018.

In October 2017, an individual person appealed to the court with a complaint against Varbla municipal government asking the court to invalidate temporary operating permits granted to Tuuleenergia OU. The case is being examined in the court of first instance. The court will most likely make its decision in 2018. Currently it is very hard to estimate results of the dispute and its financial impact.

Tax audits

The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year inspect the Company's books and accounting records and impose additional taxes or fines. The Group's management is not aware of any circumstances that might result in a potential material liability in this respect.

37 Related-party transactions

As at 31 December 2017 and 2016, the parent company was the Republic of Lithuania represented by the Lithuanian Ministry of Finance. For the purposes of disclosure of related parties, the Republic of Lithuania excludes central and local government authorities. The disclosures comprise transactions and balances of these transactions with the shareholder, subsidiaries (the Company's transactions), associates and all entities controlled by or under significant influence of the state (transactions with these entities are disclosed only if they are material), and management and their close family members.

The Group's transactions with related parties during 2017 and year-end balances arising on these transactions as at 31 December 2017 are presented below:

Related parties	Amounts receivable	Amounts payable	Sales	Purchases	Finance income (costs)
UAB "EPSO-G"	170,136	-	786	1,681	1,336
Litgrid AB	5,468	12,090	52,346	111,497	(153)
BALTPOOL UAB	14,943	13,886	87,476	76,914	-
UAB "TETAS"	786	4,793	1,582	17,103	-
AB „Amber Grid“	2,273	6,888	22,893	52,273	-
LITGRID Power Link Service, UAB	10	-	202	-	-
GET Baltic	2	2	60	1,321	-
Associates and other related parties of the Group	280	100	681	326	3
Total	**193,898**	**37,759**	**166,026**	**261,115**	**1,186**

The Group's transactions with related parties during 2016 and year-end balances arising on these transactions as at 31 December 2016 are presented below:

Related parties	Amounts receivable	Amounts payable	Sales	Purchases	Finance income (costs)
UAB "EPSO-G"	210.414	-	32	-	2.653
Litgrid AB	5.058	11.429	50.987	102.436	(79)
BALTPOOL UAB	3.941	14.945	66.494	91.143	-
UAB "TETAS"	337	4.132	1.597	14.690	66
AB „Amber Grid“	3.430	5.669	36.658	35.130	-
LITGRID Power Link Service, UAB	19	-	175	-	-
GET Baltic	2.538	745	3.735	3.228	-
Associates and other related parties of the Group	295	-	884	-	-
Total	**226,032**	**36,920**	**160,562**	**246,627**	**2,640**

The major sale and purchase transactions with related parties in 2017 and 2016 comprised transactions with the companies controlled by the Lithuanian Ministry of Energy: Litgrid AB and BALTPOOL UAB. The Group's purchases from these entities mainly included purchases of electricity, capacity, transmission, PSO services and gas. Sales transactions included sales of electricity, capacity and PSO services

Amount receivable from EPSO-G UAB represents unpaid amount on disposal of Litgrid AB, the outstanding balance of the loan granted and interest accrued thereon. Finance costs include interest charged during the year.

Transactions with other state-owned entities included regular business transactions and therefore they were not disclosed.

The Company's transactions with related parties during 2017 and year-end balances arising on these transactions as at 31 December 2017 are presented below:

Related parties	Amounts receivable	Amounts payable	Sales	Purchases	Finance income	Finance costs
Subsidiaries						
AB Energijos skirstymo operatorius	356,911	5,560	1,192	-	773	218
„Lietuvos energijos gamyba“, AB	1,135	4,067	445	17	-	214
UAB EURAKRAS	24,528	-	16	-	239	3
UAB „Lietuvos dujų tiekimas“	24,930	-	168	-	18	5
NT valdos, UAB	43,191	27	141	359	197	11
UAB Technologijų ir inovacijų centras	1,938	47	100	274	4	-
UAB Duomenų logistikos centras	1	57	25	-	-	(2)
UAB „Energetikos paslaugų ir rangos organizacija“	5,487	-	175	-	91	-
Tuuleenergia OU	24,198	1	25	-	703	-
Energijos tiekimas, UAB	12,937	64	166	103	31	-
UAB LITGAS	10	-	101	-	1	2
UAB Elektroninių mokėjimų agentūra	10	-	28	-	-	-
UAB „Verslo aptarnavimo centras“	35	40	151	308	-	-
UAB VAE SPB	1	-	4	-	-	-
UAB Vilniaus kogeneracinė jėgainė	3,913	-	73	-	41	2
UAB Kauno kogeneracinė jėgainė	49	-	121	-	-	-
UAB Energijos sprendimų centras	3	-	30	-	-	-
Other related parties						
UAB "EPSO-G"	170,132	-	-	-	1,336	-
Total	**669,409**	**9,863**	**2,961**	**1,061**	**3,434**	**453**

As at 31 December 2017, the Company accounted for a provision amounting to EUR 2,903 thousand related to the guarantee issued to the subsidiaries for loans obtained by Energetikos Paslaugų ir Rangos Organizacija UAB under the group account (cashppol).

The Company's transactions with related parties during 2016 and year-end balances arising on these transactions as at 31 December 2016 are presented below:

Related parties	Amounts receivable	Amounts payable	Sales	Purchases	Finance income	Finance costs
Subsidiaries						
AB Energijos skirstymo operatorius	235	5,823	750	-	5,180	401
„Lietuvos energijos gamyba“, AB	1,099	17,202	219	-	4,391	353
UAB EURAKRAS	14	1,067	5	-	94	3
UAB „Lietuvos dujų tiekimas“	24	6,008	108	-	-	37
NT valdos, UAB	33	4,946	118	342	3	2
UAB Technologijų ir inovacijų centras	20	62	39	225	-	-
UAB Duomenų logistikos centras	7	54	29	-	53	4
UAB „Energetikos paslaugų ir rangos organizacija“	2,967	-	127	-	28	-
Tuuleenergia OU	4,902	-	-	-	211	-
Energijos tiekimas, UAB	28	-	69	-	3	2
UAB LITGAS	18	-	37	-	816	-
VšĮ Energetikų mokymų centras	2	-	10	-	-	-
UAB Elektroninių mokėjimų agentūra	11	-	43	-	-	-
UAB „Verslo aptarnavimo centras“	26	79	118	275	2	-
UAB VAE SPB	1	-	2	-	-	-
UAB Vilniaus kogeneracinė jėgainė	5,011	-	114	-	-	-
UAB Kauno kogeneracinė jėgainė	80	-	66	-	-	-
Other related parties	-	-	-	-	-	-
UAB "EPSO-G"	210,410	-	-	-	2,653	-
Total	**224,888**	**35,241**	**1,854**	**842**	**13,434**	**802**

The Company's sales to related parties amounted to EUR 1,854 thousand in 2016, while sales revenue for 2016 totalled EUR 1,802 thousand. The difference of EUR 52 thousand comprised a compensation for expenses incurred by the Company in acquiring goods and services at its own expense, yet that were actually consumed for the benefit of related parties.

The dividends declared in 2017 and 2016 are disclosed in Note 35.

Compensation to key management personnel:

	Group		Company	
	2017	2016	2017	2016
Wages and salaries and other short-term benefits to management personnel	3,590	3,615	705	711
Whereof: termination benefits and benefits to Board Members	357	360	56	73
Number of key management personnel	61	66	10	11

Management in the table above comprise heads of administration of all subsidiaries and their deputies.

38 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of directors that makes strategic decisions.

In management's opinion, the Group has three operating segments:

- Supply and distribution of electricity, gas distribution (carried out by Energijos Skirstymo Operatorius AB);
- Electricity generation (carried out by Lietuvos Energijos Gamyba AB, Eurakras UAB, Tuuleenergia OU);
- Trade in electricity (carried out by Energijos Tiekimas UAB).
- Trade in gas (carried out by Lietuvos Dujų Tiekimas UAB, Litgas UAB).

The following services and entities comprise the other segments:

- support services (NT Valdos UAB, Technologijų ir Inovacijų Centras UAB, Verslo Aptarnavimo Centras UAB and others);
- non-core activities (Energetikos Paslaugų ir Rangos Organizacija UAB, Duomenų Logistikos Centras UAB, VšĮ Energetikų Mokymo Centras);
- special purpose entities which are responsible for implementation of special projects and construction of new cogeneration power plants (VAE SPB UAB, Kauno Kogeneracinė Jėgainė UAB and Vilniaus Kogeneracinė Jėgainė UAB);
- service entities (Elektroninių Mokėjimų Agentūra UAB, Energijos Sprendimų Centras);
- as well as parent company Lietuvos Energija UAB, which does not constitute a separate operating segment, however it is disclosed separately, as its net profit exceeds 10% of profit of all profit generating segments. The Group's support service entities and special purpose entities are aggregated to a single segment as none of them individually meet recognition criteria of an operating segment.

The Group has single geographical segment – the Republic of Lithuania, electricity sales in Latvia and Estonia are not significant for the Group. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of revenue and expenses. The primary performance measure is adjusted EBIDTA, which is calculated based on data presented in the financial statements prepared in accordance with IFRS as adjusted for selected items which are not recognised under IFRS. The Group's Board does not analyse assets and liabilities of the segments.

Adjustments made by management and adjusted EBITDA

Adjustments made by management in calculating the adjusted EBITDA are presented below.

Segment / adjustment made by management	2017	
	2017	2016
Electricity supply and distribution and gas distribution		
Recalculation of regulated activity revenue of Energijos Skirstymo Operatorius AB	10,885	(24,300)
Electricity generation		
Recalculation of regulated activity revenue of Lietuvos Energijos Gamyba AB	(11,367)	3,722
Regularisation of commercial activity of Lietuvos Energijos Gamyba AB	(5,438)	1,876
Trade in gas		
Lietuvos Dujų Tiekimas UAB, gas price discount provided by Gazprom	8,712	28,923
Recalculation of regulated activity revenue of LITGAS UAB	7,807	(9,910)
Recalculation of regulated activity revenue of Lietuvos Dujų Tiekimas UAB	1,024	(1,230)
Trade in electricity		
Change in market value of open derivative financial instruments of Energijos Tiekimas UAB	(1,055)	(1,993)
	10,568	**(2,912)**

Elektros energijos tiekimo, skirstymo bei dujų skirstymo segmentas

Adjusted EBITDA is calculated by adding management's adjustments that comprise the impact of the recalculation of regulated activity revenue of prior periods resulting from the Commission's resolutions and by deducting the current year difference arising between the return on investments permitted by the Commission and estimated by management. In management's opinion the adjusted EBITDA more accurately presents results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return on investments set by the Commission and the actual return on investments of prior periods that may have both positive and negative impact on the current year results.

Electricity generation segment

In 2014, the Commission adopted a resolution, by which Lietuvos Energijos Gamyba AB ('the Company') was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Company's hydroelectric power plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Company. In 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of the Commission was repealed. Despite the adoption of the court's judgement, the Commission has not passed a resolution on the compensation of the PSO funds not paid to the Company during 2016. As a result, reduction of revenue from PSO funds recognised by the Company in 2016 amounted to EUR 1,876 thousand. On the other hand, at the end of 2017 in implementing the court's judgement the Commission allocated for the Company the PSO funds of EUR 5,438 thousand for 2018 that will compensate revenue not received by the Company in 2015. This amount was recognised as revenue in the 2017 financial statements. The adjustments were intended to reflect the normalised performance results for the current year.

In 2014, the Commission completed the audited of the Company's regulated activities for the period 2010-2012 and adopted a resolution to recalculate the expenses and revenue attributed to regulated activities for this period. As a result of recalculation for the previous period revenue from capacity reserve services approved for the Company for the year 2016 was reduced by EUR 3,722 thousand. In 2017 the Commission inspected the PSO funds allocated to the Company during 2010-2015, and in 2017 introduced changes in the principles for determination of allocated PSO funds, with relevant changes in the regulatory framework. Due to these changes, in the 2017 financial statements the Company recognised revenue of EUR 11,367 thousand in relation to recalculation of PSO revenue recognised in the previous periods. The adjustments were intended to reflect the Company's normalised performance results for the current year.

Trade in gas segment

Management's adjustment comprises the gas price discount provided by Gazprom and applied to customers during the reporting year, which amounted to EUR 19 million (2016: – EUR 40 million) (as a result of a retrospective decrease in the import price of natural gas for the period from 1 January 2013 to 30 April 2014) and the change in the related provision – EUR 10.3 million (2016 m. – 11,1 mln. eurų) (by estimating losses to be incurred from the application of the mentioned discount to private and business customers in the future based on the agreements signed). In management's opinion these factors are related to the previous periods.

Adjusted EBITDA is calculated by eliminating deviations between of the designated supplier's income and expenses arising from a difference between projected and actual LNG acquisition and sale prices and volumes and other mismatches that occurred during the year between expenses and income included in the security component and that were actually incurred. During 2017 total amount of deviations is EUR 7,8 million (2016: EUR 9,9 million). EBITDA of non-regulated activities included by fact.

Adjusted EBITDA is calculated by eliminating the deviations generated by the supply of gas to household customers due to the actual and foreseeable non-compliance of the purchase price of natural gas, the safety components and other components provided in the calculation methodology used by the Commision. During 2017 these deviations amounted to 1.0 million. (2016: EUR 1.2 million).

Management adjustments and adjusted EBITDA in 2016 financial statements

In 2016 financial statements, adjustments were made for a discount on the gas price of Gazprom and the recalculation of the regulated income of UAB LITGAS as information on the remaining adjustments data was tracked since beginning of 2016. Preparing 2016 financial statements, the Group had no information comparative segment data for 2015. In recent years, the regulatory environment has become more stable and more predictable, allowing from the beginning of 2016 to reliably estimate the impact of regulated income recalculation on the results of the reporting period. From 2017 the Group discloses this by publishing its financial statements and presenting information for both the current period and the comparative period.

The table below shows the Group's information on segments for 2017.

The year 2017	Electricity supply and distribution and gas distribution	Electricity generation	Trade in gas	Trade in electricity	Other segments		Adjustments on consolidation and elimination of intercompany transactions	Total
					Parent company	Other segments		
Revenue from external clients	566,386	111,793	289,973	104,303	515	27,861	-	1,100,831
Inter-segment revenue	45,923	46,780	38,108	7,105	127,677	54,881	(320,474)	-
Total revenue	**612,309**	**158,573**	**328,081**	**111,408**	**128,192**	**82,742**	**(320,474)**	**1,100,831**
Expenses	(526,953)	(137,728)	(330,109)	(106,372)	(22,033)	(92,735)	212,232	(1,003,698)
Whereof:								
Depreciation and amortisation	*(50,385)*	*(27,891)*	*(64)*	*(1,060)*	*(3)*	*(7,731)*	*(223)*	(87,357)
Impairments and write-offs	*786*	*(32,430)*	*6*	*(897)*	*(12,613)*	*(10,811)*	*15,584*	(40,375)
Revaluation of emission allowances	-	*2,296*	-	-	-	-	-	2,296
Write-offs of property, plant and equipment, inventories and amounts receivable	*(5,125)*	*(14)*	*(135)*	*(43)*	-	*(224)*	-	(5,541)
*Revaluation of open positions of derivative financial instruments**	-	-	-	*1,055*	-	-	-	1,055
*Management's adjustments**	10885	*(16,805)*	*17,543*	-	-	-	-	11,623
Adjusted EBITDA	**150,965**	**62,079**	**15,708**	**5,981**	**118,775**	**8,773**	**(123,603)**	**238,678**
Operating profit (loss)	85,356	20,845	(2,028)	5,036	106,159	(9,993)	(108,242)	97,133
Interest income	122	161	140	21	3,147	58	(2,129)	1,520
Interest (expenses)	(2,321)	(2,280)	(560)	(137)	(3,802)	(764)	2,006	(7,858)
Other income (expenses) of financing activities	1,636	(317)	64	(44)	(48)	(602)	(1,286)	(597)
Profit before income tax	**84,793**	**18,409**	**(2,384)**	**4,876**	**105,456**	**(11,301)**	**(109,651)**	**90,198**
Income tax	(7,241)	4,503	4,001	(356)	458	1,132	830	3,327
Net profit (loss)	**77,552**	**22,912**	**1,617**	**4,520**	**105,914**	**(10,169)**	**(108,821)**	**93,525**
Total assets at 31 December 2017	**1,277,802**	**699,953**	**128,506**	**59,594**	**1,889,290**	**208,320**	**(1,758,397)**	**2,505,068**

** Management's adjustments used in calculating adjusted EBITDA are related to Gazprom gas price discount, recognition of excess profits from regulated activities (electricity supply and distribution and gas distribution segment, electricity generation segment, segments of trade in electricity and trade in gas) and regularisation of electricity generation commercial activity, which was annulled by the court's decision.*

The table below shows the Group's information on segments for 2016.

The year 2016	Electricity supply and distribution and gas distribution	Electricity generation	Trade in gas	Trade in electricity	Other segments		Adjustments on consolidation and elimination of intercompany transactions	Total
					Parent company	Parent company		
Revenue from external clients	599,137	125,087	267,643	84,498	-	25,265	-	1,101,630
Inter-segment revenue	50,926	56,138	29,524	7,326	71,329	56,938	(272,181)	-
Total revenue	**650,063**	**181,225**	**297,167**	**91,824**	**71,329**	**82,203**	**(272,181)**	**1,101,630**
Expenses	(542,077)	(127,873)	(299,994)	(79,891)	11,521	(85,181)	169,216	(954,279)
Whereof:								
Depreciation and amortisation	*(46,028)*	*(23,488)*	*(55)*	*(1,045)*	*(3)*	*(8,201)*	*302*	(78,518)
Impairments and write-offs	*(4,419)*	*(748)*	*566*	*130*	*16,688*	*175*	*(15,386)*	(2,994)
Revaluation of emission allowances	-	*(3,278)*	-	-	-	-	-	(3,278)
Write-offs of property, plant and equipment, inventories and amounts receivable	*(4,710)*	*173*	*(470)*	*(370)*	-	*(33)*	-	(5,410)
*Revaluation of open positions of derivative financial instruments**	-	-	-	*1,993*	-	-	-	1,993
*Management's adjustments**	*(24,300)*	*5,598*	*17,783*	-	-	-	-	(919)
Adjusted EBITDA	**138,843**	**86,291**	**14,915**	**11,225**	**66,165**	**5,081**	**(87,881)**	**234,639**
Operating profit (loss)	107,986	53,352	(2,827)	11,933	82,850	(2,978)	(102,965)	147,351
Interest income	176	208	147	4	3,871	9	(1,557)	2,858
Interest (expenses)	(1,739)	(3,201)	(1,237)	(58)	(732)	(353)	1,560	(5,760)
Other income (expenses) of financing activities	1,002	356	41	(7)	9,155	(210)	(10,571)	(234)
Profit before income tax	**107,425**	**50,715**	**(3,876)**	**11,872**	**95,144**	**(3,532)**	**(113,533)**	**144,215**
Income tax expense	(14,923)	(8,446)	(3,457)	(1,752)	11	(452)	3,242	(25,777)
Net profit (loss)	**92,502**	**42,269**	**(7,333)**	**10,120**	**95,155**	**(3,984)**	**(110,291)**	**118,438**
Total assets at 31 December 2016	**1,113,186**	**886,118**	**101,292**	**49,521**	**1,398,361**	**188,864**	**(1,305,190)**	**2,432,152**

** Management's adjustments used in calculating adjusted EBITDA are related to Gazprom gas price discount, recognition of excess profits from regulated activities (electricity supply and distribution and gas distribution segment, electricity generation segment, segments of trade in electricity and trade in gas) and regularisation of electricity generation commercial activity, which was annulled by the court's decision.*

39 Events after the reporting period

On 5 January 2018, a new version of the Articles of Association of subsidiary Vilniaus Kogeneracinė Jėgainė UAB related to the increase in authorised share capital up to EUR 36,600 thousand by issuing 53,781,379 new registered shares with the nominal value of EUR 0.29 per share was registered with the Register of Legal Entities.

On 19 January 2018, the share capital of the Company's subsidiary Kauno Kogeneracinė Jėgainė UAB was increased from EUR 24,000 thousand to EUR 40,000 thousand by issuing 16,000 thousand ordinary shares with the nominal value of EUR 1 each. The Company was granted the right to acquire (subscribe) 8,160,000 new shares and FORTUM HEAT LIETUVA UAB was granted the right to acquire 7,840,000 new shares.

On 19 January 2018, the new version of the Company's Articles of Association was registered with the Register of Legal Entities relating to the share capital increase of 26 June 2017 during which the Company acquired shares with the nominal value of EUR 6,753 thousand (Note 8).

On 17 January 2018, the European Commission passed two financing decisions to provide support for the construction of Vilnius cogeneration power plant. The power plant will produce electricity and heat from biomass and municipal waste. The power plant will allow diversifying energy sources available for residents of the Lithuanian capital and moving to the circular economy in the region.

On 8 January 2018, the Company's subsidiary NT Valdos UAB filed a claim against the Constitutional Court of the Republic of Lithuania as a contracting authority regarding the recognition of unilateral termination of the agreement on the operating lease of a car as unlawful. If the court will rule that the Constitutional Court of the Republic of Lithuania terminated the agreement with NT Valdos UAB on valid grounds due to a gross breach of the agreement provisions, NT Valdos UAB will added to the list of unreliable suppliers and will be prohibited from the participation in public tenders for three years.

On 8 February 2018, the Company signed a new agreement with the subsidiaries Energijos Skirstymo Operatorius AB, Lietuvos Energijos Gamyba AB and Duomenų Logistikos Centras UAB, under which the Company will pay the debt for the shares of NT Valdos UAB acquired in April 2015 until 31 March 2018. The non-current amount payable of EUR 9,699 thousand (Note 25) for the acquisition of shares of NT Valdos UAB is reported in the Company's statement of financial position as at 31 December 2017. Under the agreement valid as at 31 December 2017, the Company was obliged to settle for the acquired shares of NT Valdos UAB until 31 March 2019.

On 15 February 2018, the Company established subsidiary Transporto Valdymas UAB that starting from 1 March 2018 takes over the transport activity that was conducted by another subsidiary NT Valdos UAB until that date (Note 17). Transporto Valdymas UAB will continue all activities related to operating, finance lease of motor vehicles, their maintenance and administration.

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