Lietuvos energija | GAMYBA

2018-02-28 No. SD-164

CERTIFICATION STATEMENT

Referring to the provisions of the 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, the undersigned Eglė Čiužaitė, Chief Executive Officer, Mindaugas Kvekšas, Director of Finance and Administration, and Renata Baliūnaitė, Manager of Reporting of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, Lietuvos energijos gamyba, AB financial statements for the financial year 2017 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, give a true and fair view of Lietuvos energijos gamyba, AB assets, liabilities, financial position, profit or loss for the period and cash flows, the Annual Report for the financial year 2017 includes a fair review of the activities business development as well as the condition of Lietuvos energijos gamyba, AB and with the description of the principle risk and uncertainties it faces.

Chief Executive Officer — Eglė Čiužaitė

Director of Finance and Administration — Mindaugas Kvekšas

UAB Verslo aptarnavimo centras,
Manager of Reporting,
acting under Order No. IS17-80 (signed 2017 08 28) — Renata Baliūnaitė

"Lietuvos energijos gamyba", AB

Registered address:
Elektrinės g. 21, LT-26108 Elektrėnai, Lithuania

Tel. +370 5 278 2907
Fax +370 5 278 2906
E-mail info@le.lt
www.gamyba.le.lt

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

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

2017 LIETUVOS ENERGIJOS GAMYBA AB

COMPANY'S FINANCIAL STATEMENS PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND ANNAUL REPORT FOR THE YEAR 2017, PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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

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The financial statements of Lietuvos Energijos Gamyba AB were approved on 28 February 2018 by the CEO, the Director of Finance and Administration, and the Manager of Reporting of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-80 of 28 August 2017):

Eglė Čiužaitė Chief Executive Officer	**Mindaugas Kvekšas** Director of Finance and Administration	**Renata Baliūnaitė** Manager of Reporting of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-80 of 28 August 2017)

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Independent auditor's report

To the shareholders of Lietuvos Energijos Gamyba AB

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Lietuvos Energijos Gamyba AB ("the Company") as at 31 December 2017, and of its financial performance and its 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 financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the 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.

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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company 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 in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 34 to the financial statements.

PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania
T: +370 (5) 239 2300, F:+370 (5) 239 2301, Email: vilnius@lt.pwc.com, www.pwc.com/lt

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Our audit approach

Overview

Materiality	Overall materiality for the Company: EUR 1,570 thousand, which represents 5% of adjusted profit before tax.
Key audit matters	• Impairment assessment of property, plant and equipment • Recognition of revenue from regulated activities

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in 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 materiality for the 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 1,570 thousand (2016: EUR 1,650 thousand)
How we determined it	5% of profit before tax adjusted for one-off losses of impairment of property, plant and equipment and one-off additional gains.
Rationale for the materiality benchmark applied	We chose profit before tax adjusted for one-off items as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by the users of the financial statements, and it is a generally accepted benchmark. These one-off items are of non-recurring nature. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

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We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 78 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 assessment of property, plant and equipment *Refer to pages 89 - 90 (Note 3), page 96 (Note 6) and page 107 (Note 20).* As at 31 December 2017, the Company had property, plant and equipment with the carrying amount of EUR 496,818 thousand, the majority of which related to Kruonis Pumped Storage Power Plant, Kaunas Algirdas Brazauskas Hydroelectric Power Plant and Elektrėnai Complex (which comprised units 7 and 8, Combined-Cycle Unit, and Biofuel and Steam Boiler Plants). The changes in an economic and regulatory environment, as well as the changes in the purpose of use and expected useful life of assets had negative impact on the performance of 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 Company 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. No impairment indications were identified in respect of CGUs of Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant. The management performed impairment tests in respect of both CGUs of Elektrėnai Complex and recognised an impairment loss of EUR 31,384 thousand, net of grants, in respect of CGU of units 7 and 8, while the recoverable amount of CGU of Combined-Cycle Unit, the	We assessed for which CGUs of the Company impairment indicators existed. We took into account our knowledge of the Company and its business activities, as well as our accumulated knowledge related to the industry where the Company 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 Company. We found the management's conclusions regarding the 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 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 PwC valuation experts to review the methodology used in the impairment calculations and the reasonableness of the discount rates and perpetual decrease factor used by the management; - challenging the management's assumptions by comparing them to the actual performance of the Company, and internal documents, such as budget forecasts for 2018 - 2024 and minutes of meetings of the governing bodies; - assessing the sensitivity of the impairment test to key inputs.

Biofuel and Steam Boiler Plants was higher than its carrying amount.

The recoverable amount of property, plant and equipment is based on the value in use, which is calculated as the present value of future cash flows expected to be generated from assets.

Impairment assessment of these assets is subjective and requires significant judgements due to the inherent uncertainty involved in the forecasting and discounting of future cash flows.

Consequently, there is a high risk that due to the judgemental factors, potential impairment may be unidentified or the impairment loss may be misstated. Due to the above reasons, we considered this area to be a key audit matter.

In respect of some impairment test inputs or future forecasts, 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 reviewed the disclosures in the financial statements regarding impairment tests and did not identify any material deficiencies or missing information.

Recognition of revenue from regulated activities

Refer to pages 86 - 87 (Note 2.13), page 91 (Note 3) and page 110 (Note 27).

The Company earns revenue from both commercial and regulated activities. In 2017, out of total revenue of EUR 149,815 thousand, revenue from regulated activities amounted to EUR 97,180 thousand.

Regulated revenue from public service obligation (PSO) and capacity reserve services is governed by a number of the National Control Commission for Prices and Energy (NCC) regulations and decisions, which are complex. Some of them have been disputed by the Company in courts, and require significant judgement in the process of recognising revenue under IFRS.

The amount of PSO service fees and the capacity reserve service fees for a calendar year is determined in the previous year by taking into account the Company's expenditure forecasts, and subsequently it is adjusted based on the actually incurred expenditure approved by the NCC. The Company recognises revenue from these services on an accrual basis and based on the actually incurred expenditure using an established methodology. While estimating accrued and deferred income, the Company also takes into account the legally disputed decisions of the NCC in respect of the regulated revenue, as well as the results of the

We evaluated the design and tested operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over the electricity quantities and prices. As a result of these tests, we found no material issues that would impact our audit approach.

We tested on a sample basis the billed regulated revenue against the amounts confirmed by customers, and we did not note any material exceptions.

In respect of the accrued or deferred revenue from PSO and capacity reserve services:

- we selected individual transactions to check if they were appropriately recorded as revenue in the correct period;
- we checked the tariffs and regulated revenue amounts approved by the NCC;
- we recalculated the management's calculations in relation to actually incurred expenditures by agreeing them to actual data;
- finally, we checked if adjustments to prior year estimates of revenue from PSO and capacity reserve services that were made in current year agreed to the respective adjustment amounts approved by the NCC's decisions.

We also examined the developments in the Company's legal disputes with the NCC during 2017 as well as the results of audit carried out by the NCC for 2010-2015. We evaluated their impact on the recognition of regulated revenue.

latest audits of regulated activities performed by the NCC. Considering the favourable decisions made by courts in 2016, in current year estimation, i.e. when determining the amount of accrued income, the Company does not recognise regulated revenue in respect of those amounts where the NCC has to approve the scheme of their compensation to the Company.	We found that the recognised amount of accrued and deferred regulated revenue and the timing of its recognition were supported appropriately, in view of the obtained evidence.

Reporting on other information including the annual report

Management is responsible for the other information. The other information comprises the annual report, including the corporate governance report and the social responsibility 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 annual report, we considered whether the annual report includes the disclosures required by 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 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 annual report has been prepared in accordance with the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

The Company presented the social responsibility report as a part of the annual report.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial 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 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.

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 for the year 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 9 years.

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
28 February 2018

2017

LIETUVOS ENERGIJOS GAMYBA, AB ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Lietuvos energija | GAMYBA

Lietuvos energija

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Reporting period covered by the Annual Report

The Annual Report provides information to shareholders, creditors and other stakeholders of Lietuvos Energijos Gamyba AB ("the Company") about the Company's operations for the twelve-month period ended 31 December 2016.

Legal basis for preparation of the Annual Report

The Annual Report of Lietuvos Energijos Gamyba AB has been prepared by the Company's Administration in accordance with the Lithuanian Law on Securities, the Rules for Submission of Information approved by the Board of the Bank of Lithuania, Lithuanian Government Resolution On approval of the guidelines for ensuring transparency of operations of state-owned entities and appointment of a coordinating body and other legal acts.

Individuals responsible for information contained in the Annual Report

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

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

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

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

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

KEY OPERATING AND FINANCIAL INDICATORS OF LIETUVOS ENERGIJOS GAMYBA

		2017	2016	Change	
				+/-	%
KEY OPERATING INDICATORS					
Electricity generation volume	*TWh*	1.15	1.37	-0.22	-16.06
KEY FINANCIAL INDICATORS					
Revenues	*EUR`000*	149,815	172,922	-23,107	-13.36
Costs of purchase of electricity, fuel and related services	*EUR`000*	58,505	76,395	-17,890	-23.42
Operating expenses[1]	*EUR`000*	19,973	23,093	-3,120	-13.51
EBITDA[2]	*EUR`000*	70,538	58,054	12,484	21.50
EBITDA margin[3]	*%*	47.1	33.6	13.5 p. p.	
Adjusted EBITDA[4]	*EUR`000*	53,733	63,652	-9,919	-15.58
Adjusted EBITDA margin[5]	*%*	35.9	36.8	-0.9 p. p.	
Net profit (loss)	*EUR`000*	20,521	39,975	-19,454	-48.67
		At 31/12/2017	**At 31/12/2016**	**Change**	
				+/-	**%**
Total assets	*EUR`000*	636,288	819,430	-183,142	-22.35
Equity	*EUR`000*	353,874	355,566	-1,692	-0.48
Financial debts	*EUR`000*	55,557	132,907	-77,350	-58.20
Net financial debts[6]	*EUR`000*	-5,143	33,862	-39,005	-115.19
Return on equity (ROE)[7]	*%*	5.8	11.2	-5.4 p. p.	
Equity level[8]	*%*	55.6	43.4	12.2 p. p.	
Net financial debts / 12-month EBITDA	*%*	-7.3	58.3	-65.6 p. p.	
Net financial debts / Equity	*%*	-1.5	9.5	-11 p. p.	

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

CEO'S FOREWORD

Dear customers, shareholders, partners and employees,

As we look back at the year 2017, during which we dedicated a substantial part of our efforts to the implementation of Lietuvos Energijos Gamyba strategy, first of all I'd like to draw your attention to our achievements that we are all happy about.

The Company managed to achieve sustainable profitability indicators, and all the efforts put by the Company's employees in order to ensure an effective management of operating expenses have significant effect.

As a result of changes in the market conditions during 2017, Elektrėnai Complex reduced its production volumes and at the same time it managed to ensure high accessibility to and reliable operation of all power plants, as well as to meet the needs of the transmission system operator and those of the market. One of our most important goals is to contribute reliably to a stable operation of the energy system and ensure its security.

As we took advantage of the opportunities available in the market, there was a slight increase in the production volumes at Kruonis Pumped Storage Hydroelectric Plant and a significant increase in the production volumes at Kaunas Algirdas Brazauskas Hydroelectric Power Plant compared to 2016. The previous year was a year of record for this plant in terms of water and electricity production volumes.

I'm especially happy about the level of our staff engagement. In 2017, we achieved excellent results in the field of operational excellence – we implemented over 500 performance improvement proposals, improved day-to-day operations management, and accomplished territory cleaning works at many facilities.

We successfully pursued our development and territory cleaning work projects. An overview of these works is provided further in this report. Also, there is a description of the first successful steps in launching services to our new customers.

In view of the above, we can conclude that we managed to achieve the goals set for 2017. But what are our plans and expectations for the year 2018?

In 2018 we plan to focus on similar issues as in 2017. Our direction is clear – we'll seek to be consistent in implementing the Company's strategy that was approved a couple of years ago.

In 2018, we'll continue focusing on our efforts to meet the expectations of the Company's shareholders and to ensure profitability of activities and effective control over costs.

Ability to ensure reliable operation of power plants will remain among most relevant areas of focus. As we provide our country with system services of high importance, we must be ready to produce electricity as and when necessary and at the lowest possible price. In addition, we'll seek to be proactive and look for the ways to take advantage of all opportunities to produce electricity for commercial purposes as much as possible.

We are well aware of the operational excellence tools at the Company, so in 2018 we'll seek to consolidate our knowledge and ensure that operational excellence becomes an integral part of our daily work and will help implement other goals of the Company.

The Company's strategy stipulates that by the year 2020 we are expected to dedicate 15% of our time to introduction of new services (other than those rendered in 2016). We are in the process of gradually achieving this strategic goal, and we expect to generate twice as much of revenue from such services already in 2018 than in 2017.

And last but not least, we have a goal to operate proactively in terms of accidents and emergency events. As we seek to achieve all those ambitious goals, we need to work safely, remain healthy, take care of ourselves and our colleagues.

Wishing you all the best in the year 2018!

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

MOST SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

On 6 January 2017, according to the instruction of the transmission system operator (hereinafter referred to as the TSO), **the Company tested unit 7 of the backup power plant of the Elektrėnai complex**, which has been ensuring the tertiary active power reserve service of 224 MW in production since 1 January 2017, with heating oil as the main fuel. The test was successful; the conclusions confirming the successful test were received on 11 January 2017. Unit 8 of the backup power plant is used by the Company to provide the tertiary power reserve service at 260 MW and the Company has two fuel types available for this purpose: heating oil and gas. After optimising its production capacities, the Company supplies the entire quantity of the tertiary power reserve service (484 MW) to the TSO of 2017 for EUR 32.2 million, i.e. for EUR 10.4 million less than was established for the provision of this service as necessary costs if heating oil as well as gas are used.

On 6 January 2017, the Supervisory Board of the Company adopted a decision **to elect Mr. Mindaugas Gražys as a member of the Board** starting from 6 January 2017 until the end of the term of office of the present Board.

In January 2017, the project for decommissioning of 5 and 6 units was initiated. In January 2016, units 5 and 6 were decommissioned. Given the fact that the price of electricity produced at these units is no longer competitive on the market and that their abandonment will help reduce the final tariffs of electricity for end users, the decision was made to dismantle these obsolete and ineffective 300 MW capacity units of the reserve power plant.

On 1 March 2017, the updated organisation structure of the Company came into force. The changes were initiated in accordance with the Company's strategy, in order to make the processes and work organisation at different power plants uniform and to define the functions of individual production subdivisions and supporting activities clearly. This created additional opportunities for managing materials and works in the sphere of technical maintenance in a centralised manner, for operating faster, more efficiently and flexibly. After the structure was changed, it became possible to allocate more time and human resources to the development of new services, as provided for in the activity strategy of the Company that was approved in autumn 2016.

On 10 March 2017, the National Commission for Energy Control and Prices (hereinafter referred to as the NCC) imposed a fine comprising EUR 5,643 on the Company because the Company failed to submit audited statements regarding the regulated heat production activity in 2014 (including the supply of heat to UAB "Elektrėnų komunalinis ūkis") by an independent auditor that are required by the NCC on time. The Company stated that it disagrees with the imposed sanction procedure and presented its arguments to the NCC. The main reason why the audited statements were delayed is the lack of clarity in the legislative framework and the repeated procurement of audit services that the Company was forced to carry out. It should be noted that repeated procurement of audit allowed the Company to save more than EUR 50 thousand, which would have been included in the costs of regulated activity and thereby increased the heat price for the residents of Elektrėnai.

At the Ordinary General Meeting of Shareholders held on 24 March 2017, a decision was made on distribution of dividends to the shareholders of the Company for 2016.
In the end of March 2017 the Company completed de-comissioning project of the units 1 and 2. As the Company completed the project for expansion of heat generation facilities in Elektrėnai in 2015, the units 1 and 2 of the reserve power plant (which have been used so far for heat production to satisfy the needs of population of Elektrėnai town during the cold season) appeared to be longer necessary.

In March 2017, the Company's employees performed the first technical maintenance tasks for external customers.

On 9 May 2017, the Company informed that having approved the environmental impact assessment report, **the Environmental Protection Agency gave the green light for the wind power plant park in the vicinity of Kruonis Pumped Storage Hydroelectric Power Plant** (hereinafter referred to as the Kruonis PSHP). This assessment was the last procedure, which the Company seeking to initiate the construction of the wind power plant park in the territory of Kruonis PSHP could initiate at that time. The implementation of the project will be continued once the responsible state authorities make decisions on further development of wind energy in Lithuania.

On 12 May 2017, the Company received a notification of resignation of Mr. Mindaugas Gražys from the post of a member of the Company's Board. The last day of his term of office in the Company's Board will be 9 June 2017. On 9 June 2017 supervisory council **elected Mr. Nerijus Rasburskis as a member of the Board of the Company**.

On 2 May 2017, **the Company informed to have returned the share of the long-term credit totalling EUR 60.0 million** disbursed by AB SEB bank pre-term. The return was initiated in order to reduce interest expenses incurred by the Company.

On 22 June 2017, the Company anno**unced the results of the feasibility assessment for the development of Kruonis PSHP by installing the fifth hydro unit**. The analysis has shown that under today's market conditions, the existing power of 900 MW is sufficient for the work of the power plant, however, its development is important in the future ensuring sufficient electricity capacities and competitive energy in Lithuania.

On 29 June 2017, it was announced that **the Competition Council refused to start an investigation of the Company's actions** in the participation in the auction first of all, and in negotiations later on for tertiary active power reserve. The published resolution announced that there was no basis for suspecting that when submitting a tender for the assurance of tertiary reserve, the Company would have applied unfair excessively low prices or that the company's actions would have signs of abuse of the dominant position.

On 30 June 2017, **the Company published its Corporate Social Responsibility Report** for 2016.

On 5 July 2017, the Company signed a credit agreement with AB SEB bank for a credit of EUR 60 million. This agreement will be used to refinance the loan issued by the credit agreement of AB SEB bank of 21 February 2014.

On 10 August 2017, Mindaugas Keizeris and Dominykas Tučkus **were elected members of the Supervisory Board of the Company**. The term of office of the previous Supervisory Board ended on 5 August 2017.

In September 2017, the Company successfully conducted **emissions monitoring tests** in the operating units of the Elekrėnai Complex.

On 22 September 2017, **the Board of the Company was elected**, while the Chair of the Board and CEO of the Company was elected on 25 September 2017. The term of office of the previous Board ended on 17 September 2017.

On 29 September 2017, **decision of shareholders to allocate dividends** for January-June 2017 was adopted in the Extraordinary General Meeting of Shareholders of 29 September 2017.

On 27 October 2017, the Company **signed an agreement with the state enterprise "Turto bankas"** on the joint sale of shares of the private limited liability company GEOTERMA belonging to the Company by the ownership right. The shareholding of the private limited liability company GEOTERMA controlled by the Company constitutes 23.44 per cent of the total number of shares.

On 11 December 2017, the Board of the Company, having assessed the scope of services provided by Lithuanian Power Plant's units in 2018, the market situation of electricity production and system services, changes in the regulatory environment and prospects, taking into account the opinion of Supervisory Board, **decided to terminate the exploitation of unit 7 of Lithuanian Power Plant** from 1 January 2018 and to put it into preservation mode.

On 22 December 2017, the Company concluded an agreement with the electricity TSO of Lithuania LITGRID AB **regarding the purchase and sale of the tertiary active power reserve**. The service of the reserve intended for voltage control in the 330 kV transmission network and for restoration of the secondary emergency power reserve will be provided in 2018 within the scope of 260 MW by the combined cycle unit of the Company. On 29 December 2017 the provision of the reserve was tested.

More information on these and other events important to the Company is available in the report below and on the Company's website at www.gamyba.le.lt.

ANALYSIS OF PERFORMANCE AND FINANCIAL INDICATORS

		2017	2016	2015[1]	2014[1]	2013[1]
FINANCIAL INDICATORS						
Sales revenue	EUR`000	147,199	151,758	203,097	231,084	312,671
Other operating income	EUR`000	2,616	21,164	11,298	2,116	2,193
EBITDA[2]	EUR`000	70,538	58,054	50,272	64,023	60,199
Adjusted EBITDA[3]	EUR`000	53,733	63,652	50,272	64,023	60,199
Operating profit	EUR`000	16,236	49,030	5,761	39,366	30,641
Net profit (loss)	EUR`000	20,521	39,975	-231	33,407	27,327
Profit before tax	EUR`000	15,695	48,330	3,889	37,987	25,218
Cash flows from operations	EUR`000	59,993	60,513	25,364	86,572	127,934
Liabilities to financial institutions	EUR`000	55,557	132,907	146,260	162,886	160,852
RATIOS						
Liabilities / equity		0.80	1.30	1.43	1.49	1.36
Financial liabilities / equity		0.16	0.37	0.43	0.44	0.40
Financial liabilities / assets		0.09	0.16	0.18	0.18	0.17
LOAN COVERAGE RATIO						
Loan coverage ratio (EBITDA / (interest costs + loans repaid in the reporting period))[4]		0.90	3.95	2.62	4.56	2.55
PROFITABILITY RATIOS						
Operating profit margin	%	10.84	28.35	2.69	16.88	9.73
Profit before tax margin	%	10.48	27.95	1.81	16.29	8.01
Net profit margin	%	13.70	23.12	-0.11	14.33	8.68
Return on equity	%	5.80	11.24	-0.07	9.10	6.87
Return on assets	%	3.23	4.88	-0.03	3.65	2.91
Earnings per share	EUR	0.032	0.063	0.000	0.053	0.043
P/E (share price / earnings)		19.28	9.95	-1844.77	14.83	9.16

[1] Comparative indicators were not recalculated.

[2] Earnings before tax + interest costs – interest income – dividend received + depreciation & amortisation + non-current & current asset impairment losses + result on disposal of part of business.

[3] EBITDA result is reported after the adjustments made by management by eliminating the impact of one-off factors. These adjustments are made aiming to disclose the results of the Company's operating activities after the elimination of the impact of non-typical, one-off factors or factors that are not directly related to the current reporting period. All adjustments made by management are disclosed in the Company's interim and annual reports.

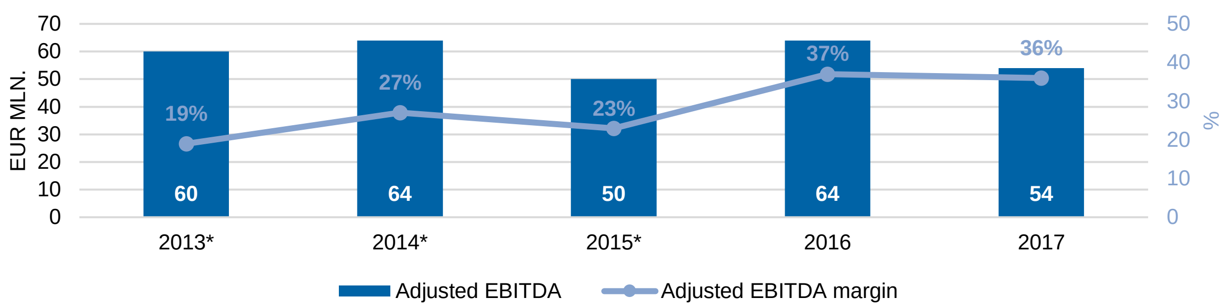
[4] Re-financed loans were not included in the calculation of the ratio.

In 2017, the Company's adjusted EBITDA decreased compared to 2016, however adjusted EBITDA margin remained relatively stable. The same can be also observed in the chart of EBITDA dynamics during 2013-2017 (see Figure 1). Other profitability ratios of the Company – operating profit margin, profit before tax margin, net profit margin, return on equity – were lower in 2017 compared to 2016 due to a significant positive effect on the results and profitability ratios for year 2016 as a result of disposal of part of business in 2016 (positive effect on the Company's profit before tax amounted to EUR 15.4 million in 2016) and impairment recognised in the end of 2017 in relation to assets of units 7 and 8 of Elektrėnai Complex (EUR 31.4 million). In 2017, return on assets decreased compared to 2016 due to lower net profit.

The year 2017 was noted as the one with heavy rainfall, and therefore, the water level in the Nemunas river was much higher compared to the previous year. This contributed to more favourable production conditions at Kaunas Algirdas Brazauskas Hydroelectric Power Plant (hereinafter referred to as Kaunas A. Brazauskas HPP). As a result, in 2017

electricity production volumes at Kaunas A. Brazauskas HPP increased by 26.4% compared to 2016. Revenue generated at Kaunas A. Brazauskas HPP partly offset sales revenue losses of the Company caused by lower production volumes at Elektrėnai Complex compared to 2016.
The Company's adjusted EBITDA decreased due to the costs of dismantling works of units 5 and 6 that were started at Elektrėnai Complex in 2017, and due to lower sales of secondary active power reserve services at Kruonis PSHP and lower EBITDA from regulated activities of Elektrėnai Complex in 2017 compared to 2016.

Figure 1
The Company's adjusted EBITDA and adjusted BITDA margin dynamics



* Comparative indicators were not recalculated.

Disclosure of corrections by the management

		2017	2016
EBITDA result before corrections	*EUR`000*	70,538	58,054
CORRECTIONS BY THE MANAGEMENT			
Due to the impact of adjustment of the profit from commercial activities[1]	*EUR`000*	-5,438	1,876
Due to the impact of recalculations of regulated one-off revenues of previous periods[2]	*EUR`000*	-11,367	3,722
Adjusted EBITDA result	*EUR`000*	53,733	63,652

[1] In 2014, the NCC adopted a decision by which it recognised that the Company was an entity that had a considerable impact in the power generation market and on the basis of which the profit from sales of energy produced in hydro power plants of the Company was contracted by reducing the amount of funds allocated for the public service obligations by a corresponding amount. On 17 October 2016, the Supreme Administrative Court of Lithuania passed a judgement which annulled this decision of NCC. Regardless of the court ruling, the NCC has not adopted a decision with regard to compensation of public service obligations' funds not paid to the Company in 2016. For this reason, reduced income of public service obligations accounted for by the Company in 2016 amounted to EUR 1.9 million. On the other hand, late 2017, executing the court ruling, the NCC allocated EUR 5.4 million of public service obligations funds to the Company in 2018 so as to compensate the Company for the funds not received in 2015. This amount was recognised as revenue in the Company's financial statements of 2017. These corrections are aimed at reflecting the Company's normalised performance results of the current year.
[2] In 2014, following the completion of verification of regulated activities of the Company for the years 2010-2012, the NCC adopted a decision to recalculate the expenses and income attributed to regulated activities of the aforementioned period. Due to this recalculation, income of reserve power security (ensuring) services was reduced to the Company by the amount of EUR 3.7 million in 2016. In 2017, the NCC conducted verification of the amount of funds of the public service obligations allocated to the Company in the 2010–2015 period. In addition, principles and corresponding legal regulation for the establishment of funds allocated for public service obligations were amended in 2017. Due to these changes, in 2017, the Company in its financial statements recognised income of public service obligations in the amount of EUR 11.4 million in relation to the recalculation of public service obligations' income recognised during the previous periods. These corrections are aimed at presenting normalised performance results of the Company of the current year.

Statement of financial position

The Company's liabilities to financial institutions amounted to EUR 55.6 million as at 31 December 2017. They included liabilities under long-term loan agreements.

Statement of comprehensive income

Revenue

The Company's sales revenue totalled EUR 147.2 million in 2017. Income from electricity trading, balancing power, regulation power, power reserve and public service obligation (PSO) services as well as income from sale of heat energy accounted for the largest part of sales revenue. The Company's sales revenue decreased by 3% in 2017 compared to 2016. Such decrease was mostly caused by decrease in electricity production volumes at Elektrėnai Complex due to lower electricity prices on power exchange compared to 2016.

The Company's regulated revenue for 2017, i.e. electricity and heat energy generation at Elektrėnai Complex and power reserve services provided at Elektrėnai Complex and Kruonis PSHP, accounted for about 65% of the Company's total revenue (2016: 60%).

Expenses

In 2017, expenses incurred by the Company totalled EUR 133.6 million. Expenses of purchasing electricity and related services as well as expenses of purchasing fuel for electricity generation accounted for the major part of the Company's total expenses (EUR 58.5 million or 43.8% in 2017 compared to EUR 76.4 million or 61.7% in 2016). The main reason for decrease in these expenses in 2017 compared to 2016 was decrease in production volumes at Elektrėnai Complex and lower gas infrastructure charges as a result of using heavy fuel for the provision of tertiary power reserve services at one of the units of Elektrėnai Complex. The Company's depreciation and amortisation expenses amounted to EUR 25.0 million in 2017.

Operating expenses (excluding the expenses of purchases of electricity and related services, expenses of fuel for production, depreciation and amortisation expenses, expenses of revaluation of emission allowances and impairment expenses, also excluding impairment of an amount receivable reflected in expenses for 2016 in relation to the shares of Kauno Energetikos Remontas UAB and NT Valdos UAB) amounted to EUR 20,0 million in 2017, i.e. increased by EUR 1.3 million compared to 2016. Operating expenses mainly increased due to higher expenses of demolition project..

Profit

In 2017 the Company's adjusted EBITDA was EUR 9.9 million lower compared to 2016, however, adjusted EBITA margin remained relatively stable in 2017 and reached 35.9% compared to 36.8% in 2016.

In 2017 the Company's profit before tax totalled EUR 15.7 million, and net profit totalled EUR 20.5 million. In 2016 the Company earned net profit of EUR 40.0 million.

The Company's net profit decreased in 2017 due to the effects of one-off items: positive result on disposal of part of business was recognised in 2016 (EUR 15.4 million), impairment of assets related to units 7 and 8 of Elektrėnai Complex was recognised in 2017 (negative effect on profit before tax amounted to EUR 31.4 million). Had the aforementioned factors not been taken in account, the Company would have recorded an increase in net profit for 2017.

Statement of cash flows

In 2017 the Company's net cash flows from operating activities amounted to EUR 60.0 million compared to EUR 60.5 million in 2016.

In 2017 the Company's cash flows from financing activities were negative similarly as in 2016 and amounted to EUR 102.0 million compared to EUR 42.1 million in 2016. Based on information reported by the Company on power exchange on 22 May 2017, in IQ 2017 the Company made early repayment of EUR 60.0 million of its long-term loan.

Investments in non-current assets

In 2017 the Company's investments in property, plant and equipment non-current intangible assets totalled EUR 1.9 million compared to EUR 3.3 million in 2016.

Overview of activities of the Company's power plants

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

The biofuel boiler house built in the Elektrėnai Complex enables the Company to produce heat energy to satisfy the needs of Elektrėnai town and Kietaviškės greenhouses, and the needs of its own.

As from 1 January 2016, trade in electricity produced by the Company is conducted under the agreement by Energijos Tiekimas UAB. Before that date, the Company used to conduct trading on the wholesale electricity market on its own (i.e. within the communication environment between the producers and suppliers of electricity).

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

Provision of system services

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

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

Trade in *regulation power* services are intended to balance the surplus and shortage of power in the energy system. Trade in regulation power is conducted in real time and ensures reliable operation of the power system on an hourly basis. When the amount of electricity in the system becomes insufficient and the TSO gives an instruction to increase its production, the Company increases the volume of electricity generation and sells the lacking amount of regulation power to the TSO. When there is surplus of power in the energy system and the TSO gives an instruction to reduce its production, the Company reduces the volume of electricity generation and buys surplus regulation power from the TSO.

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

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

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

Over the reporting period, no significant changes have been recorded in the activities of power plants managed by the Company. At the end of the reporting period, late 2017, it emerged that tertiary power reserve in the scope of 260 MW will be ensured in 2018 by combined cycle unit, and the strategic reserve (in the scope of 212 MW) – by unit 8. Given the aforementioned, a decision has been adopted to conserve unit 7 from the beginning of 2018. Kruonis PSHP will provide 400 MW secondary reserve service in 2018.

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

Elektrėnai Complex

Reserve power plant and combined cycle unit

Capacity – 1055 MW*

The main power plant of the Lithuanian energy system, which assures tertiary and strategic reserves to ensure safe electricity supply and reserves of the energy system.

Units 1–4 of the reserve power plant have been dismantled (the capacity of all units is 150 MW each). Dismantling of units 5 and 6 (300 MW each) started in 2017.

The most effective – combined cycle unit (455 MW) – provided strategic reserve, units 7 and 8 – tertiary reserve in 2017.

In 2015, new heat production facilities (steam and biofuel boiler houses) were brought into use.

Kruonis Pumped Storage Hydroelectric Plant

Capacity – 900 MW

Kruonis PSHP is intended for the balancing of electricity generation and consumption, as well as for the prevention of emergency incidents within the power system and elimination of consequences thereof. Kruonis PSHP is responsible for securing the larger part of the emergency reserve required for the Lithuanian power system.

As the need for regulation increases, and on completion of the power links with Sweden and Poland, the power plant provides more system services.

In 2017, the power plant provided secondary reserve with two units (400 MW). Other two units produced electricity for the market.

Kaunas Algirdas Brazauskas Hydroelectric Power Plant

Capacity – 100,8 MW

Kaunas A. Brazauskas HPP is the largest power plant in Lithuania that uses renewable energy sources.

Depending on natural conditions, the plant produces green energy and provides system services.

Kaunas A. Brazauskas HPP contributes to the balancing of electricity generation and consumption, and levels out the power system. It is one of the power plants in the Lithuanian power system that can start an autonomous operation in case of the total power system failure.

Electricity trading

As from 2016, trading in electricity produced by the Company is conducted under the agreement on the wholesale electricity market by Energijos Tiekimas UAB.

On completion of the power links with Sweden and Poland, trading becomes more active due to wider opportunities for electricity trading and system services in the interconnected systems.

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

Key performance indicators

Indicators of electricity generation and system services for 2017

Throughout 2017, the Company was engaged in electricity and heat generation, provision of strategic reserve and tertiary active power reserve services at Elektrėnai Complex and secondary emergency reserve services at Kruonis PSHP, as well as other system services.

The Company has permits for indefinite term to engage in electricity generation activities. In total 1.147 TWh of electricity produced at the power plants controlled by the Company was sold during 2017, i.e. 16.4% less compared to 1.371 TWh in 2016. Such decline was driven by significantly lower volumes of electricity produced at Elektrėnai Complex in 2017 compared to 2016. Whereas the volumes of electricity produced and sold at Kruonis PSHP and Kaunas A. Brazauskas HPP increased, by even more than ¼ at the latter (see Figure 3).

The year 2017 was noted as the one with heavy rainfall, and therefore, the water level in the Nemunas river was much higher compared to the previous year. This contributed to more favourable production conditions at **Kaunas A. Brazauskas HPP**. As a result, in 2017 electricity production volumes at Kaunas A. Brazauskas HPP increased by 26.4% compared to 2016 and totalled 0.459 TWh (2016: 0.363 TWh).

In 2017 the difference between day and night rates of electricity on power exchange was on average lower compared to 2016, however, a more active trade on power exchange in the day course allowed to increase slightly the production volumes at **Kruonis PSHP** in 2017. In 2017 sales of electricity produced at Kruonis PSHP increased by 6.2% compared to 2016 and totalled 0.549 TWh (2016: 0.517 TWh).

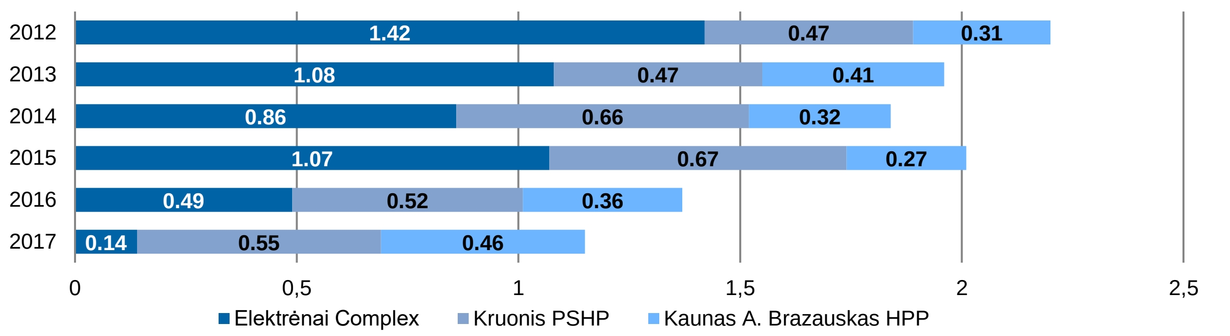
Sales of regulation power (these serivices are provided at Kruonis PSHP to balance electricity surplus/shortage in the energy system) increased by almost 1.4 times. In 2017 the Company sold 0.039 TWh and bought 0.022 TWh of regulation power compared to 0.028 TWh and 0.035 TWh, respectively, in 2016.

Another type of system services provided at Kruonis PSHP is the secondary active power reserve, i.e. the power maintained by the producer at installations or hydroelectric units, which is activated within 15 minutes. This type of system services were used 17 times during 2017. Whereas in 2016, this type of services designated to ensure the safety of electricity supply were activated even 57 times. The TSO activates this reserve (the provision of which was assigned to two units of Kruonis PSHP (400 MW) in 2017) only when it is necessary to compensate a sudden drop in electricity supplied to Lithuania. In 2016 the demand for this type of services became higher as a result of opening NordBalt interconnection with Sweden and more frequent disconnection events during its launching stage. In 2017, the Company sold approx. 3.50 TWh of secondary power reserve compared to 3.51 TWh in 2016.

The units at **Elektrėnai Complex,** where 0.139TWh of electricity was produced in 2017 compared to 0.491 TWh in 2016 (or 71,8% less compared to 2016), were still operating due to the decline in wholesale electricity prices on power exchange: in 2015, the average electricity price on Nord Pool power exchange as per Lithuania price area was 41.9 EUR/MWh compared to 36.51 EUR/MWh in 2016 and 35.15 EUR/MWh in 2017. Given the possibility to import electricity at a lower price, gas installations at Elektrėnai Complex are exposed to less opportunities to produce competitive electricity. In 2017 the CCU was connected to the grid 19 times compared to 58 times in 2016. In 2017 the CCU provided PSO services, i.e. ensured the strategic reserve and was actively operating during the peak consumption of electricity. The Unit was connected to the grid when the electricity price reached the highest point, thereby enabling to make competitive offers for electricity production at the Unit in the neighbouring countries.

In 2017, units 7 and 8 of the reserve power plant at Elektrėnai Complex were used to secure the tertiary active power reserve, i.e. power maintained by the producer at power generating sources, which is activated within 12 hours. In 2017, the Company sold approx. 4.24 TWh of tertiary power reserve compared to 4.44 TWh in 2016.

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



FACTORS DETERMINING THE FINANCIAL INDICATORS OF THE COMPANY

Business environment

In 2017 the Company was engaged in electricity and heat generation activities and provision of such services as assurance of strategic power reserve and tertiary active power reserve at Elektrėnai Complex and assurance of secondary emergency reserve at Kruonis PSHP, and other system services.

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

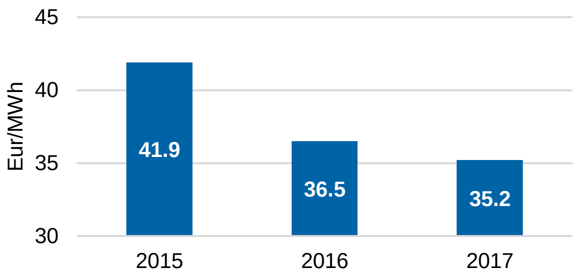
The most important events determining (actually or potentially) the Company's performance and financial indicators are as follows:

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

- **Launching of power links with Sweden and Poland in 2016 has both positive and negative effects on the Company's performance**. As a result of interconnection of electricity transportation systems and integration of power trade markets, the electricity prices in the Baltic States, Poland and Northern Europe are expected to gradually assimilate in the future. As a result of integration of several power markets, the price charged in the larger markets will still prevail (i.e. the price charged in the smaller markets will tend to change and achieve the level of price charged in the larger markets).

  On one hand, the launching of these power links resulted in a higher demand for the power reserve services provided by the power plants of the Company. On the other hand, it reduced the differences between the peak and off-peak prices on the electricity exchange, which in turn impacts the production at Kruonis PSHP. In addition, a lower electricity price worsens the possibilities to remain competitive while producing electricity using the gas installations.

Figure 4
Electricity prices as per Lithuania price area on NP electricity exchange
(source: Nord Pool)



- **Remaining low prices of emission allowances (EA) increase competition on the side of emitting producers.** In a long run, the European Commission seeks to ensure increase in the EA prices, which in turn is expected to mitigate competition on the side of emitting producers

- **The Company's performance might be affected by uncertainties in the market of power reserves.** Along with the discussions on updating the Lithuanian energy strategy and the level of production capacity that is necessary to assure in the country, the Company aims at ensuring that Elektrėnai Complex will remain as the most useful and effective local source of strategic reserve. To achieve this objective (in agreement with other services provided at Elektrėnai Complex), the Company plans to bring into use three units of Elektrėnai Complex by 2023: combined cycle unit (455 MW) and units 7 and 8 (300 MW each) which burn heavy fuel and comply with EU pollution requirements. However, if the units will not provide system services, the Company will not be able to cover the maintenance costs and will consider the termination of the exploitation of the units.

- **The decision of the regulator (NCC) and other institution have impact on the Company's performance**. The Company disputes certain decisions in courts. For more details on litigations see material events of the Company.

The Company's strategy

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

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

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

The Company plans to achieve the above-mentioned objectives by focusing on four main strategic directions: provision of quality services to clients, improvement of operational efficiency, diversification and development of activities, and engagement and empowerment of employees (See Figure 5).

By taking into consideration the needs of other producers of electricity and heat, the TSO and new customers, the Company plans to launch new services by relying on the strongest competences and expertise of its employees, its infrastructure and facilities.

During the Strategy implementation period, the Company plans to adopt decisions in relation to construction of the wind farm in the territory of Kruonis PSHP, as well as in relation to development of Kruonis PSHP by constructing the fifth hydroelectric unit.

The Company's objective is to reduce its operating costs in the production of electricity and heat and in the provision of system services by at least 15% by 2020. There are plans to minimise the price for heat in Elektrėnai.

The Company will also focus on the major repairs of hydro power plants, the programme on arrangement works at Elektrėnai Complex aimed at dismantling of units no longer used in the production activities, and territory cleaning works. Exceptional attention will be given to planning of technical maintenance and repairs and their prevention, the Company seeks to ensure a high level of reliability of the power plants controlled by it.

One of the most important objective is to achieve low turnover of employees in key functions, ensure safety and health of employees, and implement Operational Excellence Programme in line with LEAN management system principles.

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

MISSION

We are a reliable and advanced power generation company providing the services that are required for the energy system security.

Ensure quality services provided to clients (the TSO, suppliers, consumers, shareholders):	**Improve operational efficiency:**	**Diversify and develop activities:**	**Engage and empower employees:**
• ensure high level of accessibility to heat and electricity production facilities controlled by the Company by focusing mainly on the planning of technical maintenance and repair works; • ensure high reliability of facilities controlled by the Company, by focusing on preventive maintenance of equipment, early identification of potential technological problems, strengthening of competence of employees in operational functions, investment into renewal of worn equipment; • ensure a lower negative environmental impact by monitoring and consistently reducing the level of emissions and clearing past pollution.	• reduce the cost of production of electricity and heat, • elaborate an optimal strategy for supply of fuel, • reduce the technological need for energy, • optimise costs, • abandon the facilities that are no longer in use, • improve the processes, • ensure quality for project management.	• implement competitive energy projects (development of Kruonis PSHP by constructing the fifth hydroelectric unit, continuation of the wind farm project); • develop new activities relating to production by relying on infrastructure and personnel competences.	• create an organisational culture that is based on corporate values and is result-oriented, supported with the Company's focus on employees, their safety and health.

VISION

Our aim is to be become a competitive international centre of power generation and services.

Prospects of power plans controlled by the Company

One of the main objectives of the Company is to ensure effective use of power plants controlled by the Company:

- **Production at Elektrėnai Complex:** it is likely that no production quotas will be established for supported electricity in the near future at Elektrėnai Complex. Accordingly, production is expected only on commercial terms (in the event of favourable conditions in the market) as well as for the purpose of periodic short-term testing of technological equipment. Electricity produced at the combined cycle unit is likely to be sold at peak time, as well as in the event of failure or scheduled repairs of power links with the neighbouring countries. Readiness of equipment and competence of personnel will be of special relevance for them to work effectively at the combined cycle unit in "peak producer" mode allowing multiple switch-offs and start-ups during a week. Retention of knowledge and expertise of operations personnel at Elektrėnai Complex is of utmost importance as well, as the power reserve services will be provided to the

units and special training and attestation programmes will be developed.
- **Production at Kruonis PSHP:** profitability and production volumes mostly depend on market conditions, i.e. the difference between peak and off-peak electricity prices. It is expected that 100% of generated electricity will be sold on NP electricity exchange at continuously fluctuating prices. It is also expected that with a growing electricity generation from renewable sources and launching of a power link with Poland, the electricity production volumes at Kruonis PSHP will increase. There are plans to carry out major repairs of wheels for certain hydroelectric units by 2020, which in turn will impact the production capacity and revenues. In the event of favourable conditions in the market, there are plans to implement the projects for construction of the fifth unit and/or wind farm in the territory of Kruonis PSHP.
- **Production at Kaunas A. Brazauskas HPP:** the production volumes will be mostly affected by the yield of the Nemunas river amounting on average ~0,4TWh per year. The production at Kaunas A. Brazauskas HPP is also affected by seasonality, i.e. the highest volume of electricity is produced during spring flood season and the lowest – during cold winter or hot summer seasons. It is expected that all electricity generated at Kaunas A. Brazauskas HPP will be sold on NP electricity exchange at fluctuating prices, to take full advantage of flexible electricity generation during the hours when the price reaches the highest point.

Research & development projects

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

The following investments of higher value are conducted or planned (until 2020) by the Company:
- renovation of complex distribution facilities for own needs and complex distribution transformer substations at Kruonis PSHP;
- major repairs of the second hydroelectric unit at Kruonis PSHP;
- works at the Obeniai ash site at Elektrėnai Complex;
- wind farm in the territory of Kruonis PSHP;
- installation of unit 5 at Kruonis PSHP (if market conditions appear to be favourable).

The following R&D projects were implemented in 2017:

Project for constructing a wind farm in the territory of Kruonis PSHP

In the beginning of 2015, complex measurements of wind speed, directions and other meteorological conditions allowing to assess the preliminary potential of the land plot for constructing a wind farm, were completed in the territory of Kruonis PSHP. Given positive wind measurement results, the Company initiated the preparatory works for the construction of a wind farm in the territory of Kruonis PSHP.
Under the preparatory works a study of impact of anticipated economic activity on NATURA 2000, an environmental impact evaluation and a feasibility study to evaluate wind resource and electricity production volumes has been completed.
Nine or ten wind plants are planned to be installed in the exclusive energy production infrastructure territory, where Kruonis PSHP already operates and a solar panel system has been installed for the Company's own purposes. The total power could comprise up to 35 MW. The preparatory works were finished in November 2017. The project will be continued after responsible public authorities make decisions on the further development of the wind energy sector in Lithuania.

Dismantling of units 1 and 2 of the reserve power plant

In the end of March 2017 the Company completed dismantling project of the units 1 and 2. As the Company completed the project for expansion of heat generation facilities in Elektrėnai in 2015, the units 1 and 2 of the reserve power plant (which have been used so far for heat production to satisfy the needs of population of Elektrėnai town during the cold season) appeared to be longer necessary. Consequently, in view of the fact that the price of electricity generated at these units is no longer competitive on the market and that the refusal of these units will help reduce the need for PSO funds as well as the final tariff of electricity for end users, the decision was made to dismantle these obsolete and ineffective 150 MW capacity units of the reserve power plant, which were constructed back in 1962–1965. Thermal insulation of the units, masonry of boilers have already been dismantled and utilised, and dismantling of unit installations and equipment is in progress by selling part of them as scrap and by offering the rest of them as still functioning on the market.

Dismantling of units 5 and 6 of the reserve power plant

In January 2017, the project for dismantling of 5 and 6 units was initiated. In January 2016, units 5 and 6 were decommissioned. Given the fact that the price of electricity produced at these units is no longer competitive on the market and that their abandonment will help reduce the final tariffs of electricity for end users, the decision was made to dismantle these obsolete and ineffective 300 MW capacity units of the reserve power plant. The dismantling of these units is planned to be accomplished in the end of 2020. In 2017, thermal insulation of blocks has been disassembled and utilized. Demolition works of metal structures, devices, scrap metal are performed. In 2018 it is planned to initiate the decommissioning of boiler masonry and metal constructions.

Major repairs of the second hydro unit of Kruonis PSHP

The second hydro unit of Kruonis PSHP was installed and launched in 1992, thus the unit has been operated for about 25 years now. In the beginning of 2014, at the time of diagnostic repair of the hydro unit, the inspection of the generator was conducted in participation of representatives of the manufacturer of the power plant. It was determined that reasons of the observed deficiencies could be eliminated only by replacing some parts in the course of major repairs. A contract with a contractor, who will perform main works of major repairs of the second hydro unit of Kruonis PSHP, was signed in May 2017. In 2017, a part of the manufactured equipment was presented to Kruonis, whose installation work is planned to be initiated in IQ 2018.

In the course of the major repairs, the unit will be put out of operation for about 4 months. The plan is to use this time for renovation of the internal (metal) part of the external pipeline of the hydro unit. A procurement procedure was initiated in June 2017. The contract was signed in December 2017. The renovation of the internal (metal) part of the external pipe is going to start with the repair works of second hydro unit.

Installation of unit 5 at Kruonis PSHP

In 2017, the Company has assessed the possibilities for the developments of the Kruonis PSHP, when installing the fifth hydro unit. The results of the analysis show that in today's market's conditions the existing 900 MW power is sufficient for the operation of the power plant, but its development is important for the assurance of future sufficient electricity capacity and competitive power engineering in Lithuania.
Expansion of Kruonis PSHP production capacity is planned after the construction of the fifth asynchronous hydro unit of 225 MW power. The Company, evaluating the need of the fifth Kruonis PSHP unit, analysed the assumptions and prospects of the electricity trading, reserve, regulation and balancing services. After the merger with Sweden and Poland, the electricity prices go down on the stock market, and the difference between peak and night prices decreases.

Most of the forecasted changes in the commercial market do not provide significant additional opportunities for commercial trading of the electricity produced in Kruonis. At the same time, the construction of the fifth unit would be the optimal solution to solve the reliability and security of the Baltic electricity system in the shortest possible time. Such a universal unit would allow for a much more flexible real-time compensation of electricity shortages or surpluses on the market, which will be especially relevant when the Lithuanian electricity network will be synchronized with the continental Europe network.
At present, a considerable part of the preparatory work of the Kruonis PSHP development project has already been carried out, and the estimated duration of its implementation is around four years. The National Energy Independence Strategy project, which was presented in June 2017, included the development of Kruonis PSHP in the list of the main energy sector's works. The project may be continued when the relevant questions about how much power reserve will be needed, when working on an isolated network, when preparing for the synchronization and after it will be answered, as well as what technical requirements will be imposed on the device ensuring such power reserve.

Operational excellence, innovative activities

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

The Company encourages and implements not only the improvements stipulated in its operating plans but also the ones proposed by its employees. The Company's employees submitted ~700 proposals for performance improvement in 2017. Experts and managers evaluate the proposed ideas in terms of their payback and in respect of such aspects as time saving, safety at work, quality, corporate values, and improvement of workplace ergonomics. Employees are provided with the possibility to implement their ideas and thereby contribute to developing the Company's activities and attaining its goals. More than 500 of proposals for performance improvement were implemented in 2017.

All divisions of the Company continue using visual management of day-to-day operations with integrated performance indicators and cascaded meeting systems. With the help of LEAN and other operational management tools, the Company eliminates wastages no longer creating any value, arranges and standardises premises and work places (~80 premises were arranged in 2017, purpose of 38 of them changed or they are not being used anymore, in total it would be 1,300 sq. metres), solves problems in a more effective and fast manner, and improves the processes and their individual steps in view of the Company's priorities.

In 2017 the internal operational excellence training programme for the management of the Company was implemented (8 modules, 39 participants in total). Over the year, more than 90 percent of the employees of the Company got acquainted with the prepared training materials on operational excellence and gained practical knowledge about the best management practices, tested it their departments.

New services

Since November 2016, the Elektrėnai Complex has been offering its external customers services of weighing heavy vehicles and biofuel and other laboratory tests; and in 2017, the Company considerably expanded the range of provided services.

Presently the Company offers maintenance services for automation, electrical and mechanical facilities, also hydrotechnical structures and facilities, services of use of various energy objects, leases out buildings not used in its activities, warehousing areas and territories, offers chemical products and other services.

In 2017, the Company's employees provided services to 22 external customers which required almost 4,500 working hours. Also, in 2017, about 16,000 square meters of different territories and premises, which are not used by the Company in its main activities, were leased out.

Taking into consideration the opportunities of expansion of new services and implementing its operational strategy, the Company plans to offer its experience, know-how and expertise not only to Lithuanian but also to Latvian, Estonian, Swedish and Finnish enterprises.

Risk factors and their management

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

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

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

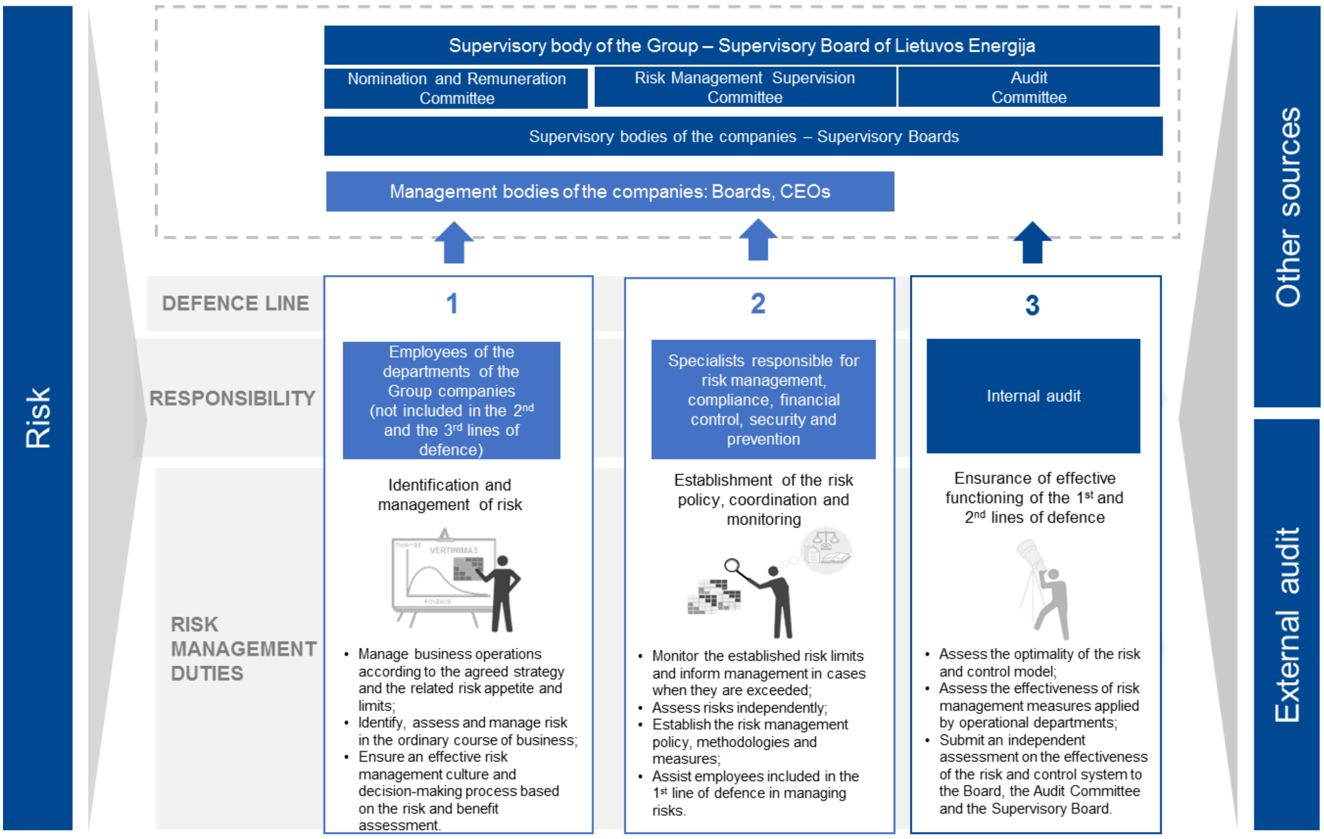
The risk management principles established by Lietuvos Energija UAB are consistently applied throughout the whole Lietuvos Energija group. The uniform risk management principles ensure that the management personnel of the Lietuvos Energija group receive risk management information covering all areas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

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

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

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

Figure 6
Risk management and control model



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

Risk factors for 2018 and their management policies

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

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

Structure of authorised share capital and securities in issue

The authorised share capital of the Company amounts to EUR 184,174,248.35 and it is divided into 635,083,615 ordinary registered shares with par value of EUR 0.29 each. All the shares have been fully paid.

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

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

ISIN code LT0000128571. Ticker - LNR1L.

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

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

Structure of authorised share capital

Class of shares	Number of shares	Par value per share, EUR	Total par value, EUR	% of authorised share capital
Ordinary registered shares	635,083,615	0.29	184,174,248.35	100.00

The Company's share price and turnover dynamics

Statistics on trade in the Company's shares

		2013	2014	2015	2016	2017
Last trading session price, EUR		0.399	0.780	0.671	0.626	0.623
Maximum price, EUR		0.411	0.854	0.940	0.713	0.665
Minimum price, EUR		0.360	0.395	0.650	0.610	0.6
Average price, EUR		0.382	0.639	0.805	0.654	0.656
Turnover, shares		801 754	1 545 602	642 148	929 940	920 892
Turnover, EUR MLN		0.31	0.99	0.52	0.61	0.58
Capitalisation, EUR MLN	Company	250.22	495.37	426.14	397.56	395.66
	Baltic Main List	4,449.63	4,438.23	4,885.76	5,043.31	5,853.81

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

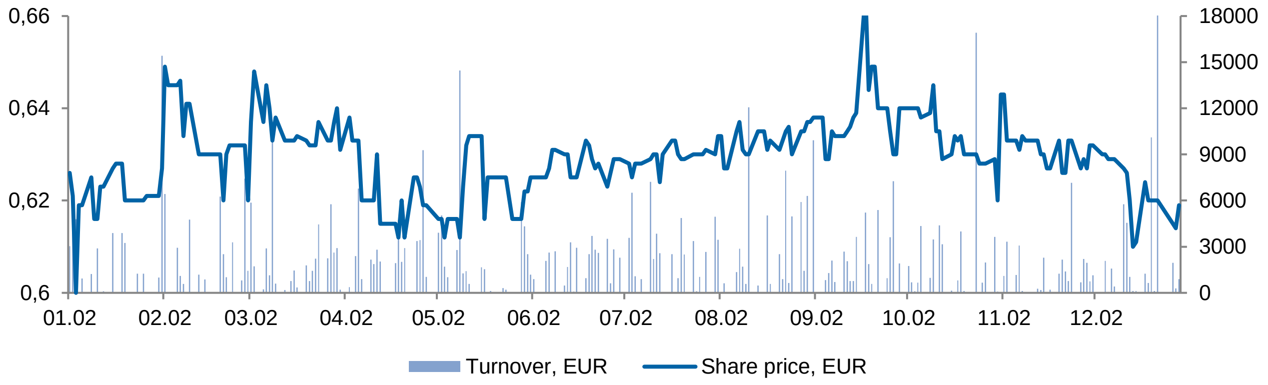


Figure 8

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

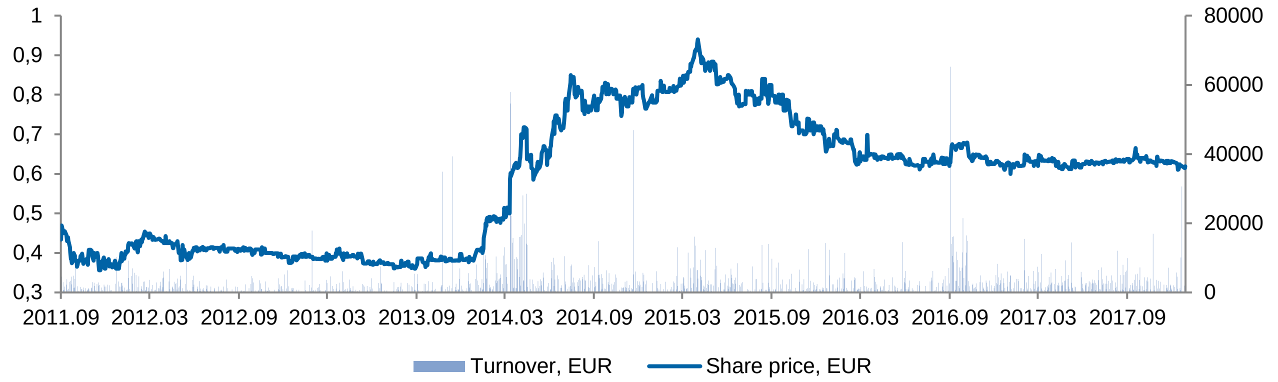
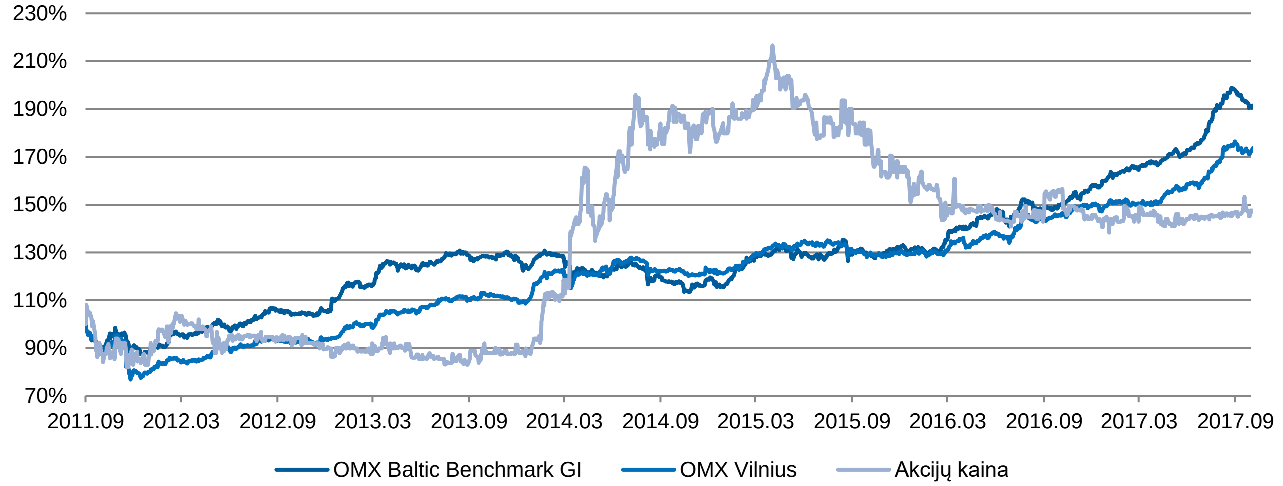


Figure 9

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



Shareholder structure

As at 31 December 2016, the Company had in total 5,931 shareholders.

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

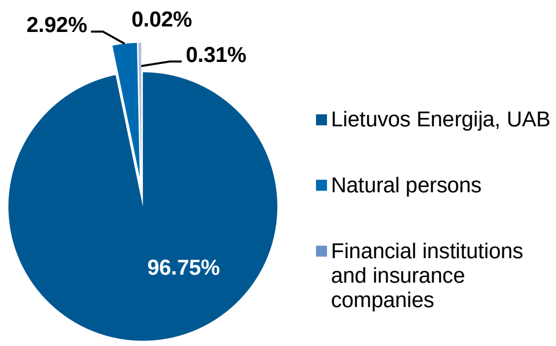
Shareholders holding more than 5% of the Company's shares (as at 31 December 2017)

Name	Class of shares	Number of shares	% of authorised share capital	% of shares with voting rights
Lietuvos Energija UAB Company code – 301844044 Žvejų g. 14, 09310 Vilnius	Ordinary registered shares	614,453,755	96.75	96.75
Other shareholders	Ordinary registered shares	20,629,860	3.25	3.25
TOTAL	Ordinary registered shares	635,083,615	100	100

Breakdown of shareholders by country

Country	Number of shareholders, %
Lithuania	96.7
Russia	0.8
Estonia	0.8
Belarus	0.6
USA	0.3
Latvia	0.3
Other	0.5

Breakdown of shareholders by category



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

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

The shareholders have the following property rights:

- to receive a part of the Company's profit (dividend);
- to receive the Company's funds when the authorised share capital of the Company is reduced with a view to paying out the Company's funds to the shareholders;
- to receive shares without payment if the authorised share capital is increased out of the funds of the Company, except for the cases stipulated in the Lithuanian Law on Companies;
- to have the pre-emption right in acquiring shares or convertible debentures issued by the Company, except for the case when the General Meeting of Shareholders decides to withdraw the pre-emption right for all shareholders in accordance with the procedure defined in the Lithuanian Law on Companies;
- to lend funds to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the Company borrows from its shareholder, the interest rate may not be higher than the average interest rate offered by commercial banks operating in the lender's place of residence or business, which was in effect at the time of entering into loan agreement. In such case, the Company and the shareholders are prohibited from negotiating a higher interest rate;
- to receive a part of assets of the company in liquidation;
- to transfer all shares or a part thereof to the possession of other persons;
- other property rights prescribed by law.

The shareholders have the following non-property rights:

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

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

Restrictions on voting rights

There were no restrictions on voting rights.

Restrictions on transfer of securities

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

Information on agreement with intermediary of public trading in securities

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

Dividends and dividend policy

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

On 24 March 2017, the General Meeting of Shareholders of the Company approved the distribution of the Company's profit (loss) of 2016. The plan is to pay EUR 12.7 million in dividends for the six-month period ended on 31 December 2016. EUR 0.02 in dividends per share is paid for this period. Persons, who were shareholders of the Company at the end of the 10th working day following the decision on the payment of dividends adopted by the General Meeting of Shareholder, i.e. at the end of the working day of 7 April 2017, received dividends.

Please be reminded that the dividends were paid on the basis of the decision of the Extraordinary General Meeting of Shareholders of the Company held on 26 September 2016, whereby they decided on the allocation of dividends for a period shorter than the financial year to the shareholders of the Company. Dividends of EUR 0.043 per share (EUR 27.3 million in total) were allocated for the six-month period ended on 30 June 2016.

Net profit from continuing operations of the Company was EUR 39.98 million in 2016 with the indicator of dividends paid for this period/ net profit being 1.00.

A decision to allocate EUR 0.017 dividends per share for the six-month period ended on 30 June 2017 (EUR 10.8 million in total) was adopted in the Extraordinary General Meeting of Shareholders of the Company held on **29 September 2017**. Persons, who were shareholders of the Company at the end of the 10th working day following the decision on the payment of dividends adopted by the General Meeting of Shareholder, i.e. at the end of the working day of 13 October 2017, received dividends.

Net profit from continuing operations of the Company was EUR 10.28 million in January-June 2017, with the indicator of dividends paid for this period/ net profit being 1.05.

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

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

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

A comprehensive social responsibility report for the year 2017 will be prepared and published separately.

Relationship with employees

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

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

The Company has created opportunities for people of different age and having different experience to successfully find employment and work. At the end of 2016, men accounted for 85 percent of the Company's employees and women - for 15 percent. There are more men working in the Company because of specifics of its activities - women choose technologic works and related specialties less frequently. There are no women in the Supervisory Board of the Company. However, one of the five members of the Board of the Company (top management category) is female, who is also holding the post of CEO.

Occupational health and safety at work

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

Open flame sources, flammable and explosive substances, steam and hot water are used in the production process; together with the temporary nature of specific workplaces and complicated conditions for the performance of the works this creates health and safety at work risks for the employees of both the Company and its contractors. Prevention of accidents is in the focus of attention of the Company: an OHSAS 18001:2007 certificate is maintained in order to ensure health and safety at works, workplaces and the quality of organised work are regularly inspected, the employees are regularly briefed and provided with personal protective equipment. In 2017, there were 2 minor accidents (the same as in 2016).

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

Society relationships

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

Educational activities

The Company demonstrates goodwill and invites the members of public to participate in non-repayable excursions at its objects: the combined cycle unit, Kruonis PSHP, Kaunas A. Brazauskas HPP. Thereby, the Company contributes to increasing awareness of the public, especially the younger generation, about the energy. In 2017, the above-mentioned power plants had in total over 3,000 visitors from various educational establishments, schools and other institutions, as well as delegations from abroad. Kruonis PSHP has the highest number of visitors in 2017.

Support

Lietuvos Energijos Gamyba provides support through the Lietuvos Energija Support Foundation established in 2014.

Support for projects, programmes and other activities of public significance, provided by the Group's companies, is centrally managed by this foundation. The operation of the foundation ensures transparency of support and forms a solid basis for corporate social responsibility.

The budget of the Foundation is formed by contributions made by the Groups companies. The contributions account for up to 1 percent of the consolidated net profit of the Group and are made once in a year according to an established procedure. All the information related to the foundation is published in the Social Responsibility section of www.le.lt.

Environmental protection

The Company is committed to protecting the environment in its operations, sparingly using the natural resources, introducing advanced, efficient and environmentally friendly technologies, complying with the environmental laws and regulations, and implementing preventive measures to reduce the adverse impact upon the environment in a professional manner.

The most important environmental protection issues include the safe operation of facilities, safe use of substances dangerous to the environment, waste management, ensuring that the water level fluctuations in the Kaunas Lagoon and the Nemunas River downstream the Kaunas A. Brazauskas HPP are within the permissible limits etc.

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

Environmental management standard

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

Environment clean-up initiative

As the Company consistently contributes to cherishing natural environment on a yearly basis, in spring 2017 it cleaned up the territories near Elektrėnai lagoon and Kaunas lagoon.

Waste sorting

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

In 2017 at the power plants of the Company 2,056 tons of hazardous waste and 4,623 tons of non-hazardous waste were transferred, 1,736 tons of ferrous and almost 114 tons of non-ferrous metals were sold, 62 tons of household waste was collected.

Market activities

Following the anti-corruption principle - the tenth principle of the Global Compact, the Company pays all taxes that are due, ensures transparency of public procurement conducted by it, and requires transparency and good faith from its suppliers, both current and potential. The Company carries out trading on the electricity exchange in a transparent manner and does not take part in any transactions that could potentially involve bribing or other corruptive behaviour. The Company makes comments and proposals to the authorities concerning draft legal acts or amendments thereto.

The Company does not tolerate corruption in any form, either direct or indirect. Group's policy on zero tolerance toward corruption is published on the Company's website. All employees of the Group are obliged to report any violation or suspected violation of the policy either to the Prevention Officer or via the **Trust Line, telephone number +370 640 88889 or email pasitikejimolinija@le.lt.** Other parties are also encouraged to report such actual or suspected violations using the same contact details, with the anonymity guaranteed.

Transparent procurement

In accordance with the Law on Public Procurement, Lietuvos Energijos Gamyba published draft technical specifications for all procurement procedures (except low value procurement) on the Central Public Procurement Portal. In addition, the Company placed information on such publication on its website, together with other procurement-related information. Companies of Lietuvos Energija Group ensure that all purchasing and sale transactions are carried out correctly and in a transparent manner.

THE COMPANY AND ITS MANAGEMENT BODIES

Information about the Company and its contact details

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

The Company's main business activity

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

Information about the Company's branches and representative offices

The Company has no branches or representative offices.

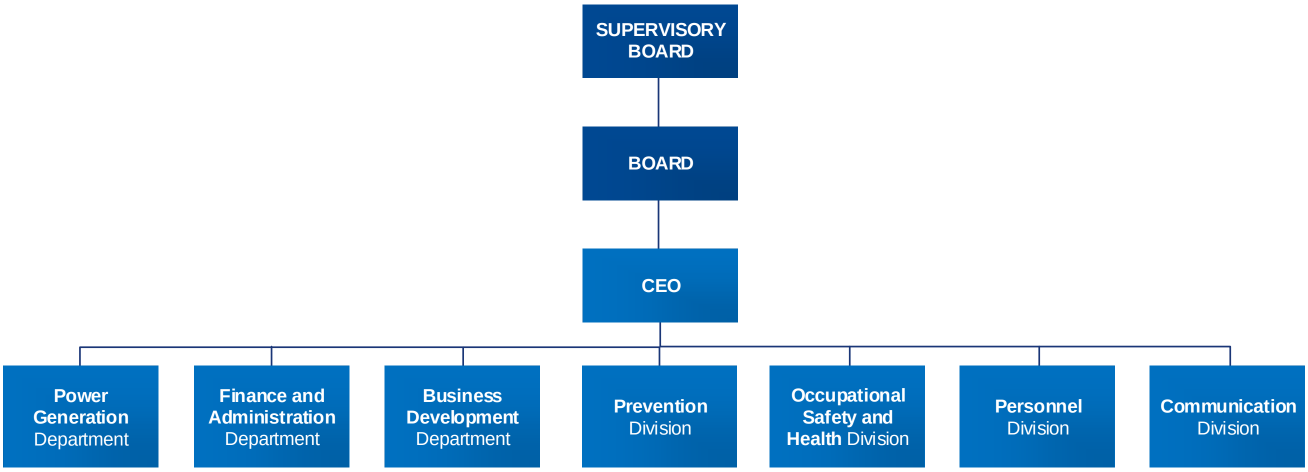
Divisions of the Company

The Company operates all state-owned power generation facilities:

- Elektrėnai Complex with a reserve power plant (the former Lietuvos Elektrinė) and a combined cycle unit,
- Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP),
- Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas A. Brazauskas HPP).

Figure 10

Structure of the Company (as at 31 December 2017)



Information about ownership interest in other entities

As at 30 June 2017, the Company had ownership interest in the following entities: Geoterma UAB (23.44%), Technologijų ir Inovacijų Centras UAB (20.01%), Verslo Aptarnavimo Centras UAB (15%).

Information about the Company's management bodies

Based on the Articles of Association effective as at 31 December 2017, the management bodies of the Company include as follows:

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

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

Information on the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius is available on the Annex 1 of this report.

General Meeting of Shareholders

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

The Articles of Association of the Company may be amended according to the procedure established in the Republic of Lithuania Law on Companies, by the decision of the general meeting of shareholders approved by a qualified majority vote which shall be not less than 2/3 of the voting rights carried by the shares of the shareholders present at the meeting.

Three General Meetings of Shareholders of the Company were convened in 2017:

1. The set of audited consolidated and annual financial statements of the Company and distribution of the Company's profit for 2016 was approved in the Ordinary General Meeting of Shareholders of the Company held on 24 March. The plan was to pay dividends for the six-month period ended on 31 December 2016.
2. The Extraordinary General Meeting of Shareholders of the Company held on 10 August elected Mindaugas Keizeris and Dominykas Tučkus members of the Supervisory Board for the term of office of 4 (four) years.
3. The Extraordinary General Meeting of Shareholders held on 29 September 2017 made a decision to allocate dividends for shareholders of the Company for the six-month period ended on 30 June 2017.

All General Meetings of Shareholders convened by the Company in 2017 were attended by the Company's CEO (chairperson of the Board) and/or Director of Finance and Administration Department (member of the Board).

Information on voting results of shareholders in this and previous General Meetings of Shareholders is available on the Company's website, under the section "For Investors".

The Supervisory Board

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

The Supervisory Board has the following main powers:

- elect the members of the Board and remove them from office;
- supervise the activities of the Board and the Chief Executive Officer;
- furnish the General Meeting of Shareholders with comments and suggestions in respect of operating strategies of the Company, a set of annual financial statements, proposed appropriation of profit (loss) and annual report, as well as in respect of the activities of the Board and the Chief Executive Officer;
- furnish the General Meeting of Shareholders with comments and suggestions in respect of the draft decision on proposed distribution of dividends for the period shorter than the financial year, and in respect of the decision to approve the set of interim financial statements and the interim report;
- furnish the Board and the Chief Executive Officer with suggestions to recall their decisions which appear to be in conflict with the laws, other legal acts, the Articles of Association of the Company, and the decisions adopted during the General Meeting of Shareholders;
- resolve other matters relating to supervision of activities of the Company's management bodies falling within the scope of competence of the Supervisory Board as stated in the Articles of Association and in the decisions adopted during the General Meeting of Shareholders.

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

- The term of office of the Supervisory Board of the Company the members of which were Mindaugas Keizeris (the Chair), Dominykas Tučkus (a member) and Pranas Vilkas (an independent member) ended on 5 August 2017.
- M. Keizeris and D. Tučkus were elected for the new term of office in the Extraordinary General Meeting of Shareholders held on 10 August 2017. An independent member had not been elected as at the date of issue of this report. The expected end of term of office of the current Supervisory Board of the Company is 10 August 2021.

Overall 11 meetings of the Supervisory Board were held in 2017. All of them were attended by all elected members.

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

Members of the Supervisory Board (during the reporting period)

Name	Term of office	Shareholding in the Company	Participation in other companies and organisations	Ownership interest in other companies (>5%)
Mindaugas Keizeris	20/11/2014 – 5/8/2017	–	- Lietuvos Energija UAB, Member of the Board, Director for Strategy and Development, interim CEO.	–

Date of birth – 1980 Member	10/8/2017 – 10/8/2021		- Energetikos Paslaugų ir Rangos Organizacija UAB, Chairman of the Board. - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board (until 24 April 2017). - Vilniaus Kogeneracinė Jėgainė UAB, Chairman of the Board. - Sponsorship Foundation of Lietuvos Energija UAB, Chairman of the Board. - NT Valdos UAB, chairman of the Board.	
Dominykas Tučkus Date of birth – 1982 Member	21/12/2015 – 5/8/2017 10/8/2017 – 10/8/2021	–	- Lietuvos Energija UAB, Member of the Board, Director for Production and Services. - LITGAS UAB, Chairman of the Board. - Lietuvos Dujų Tiekimas UAB, Chairman of the Board. - Energijos Tiekimas UAB, Chairman of the Board - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board. - Eurakras UAB, Chairman of the Board. - Tuulueenergia OU, Member of the Board. - Energijos sprendimų centras UAB, Chairman of the Board. - Smart Energy Fund powered by Lietuvos Energija KUB, Member of the Supervisory Committee.	–
Pranas Vilkas Date of birth – 1936 Independent member	5/8/2013 – 5/8/2017	–	–	–

* M. Keizeris acted as a chairman of the board untill the election of the new board of Lietuvos Energija, UAB, on 1 February 2018. In the position of the CEO of Lietuvos Energija, UAB, he was changed by Darius Maikštėnas on 11 February 2018..

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

Based on Articles 21 and 25 of the Company's Articles of Asso¬ciation, at least 1/3 (one third) of members of the Supervisory Board must be independent members. Remuneration for work at the Supervisory Board can be paid only to the independent members of the Supervisory Board and upon the decision of the General Meeting of Shareholders.

The terms and conditions of the agreements with the members of the Supervisory Board, including the independence criteria, are established at the General Meeting of Shareholders in ac¬cordance with the requirements set forth in the relevant legal acts and based on the best corporate governance practices.

	Remuneration in 2017, EUR	Other payments* in 2017, EUR	Total in 2017, EUR
All members of the Supervisory Board, total	–	4,687	4,687
To the independent member of the Supervisory Board*	–	4,687	4,687

* For the activities as the member of the.Supervisory Board.

Board of the Company

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

The Board consisting of 5 (five) members is elected by the Supervisory Board for the term of office of four years and is recalled in line with the procedure prescribed by law and the Company's Articles of Association. The Board reports to the Supervisory Board and General Meeting of Shareholders. The Board elects its Chairman from among its members.
The person who nominates candidates for the position of the member of the Board is required to submit to the Supervisory Board a written statement about the qualification of each nominated candidate, his/her experience in managing positions, and fitness for the position of the member of the Board. The following members may not be elected as the members of the Board: a person occupying the position of a member of the supervisory body, management body or administration in an energy company engaged in electricity or

gas transmission operations; a member of the Supervisory Board of the Company; and any person who is not entitled to occupy such position on other grounds established in legal acts.

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

The Board adopts decisions on:

- the Company's acting as a founder or a member of a legal person;
- any transfer to third parties or encumbrance of the Company's shares/interests or rights attached thereto;
- formation or termination of branches and representatives offices of the Company;
- bond emissions;
- operation of facilities owned by the Company and specified in the Lithuanian Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises Important to Ensuring National Security;
- signing of agreements for the value of in excess of EUR 3 million;
- other matters provided for in the Articles of Association of the Company.

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

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

- On 23 December 2016, Adomas Birulis presented to the Company his letter of resignation from the position of a member of the Board of the Company as from 6 January 2017.
- The meeting of the Supervisory Board of the Company held on 6 January 2017 adopted a decision to elect Mindaugas Gražys to the Company's Board from this day till the end of term of office of the effective Board. He headed the Business Development Department of the Company.
- A letter of resignation of M. Gražys from the position of a member of the Board of the Company as from 9 June 2017 was received on 12 May 2017.
- The meeting of the Supervisory Board of the Company held on 9 June 2017 made a decision to elect Nerijus Rasburskis to the Company's Board from this day till the end of term of office of the effective Board.
- The term of office of the previous Board of Lietuvos Energijos Gamyba, AB, the members of which were Eglė Čiužaitė (the Chair), Darius Kucinas (a member), Mindaugas Kvekšas (a member) and Nerijus Rasburskis (a member) at the end of its term, ended on 17 September 2017.
- The new Board of the Company was elected in the meeting of the Supervisory Board of the Company held on 22 September 2017. The expected end of term of office of the current Board of the Company is 22 September 2021.
- The Chair of the Board and CEO of the Company was appointed on 25 September 2017.

Overall, 28 meetings of the Board were held in 2017. All of the meetings were attended by all elected members of the Board.

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

Members of the Board (during the reporting period)

Name	Term of office	Share-holding in the Company	Participation in other companies and organisations	Ownership interest in other companies (>5%)	Payment for the activities as the member of the Board, EUR
Eglė Čiužaitė Date of birth – 1979 Chairperson of the Board, CEO	19/2/2016 – 17/9/2017 22/9/2017 – 22/9/2021	–	- Geoterma UAB (Lypkių str. 53, Klaipėda, Lithuania, c. c. 123540818), Member of the Board. - Sponsorship Foundation of Lietuvos Energija (Žvejų str. 14, Vilnius, Lithuania, c. c. 303416124), Member of the Board (since 19 April 2016). - Technologijų ir Inovacijų Centras UAB (A. Juozapavičiaus str. 13, Vilnius, Lithuania, c. c. 303200016), Member of the Board (since 30 January 2017)	–	17,184
Adomas Birulis Date of birth – 1983	17/9/2013 – 6/1/2017	–	- Technologijų ir Inovacijų Centras UAB (A. Juozapavičiaus str. 13, Vilnius, Lithuania, c. c. 303200016), Member of the Board until 6 January 2017.	–	185

Member of the Board, Director of Business Development Department					
Darius Kucinas Date of birth – 1971 Member of the Board, Director of Production	17/9/2013 – 17/9/2017 22/9/2017 – 22/9/2021	–	–	–	10,311
Mindaugas Kvekšas Date of birth – 1986 Member of the Board, Director of Finance and Administration	31/12/2015 – 17/9/2017 22/9/2017 – 22/9/2021		- Verslo Aptarnavimo Centras UAB (P. Lukšio str. 5B, Vilnius, Lithuania, c. c. 303359627), Member of the Board	–	10,311
Mindaugas Gražys Date of birth – 1983 Member of the Board, Director of Business Development Department	6/1/2017 – 9/6/2017	–	–	–	4,421
Nerijus Rasburskis Date of birth – 1977 Member of the Board, Project Manager at Business Development Department	9/6/2017– 17/9/2017 22/9/2017 – 22/9/2021	–	- Lietuvos Energija, UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 301844044), Head of Cogeneration Power Plants Division - Vilnius Cogeneration Power Plant UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 303782367), Member of the Board - Kaunas Cogeneration Power Plant UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 303792888), Member of the Board	–	5,735

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

	Remuneration in 2017, EUR	Other payments* in 2017, EUR	Total in 2017, EUR
All members of the Board, total	198,261	48,147	246,408
Per member of the Board, average	49,565	12,037	61,602

* For the activities as the member of the Board.

The Management

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

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

	Remuneration in 2017, EUR	Other payments* in 2017, EUR	Total in 2017, EUR
To the CEO: Eglė Čiužaitė	66,917	17,184	84,101
Chief Financier*	–	–	–

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

The Company has neither transferred management of assets nor issued guarantees to the members of the bodies. During January-September 2017, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

Information about the Committees

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

The committees of the Supervisory Board of Lietuvos Energija 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 the term of four years.
The following committees have been established at the Supervisory Board of Lietuvos Energija:

- **The Risk Management Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of the management and control system in the Group and (or) main risk factors and implementation of risk management or prevention measures;
- **The Audit Committee** is responsible for the submission of objective and impartial conclusions or proposals to the Supervisory Board on the functioning of the audit and control system in the Group;
- **The Nomination and Remuneration Committee** is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the Board Members to the Supervisory Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the Committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

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.).

As at 16 July 2017, the expiry date of the term of office of the Supervisory Board of Lietuvos Energija, the Company had the Risk Management Supervision Committee, the Audit Committee, and the Nomination and Remuneration Committee. At the report date, Lietuvos Energija had the Audit Committee and the Nomination and Remuneration Committee. The Risk Management Supervision Committee had not been formed at the reporting date.

The Audit Committee

The main functions of the Committee are as follows:

- to supervise the financial reporting process of Lietuvos Energija and its group entities, with a special focus on the relevance and consistency of accounting methods used;
- to monitor the effectiveness of internal control and risk management systems of Lietuvos Energija and its group entities, to analyse the need for such systems and their appropriateness, and to perform the review of existing internal control management systems;
- to observe compliance of the certified auditor or audit firm with the principles of independence and objectivity, to provide recommendations thereon, as well as proposals for the selection of an audit company;
- to monitor the audit process of Lietuvos Energija and its group entities, examine the audit effectiveness and the administration‘s response to the audit firm‘s recommendations to the management;
- to monitor the effectiveness of the internal audit function at Lietuvos Energija and its group entities, to analyse the need for such function and its appropriateness, and to give recommendations on the necessity, effectiveness of the internal audit function, as well as other matters pertaining to internal audit;
- to provide proposals for internal audit plans of Lietuvos Energija and its group entities, to give recommendations for the regulations on internal audit units of Lietuvos Energija and its group entities, appointment and dismissal of the head of the structural unit performing the functions of internal audit, approval of his (her) job description, imposition of incentives and penalties;
- to monitor the compliance of activities of Lietuvos Energija and its group entities 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 the Corporate Governance Code of companies listed on the NASDAQ Vilnius Stock Exchange.

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

Members of the Audit Committee (as at 16 July 2017)

Committee member	Shareholding in the Company	Name of employer, job position
Rasa Noreikienė Chairperson	–	Lithuanian Ministry of Economy, Vice-Minister*
Aušra Vičkačkienė Member	–	Lithuanian Ministry of Finance, Asset Management Department, Director
Danielius Merkinas Independent member	–	Nordnet UAB, CEO
Gintaras Adžgauskas Member	–	World Energy Council, Lithuania Committee, Director
Irena Petruškevičienė Independent member	–	European Commission, Audit Progress Committee, member

* Mrs Rasa Noreikienė held the position until 13 December 2016.

Members of the Audit Committee (as at 31 December 2017)

Committee member	Shareholding in the Company	Name of employer, job position
Irena Petruškevičienė Chairperson Independent member	–	European Commission, Audit Progress Committee, member
Danielius Merkinas Independent member	–	Nordnet UAB, CEO
Aušra Vičkačkienė Member	–	Lithuanian Ministry of Finance, Asset Management Department, Director

At the reporting date, the term of office of the incumbent Audit Committee is from 13 October 2017 to 13 October 2021.

The Risk Management Supervision Committee

The main functions of the Committee as follows:

- to monitor the way the risks relevant for the achievement of the targets set for Lietuvos Energija and its group entities are identified, assessed and managed;
- to assess the adequacy of internal control procedures and risk management measures in view of the risks identified;
- to assess the progress achieved in the implementation of risk management measures;
- to monitor the process of risk management;
- to analyse the financial possibilities for the implementation of risk management measures;
- to assess the risks and the risk management plan for Lietuvos Energija and its group entities;
- to assess the periodic cycle of risk identification and assessment;
- to monitor availability of risk registers, analyse their data, provide recommendations;
- to monitor the availability of internal documentation pertaining to risk management;
- to perform other functions assigned to the Committee based on the decision of the Supervisory Board of Lietuvos Energija.

Members of the Risk Management Supervision Committee (as at 16 July 2017)

Committee member	Shareholding in the Company	Name of employer, job position
Antanas Danys Chairman Independent member	–	Grinvest PTE.LTD, Director
Tomas Garasimavičius Member	–	Energy Adviser to the Prime Minister of the Republic of Lithuania

Raimundas Petrauskas Independent member	–	Schmitz Cargobull Baltic UAB, CEO
Donatas Kaubrys Independent member	–	Lithuanian Association of People with Disabilities, project manager responsible for the supervision of suitability of buildings for persons with disabilities in Klaipėda and Tauragė regions

The Risk Management Supervision Committee had not been formed at the reporting date.

The Nomination and Remuneration Committee

The main functions of the Committee are as follows:

- to make assessments and provide suggestions in relation to the long-term remuneration policy of Lietuvos Energija and its group entities (fixed pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, other items of the remuneration package), and the principles of compensation for expenses related to the person's activities;
- to make assessments and provide suggestions in relation to the bonus (tantieme) policy of Lietuvos Energija and its group entities;
- to monitor compliance of the remuneration and bonus (tantieme) policies of Lietuvos Energija and its group entities with international practice and good governance practice guidelines, and provide suggestions for their improvement;
- to provide suggestions in relation to bonuses (tantiemes) upon appropriation of profit (loss) for the financial year of Lietuvos Energija and its group entities;
- to assess the terms and conditions of inter-company agreements between Lietuvos Energija and its group entities and the members of the management bodies of Lietuvos Energija and its group entities;
- to assess the procedures for recruitment and hiring of candidates to the positions of management bodies and top management of Lietuvos Energija and its group entities, and establishment of qualification requirements for them;
- to assess on a continuous basis the structure, size, composition and activities of management and supervisory bodies of Lietuvos Energija and its group entities;
- to oversee the process of notification of the members of management bodies and employees of Lietuvos Energija and its group entities about the professional training opportunities and monitor the progress achieved on a regular basis;
- to oversee and assess the implementation of measures ensuring business continuity of management and supervisory bodies of Lietuvos Energija and its group entities;
- to perform other functions falling within the scope of competence of the Committee as decided by the Supervisory Board of Lietuvos Energija.

Members of the Nomination and Remuneration Committee (as at 16 July 2017)

Committee member	Shareholding in the Company	Name of employer, job position
Virginijus Lepeška Independent member, Chairman of the Committee	–	Organizacijų Vystymo Centras UAB, Chairman of the Board
Tomas Garasimavičius Member	–	Energy Adviser to the Prime Minister of the Republic of Lithuania
Agnė Bagočiutė Member	–	Lithuanian Ministry of Finance, Senior Adviser

Members of the Nomination and Remuneration Committee (as 31 December 2017)

Committee member	Shareholding in the Company	Name of employer, job position
Daiva Lubinskaitė-Trainauskienė Chairperson of the Committee	–	- Independent member, Thermo Fisher Scientific Baltics UAB, Human Resources Director - Association of Human Resource Management Professionals, Member of the Board
Aušra Vičkačkienė Member	–	Lithuanian Ministry of Finance, Asset Management Department, Director
Ramūnas Dilba* Member	–	Lithuanian Ministry of Finance, European Union Investment Department, Director

* Mr R. Dilba has been member of the Committee since 24 November 2017. He has replaced the former member of the Committee Mr Gediminas Norkūnas, who is Deputy Director of the State Treasury Department of the Ministry of Finance.

At the reporting date, the term of office of the incumbent Nomination and Remuneration Committee is from 13 September 2017 to 13 September 2021.

The employees of the Company

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

Headcount

As at 31 December 2017, the Company had 392 employees (including those on child care leave) In the beginning of 2017, the Company had 399 employees. The Company's headcount changed slightly because a number of employees retired or left the Company for other reasons.

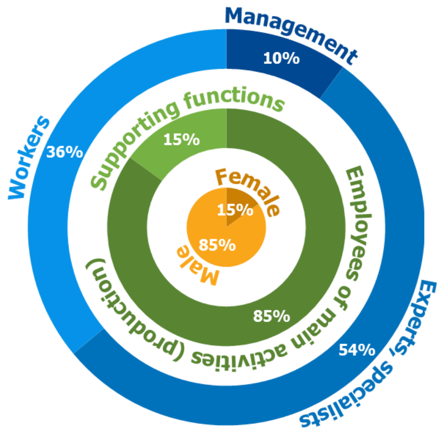
Men account for 85% and women account for 15% of the Company's employees. Most of the Company's employees are aged between 35 and 54 years with a ten-year or longer record of service at the Company. These are highly qualified and experienced specialists who form the foundation at the production units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

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

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

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

Figure 11
Employees of the Company



Work pay and performance management

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

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

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

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

The Company's work pay fund consisted of 5,859 thousand EUR.

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

	Breakdown of headcount by category of employees	Average work pay*, EUR
CEO	1	5,576
Top level management	4	4,455
Middle-level management	34	2,124
Experts, specialists	216	1,376
Workers	137	898
Total	**392**	**1,309**

* Compared to data on average work pay published in the previous interim reports in 2017, an increase in average work pay can be observed in all categories of employees. Such increase was driven by payment of annual variable part. The Company's workers receive variable pay on a monthly basis, whereas employees of other categories receive variable pay on a quarterly or annual basis. A similar trend of average work pay statistics is observed at the Company on a year-by-year basis.

Professional career, adaptation of new joiners and possibilities of internship

Turnover of employees s quite low at the Company – less than 3,5%. When there occurs a vacancy, the potential candidates are firstly selected by internal recruitment procedures. When no potential candidates are available at the Company or the group for the vacant position, the recruitment process is continued outside the Company. 30% of vacancy announcements in 2017 were won by candidates selected through internal recruitment procedures, i.e. the Company's employees. Search for employees on the basis of internal rotation principle during 2017 resulted in promotion of 21 employees (vertical career) and movement of 14 employees to similar job positions in the same or other divisions (horizontal career).As a result of improvement of career opportunities for employees and encouragement of their mobility between the Lietuvos Energija group entities, 2 employees moved to other group entities, 8 employees came to the Company.

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

Seeking to attract young qualified specialists, the Company is actively involved in communication with educational institutions, and provides opportunities for vocational students to apply their theoretical knowledge and acquire practical skills during the internships. In 2017, the Company attended the Career Days events organised by Kaunas University of Technology, also met students of Vilnius Gediminas Technical University. During 2017, 8 students from different universities in Lithuania had internship at the Company: 5 from Kaunas University of Technology, 1 from Elektrėnai Vocational Training Centre, 1 from Vilnius Gediminas Technical University, and 1 from Kaunas Technical College.

Organisational culture, development of competences, professional training

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

In 2017, 246 employees of the Company attended technical and professional training and 381 employees attended managerial courses(including internal training). During 2016, the trainings were attended by in total 305 unique employees (i.e. when the same employee attends several trainings, such employee is counted as one). The Company focused its efforts on intensive development of leadership competencies, as well as excellence in the field of operational excellence, including not only the managers of all departments, but all employees of the Company through e-learning or direct training.

In 2017, the Company continued a programme intended for the development of management competences of masters, shift supervisors and other employees in management functions. The participants of this programme not only learned about work organisation, feedback provision, motivation of employees, but also visited other large companies in Lithuania which have successfully implemented LEAN methods, shared their ideas and insights and implemented them in practice.

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

Collective agreement, trade unions

There are four trade unions at the Company, which are joined by 260 employees of the Company.

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

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

MATERIAL EVENTS AT THE COMPANY

Significant arrangements

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

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

Information on related-party transactions

Information on significant related-party transactions is disclosed in the financial statements for the year ended 31 December 2017.

Detrimental transactions

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

Notifications on materials events during the reporting period

6/1/2017	Member of the Board of "Lietuvos energijos gamyba", AB, has been elected
10/1/2017	On adopted Resolution of the Court
31/1/2017	Preliminary pre-audited results of Lietuvos energijos gamyba, AB, over the course of twelve months in 2016: more efficient activity allowed to counterbalance the loss of revenue and to operate more profitably
28/2/2017	Regarding the agenda and proposed draft resolutions of Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
8/3/2017	On adopted Resolution of the Court
9/3/2017	Regarding the resolutions of Lietuvos Energijos Gamyba, AB, Supervisory Board
24/3/2017	Regarding the resolutions of Ordinary General Meeting of Lietuvos Energijos Gamyba, AB Shareholders
19/4/2017	On adopted Resolution of the Court
28/4/2017	Preliminary results of Lietuvos Energijos Gamyba, AB, over the course of three months in 2017: the hydro power plant produced a bigger amount of electricity, the Company reached a bigger profit from main operating activities
9/5/2017	Regarding information released in the media
15/5/2017	Regarding resignation from the Board of Lietuvos Energijos Gamyba, AB
22/5/2017	On adopted Resolution of the Court
22/5/2017	Regarding the repayment of significant part of a loan
29/5/2017	CORRECTION: Reporting dates in 2017
31/5/2017	Lietuvos Energijos Gamyba, AB, preliminary financial results for 4 months of 2017
9/6/2017	Member of the Board of Lietuvos Energijos Gamyba, AB, has been elected
15/6/2017	On adopted Resolution of the Court
30/6/2017	Lietuvos Energijos Gamyba, AB, preliminary financial results for 5 months of 2017
7/7/2017	Regarding the concluded credit agreement
18/7/2017	Regarding the agenda and proposed draft resolutions of Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
31/7/2017	Preliminary Results of Lietuvos Energijos Gamyba, AB, for the First Six Months of 2017: Active Moves in Strategy Implementation
10/8/2017	Regarding the resolutions of Extraordinary General Meeting of Lietuvos Energijos Gamyba, AB Shareholders
23/8/2017	CORRECTION: Reporting dates in 2017
31/8/2017	Lietuvos Energijos Gamyba, AB, preliminary financial results for 7 months of 2017
6/9/2017	Regarding the agenda and proposed draft resolutions of Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
19/9/2017	Regarding the resolutions of the Supervisory Board of Lietuvos Energijos Gamyba, AB

22/9/2017	The Board of Lietuvos Energijos Gamyba, AB, has been elected
25/9/2017	The Chairwoman of the Board and Chief Executive Officer of Lietuvos Energijos Gamyba, AB, has been elected
29/9/2017	Regarding the resolutions of Extraordinary General Meeting of Lietuvos Energijos Gamyba, AB Shareholders
29/9/2017	Lietuvos Energijos Gamyba, AB, preliminary financial results for 8 months of 2017
27/10/2017	Regarding the joint sale of shares of the private limited liability company GEOTERMA
31/10/2017	Lietuvos Energijos Gamyba, AB, preliminary financial results for 9 months of 2017
30/11/2017	Lietuvos Energijos Gamyba, AB, preliminary financial results for 10 months of 2017
11/12/2017	Regarding the termination of exploitation and preservation of unit 7 of Lithuanian Power Plant owned by Lietuvos Energijos Gamyba, AB
22/12/2017	Regarding the agreement on tertiary active power reserve
29/12/2017	Lietuvos Energijos Gamyba, AB, preliminary financial results for 11 months of 2017

Other events during the reporting period

28/2/2017	Interim information of Lietuvos Energijos Gamyba for the twelve-month period of 2016: the Company operated more profitably in 2016; plans to significantly expand its service portfolio
24/3/2017	Lietuvos Energijos Gamyba, AB, Annual Information 2016
15/5/2017	Lietuvos Energijos Gamyba, AB, interim financial information for the first three months of 2017
22/6/2017	Development of the Kruonis Pumped Storage Plant – among the most important projects in the energy sector
30/6/2017	The Report on Social Responsibility of 2016 of Lietuvos Energijos Gamyba, AB
30/8/2017	Lietuvos Energijos Gamyba, AB, audited interim financial information for the first six months of 2017
17/11/2017	Lietuvos Energijos Gamyba, AB, interim financial information for the 9 months of 2017
22/12/2017	Reporting dates in 2018

Notifications on materials events after the end of the reporting period

31/01/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 12 months of 2017

OTHER IMPORTANT INFORMATION

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

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

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

Information about audit

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

Other agreements with auditors

In 2017, the Company concluded an agreement with a company which conducted the audit of its financial statements for the year 2017 on the audit of statements of regulated activity; also the Company's staff participated in trainings on application of TFRS organised by the company which carried out the Company's audit.

Annex 1. Notice on the compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius

Pursuant to Article 21(3) of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of the NASDAQ Vilnius AB, the public company Lietuvos Energijos Gamyba AB, discloses its compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius and its specific provisions. In the event of non-compliance with the Code or with certain provisions or recommendations thereof, it must be specified which provisions are not complied with and the reasons for non-compliance, as well as any other explanatory information as specified herein.

Summary of the Corporate Governance Report:

Lietuvos Energijos Gamyba AB is a part of Lietuvos Energija group, the shareholder of which is the State of Lithuania. The LE Group aims at ensuring efficiency and transparency of its operations. For this purpose, governance restructuring was started back in 2013, which resulted in transformation and consolidation of the Lietuvos Energija group's corporate governance.

The new governance structure and model of the Lietuvos Energija group was developed with reference to up-to-date global and national practice, recommendations published by the Organization for Economic Co-operation and Development, Corporate Governance Code for Companies Listed on NASDAQ Vilnius Stock Exchange and governance guidelines recommended by the Baltic Institute of Corporate Governance for state-owned enterprises. The corporate governance model for the group of energy companies was implemented following the corporate governance guidelines approved by the Lithuanian Ministry of Finance on 7 June 2013. The guidelines were updated on 1 June 2017.

Corporate governance activities are concentrated at the level of the parent company of the Lietuvos Energija group – Lietuvos Energija UAB – the responsibilities of which involve coordination of such areas as finance, law, planning and monitoring, human resources, risk management, audit, technology, communication and other common areas of the Lietuvos Energija group entities.

Activities of the Lietuvos Energija group entities in these areas are based on mutual agreement, i.e. cooperation with a focus on achievement of common result, and they are coordinated by policies (common provisions and norms) applicable to all Lietuvos Energija group entities.

Use this link for the description of the corporate governance principles and of the governance and control system.

More information on the Company's management bodies ant its members, committees, etc. is provided herein under section "The Company and its management bodies" and in the table below, which contains information on compliance with the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius.

Structured table for disclosure:

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
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 Company publishes its long-term business strategy, strategic directions and goals on its website. The main directions of the Company's development are published in annual and interim reports of the Company, its press releases etc.
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	In pursuit of the Company's operational objectives, management bodies of the Company act for the benefit of the Company and all its shareholders. Key strategic decisions affecting the shareholder value growth (optimizing the Company's operational functions and structure, other actions aimed at increasing operational efficiency and cost savings) are taken by the Company's supervisory board and its board.
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, Articles of Association and rules of procedure governing activities of the Company's supervisory and management bodies lay down the principles and procedure of cooperation between supervisory and management bodies of the Company and ensure that management and

		supervisory bodies cooperate to attain the greatest possible benefit to 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 bodies of the Company respect the rights and interests of persons participating in and connected with the Company's operations. Since its establishment, the Company has been cooperating and involved in social partnership with representatives of the Company's employees (allocating funds for the implementation of the collective bargaining agreement, employee incentives, etc.). The Company fulfils its financial and other obligations assumed to its creditors. The Company holds social projects involving therein children, young people, local communities and other social groups. More detailed information on the Company's initiatives is available on the Company's website, its annual report and social responsibility reports.
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	In accordance with the Articles of Association, the Company has set up the collegial supervisory body – the supervisory board, and the collegial management body of the Company – the board.
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	In accordance with the Articles of Association, the board is responsible for proper strategic management of the Company (approves the Company's operational strategy, its operational budget and corporate governance strategy, takes decisions on other matters attributed to the competence of the board in the Articles of Association of the Company). The supervisory board is responsible for efficient supervision over activities of management bodies of the Company (elects and recalls members of the board; presents offers and feedback on the Company's operational strategy, a set of annual financial statements of the Company, a draft distribution of profit (loss) of the Company, annual report of the Company and activities of its board and chief executive officer to the general shareholders' meetings; presents feedback and makes proposals on the Company's operational strategy and operational budget, makes decisions on other issues, which the Company's Articles of Association attribute under the competence of the supervisory board).
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.	Not applicable	In accordance with the Articles of Association, the Company has the set up collegial supervisory body - the supervisory board, and the collegial management body of the Company - the board.

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.	Yes	In accordance with the Articles of Association, the Company has the set up collegial supervisory body - the supervisory board, and the collegial management body of the Company - the board. The recommendations set out in Principles III and IV have not been implemented in the Company to the full extent, however, the Company complies with the requirements for the formation of collegial bodies established by laws. It should be noted that according to the Company's Articles of Association, the Company is engaged in the production, import, export and trade in electricity, its activities are subject to strict legal regulation and supervision by respective state authorities (the National Commission for Energy Control and Prices, etc.), thus ensuring transparency and expeditiousness of the decision-making process, implementing the principles of non-discrimination, reduction of costs of the Company and other principles.
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.	Yes	In accordance with paragraph 20 of the Articles of Association, the supervisory board of the Company consists of 3 (three) members. At least 1/3 (one third) of the supervisory board must be independent members. The supervisory board adopts decisions and its meeting is deemed to have taken place when it is attended by more than half of its members. In accordance with paragraph 37 of the Articles of Association, the board consists of 5 (five) members. The board adopts decisions, and its meeting is deemed to have taken place when it is attended by 4 (four) and more members of the board (Article 61.6 of the Company's Articles of Association). The Company believes the above-mentioned number of members of the supervisory board and the board to be sufficient to ensure supervision over the Company's activities and expeditious and effective management of the Company.
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 supervisory board is elected for the term of 4 (four) years. The term of office of members on the supervisory board is the maximum term of office prescribed by the Lithuanian Law on Companies. A general meeting of shareholders may remove from office both the entire supervisory board and individual members thereof before the end of their term of office.
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 Chair of the collegial body - the supervisory board - elected by the general shareholders' meeting of the Company and the chief executive officer is not the same person. Members and the Chair of the supervisory board of the Company have never been members of the board or the chief executive officer of the Company. The chief executive officer of the Company is a member of the board and its Chair, but this creates no preconditions for possible bias, because the body supervising over the Company's activities - the supervisory board - has been formed in the Company. Article 23 of the Articles of Association stipulates that a chief executive officer, a member of the board, a member of the supervisory body,

		management body or administration of an entity engaged in the transmission of electricity or gas, or some other person who cannot hold the office under applicable legislation, cannot be a member of the supervisory board of the Company. The Company also complies with the requirements set out in Article 31 of the Law on Companies of the Republic of Lithuania.
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.**		
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	In accordance with paragraph 22 of the Articles of Association, every candidate to become a member of the supervisory board must produce to the general meeting of shareholders a declaration of the candidate's interests, by specifying all circumstances that could lead to a conflict of the candidate's and the Company's interests. The supervisory board of the Company is elected by the general meeting of shareholders' in compliance with the requirements set out in the Lithuanian Law on Companies.
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 become members of the supervisory board of the Company is provided to shareholders in accordance with the procedure established by the Law on Companies of the Republic of Lithuania in the general shareholders' meeting, the agenda whereof includes the consideration of the issue of the election of members of the supervisory board. Article 21 of the Company's Articles of Association defines that a person nominating a candidate to the members of the supervisory board shall have an obligation to produce written explanations to the general shareholders' meeting as to the qualifications of each candidate proposed to members of the supervisory board, candidate experience of managerial work and fitness to hold the office of a member of the supervisory board. According to Article 22 of the Company's Articles of Association, each candidate to the members of the supervisory board must present to the general shareholders' meeting a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the supervisory board and the Company, the member of the supervisory board shall notify the Company and the supervisory board of such new circumstances in writing without any undue delay. Information on offices held by the members of its supervisory board and/or their involvement in activities of other companies is continuously collected, stored and presented in the Company's annual report and 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,	Yes	Information on candidates to become members of the supervisory board of the Company is provided to general shareholders' meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania (see commentary under recommendation 3.2). Information on work experience and the office held

disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.		by the candidates to become members of the supervisory board as well as other information describing competence of the candidate is presented at the general shareholders' meeting. Information on offices held by the members of the supervisory board or their participation in activities of other companies is continuously collected, stored and presented in interim and annual reports of the Company and on 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 Not applicable	In accordance with the Lithuanian Law on Companies, the supervisory board is elected and simultaneously qualifications of its members are evaluated by the general shareholders' meeting. The supervisory board cannot determine its own composition. It should be noted that the main activities of the Company include production, import, export, trade in electricity and assurance of energy security, while the majority of members on the supervisory board are experts in the field of energy. Since the parent company Lietuvos Energija, UAB, has a formed audit company, a separate audit committee is not formed in the Company (see commentary under recommendation 4.14). Lietuvos Energija, UAB, also has a formed Nomination and Remuneration Committee (see commentary under recommendation 4.13).
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. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Not applicable	Once elected, the members of the supervisory board are familiarised with activities of the Company, its organisational and governance structure, strategy, operational and financial plans. It should be noted that the members of the supervisory board are regularly informed on activities of the Company in meetings of the supervisory board and personally, if members so wish and request. So far, there has been no need and practice in the Company to offer members of the supervisory board an individual programme for introducing them with their duties, organization and activities of the Company, or to conduct annual reviews.
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 sufficient number of independent members.	Yes	The Articles of Association establish that at least 1/3 (one third) of members on the supervisory board shall be independent memmers.
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 dependent 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: 1) He/she is not an executive director or member	Yes	In accordance with Article 24 of the Company's Articles of Association, the general shareholders' meeting defines independence criteria pursuant to statutory requirements and good practice of corporate governance. The requirements laid down in the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius and provisions of paragraph 64 of the Description of the Procedure for the Implementation of the Property and Non-property Rights of the State in State-owned Enterprises are followed in assessing the independence of members. Terms of the agreement with an independent member of the supervisory board approved by the general shareholders' meeting contain a statement of independence of a member of the supervisory board as stipulated in the provisions on independent members of the Company's

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; 2) 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; 3) 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); 4) 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); 5) 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; 6) 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 associated company; 7) 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 nonexecutive 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; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) 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.		supervisory board set out in the Corporate Governance Code for the Companies Listed on NASDAQ Vilnius. According to Article 22 of the Company's Articles of Association, each candidate to the members of the supervisory board must present to the general shareholders' meeting a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the supervisory board and the Company, the member of the supervisory board shall notify the Company and the supervisory board of such new circumstances in writing without any undue delay.

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 determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite the fact that 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. The formation of the supervisory board (and election of independent members) falls under the competence of the general shareholders' meeting (see commentary under recommendation 3.6). In accordance with Article 24 of the Company's Articles of Association, the general shareholders' meeting defines independence criteria pursuant to statutory requirements and good practice of corporate governance (see commentary under recommendation 3.7). Moreover, Article 23 of the Company's Articles of Association establishes that a chief executive officer, a member of the board, a member of the supervisory body, management body or administration of an entity engaged in the transmission of electricity or gas, or some other person who cannot hold the office under applicable legislation, cannot be a member of the supervisory board of the Company.
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) falls under the competence of the general shareholders' meeting (see commentary under recommendation 3.6). Information on candidates to become members of the supervisory board of the Company (including information on candidate's compliance with independence requirements) is provided to the general shareholders' meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania (see commentary under recommendation 3.2). Information on elected members of the supervisory board is presented in interim and annual reports of the Company and on the 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.	Not applicable	So far, there has been no need to apply this recommendation in the Company. An agreement on activities of an independent member of the supervisory board is concluded with an independent member of the supervisory board, which enshrines the obligation of the independent member of the supervisory board to inform the Company and the supervisory board in writing without any undue delay of any new circumstances, which may lead to a conflict of interests of 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. The general shareholders' meeting should approve the amount of such remuneration.	Yes	The Articles of Association establish that independent members of the supervisory board may be remunerated for their work on the supervisory board at the decision of the general shareholders' meeting. An independent member of the supervisory board may be remunerated for his activities in the supervisory board in accordance with the procedure and conditions laid down in the agreement on activities of an independent member of the supervisory board signed with him. The general shareholders' meeting approves conditions of the agreement with independent supervisory board members.

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 monitoring 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.	Yes	The collegial body elected by the general shareholders' meeting - the supervisory board - is responsible for efficient supervision over activities of the Company's management bodies (it elects and recalls members of the board; presents proposals and feedback on the Company's operational strategy, a set of annual financial statements of the Company, a draft distribution of profit (loss) of the Company, annual report of the Company and activities of its board and chief executive officer to the general shareholders' meetings; presents feedback and makes proposals on the Company's operational strategy and operational budget, adopts decisions on other issues, which the Company's Articles of Association attribute to the competence of the supervisory board).
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 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 company-not-pertaining body (institution).	Yes	All members of the supervisory board act in good faith towards the Company, with due regard to the interests of the Company and public welfare. Members of the supervisory board have the right to express their opinion on all questions on the meeting agenda, which, pursuant to the rules of procedure of the supervisory board of the Company, must be properly recorded in the minutes of the meeting. The duties set out in this recommendation are embedded in the agreement on activities of a member of the supervisory board and agreement on activities of an independent member of the supervisory board.
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 half 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 body are actively involved in meetings of the supervisory board and devote sufficient time for performing their duties as a member of the collegial body. 11 (eleven) meetings of members of the supervisory board of the Company were held in 2017. All elected members of the supervisory board were in attendance in all meetings of the supervisory board held in 2017. Names of the members of the supervisory board attending the meeting are recorded in the minutes of the meeting.
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	The collegial bodies of the Company comply with the established recommendations. Before adopting decisions, members of the collegial bodies consider their impact on the Company's activities and all shareholders of the Company. The Articles of Association of the Company obligate collegial bodies of the Company and each member thereof to act for the benefit of the Company and its shareholders. Communication with and commitments to shareholders are defined in accordance with statutory requirements.
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	Yes/No	Agreements on activities in the supervisory board are concluded with members of the supervisory board at the decision of the general shareholders'

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.		meeting. The supervisory board lays down conditions of agreements with members and the Chair of the board. Collegial bodies of the Company conclude and approve transactions in accordance with the requirements set out in applicable legislation and the Articles of Association of 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. 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 advice the human resources department, executive directors or collegial management organs of the Company concerned.	Yes	The supervisory board acts independently in passing decisions that are of significance to the Company's operations and strategies. The Company ensures that the supervisory board is supplied with all necessary resources (technical support during board meetings, provision of all required information). Agreement of activities of a member of the supervisory board defines that the Company commits to creating proper working conditions for the supervisory board and its members by supplying them with technical and administrative tools required for work. The Articles of Association set out that the supervisory board has the right to apply to the board and chief executive officer asking for documents and information pertaining to the Company's operations, and the board of directors and chief executive officer must ensure that the documents and information so requested are produced to the supervisory board within reasonable time. The provision regarding supply of information is also included in the agreement of activities of a member of the supervisory board. The Company has no remuneration committee, see commentary under clause 4.13.
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's directors, 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 . 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	Yes/No	In accordance with the Articles of Association, the supervisory board passes decisions in key areas. The supervisory board produces opinions to the board as to the candidacy of chief executive officer of the Company. The Articles of Association stipulate that the division discharging internal audit functions reports to the supervisory board. Based on the opinion of the board the supervisory board decides on the nomination and removal of the head of the structural division performing internal audit functions, approval of his/her job description, promotion and disciplinary action. The Company has no audit, nomination or remuneration committees. These committees were formed in the parent company and activities of the said committees include the coordination of the Company's activities. The Company believes that work of the supervisory board is sufficiently effective, balanced and well organised meaning that the supervisory board can discharge all functions attributed to these committees properly. No special or exclusive voting rights are conferred on independent members of the supervisory board. Independent members of the board can always express their opinion which is

a whole.		then recorded in the minutes of the meeting. In accordance with the Lithuanian Law on Audit, a public interest company which is a subsidiary and prepares consolidated financial statements may omit the requirement to form an audit committee as defined in the Lithuanian Law on Audit if its parent company has the required committee. Since the parent company, i.e. Lietuvos Energija UAB, has an audit committee, there is no need or obligation for the Company to have a separate audit committee. Lietuvos Energija UAB, being the parent company, also has nomination and remuneration, and risk management (until 1/9/2017) committees. In addition to other functions, the nomination and remuneration committee at Lietuvos Energija UAB inter alia evaluates and drafts proposals as to long-term remuneration policy of the Company, policy of annual bonuses (tantiemes); evaluates terms and conditions of agreements concluded with corporate management bodies; evaluates recruitment and selection procedures for candidates to members of management bodies and senior management of the Company, and their qualification requirements; regularly evaluates the structure of corporate governance and supervisory bodies, their size, composition and activities. Risk management committee at Lietuvos Energija UAB monitors the assessment and management of risks relevant to the achievement of Company's goals; assesses the adequacy of internal control procedures and risk management measures to identified risks; assesses risks and the Company's risk management plan; and monitors the implementation of risk management process.
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 responsible for the decisions taken in its field of competence.	Yes/No	See commentaries under clauses 4.7, 4.12, 4.13, and 4.14.
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	Yes/No	The Company implements the recommendation through the committees of the supervisory board formed at Lietuvos Energija UAB. See commentaries under clauses 4.7, 4.12, 4.13, and 4.14.

membership is refreshed and that undue reliance is not placed on particular individuals.		
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 annually a 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 independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes/No	See commentaries under clauses 4.7, 4.12, 4.13, and 4.14.
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/No	See commentaries under clauses 4.7, 4.12, 4.13, and 4.14.
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 body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	Yes/No	The company has no nomination committee but its functions are indirectly performed through the nomination and remuneration committee of Lietuvos Energija UAB. See commentaries under clauses 4.7, 4.13, and 4.14.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:	Yes/No	The Company has no remuneration committee

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; 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 share based 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		but its functions are indirectly performed through the nomination and remuneration committee of Lietuvos Energija UAB. See commentaries under clause 3.4, 4.7 and other.

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 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and 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	Yes/No	According to the provisions of the Law on Audit of the Republic of Lithuania, a public-interest entity, which is a subsidiary and whose financial statements are subject to consolidation, may depart from the requirement enshrined in the Law on Audit of the Republic of Lithuania to set up an Audit Committee if its parent company has such committee. Since the parent company Lietuvos Energija, UAB, has a formed audit company, a separate audit committee is not set up in the Company. See commentary under recommendation 4.7.

approaches. In such case a special consideration should be given to company's operations in offshore centres 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 management 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 furnished with report disclosing all relationships between the independent 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 provisions regarding 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 follow-up 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 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	Up until now, there has been no need or practice in the Company for the supervisory board to conduct a formal performance review and publish its findings since no requirements to this effect were established in legislation. Performance of the supervisory board is assessed by the Company's shareholders in accordance with applicable legislation.
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)	Yes	In accordance with the Articles of Association and approved work regulations of both the supervisory board and board, this recommendation is implemented in the Company.

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.		
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.	Yes	According to the Company's Articles of Association, rules of procedure of the supervisory board and the board of the Company, meetings of the supervisory board are held at least once per quarter and meetings of the board - at least once every two calendar weeks. If necessary, the board may establish a different periodicity of meetings.
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	Work regulation of the supervisory board sets out that attendees of the meeting should be notified of the convocation of the meeting at least 3 (three) working days before the day of the meeting (unless there are no objections as to a shorter term of notice), and they are supplied with all material required to discuss matters on the meeting's agenda. Work regulation of the board sets out that attendees of the meeting should be notified of the convocation of the meeting at least 3 (three) working days before the day of the meeting (unless there are no objections as to a shorter term of notice), and they are supplied with all material required to discuss matters on the meeting's agenda.
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 co-operate by co-ordinating 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	The Company follows this recommendation. The Chair of the supervisory board and the Chair of the board closely cooperate in solving questions related to the management of the Company. According to Article 33.3 of the Company's Articles of Association, the supervisory board must provide the opportunity to attend its meetings and provide explanations to members of the board, the chief executive officer and other employees of the Company in dealing with issues related to their activities.
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 authorised share capital of the Company consists of ordinary registered shares at par value of EUR 0,29, which grant the same property and non-property rights to all their owners.
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.	Yes	The Articles of Association available on the Company's website provide information concerning the rights attached to the shares.

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 encumbrance should be subject to approval of the general shareholders' meeting. 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.	No	Paragraphs 17 and 18 of the Company's Articles of Association provide for the transactions that shall be approved by the general shareholders' meeting. The transactions only partially correspond to the provided recommendation.
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 venue, date, and time of the convened general shareholders' meeting is indicated in order to ensure equal opportunities for all shareholders to participate at the meeting; the procedures of convening and conducting a general shareholders' meeting are implemented under the Lithuanian Law on Companies. The shareholders of the Company are enabled to familiarise themselves with the agenda and documentation under the procedure prescribed by laws.
6.5. If it is 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 in Lithuanian and English and/or other foreign language. 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.	Yes	Following the Lithuanian Law on Companies, the Company places information about the calling of a general shareholders' meeting, its agenda and draft resolutions of the general shareholders' meeting in Lithuanian and English on its publicly accessible website in advance. Information about resolutions adopted by the general shareholders' meeting is published in Lithuanian and English on the website of the Company. Following the Company's Articles of Association and other laws, the information is also published on NASDAQ Vilnius Stock Exchange and an e-journal of the Centre of Register.
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 Company's shareholders may implement their right to participate in the general shareholders' meeting in person and through a representative if the person has an appropriate authorisation or an agreement on the transfer of the right to vote was made with the person in line with the procedure prescribed by laws. The Company enables the shareholders to vote by completing the general voting ballot as prescribed by the Lithuanian Law on Companies.
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 such cases 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.	No	On request of the shareholders and considering objective circumstances, the Company would allow the shareholders to vote using telecommunication terminal equipment, however, it is not applied yet because it needs extra investment.
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 follows these recommendations. In accordance with Article 22 of the Articles of Association of the Company, each candidate to the members of the supervisory board must present to the general shareholders' meeting a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the supervisory board and the Company, the member of the supervisory board shall notify the Company and the supervisory board of such new circumstances in writing without any undue delay. According to Article 39 of the Articles of Association of the Company, each candidate to the members of the board must present to the supervisory board a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the board and the Company, the member of the board must shall the board and the supervisory board of such new circumstances in writing without any undue delay. Moreover, Article 41 of the Articles of Association of the Company establishes that members of the board cannot do such a work or hold such office, which would be incompatible with their activities on the board, including holding a managerial position in other legal entities (except for an office or work in the company or a group of companies), work in the civil service or statutory service. Members of the board can hold the office or do other work, except for the office in the Company and other legal entities where the company participates, and to engage in pedagogical, creative or intellectual activities only having received a prior consent of 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 follows 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 follows 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	The members of the Company's supervisory and management bodies are required to abstain from voting and they do not vote if there can be a conflict of interests between the member and the Company when voting on those issues (work

		regulations of the supervisory board and the management). Moreover, according to the laws, the Company's supervisory and management bodies have to avoid situations where their personal interests are or may be in conflict with the interests of the Company.
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 report as well as posted on the company's website.	Yes/No	General information on the Company's remuneration policy and average wage amounts of individual groups of employees is published in the Company's interim and annual reports. Following Article 25(5) of the Law on Energy and Law on Financial Reporting of Companies of the Republic of Lithuania, the Company publishes information on the remuneration set for the members of the Company's management bodies and other payments related to functions of the members of the Company's 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	Annual report does not include the directors' remuneration policy of the Company for the upcoming year and the subsequent years. Annual report includes information about the sums of money attributed to the members of the Company's supervisory and management bodies (wages, other payments, bonuses and other benefits from profit).
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; 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 supplementary pension or early retirement schemes	No	Annual report includes information about monetary amounts calculated for the members of the Company's supervisory and management bodies (wages, other payments, bonuses and other benefits from profit), also information on property transferred and guarantees granted to the members of the management bodies, as well as other information related to remuneration to the members of the supervisory and management bodies. See the commentary of clause 8.1

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 commentary of clause 8.1
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid 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 emoluments-related information should be disclosed: 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 schemes-related 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	No	See the commentary of clause 8.1

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	Remuneration Policy of Lietuvos Energija group, approved by Decision of the board of Lietuvos Energija, UAB, of 9 October 2017 governs the determination and payment of the variable component of wage in the Company. This document sets out wage components, their maximum amounts, principles of allocation and payment thereof, which are common for all companies of Lietuvos Energija group. According to the provisions of the Remuneration Policy, the variable component of wage is paid only when the value of the achievement of all the objectives is at least 70 percent. If evaluation criteria of performance results are not met, i.e. the value of the achievement of all the objectives is below 70 percent, the variable component of wage is not paid.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	The Remuneration Policy of Lietuvos Energija group establishes that the variable component of wage shall be allocated for the achievement of goals/ indicators set as a percentage of the fixed wage component or another base of calculation.
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 relative weight of the variable component compared to the non-variable component of remuneration.	Yes	The Remuneration policy of Lietuvos Energija group stipulates that the calculated variable component of a wage to top-level managers shall be paid in 2 (two) instalments: the first part of the variable component of wage constituting 80 percent of the entire calculated and allocated variable component (for achieving the goals (indicators) of reference period No. 1) shall be paid within 30 calendar days from the date of adoption of the decision to pay a variable component of wage; the second instalment of the variable component accounting for 20 percent of the entire calculated amount of a variable component (for achieving the goals (indicators) of reference period), seeking the highest level of loyalty of top-level management to the company and ensuring the continuity of operational results, shall be suspended and paid 1 (one) year later within 30 calendar days from the date of adoption of the decision on the payment of the variable component of a wage of the following year, in addition to it paying the 80 percent variable component which is calculated for achieving the goals (indicators) of reference period of the following year. If goals (indicators) of the Company set for the following year are achieved at the level of less than 70 percent, the suspended variable component of wage of 20 percent shall not be paid (or transferred to other periods).
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	Not applicable	See the commentary of clause 8.1

misstated.		
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.	Not applicable	See the commentary of clause 8.1
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	See the commentary of clause 8.1
8.12. The information on preparatory and decision-making 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 have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	See the commentary of clause 8.1
8.13. Shares should not vest for at least three years after their award.	Not applicable	See the commentary of clause 8.1
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.	Not applicable	See the commentary of clause 8.1
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 (non-variable plus variable components).	Not applicable	See the commentary of clause 8.1
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	See the commentary of clause 8.1
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.	Not applicable	See the commentary of clause 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 for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	See the commentary of clause 8.1
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.	Not applicable	See the commentary of clause 8.1
8.20. The following issues should be subject to	Not applicable	See the commentary of clause 8.1

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 herein to individual directors.		
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.	Not applicable	See the commentary of clause 8.1
8.22. Provisions of items 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.	Not applicable	See the commentary of clause 8.1
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in paragraph 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 scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given herein must be posted on the company's website.	Not applicable	See the commentary of clause 8.1
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 corporate governance framework ensures that the rights of shareholders that are protected by law are respected.
9.2. The corporate governance framework should	Yes	The Company follows the recommendations. For

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.		instance, representatives of the employees of the Company participate in consultations, negotiation and meetings regarding the processes of performance optimisation that are implemented at the Company. According to the Company's collective agreement signed with the representatives of the employees of the Company, the Company provides information to the representatives of trade unions about the expected changes in the Company, the Company's financial situation, etc. The shareholders may participate in the management of the Company to the extent provided by laws.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company follows the recommendations.
Principle X: Information disclosure **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: the financial and operating results of the company; company objectives; persons holding by the right of ownership or in control of a block of shares in the company; members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; material foreseeable risk factors; transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; material issues regarding employees and other stakeholders; 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	The Company discloses information indicated in the recommendation in the following ways: 1. Announces the information as key events under the procedure prescribed by laws (e.g. structural changes in the management of the Company, election of new members of management, financial results of the Company, etc.). 2. Information is placed on the publicly accessible website of the Company (e.g. the Company's objectives), on NASDAQ Vilnius Stock Exchange and in the e-journal of the Centre of Registers. 3. Announces the information in the annual report (e.g. members of the management bodies, director of the Company and his/her remuneration, possible major risk factors, etc.). The Company provides information about the consolidated results of the entire group of companies (i.e. Lietuvos Energijos Gamyba AB and its subsidiaries).
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 follows the recommendation and discloses information about the consolidated results of the Company and the group of its subsidiaries. Information related to the parent company Lietuvos Energija UAB is announced by the parent company itself.
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	Information provided in the recommendation is available in the annual report of the Company (director's professional experience, participation of the members of supervisory and management bodies in the activity of other companies and other information) and its website.
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	Yes	The Company discloses information about the relationships between the Company and its stakeholders in the annual report of the Company. This information is also announced in press

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.		releases and placed on the Company's website under the procedure prescribed by laws.
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 the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company provides information in Lithuanian and English simultaneously using the information disclosure system of NASDAQ Vilnius. The Company announces information before, during or after a trading session of the Vilnius Stock Exchange and simultaneously provides it to all markets where its securities are traded. The Company does not disclose information that may have impact on the price of its securities, nor give it in comments, interviews or in other ways as long as the information is disclosed via the information system of the stock exchange.
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	Besides the way of information disclosure indicated in the commentary of clause 10.5, the Company uses various means of media (newspapers, e-publications, news agencies, publicly accessible website of the Company) in order to ensure that information would reach as many interested people as possible. Information placed on the Company's website is available in 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 and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company places all information mentioned in this recommendation on its website.
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/No	An independent audit of the Company's annual financial statements and annual report is performed at the Company. The interim financial statements are subject to review or audit.
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	After the selection of an audit firm in accordance with the procedure established by the Law on Public Procurement of the Republic of Lithuania, the Company's board proposes it to the general shareholders' meeting.
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 follows the recommendations.

2017

LIETUVOS ENERGIJOS GAMYBA AB

COMPANY’S FINANCIAL STATEMENS PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION FOR THE YEAR 2017

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Lietuvos Energijos Gamyba AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

(All amounts are in EUR thousands unless otherwise stated)

	Notes	At 31 December 2017	At 31 December 2016
ASSETS			
Non-current assets			
Intangible assets	5	15,238	12,157
Property, plant and equipment	6	496,818	645,054
Investments in associates	7	1,535	1,511
Other non-current assets	8	3,236	2,620
Other financial assets	11	1,799	7,178
Total non-current assets		**518,626**	**668,520**
Current assets			
Inventories	9	5,580	5,844
Prepayments		3,479	3,454
Trade receivables	10	17,216	16,331
Other financial assets	11	15,757	8,116
Prepaid income tax		-	22
Loans granted	12	14,930	18,098
Cash and cash equivalents	13	60,700	99,045
Total current assets		**117,662**	**150,910**
TOTAL ASSETS		**636,288**	**819,430**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	184,174	184,174
Share premium	14	85,660	85,660
Legal reserve	16	12,871	10,872
Revaluation reserve	15	2,289	1,033
Retained earnings		68,880	73,827
Total equity		**353,874**	**355,566**
Non-current liabilities			
Borrowings	18	34,039	111,251
Finance lease liabilities	19	172	310
Grants	20	177,875	269,758
Other non-current amounts payable and liabilities	21	6,704	10,480
Deferred income tax liabilities	22	17,475	24,731
Total non-current liabilities		**236,265**	**416,530**
Current liabilities			
Borrowings	18	21,208	21,208
Finance lease liabilities	19	138	138
Trade payables	23	17,380	20,363
Advance amounts received	24	1,135	1,284
Income tax payable		2,883	-
Provisions for emission allowances	25	528	1,316
Other amounts payable and liabilities	26	2,877	3,025
Total current liabilities		**46,149**	**47,334**
Total liabilities		**282,414**	**463,864**
TOTAL EQUITY AND LIABILITIES		**636,288**	**819,430**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

(All amounts are in EUR thousands unless otherwise stated)

	Notes	2017	2016
Revenue			
Sales revenue	27	147,199	151,758
Other operating income	29	2,616	21,164
		149,815	**172,922**
Expenses			
Purchase of electricity and related services		(26,291)	(26,439)
Gas, biofuel and heavy fuel expenses		(32,214)	(49,956)
PP&E impairment loss	6, 20	(32,435)	(568)
Depreciation and amortisation	5,6,20	(24,956)	(20,553)
Wages and salaries and related expenses	33	(8,111)	(7,466)
Repair and maintenance expenses		(5,513)	(5,523)
Emission allowance revaluation and release (expenses)/income		1,587	(2,670)
Impairment (expenses) of other non-current assets /reversal	8	616	(668)
Inventory write-down allowance/reversal	9	7	3
Other expenses	34	(6,269)	(10,052)
Total expenses		**(133,579)**	**(123,892)**
OPERATING PROFIT		**16,236**	**49,030**
Finance income (costs):			
Finance income	30	244	656
Finance (costs)	31	(886)	(1,493)
		(642)	**(837)**
Share of results of operations of associates	7	101	137
PROFIT BEFORE INCOME TAX		**15,695**	**48,330**
Deferred income tax benefit / (expenses)	22	4,826	(8,355)
NET PROFIT (LOSS) FOR THE YEAR		**20,521**	**39,975**
Other comprehensive income (loss)			-
Income on revaluation of emission allowances		1,512	-
Deferred income tax benefit / (expenses)		(227)	-
Total other comprehensive income (loss)		**1,285**	**-**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**21,806**	**39,975**
Basic and diluted earnings (loss) per share (in EUR)	35	**0.032**	**0.063**
Weighted average number of shares		**635,083,615**	**635,083,615**

The accompanying notes form an integral part of these financial statements.

(All amounts are in EUR thousands unless otherwise stated)

	Notes	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings (loss)	Total equity
Balance at 1 January 2016		**184,174**	**85,660**	**1,063**	**10,872**	**61,131**	**342,900**
Total other comprehensive income (loss)		-	-	-	-	-	-
Net profit for the year		-	-	-	-	39,975	39,975
Total comprehensive income (loss) for the year		**-**	**-**	**-**	**-**	**39,975**	**39,975**
Depreciation of revaluation reserve	15	-	-	(30)	-	30	-
Dividends	17	-	-	-	-	(27,309)	(27,309)
Balance at 31 December 2016		**184,174**	**85,660**	**1,033**	**10,872**	**73,827**	**355,566**
Balance at 1 January 2017		**184,174**	**85,660**	**1,033**	**10,872**	**73,827**	**355,566**
Income on revaluation of emission allowances		-	-	1,285	-	-	1,285
Total other comprehensive income (loss)		**-**	**-**	**1,285**	**-**	**-**	**1,285**
Net profit for the year		-	-	-	-	20,521	20,521
Total comprehensive income (loss) for the year		**-**	**-**	**-**	**-**	**20,521**	**20,521**
Legal reserve		-	-	-	1,999	(1,999)	-
Depreciation of revaluation reserve	15	-	-	(29)	-	29	-
Dividends	17	-	-	-	-	(23,498)	(23,498)
Balance at 31 December 2017		**184,174**	**85,660**	**2,289**	**12,871**	**68,880**	**353,874**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
Fort the year ended 31 December 2017

(All amounts in EUR thousands unless otherwise stated)

	Notes	2017	2016
Net profit (loss) for the year		21,806	39,975
Reversal of non-monetary items of expenses (income) and other adjustments			
Depreciation and amortisation expense	5,6	44,733	31,616
Loss on impairment of property, plant and equipment (reversal of impairment)	6	105,307	568
Inventory write-down allowance/(reversal)	9	(7)	(3)
Expenses (income) on revaluation of emission allowances and provisions thereon	5	(3,808)	3,278
Other impairment allowances/(reversal)	34	-	-
Share of (profit) of associates	7	(101)	(137)
Income tax expense	22	2,656	1,786
Change in deferred income tax liability	22	(7,255)	6,569
(Depreciation) of grants	20	(19,777)	(11,061)
Value of grants arising on recognition of impairment of PP&E	20	(72,872)	-
Increase (decrease) in provisions		92	59
(Gain) loss on disposal/write-off of non-current assets (other than financial assets)		(79)	(26)
Elimination of results of financing and investing activities:			
- Interest (income)	30	(154)	(204)
- Interest expense	31	876	1,479
- Other finance costs (income)		-	(40)
- (Gain) on disposal of part of business		(799)	(19,773)
Changes in working capital			
(Increase) decrease in trade receivables and other amounts receivable		(4,343)	5,300
(Increase) decrease in inventories and prepayments		268	7,338
(Decrease) increase in amounts payable and advance amounts received		(6,550)	(6,211)
Income tax (paid)		-	-
Net cash flows generated from operating activities		**59,993**	**60,513**
Cash flows from investing activities			
(Acquisition) of property, plant and equipment and intangible assets		(1,902)	(3,988)
Disposal of property, plant and equipment and intangible assets		93	32
Disposal of investments in associates		-	21,207
Disposal of part of business		2,000	15,100
Loans granted	7	-	(18,098)
Loan repayments received	7	3,168	-
Dividends received		77	42
Grants received	20	74	-
Interest received		149	204
Net cash flows generated from investing activities		**3,659**	**14,499**
Cash flows from financing activities			
Repayments of borrowings		(77,212)	(13,215)
Finance lease payments		(138)	(138)
Interest (paid)		(876)	(1,479)
Dividends (paid)		(23,771)	(27,311)
Net cash flows used in financing activities		**(101,997)**	**(42,143)**
Net (decrease) increase in cash flows		**(38,345)**	**32,869**
Cash and cash equivalents at the beginning of the year	13	**99,045**	**66,176**
Cash and cash equivalents at the end of the year	13	**60,700**	**99,045**

The accompanying notes form an integral part of these financial statements.

(All amounts in EUR thousands unless otherwise stated)

1 General information

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

At the General Meeting of Shareholders of Lietuvos Energija AB held on 29 July 2013, the shareholders made a decision to rename Lietuvos Energija AB (company code 302648707) into Lietuvos Energijos Gamyba AB. With effect from 5 August 2013, the company's name is Lietuvos Energijos Gamyba AB. Information on the change of the company's name was announced in accordance with the procedure established by law as well as in an electronic newsletter issued by a public institution Centre of Registers, which manages the Register of Legal Entities. There were no changes in other requisite or contact details of the Company.

Lietuvos Energijos Gamyba AB was established for the implementation of the National Energy Strategy, as a result of reorganisation by way of merger of the following two public companies: AB Lietuvos Energija, company code 220551550, including its branch offices Kruonis Pumped Storage Power Plant, Kaunas Hydro Power Plant, and AB Lietuvos Elektrinė, company code 110870933.

The authorised share capital of Lietuvos Energijos Gamyba AB amounts to EUR 184,174,248.35, and it is divided into 635,083,615 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares have been fully paid. With effect from 1 September 2011, the shares of Lietuvos Energijos Gamyba AB have been listed on the Main List of NASDAQ OMX Vilnius Stock Exchange. As at 31 December 2017 and 2016, the Company had not acquired any of its own shares.

During 2017 and 2016, the Company was engaged in electricity generation, electricity trading and export activities. In addition to these main activities, the Company is free to be engaged in any other business activity not forbidden under the laws and stipulated in the Company's Articles of Association.

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

As at 31 December 2017 and 2016, the Company had no subsidiaries.

As at 31 December 2017 and 2016, the Company's investments in associates comprised as follows:

Company name	Office address	Company's ownership interest at 31 December 2017	Company's ownership interest at 31 December 2016	Profile of activities
Geoterma UAB	Lypkių g. 53, LT-94100 Klaipėda, Lithuania	23.44%	23.44%	Production of geothermal energy
Technologijų ir Inovacijų Centras UAB	Juozapavičiaus g. 13, Vilnius, Lithuania	20.01%	20.01%	IT services
Verslo Aptarnavimo Centras UAB	P. Lukšio g. 5B, LT-08221 Vilnius	15.00%	15.00%	Public procurement, accounting and employment relation administration services

These financial statements cover only the financial statements of Lietuvos Energijos Gamyba AB. For the purpose of these financial statements, the Company's investments in associates have been reported under the equity method (Note 7). The Company's shareholders have a right to approve or not approve these financial statements and require preparation of a new set of financial statements.

As at 31 December 2017, the Company had 392 (31 December 2016: 399) employees.

(All amounts in EUR thousands unless otherwise stated)

2 Accounting policies

Presented below are the principal accounting policies adopted in the preparation of the Company's financial statements for the year 2017:

2.1 Basis of preparation

The financial statements of the Company for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

These financial statements have been prepared on a going concern and historical cost basis, except for certain property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment losses (Note 2.4), emission allowances (Note 2.6) and financial assets measured at fair value (Note 2.8).

All amounts in these financial statements are presented in euros (EUR), which is the Company's functional and presentation currency. The financial year of the Company coincides with the calendar year.

2.2 Changes in accounting policies

Accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except as follows:

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

The following IFRSs and amendments thereto were adopted by the Company for the first time for the financial year ended 31 December 2017:

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 Company's financial liabilities to cash flows from financing activities is presented in Note 37.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset 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. The Company had no unrealised losses related to debt instruments.

The above-listed amendments and improvements had no impact on 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). Key features of the new standard are:

- 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.

(All amounts in EUR thousands unless otherwise stated)

Assessment as to how IFRS 9 affects the financial statements:
The Company will apply IFRS 9 starting from 1 January 2018 using the modified retrospective approach. The Company assessed the effect of adoption of the standard in relation to application of the expected credit loss model to the financial assets, which is equal to EUR 21 thousand and which will be presented in retained earnings (loss) in the financial statements for 2018, with current financial assets reduced accordingly. The Company plans to assess individually all material amounts receivable, and collectively all immaterial amounts.

The Company's financial assets and financial liabilities will be classified as follows:

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

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 promise 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 adoption of IFRS 15, *Revenue from Contracts with Customers* and amendments thereto has no impact on the timing and scope of revenue recognition by the Company. The Company reviewed all material contracts with customers and did not identify multiple performance obligations, contract execution expenses and variances in timing of revenue recognition. The Company would adopt IFRS 15 using a modified retrospective approach, if such effects occurred.

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

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company plans to adopt IFRS 16 *Leases* starting from 1 January 2019. The value of assets being transferred under the lease agreement and related lease liabilities will be stated in the Company's statement of financial position. The effect of the first-time adoption of the standard will be presented using the modified retrospective approach which requires adjustment to the balance of retained earnings in the statement of financial position. Future undiscounted payments under operating lease contracts are disclosed in Note 38.

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 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 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

(All amounts in EUR thousands unless otherwise stated)

supplement existing options in the standard that can already be used to address the temporary volatility. This IFRS will have no impact on the Company's financial position or results of operations.

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 Company is currently assessing the impact of these amendments on its 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 Company is currently assessing the impact of the amendments on its 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.

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

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

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

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

Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a

(All amounts in EUR thousands unless otherwise stated)

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 Company is currently assessing the impact of these amendments on its financial statements.

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

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor interest in a joint venture. 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. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights.

In the financial statements of the Company, results of operation 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 are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the share of the net assets of the investee, less any impairment in the value of individual investments. The Company's share of post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income.

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

Property, plant and equipment

Assets with the useful life over one year, the economic benefits from are expected to be obtained for longer than one year, and the cost of which can estimated reliably are classified as property, plant and equipment.

Property, plant and equipment, which includes the categories of assets of hydro power plant, pumped storage power plant, combined cycle unit and reserve power plant, is accounted for at cost less accumulated depreciation and impairment. Other property, plant and equipment is shown at revalued amounts, based on periodic (at least every 5 years) valuations performed by independent valuers, 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. Increases in the carrying amount arising on the first revaluation of property, plant and equipment are credited to revaluation reserve directly in equity and decreases are recognised in the profit and loss account. Increases in the carrying amount arising on the subsequent revaluation of property, plant and equipment are credited to revaluation reserve, whereas decreases in the carrying amount that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the profit and loss account. Revaluation increases in property plant and equipment value that offset previous decreases are taken to the profit and loss account. All other increases in the carrying amount arising on subsequent revaluations of property, plant and equipment are credited to revaluation reserve. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings taking into account the effect of deferred income tax.

Construction in progress represents property, plant and equipment under construction. The cost of such assets includes designing, construction works, equipment provided for installation, and other directly attributable costs.

(All amounts in EUR thousands unless otherwise stated)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at acquisition cost. Cost of intangible assets acquired through business combinations is its fair value at acquisition date. Intangible assets are recognised if there is evidence that the Company will receive economic benefits related to these assets, and its value can be reliably estimated.

Subsequent to initial recognition, intangible assets, except for emission rights (see Note 2.6) are carried at cost less any accumulated amortisation and accumulated impairment losses, if any (the Company does not have intangible assets with indefinite useful lives).

Depreciation and amortisation

Depreciation (amortisation) of property, plant and equipment and intangible assets, except construction in progress, is calculated using the straight-line method over estimated useful lives of the asset. The estimated useful lives, residual values and depreciation/amortisation method are reviewed by the Company at each year-end to ensure that they are consistent with the expected pattern of economic benefits from these assets. The effect of changes in estimates, if any, is accounted for on a prospective basis.

Estimated useful lives of property, plant and equipment and intangible assets are as follows:

Categories of property, plant and equipment and intangible assets	Useful lives (number of years)
Buildings	20 - 75
Structures and equipment	
- electricity and communication devices	20 - 25
- electricity equipment	15 - 35
- other equipment	5 - 20
Structures and equipment of Hydro Power Plant and Pumped Storage Plant	
- hydro technical waterway structures and equipment	75
- pressure pipelines	50
- hydro technical turbines	25 - 40
- other equipment	8 - 15
Structures and equipment of Reserve Power Plant	
- constructions and infrastructure	10 - 75
- thermal and electricity equipment	10 - 50
- measuring devices and equipment	5 – 10
-other equipment, tools	4 – 40
Structures and equipment of Combined Cycle Unit:	
- structures and constructions	20 – 50
- electricity lines	20 - 40
- electricity generation equipment	20 – 50
Motor vehicles	4 – 40
Other property, plant and equipment:	5 – 40
- computer hardware and communication equipment	3 – 15
- inventory, tools	4 – 10
Intangible assets	- 4

Property, plant and equipment acquired under finance lease are depreciated over their estimated useful life on the same basis as owned assets.

Gain or loss on disposal of non-current assets is calculated as the difference between the proceeds received from sale and the carrying value of the disposed asset and is recognised in the statement of comprehensive income.

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 Company and when these costs can be estimated reliably. The carrying amount of the replaced part is written off. All other repair and maintenance costs are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

Spare parts of high value that are expected to be used longer than one year are classified as property, plant and equipment. Spare parts are carried at acquisition cost, less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the estimated useful life of the related item of property, plant and equipment.

Impairment of property, plant and equipment, intangible assets and other non-current assets

At each reporting date, the Company review the carrying amounts of its property, plant and equipment, intangible assets and other non-current assets to determine whether there is any indications that those assets have suffered an impairment loss. If any such indication exists, the 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 Company estimate the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, administrative assets of the Company are allocated to individual cash-generating units, otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. The recoverable amount of other non-current assets (right to receive emission allowances) is determined with reference to market prices of forward or spot transactions in emission allowances.

(All amounts in EUR thousands unless otherwise stated)

The recoverable amount is the higher of the asset's fair value less costs to sell 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 profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve.

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 or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (without exceeding the sum of previous value impairment) as described in Note 2.4.

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 of operation covered 5 years from 2008 to 2012; and the third period of operation covers 7 years from 2013 to 2020. The system's period of operation 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.

Business entities involved in the trading scheme of emission allowances are entitled throughout the period from 2008 to 2020 to use emission reduction units that are accepted in the EU trading scheme of emission allowances, but not in excess of 20% of total quantity of emission allowances allocated to them during the period from 2008 to 2012.

A Member State has an obligation to allocate emission allowances by 28 February of each year in accordance with the National Allocation Plan (a part of emission allowances are set aside for new units).

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 that were provided by the state in the form of non-monetary grant and that should be accounted for at fair value at the moment of their issuance or transfer.

After the initial recognition emission allowances are revalued at fair value using the active market prices. Increases in the carrying amount arising on the revaluation of emission allowances are 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 and loss account. On realisation 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 Company free of charge 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 utilisation of emission allowances
As the Company 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 for the settlement of this liability at the date of the preparation of the statement of financial position. 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 profit or loss and presented in the statement of comprehensive income.

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 2.5.

(All amounts in EUR thousands unless otherwise stated)

2.3 Financial assets

According to IAS 39 'Financial instruments: recognition and measurement', financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets. The Company determines the classification of its financial assets based on its nature and purpose at initial recognition.

Financial assets are recognised on a trade date basis where the purchase or sale process is under a contract, which terms require delivery of the financial assets within the timeframe established by the market concerned. Financial assets are recognised initially at fair value, plus, in the case of investments are not carried at fair value through profit or loss, directly attributable transaction costs.

The Company's financial assets include cash, trade and other amounts receivable, and other financial assets that are classified into two categories: financial assets at fair value through profit or loss, and loans and receivables.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified in the following two categories: financial assets held for trading and financial assets designated at fair value through profit or loss at inception. The Company has no financial assets held for trading and classifies within this category only those financial assets that arise from disposal of business or investments and that are non-equity contingent consideration. They are measured at fair value at each reporting date, with fair value changes recognised as profit or loss. Interest income on such financial assets is inlcuded with 'interest income'.

Effective interest rate method

Effective interest rate method is used to calculate amortised cost of financial assets and allocate interest income over the relevant period. The effective interest rate exactly discounts estimated future cash flows over the expected life of the financial asset.

Impairment of financial assets

At each reporting date the Company assesses 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 debtor 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 estimated future cash flows, estimated using the effective interest rate.

The carrying amount of the financial asset is directly reduced by the amount of estimated impairment loss, except for trade receivables, for which impairment is recorded through allowance account. Impaired accounts receivable are written-off when they are identified as uncollectible.

If after the end of the reporting period the amount of 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 through the statement of comprehensive income 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 derecognised when:
- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained the risks and rewards of ownership of asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company might be required to repay.

(All amounts in EUR thousands unless otherwise stated)

2.4 Inventories

Inventories are initially recorded at acquisition cost. Subsequent to initial recognition, inventories are stated at the lower of cost and net realisable value. Acquisition cost of inventories includes acquisition price and related taxes, and costs associated with bringing inventory into their current condition and location. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price, less the estimated costs of completion, marketing and selling expenses.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at banks, demand deposits and other highly liquid investments (up to 3 months original maturity) that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are recognised in the statement of financial position as current borrowings.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits in current bank accounts, and other short-term highly liquid investments with original maturity up to 3 months, and bank overdrafts.

2.6 Financial liabilities and equity instruments issued by the Company

Recognition of instruments as debt or equity instruments

Debt or equity instruments are classified as financial liabilities or equity based on the substance of the arrangement.

Equity instruments

Equity instrument is any contract that evidences an interest in the assets of the Company after deducting all of its liabilities. Equity instruments are recorded at the value of the proceeds received net of direct issue costs. Share premium represent the difference between the nominal value of shares and the proceeds received.

Financial liabilities

Liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities. The Company does not have any financial liabilities at fair value through profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are recognised at fair value, less transaction costs.

After initial recognition, other financial liabilities are measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest rate method (see Note 2.18).

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

If a financing agreement concluded before the balance sheet date proves that the liability was non-current by its nature as of the date of the balance sheet, that financial liability is classified as non-current.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognised in the statement of comprehensive income.

2.7 Foreign currency

Foreign currency transactions are accounted for in the euros using the exchange rate announced by the Bank of Lithuania on the dates of transaction, which approximate market exchange rates. Monetary assets and liabilities are translated into the euros using the exchange rate prevailing at the balance sheet date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities into the euros are recognised in the statement of comprehensive income of the reporting period.

The exchange rates used for principal currencies were as follows:

	At 31 December 2017	At 31 December 2016
USD 1	EUR 0.8300	EUR 0.9567

Items reported in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). For the purpose of the financial statements, financial performance results and financial position of the Company are presented in the euros, which is the functional currency and presentation currency of the Company.

(All amounts in EUR thousands unless otherwise stated)

When preparing the Company's financial statements, transactions denominated in currencies other than the functional currency of the company (in foreign currencies) are carried using exchange rates prevailing at the dates of transactions. At each balance sheet date monetary items denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Non-monetary items measured at fair value and denominated in foreign currency are translated using the exchange rate prevailing at the date when the fair value was determined. Non-monetary items carried at cost and denominated in foreign currency are not translated.

2.8 Grants

Asset-related grants
Asset-related government and the European Union grants and third party compensations comprise grants received in the form of non-current assets or intended for the acquisition of non-current assets. Grants are initially recognised at fair value of the asset received and subsequently accounted for in the statement of comprehensive income by reducing the depreciation charge of related asset over the expected useful life of the asset.

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 other grants, which are not asset-related grants, are treated as income-related grants. 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 recognised in the statement of comprehensive income, net of related expenditure.

2.9 Provisions

Provisions are recognised when the 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. When the Company expects that provision amount in part or in full will be compensated, e.g. by insurance, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in the statement of comprehensive income, 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 set 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 costs.

Provisions for pension benefits
Pursuant to the Lithuanian laws, each employee who terminates employment at retirement age is entitled to receive a payment of 2 monthly salaries upon retirement. Actuarial calculations are made to determine liability for this pension benefit. The liability is recognised at present value, which is discounted using the market interest rate.

2.10 Employee benefits

(a) Social security contributions

The Company pays 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 Company pays 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. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Bonus plans
The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(All amounts in EUR thousands unless otherwise stated)

2.11 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.

Where the Company is a lessor

Operating lease income is recognised on a straight-line basis over the lease term.

Finance lease – where the Company is a lessee

The Company accounts for finance leases as assets and liabilities in the balance sheet at the lower of the fair value of assets leased on the commencement of lease and the present value of minimum finance lease payments.
The present value of minimum lease payments is determined using a discount rate equal to interest rate charged on lease payments, if possible to distinguish, otherwise general interest rate on the Company's borrowings is used. Direct initial costs are added to the value of assets. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated. In addition, as a result of finance lease, the Company's finance costs are increased each reporting period in the statement of comprehensive income. The calculation of depreciation for assets acquired under finance lease is analogous to that used for own assets, however, such assets cannot be depreciated over a period longer than the lease period, provided that the ownership is not transferred to the Company at the end of the validity term of the finance lease contract.

When the outcome of sale or leaseback transaction is finance lease, any gain on sale in excess of the carrying amount is not recognised as income immediately and rather it is deferred and amortised over the period of finance lease.

Operating lease – where the Company is a lessee

Leases of property, plant and equipment where a significant portion of risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Total benefit of lease incentives provided by the lessor is recognised as a reduction of lease expenses over the lease period on a straight-line basis.

When the outcome of sale or leaseback transaction is operating lease and it is obvious that the transaction has been concluded at fair value, any gain or loss is recognised immediately. When the selling price is lower than the fair value, any gain or loss is recognised immediately, except for cases when losses are covered by lease payments lower than market prices in future, in which case they are deferred and amortised in proportion to lease payments over the period during which the asset is expected to be used. When the selling price is higher than the fair value, the excess amount is deferred and amortised over the period during which the asset is expected to be used.

2.12 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.

As at 31 December 2017 and 2016, the Company's management analysed the Company's activities by separating them into regulated and commercial activities. The regulated activities include the Reserve Power Plant's revenue from heat and electricity generation, balancing and regulation, capacity reserve provision, including revenue from capacity reserve provision at Kruonis Pumped Storage Power Plant. The commercial activities include electricity trade in a free market, electricity generation at Kaunas Algirdas Brazauskas Hydro Power Plant and Kruonis Pumped Storage Power Plant, related balancing and regulation services and other activities. Administrative expenses are allocated between the regulated and commercial activities on the basis of operating expenses.

2.13 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/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, returns of goods and discounts. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sale of electricity
Revenue from sale of electricity acquired at power exchange, electricity export and revenue from public service obligations (PSO) services is recognised when substantially all risks and rewards related to the object of sale have been transferred to the buyer.

Revenue from electricity-related services
Revenue from electricity transmission and other electricity-related services is recognised after the service is rendered.

(All amounts in EUR thousands unless otherwise stated)

Tariff regulation

Tariffs for the electricity transmission and PSO services are regulated by the National Control Commission for Prices and Energy (hereinafter "the NCC") by establishing the upper limit of the tariff. The specific prices for the transmission and PSO services are established by the supplier of the service within the limits approved by the NCC.

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

Tariffs for import and export of electricity are not regulated.

The Company 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 NCC. The tariff is established by the NCC based on the estimates of variable and fixed electricity production costs provided by the producers. Thus, the difference between accrued income and actually paid amounts during a year is recognised as non-current amounts receivable (accrued income) or amounts payable (deferred income) under the line items 'Other amounts receivable' or 'Other non-current amounts payable and liabilities'. At the end of the next year, this amount is reclassified as a current amount receivable/payable under the line items 'Other amounts receivable' or 'Advance amounts received'.

Other operating income

Interest income is recognised by the accrual method considering the outstanding balance of debt and the effective interest rate. Interest income is recorded in the statement of cash flows as cash flows from investing activities.

Recognition of expenses

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

2.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale 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 temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

Other borrowing costs are recognised as expenses in the income statement as incurred.

2.15 Income tax

Income tax expense for the period comprises current tax and deferred tax.

Income tax
Current tax charges are calculated on current profit before tax, as adjusted for certain non-deductible expenses/non-taxable income. Income tax is calculated using the tax rate effective as at the date of issue of the financial statements. Income tax rate of 15% was used in 2017 and 2016.

Deferred income tax
Deferred income tax is accounted for using the liability method, on temporary 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 negative 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.

Deferred tax assets are reviewed at each date of the financial statements and if it is not probable that the Group and the Company will generate sufficient taxable profit to realise these assets, they are reduced to an amount which is likely to reduce the taxable profit in future. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled.

Deferred tax assets and liabilities are offset only where they relate to income tax assessed by the same fiscal authority or where there is a legally enforceable right to offset current tax assets and current tax liabilities.

Current income tax and deferred income tax
Current income tax 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, in which case taxes are also recorded in equity.

(All amounts in EUR thousands unless otherwise stated)

2.16 Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to the shareholders by the weighted average of ordinary registered shares in issue. Where the number of shares changes without causing a change in the economic resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period.

As at 31 December 2017 and 2016, the weighted average number of shares, based on which the earnings per share are calculated, was 635,083,615. As at 31 December 2017 and 2016 and during the periods then ended, the Company had no dilutive options, therefore, its basic and diluted earnings per share are the same.

2.17 Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities in business combinations. They are disclosed in the financial statements 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.

2.18 Events after the end of the reporting period

Events after the end of the reporting period that provide additional information about the Company's position at the reporting date (adjusting events) are disclosed in the financial statements. Events after the end of the reporting period that are not adjusting events are disclosed in the notes when their effect is material.

2.19 Related parties

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

2.20 Inter-company offsetting

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

2.21 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 is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair value is based on other observable market data, directly or indirectly.
Level 3: fair value is based on non-observable market data.

(All amounts in EUR thousands unless otherwise stated)

3 Critical accounting estimates and uncertainties

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and contingencies. The effect of such changes in the estimates will be recorded in the financial statements when determined.

Depreciation rates of property, plant and equipment

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

In 2017 and 2016, the Company reviewed the depreciation rates used for property, plant and equipment. As a result, new depreiation 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.

Revaluation of property, plant and equipment

In 2017 and 2016, the Company accounted for property, plant and equipment, except for the assets of Hydro Power Plant, Pumped Storage Power Plant, Elektrėnai Complex (Combined-Cycle Unit and Reserve Power Plant), at revalued amount in accordance with IAS 16 *Property, Plant and Equipment*.
In 2017 and 2016, no independent property valuation was performed in respect of the Company's assets carried at revalued amount, since, in the opinion of management, the fair value of assets did not differ significantly from the carrying amount. The values of these assets are disclosed in Note 6.
On 31 December 2013, independent property valuers Turto ir Verslo Tyrimo Centras UAB and OBER-HAUS UAB determined the market value of the Company's assets stated at revalued amount. The valuation was performed using the comparable and cost method.

Impairment of property, plant and equipment

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

As at 31 December 2016, the Company's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets, and did not identify any impairment indicators in respect of property, plant and equipment of Kruonis Pumped Storage Power Plant, Kaunas Algirdas Brazauskas Hydroelectric Power Plant, and Elektrėnai Complex (Reserve Power Plant, Combined-Cycle Unit and Biofuel and Steam Boiler Plants).

As at 31 December 2017, the Company's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might have impact on the value of non-current assets, and did not identify any impairment indicators in respect of property, plant and equipment of Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydroelectric Power Plant.

In 2017, impairment of EUR 1.096 thousand was recognised in respect of individual items of assets, whereof impairment of EUR 757 thousand was recognised for two heavy fuel containers, and impairment of EUR 339 thousand was recognised for heavy fuel tank. Impairment was accounted for in view of the market value of assets.

Considering the resolutions adopted by the National Control Commission for Prices and Energy (the NCC) 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 the Company, the Company's management decided to distinguish two separate cash generating units of the Elektrėnai Complex (the EC): (1) the EC's Combined-Cycle Unit (the CCU) together with Biofuel and Steam Boiler Plants, including the EC's commonly shared infrastructure, which is necessary for electricity generation, and (2) the EC's Units 7 and 8. In addition, the Company's management decided to review the assumptions pertaining to the expected earnings from the EC's Units 7 and 8.

The EC's CCU together with Biofuel and Steam Boiler Plants, including the EC's commonly shared infrastructure, are treated as a single cash generating unit based on the following:

- The EC's commonly shared infrastructure, which is necessary for electricity generation facilities, is expected to be required only for the services rendered by the CCU as from 2020, and therefore, the major portion of cash flows generated from those commonly shared facilities will be linked only with the CCU in a long run perspective;
- Without actively operating the CCU, the EC's commonly shared facilities, , would not be able to generate cash flows pertaining to electricity market services;
- The electricity and thermal power generation as well as the provision of capacity reserve services at the EC are considered to be regulated activities;

(All amounts in EUR thousands unless otherwise stated)

3 Critical accounting estimates and uncertainties (continued)

- The Biofuel and Steam Boiler Plants share the same infrastructure with other facilities of the EC (electricity connections, thermal power networks, other pipelines, pumps, chemical bar, etc.), which represents the major part of all assets operated by the EC. The steam boilers have been mounted in the same building, which is used for the services provided by CCU, 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 EC from "cold" operation mode and to generate steam energy that is necessary to support the infrastructure of the EC;
- 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 EC are treated as a single cash generating unit based on the following:

- The Government has established the PSO scope in respect of both Units 7 and 8 of the EC 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 CCU;
- Units 7 and 8 of the EC share common infrastructure, which is not used by the CCU;
- 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;
- Based on the NCC'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;
- 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 NCC, Ministry of Energy and Government. Key assumptions used in performing the impairment test as at 31 December 2017 were as follows:

1. 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 4.97%. 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 capital 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 NCC 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 Company'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 EC. 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 grant 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 EC would not change.

As at 31 December 2017, impairment test was carried out for property, plant and equipment of the EC's CCU and Biofuel and Steam Boiler Plants together with the EC's commonly shared infrastructure. As a result of the impairment test, it was determined that the recoverable amount of assets exceeded their carrying amount (excluding grants) equal to EUR 207 million. Accordingly, no impairment was recognised. Had the WACC (discount rate) increased/decreased by 0.5 p.p., the value in use of the EC's CCU and Biofuel and Steam Boiler Plants together with the EC's commonly shared infrastructure would exceed the carrying amount of assets. Considering that the projected investment volume in the long term was less than the expected depreciation of non-current assets, the impairment test was based on an assumption of 2% annual long-term cash flow decrease. The value in use sensitivity to assumptions regarding the volume of investments is limited, 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, without taking into account the investment expenditure).

<u>Impairment of investments in associates</u>

As at 31 December 2017, impairment of investment in associate Geoterma UAB was not reversed because Geoterma UAB operated at a loss in 2017 and the value of its net assets was negative as at 31 December 2017 (Note 7).

<u>Provisions for emission allowances</u>

The Company estimates the emission provisions based on the actual quantity of emission during the reporting period multiplied by the market price of one emission allowance. The actual quantity of emission is approved by the responsible regulatory state authority within 4 months after the year-end. As at 31 December 2016, the recognised amount of provision corresponded to the approved actual quantity of emission. Based on historical experience, the management of the Company does not expect any material differences between the amount of estimated provisions as at 31 December 2017 and emission quantities which will be approved in 2018.

(All amounts in EUR thousands unless otherwise stated)

Accrual of income from PSO services

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 determined for the next calendar year by the NCC in view of the projected costs of the Company. In the Company's financial statements, income from these services is recognised on accrual basis based on actually incurred costs.

As at 31 December 2017, the Company recognised PSO funds of EUR 5,034 thousand within 'Other non-current amounts payable and liabilities' (Note 21) to be refunded in 2019 (31 December 2016: PSO funds of EUR 9,404 thousand to be refunded in 2018, without taking into account the discounting effect). The 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% was used, and discounting effect of EUR 51 thousand was recognised within 'Other financial income'.

As at 31 December 2017, receivable amount of EUR 8,198 thousand, which will be compensated in 2018, was recognised within current amounts receivable. In 2017 the NCC inspected the PSO funds allocated to the Company during 2010-2015, and in 2017 introduced changes in the principles for determination of allocated PSO funds, with relevant changes in the regulatory framework. In 2014 the NCC adopted a resolution, by which the Company was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Company's hydroelectric plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Company. On 17 October 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of the NCC was repealed. At the end of 2017, as part of implementation of the court judgement, the NCC allocated to the Company EUR 5.438 million of PSO funds for the year 2018, which will compensate the Company's revenue not received in 2015. This amount was recognised within amounts receivable as at 31 December 2017.

As at 31 December 2016, amount of EUR 975 thousand of PSO funds of to be refunded in 2017, was recognised within advance amounts received.

Accrual of income from capacity reserve services

As at 31 December 2017, based on *Methodology for establishing the prices for electricity and capacity reserve services* approved by Resolution No. O3-229 of the NCC, the Company's management accounted for EUR 511 thousand of PSO funds to be refunded in 2019 under the line item 'Other non-current amounts payable and liabilities'. The Company also accounted for EUR 289 thousand of receivable amount to be compensated in 2018 under the line item 'Other current amounts receivable'. Accordingly, amount of EUR 246 thousand receivable during 2018 and amount of EUR 318 thousand receivable during 2017 were recognised as at 31 December 2016.

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

In 2014, the NCC adopted a resolution, by which the Company was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, the PSO funds approved for the Company for the year 2016 were reduced by additional amount of EUR 2.51 million (2015: reduced by additional amount of EUR 5.44 million). On 17 October 2016, the LSAC adopted its judgement with respect to the administrative case investigated by the court of appeal on 7 September 2016 in relation to annulment of decision of Vilnius Regional Administrative Court (dated 30 April 2015) and adoption of a new decision. The Company's appeal was accepted, whereas the NCC's Resolution, by which the Company was declared as an undertaking with significant power in the electricity generation market, was annulled. In view of this, as at 31 December 2016 when calculating deferred revenue from PSO funds the Company no longer adjusted profit from non-regulated (commercial) activities and reversed revenue of EUR 0.64 million that was not recognised in 2015. Based on its Resolution of 30 October 2017, the NCC approved the PSO funds in amount of EUR 5.44 million, which was designated to compensate for the decrease in PSO funds for 2015. In 2017, this amount was recognized as the Company's revenue and it will be received during 2018. As long as there is no NCC's resolution regarding the compensation of PSO funds not paid to the Company during 2016, revenue from PSO funds remain reduced by the amount that was not actually paid during 2016, i.e. EUR 2.51 million. As at 31 December 2017, the Company's contingent assets related to the aforementioned NCC's Resolution amounted to EUR 2.51 million (31 December 2016: EUR 7.95 million).

Disposal of part of business

Based on the agreement on sale of part of electricity commercial wholesale business signed between the Company and Energijos Tiekimas UAB on 12 October 2015, the sales price premium of EUR 8 million (i.e. additional EUR 2,000 thousand per year) may be payable on achievement of target performance results of the disposed business during the period until 2019. Having assessed the likelihood of earning additional revenue in each year over the period until 2019, the Company estimated amount of additional revenue. The present value of additional revenue was estimated by discounting the sale price premium during the period until 31 March 2019 using the discount rate of 0.48%. The present value of sale price premium for the period ended 31 December 2017 amounted to EUR 3,472 thousand. As at 31 December 2017, the Company accounted for amounts receivable of EUR 1,484 thousand and EUR 1,988 thousand within 'Other non-current amounts receivable' and 'Other current amounts receivable', respectively, in its statement of financial position (Note 11). As at 31 December 2016, the Company accounted for amounts receivable of EUR 2,676 thousand and EUR 1,997 thousand related to this transaction within 'Other non-current financial assets' and 'Other current financial assets', respectively, in its statement of financial position. In 2017, income of EUR 799 thousand related to change in the sale value of part of business, and in 2016 gain of EUR 19,773 thousand on disposal of part of business was recognised within 'Other operating income' (Note 29).

The fair value of these financial assets is attributed to Level 3 in the fair value hierarchy ('Non-observable data').

(All amounts in EUR thousands unless otherwise stated)

4 Financial risk management

In performing its activities, the Company is exposed to financial risks, i.e. credit risk, liquidity risk and market risk (foreign exchange risk, fair value interest rate risk, cash flows interest rate risk, and securities price risk). In managing these risks, the Company seeks to mitigate the effect of factors which could have an adverse impact on the financial performance of the Company.

Financial instruments by category

Financial assets	At 31 December 2017	At 31 December 2016
Trade receivables	17,216	16,331
Other receivables	8,669	377
Loans granted	14,930	18,098
Cash and cash equivalents	60,700	99,045
Other non-current amounts receivable	315	638
Loans and receivables	**101,830**	**134,489**
Financial assets at fair value through profit or loss	**7,521**	**8,537**
Total	**109,351**	**143,026**

Financial liabilities	At 31 December 2017	At 31 December 2016
Borrowings	55,247	132,459
Finance lease liabilities	310	448
Other non-current amounts payable	723	813
Trade payables	17,380	20,363
Other amounts payable and liabilities	1,209	1,525
Financial liabilities measured at amortised cost	**74,869**	**155,609**
Total	**74,869**	**155,609**

Credit risk

As at 31 December 2017 and 2016, exposure to credit risk arose from the following items:

Financial assets	At 31 December 2017	At 31 December 2016
Financial assets	109,351	143,026
Total	**109,351**	**143,026**

The Company's exposure to credit risk arising from amounts receivable is limited because the major buyers are reliable customers. As of 31 December 2017 and 2016, trade receivables neither past due nor impaired were of high credit quality. The Company is exposed to significant credit risk concentration, because credit risks are shared among 5 main customers accounting for approximately up to 99% of total trade receivables of the Company. More details about credit risk arising from amounts receivable are provided in Notes 10 and 11.

Exposure to credit risk arising from cash at bank is limited because the Company conducts transactions with the banks with high credit ratings awarded by international credit rating agencies.

The Company holds cash balances and term deposits in accounts of the major banks in Lithuania awarded with 'A-' and higher external credit rating by the rating agency Fitch Ratings.

(All amounts in EUR thousands unless otherwise stated)

4 Financial risk management (continued)

Liquidity risk

The liquidity risk is managed by planning the cash flows of the Company. In order to manage the liquidity risk, cash flow forecasts are prepared. Overdraft and credit line agreements are used to manage the risks arising from late collection of receivables and the short-term variances in cash flows (inflows and outflows). Undrawn balances of loans are disclosed in Note 18.

As at 31 December 2017, the Company's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 2.55 and 2.43, respectively (31 December 2016: 3.19 and 3.07, respectively).

The table below summarises the maturity profile of the Company's non-derivative financial liabilities based on contractual undiscounted payments. This table has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to cover the liabilities. Balances with repayment terms up to 12 months approximate their carrying amounts, because the impact of discounting is insignificant.

	Within the first year	Within the second year	Within the third-fifth year	After five years
At 31 December 2017				
Borrowings	21,884	17,634	12,136	5,472
Finance lease liabilities	148	148	36	-
Trade and other amounts payable	18,589	105	304	380
At 31 December 2016				
Borrowings	22,747	18,535	54,339	43,318
Finance lease liabilities	148	148	184	-
Trade and other amounts payable	21,888	107	309	479

Interest rate risk

Revenues and cash flows of the Company are affected by fluctuations in the market interest rates as all borrowings of the Company were subject to variable interest rates as of 31 December 2017. Increase in interest rate risk is mostly affected by non-current borrowings. All borrowings bear variable interest rates which are linked to EURIBOR. Intervals of repricing of interest rates are disclosed in Note 18.

If interest rates on withdrawn balances of borrowings of the Company had been higher/lower by 1 p.p., net profit for the year 2017 would have been EUR 151 thousand (2016: EUR 344 thousand) lower/higher.

Foreign exchange risk

The Company has no significant assets or liabilities denominated in currencies other than the euro. The Company does not use any financial instruments to manage foreign exchange risk.

Securities price risk

Investments in associates in the Company's financial statements are accounted for using the equity method by adjusting their carrying amounts by the Company's share of profit or loss of associates. The increase/decrease in the carrying amount of these investments directly affects the financial performance of the Company. The Company has impact on the results of its associates by taking part in the formation of the management policy of operations of these companies.

Fair value of financial assets and liabilities

The Company's financial assets and liabilities not carried at fair value mainly include trade and other amounts receivable, trade and other amounts payable, non-current and current borrowings. The fair value of the Company's financial assets and financial liabilities at fair value through profit or loss is based on the prices quoted in an active market.

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

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

- The carrying amount of cash and cash equivalents, current trade and other amounts receivable, short-term loans granted, current trade and other amounts payable and current borrowings approximates their fair value.
- The fair value of non-current borrowings is based on the quoted market price for the same or similar loans or on the current rates available for the loans with the same maturity profile. As at 31 December 2017, the Company had non-current borrowings from Luminor and SEB banks bearing variable interest rates (Note 18). The fair value of non-current borrowings a bearing variable interest rate approximates their carrying amount, provided that the margin on such loans corresponds to margins currently prevailing in the market.
- The fair value of non-current amounts receivable and payable is determined with reference to the current interest rates available for the loans with the same maturity profile. As at 31 December 2017, the discount rate applied to the Company‘s non-current amounts receivable and payable approximated the market interest rate.

(All amounts in EUR thousands unless otherwise stated)

5 Intangible assets

The Company's intangible assets as at 31 December 2017 and 2016 comprised as follows:

	Computer software	Emission allowances	Other intangible assets	Total
At 31 December 2015				
Cost	1,132	16,438	128	17,698
Accumulated amortisation	(763)	-	(116)	(879)
Net book amount at 31 December 2015	**369**	**16,438**	**12**	**16,819**
Year ended 31 December 2015				
Opening net book amount	**369**	**16,438**	**12**	**16,819**
Additions	5	-	-	5
Grant received	-	1,733	-	1,733
Emission allowances utilised (Note 25)	-	(2,999)	-	(2,999)
Revaluation income/ (expenses) of emission allowances	-	(3,346)	-	(3,346)
Reclassification from property, plant and equipment (Note 6)	125	-	-	125
Amortisation	(173)	-	(7)	(180)
Net book amount at 31 December 2016	**326**	**11,826**	**5**	**12,157**
At 31 December 2016				
Cost	1,262	11,826	128	13,216
Accumulated amortisation	(936)	-	(123)	(1,059)
Net book amount at 31 December 2016	**326**	**11,826**	**5**	**12,157**
Year ended 31 December 2016				
Opening net book amount	326	11,826	5	12,157
Additions	29	-	-	29
Grant received	-	1,128	-	1,128
Emission allowances utilised (Note 25)	-	(932)	-	(932)
Revaluation income/ (expenses) of emission allowances	-	2,808	-	2,808
Reclassification from property, plant and equipment (Note 6)	217	-	-	217
Amortisation	(166)	-	(3)	(169)
Net book amount at 31 December 2017	**406**	**14,830**	**2**	**15,238**
At 31 December 2017				
Cost	1,394	14,830	103	16,327
Accumulated amortisation	(988)	-	(101)	(1,089)
Net book amount at 31 December 2017	**406**	**14,830**	**2**	**15,238**

The fair value of emission allowances is determined using the prices quoted in an active market, therefore, it is attributable to Level 1 in the fair value hierarchy.

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

(All amounts in EUR thousands unless otherwise stated)

6 Property, plant and equipment

The Company’s property, plant and equipment as at 31 December 2017 and 2016 comprised as follows:

	Land	Buildings	Structures and equipment	Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant	Structures and equipment of Reserve Power Plant	Combined Cycle Unit	Motor vehicles	Computer hardware, communication and other office equipment	Other PP&E	Construction in progress	Total
At 31 December 2015											
Cost or revalued amount	1,880	657	4,102	205,140	496,997	387,943	138	46	166	2,852	1,099,921
Accumulated depreciation	-	(28)	(1,352)	(79,314)	(259,748)	(47,581)	(90)	(33)	(85)	-	(388,231)
Accumulated impairment	-	-	-	-	(37,567)	-	-	-	-	(223)	(37,790)
Net book amount at 31 December 2015	**1,880**	**629**	**2,750**	**125,826**	**199,682**	**340,362**	**48**	**13**	**81**	**2,629**	**673,900**
Year ended 31 December 2015											
Opening net book amount	1,880	629	2,750	125,826	199,682	340,362	48	13	81	2,629	673,900
Additions	-	-	-	8	89	-	-	-	6	3,171	3,274
Disposal	-	-	(2)	-	(2)	-	-	-	-	-	(4)
Write-offs	-	-	-	-	(2)	-	-	-	-	-	(2)
Reversal of impairment	-	-	-	-	45	-	-	-	-	-	45
Impairment	-	-	-	-	(613)	-	-	-	-	-	(613)
Reclassification to intangible assets	-	-	-	-	-	-	-	-	-	(125)	(125)
Reclassifications between groups	-	-	-	1,338	1,834	-	-	-	-	(3,172)	-
Reclassifications from/to inventories	-	-	-	51	(31)	(5)	-	-	-	-	15
Depreciation	-	(14)	(120)	(7,975)	(8,537)	(14,747)	(16)	(10)	(17)	-	(31,436)
Net book amount at 31 December 2016	**1,880**	**615**	**2,628**	**119,248**	**192,465**	**325,610**	**32**	**3**	**70**	**2,503**	**645,054**
At 31 December 2016											
Cost or revalued amount	1,880	657	4,095	206,510	498,459	387,941	138	46	172	2,726	1,102,624
Accumulated depreciation	-	(42)	(1,467)	(87,262)	(267,860)	(62,330)	(106)	(43)	(102)	-	(419,212)
Accumulated impairment	-	-	-	-	(38,135)	-	-	-	-	(223)	(38,358)
Net book amount at 31 December 2016	**1,880**	**615**	**2,628**	**119,248**	**192,464**	**325,611**	**32**	**3**	**70**	**2,503**	**645,054**

(All amounts in EUR thousands unless otherwise stated)

6 Property, plant and equipment (continued)

	Land	Buildings	Structures and equipment	Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant	Structures and equipment of Reserve Power Plant	Combined Cycle Unit	Motor vehicles	Computer hardware, communication and other office equipment	Other PP&E	Construction in progress	Total
Year ended 31 December 2016											
Opening net book amount	1,880	615	2,628	119,248	192,464	325,611	32	3	70	2,503	645,054
Additions	-	-	24	22	35	104	-	-		1,703	1,888
Disposal	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	(14)	-	-	-	-	-	(14)
Reversal of impairment	-	-	-	-	45	-	-	-	-	-	45
Impairment (Note 3)	-	-	-	-	(105,352)	-	-	-	-	-	(105,352)
Reclassification to intangible assets	-	-	-	-	-	-	-	-	-	(217)	(217)
Reclassifications between groups	-	-	-	835	1,205	60	-	-	-	(2,100)	-
Reclassifications from/to inventories	-	-	-	(19)	6	(9)	-	-	-	-	(22)
Depreciation	-	(14)	(120)	(7,297)	(22,347)	(14,753)	(16)	(2)	(15)	-	(44,564)
Net book amount at 31 December 2017	**1,880**	**601**	**2,532**	**112,789**	**66,042**	**311,013**	**16**	**1**	**55**	**1,889**	**496,818**
At 31 December 2017											
Cost or revalued amount	1,880	657	4,119	207,297	389,195	388,095	138	46	172	2,112	993,711
Accumulated depreciation	-	(56)	(1,587)	(94,508)	(216,483)	(77,082)	(122)	(45)	(117)	-	(390,000)
Accumulated impairment	-	-	-	-	(106,670)	-	-	-	-	(223)	(106,893)
Net book amount at 31 December 2017	**1,880**	**601**	**2,532**	**112,789**	**66,042**	**311,013**	**16**	**1**	**55**	**1,889**	**496,818**

The table below presents the carrying amounts of the Company's property, plant and equipment that would have been recognised if the cost method had been used in accounting for assets as at 31 December 2017 and 2016:

	Land	Buildings	Structures and equipment	Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant	Structures and equipment of Reserve Power Plant	Combined Cycle Unit	Motor vehicles	Computer hardware, communication and other office equipment	Other PP&E	Construction in progress	Total
Net book amount											
As at 31 December 2017	**1,699**	**157**	**2,152**	**112,789**	**66,042**	**311,013**	**14**	**1**	**47**	**1,889**	**495,803**
Net book amount											
As at 31 December 2016	**1,699**	**161**	**2,280**	**119,248**	**192,464**	**325,611**	**29**	**3**	**74**	**2,503**	**644,072**

(All amounts in EUR thousands unless otherwise stated)

6 Property, plant and equipment (continued)

As at 31 December 2017, no independent valuation was performed for the Company's assets carried at revalued amount, since the fair values of the assets did not differ significantly from their carrying amounts, accordingly no difference was recognised.

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

	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other observable data, directly or indirectly	Non-observable data	
Land	-	1,880	-	1,880
Structures and equipment	-	2,532	-	2,532
Buildings	-	601	-	601
Motor vehicles	-	16	-	16
Computer hardware, communication and other office equipment, other PP&E	-	56	-	56
Fair value at 31 December 2017	**-**	**5,085**	**-**	**5,085**

As at 31 December 2016, no independent valuation was performed for the Company's property, plant and equipment carried at revalued amount since the fair values of the assets did not differ significantly from their carrying amounts, accordingly no difference was recognised.

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

	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other observable data, directly or indirectly	Non-observable data	
Land	-	1,880	-	1,880
Structures and equipment	-	2,628	-	2,628
Buildings	-	615	-	615
Motor vehicles	-	32	-	32
Computer hardware, communication and other office equipment, other PP&E	-	73	-	73
Fair value at 31 December 2016	**-**	**5,228**	**-**	**5,228**

As at 31 December 2017, the Company's capital expenditure commitments outstanding under the contracts amounted to EUR 4,516 thousand.

In 2017, Units 5 and 6 were written off and their dismantling is expected to be completed within a number of upcoming years. The acquisition cost of the units written of amounted to EUR 107,059 thousand, accumulated depreciation amounted to EUR 73,870 thousand, and impairment amounted to EUR 33,189 thousand.

As at 31 December 2017, the Company's property, plant and equipment amounting to EUR 316,136 thousand was pledged to the banks as collateral (31 December 2016: EUR 331,151 thousand).

The net book amounts of property, plant and equipment recorded within 'Structures and equipment of the Reserve Power Plant' and acquired by the Company under the finance lease contracts as at 31 December 2017 and 2016 were as follows:

Category of PP&E	At 31 December 2017	At 31 December 2016
Motor vehicles	518	589
Total	**518**	**589**

(All amounts in EUR thousands unless otherwise stated)

7 Investments

As at 31 December 2017 and 2016, the Company had no subsidiaries.

The Company's investments into associates comprised as follows:

At 31 December 2017	Acquisition cost	Participation (ownership interest,%)	Impairment (decrease) increase	Company's share of result and dividends	Carrying amount
Geoterma UAB	2,142	23.44	(2,142)	-	-
Technologijų ir Inovacijų Centras UAB	1,287	20.00	116	(20)	1,383
Verslo Aptarnavimo Centras UAB	87	15.00	21	44	152
Total	**3,516**		**(2,005)**	**24**	**1,535**

At 31 December 2016	Acquisition cost	Participation (ownership interest,%)	Impairment (decrease) increase	Company's share of result	Carrying amount
Geoterma UAB	2,142	23.44	(2,142)	-	-
Technologijų ir Inovacijų Centras UAB	1,287	20.00	-	116	1,403
Verslo Aptarnavimo Centras UAB	87	15.00	-	21	108
Total	**3,516**		**(2,142)**	**137**	**1,511**

In its stand-alone financial statements as at 31 December 2017, the Company accounted for investments into associates using the equity method. As at 31 December 2017, the equity of Geoterma UAB was negative, and therefore, the Company was not committed to cover this loss. Accordingly, its share was not accounted for. The guarantee issued by the Company to Geoterma UAB is described in more detail in Note 38.

Movements of the Company's investments in associates during the period ended 31 December 2017 and 2016:

	2017	2016
Carrying amount at 1 January	**1,511**	**1,374**
Disposal/liquidation of associates	-	-
Dividends of associates	(77)	
Share of financial performance result of associates – profit (loss)	101	137
Carrying amount at 31 December	**1,535**	**1,511**

(All amounts in EUR thousands unless otherwise stated)

7 Investments (continued)

Summarised statement of financial position of associates as at 31 December 2017 (unaudited) and 2016:

Summarised statement of financial position	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2017	2016	2017	2016	2017	2016
					N/A	
Current assets and liabilities						
Cash and cash equivalents	106	298	627	527		39
Other current assets	3,787	2,682	2,542	1,916		246
Total current assets	**3,893**	**2,980**	**3,169**	**2,443**		**285**
Borrowings	(2,409)	-	-	-		-
Other current liabilities	(2,952)	(3,221)	(2,240)	(1,788)		(3,353)
Total current financial liabilities	**(5,361)**	**(3,221)**	**(2,240)**	**(1,788)**		**(3,353)**
Non-current assets and liabilities						
Non-current assets	8,413	7,180	92	72		5,822
Grants and subsidies	-	-	-	-		(3,708)
Financial liabilities	-	-	-	-		-
Other non-current liabilities	(153)	(47)	-	-		(394)
Total non-current assets	**8,260**	**7,133**	**92**	**72**		**1,720**
Net assets	**6,792**	**6,892**	**1,021**	**727**		**(1,348)**

Summarised statement of comprehensive income of associates as at 31 December 2017 (unaudited) and 2016:

Summarised statement of comprehensive income	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2017	2016	2017	2016	2017	2016
					N/A	
Revenue	**14,317**	**14,499**	**11,209**	**9,724**		**1,228**
Depreciation and amortisation	(2,501)	(2,326)	(1)	-		(381)
Interest income	-	-	-	-		-
Interest expenses	(10)	(6)	-	-		(40)
Profit (loss) before tax	**339**	**311**	**543**	**315**		**(466)**
Income tax income/(expenses)	(155)	(95)	(115)	(52)		10
Net profit (loss)	**184**	**406**	**428**	**263**		**(456)**
Other comprehensive income	**-**	**-**	**-**	**-**		**-**
Total comprehensive income	**184**	**406**	**428**	**263**		**(456)**
Dividends received from associate	**57**	**40**	**20**	**-**		**-**

Summarised financial information of associates as at 31 December 2017 (unaudited) and 2016:

Summarised financial information	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2017	2016	2017	2016	2017	2016
					N/A	
Net assets at 1 January	**6,892**	**6,686**	**727**	**465**		**(892)**
Formation/ dissolution of share capital/reserves	(284)	(200)	(134)	-		-
Profit (loss) for the period	184	406	428	263		(456)
Other comprehensive income	-	-	-	-		-
Net assets at 31 December	**6,792**	**6,892**	**1,021**	**727**		**(1,348)**
Ownership interest, %	20.00%	20.00%	15.00%	15.00%	23.44%	23.44%
Investment in associate	1,358	1,378	152	109		(316)
Carrying amount	**1,358**	**1,378**	**152**	**109**	**-**	**-**

(All amounts in EUR thousands unless otherwise stated)

8 Other non-current assets

The Company's other non-current assets comprised as follows:

	At 31 December 2017	At 31 December 2016
Right to receive emission allowances in the future	9,702	9,702
Emission allowances refunded	(4,615)	(4,615)
Less: impairment	(1,851)	(2,467)
Carrying amount at 31 December	**3,236**	**2,620**

As at 31 December 2011, 400,000 units of emission allowances were lent under the provisions of the lending agreement signed with STX Services BV on 1 December 2009. The agreement is valid until 2021. On 16 April 2012, additional 650,000 units of emission allowances were lent under the provisions of the lending agreement signed with CF Partners (UK) LLP on 13 April 2012. On 7 April 2015, CF Partners (UK) LLP returned 650,000 units of emission allowances. There were no changes in 2017 and 2016.

As at 31 December 2017 and 2016, impairment of emission allowances was estimated with reference to the market prices of the emission allowances.

9 Inventories

The Company's inventories comprised as follows:

	At 31 December 2017	At 31 December 2016
Heavy fuel oil	4,585	5,025
Spare parts and other inventories	2,558	2,464
Biofuel	204	128
Goods for resale	297	298
Total	**7,644**	**7,915**
Less: write-down to net realisable value	(2,064)	(2,071)
Carrying amount	**5,580**	**5,844**

The cost of the Company's inventories stated at net realisable value as at 31 December 2017 amounted to EUR 2.594 thousand (31 December 2016: EUR 3,079 thousand).

Movements in inventory write-down during the periods ended 31 December 2017 and 2016 are shown in the table below:

	2017	2016
Inventory write-down at 1 January	2,071	2,074
Write-down of inventories during the reporting period	78	100
Reversal of inventory write-down	(85)	(103)
Inventory write-down at 31 December	**2,064**	**2,071**

The inventory write-down expenses and reversal of inventory write-down were included in operating expenses in the statement of comprehensive income. In 2017 and 2016, the Company made additional write-downs to net realisable value for obsolete and slow-moving spare parts stored at the warehouse. In 2017 and 2016, reversal of inventory write-down was recognised for inventories that were utilised and moved to emergency reserve. The reversal was included in operating expenses.

As at 31 December 2017 and 2016, there were no inventories pledged as collateral by the Company.

(All amounts in EUR thousands unless otherwise stated)

10 Trade receivables

The Company's trade receivables comprised as follows:

	At 31 December 2017	At 31 December 2016
Receivables for electricity	16,539	15,112
Receivables for sales of thermal energy	1,058	1,569
Other trade receivables	-	-
Total	**17,597**	**16,681**
Less: allowance for doubtful receivables	(381)	(350)
Carrying amount	**17,216**	**16,331**

As at 31 December 2017 and 2016, the fair value of trade receivables approximated their carrying amount. The fair value of trade receivables is attributed to Level 3 in the fair value hierarchy.

Movements in allowance for trade receivables during the periods ended 31 December 2017 and 2016 were as follows:

	At 31 December 2017	At 31 December 2016
Carrying amount at 1 January	**350**	**176**
Reversal of allowance for doubtful trade receivables	(50)	-
Recognised as doubtful receivables during the reporting period	81	174
Carrying amount at 31 December	**381**	**350**

The expenses of allowance for doubtful receivables was included in 'Other expenses' in the statement of comprehensive income.

The ageing analysis of the Company's trade receivables not past due or past due but not impaired is as follows:

	At 31 December 2017	At 31 December 2016
Not past due	16,974	15,463
Past due up to 30 days	-	27
Past due from 30 to 60 days	-	211
Past due from 60 to 90 days	-	-
Past due over 90 days	242	630
Carrying amount	**17,216**	**16,331**

The ageing analysis of the Company's impaired trade receivables is as follows:

	At 31 December 2017	At 31 December 2016
Not past due	-	-
Past due up to 30 days	-	-
Past due from 30 to 60 days	-	-
Past due from 60 to 90 days	-	-
Past due over 90 days	381	350
Carrying amount	**381**	**350**

As at 31 December 2017 and 2016, no trade receivables were pledged as collateral by the Company.

(All amounts in EUR thousands unless otherwise stated)

11 Other financial assets

The Company's other non-current financial assets comprised as follows:

	At 31 December 2017	At 31 December 2016
Receivables for disposal of shares and part of business	1,484	6,540
Receivables for emission allowances lent	103	157
Receivables for apartments	95	116
Accrued income related to capacity reserve services (Note 3)	-	246
Other receivables	691	841
Total	**2,373**	**7,900**
Less: allowance for doubtful receivables	(574)	(722)
Carrying amount at 31 December	**1,799**	**7,178**

As at 31 December 2017, receivables for emission allowances lent represented future proceeds under the lending agreement signed with STX BV and CF Partners (UK) LLP. As at 31 December 2017 and 2016, the fair value of other non-current amounts receivable approximated their carrying amount. The fair value of receivables for emission allowances lent is attributed to Level 3 in the fair value hierarchy.

The Company's other current financial assets comprised as follows:

	At 31 December 2017	At 31 December 2016
Other receivables	520	331
Receivables for disposal of shares and part of business	6,037	1,997
Accrued revenue relating to PSO and capacity reserve services (Note 3)	8,487	267
VAT receivable from the state budget	562	5,052
Receivable excise on heavy fuel	489	690
Total	**16,095**	**8,337**
Less: allowance for doubtful receivables	(338)	(221)
Carrying amount at 31 December	**15,757**	**8,116**

Disposal of subsidiaries and associates

On 27 April 2015, Lietuvos Energija UAB acquired 1,232,897 ordinary registered shares of NT Valdos UAB from the Company, representing 41.73% of the authorised share capital of NT Valdos UAB. The Agreement on Sale of Shares contained a clause that the Company would be paid a sale price premium by 31 March 2019 if certain financial covenants were met by NT Valdos UAB, namely a certain normalised EBITDA amount for 2018. As at 31 December 2016, the Company accounted for the sale price contingent element within 'Other financial assets' in its statement of financial position because based on management's estimate, the financial covenants set forth in the Agreement on Sale of Shares were achieved, i.e. discounted non-current amount receivable of EUR 3,864 thousand. As at 31 December 2017, the Company accounted for EUR 4,049 thousand within 'Other financial assets' under 'Current assets' in its statement of financial position.

As at 31 December 2016, based on management's estimate, impairment of EUR 3,773 thousand was formed in respect of sale price premium, including the fair value adjustment of sale price premium, because, in management's opinion, there was a risk that the maximum financial covenants set forth in the Agreement on Sale of Shares would not be achieved. When determining the normalised EBITDA amount for 2018, the Company took into account the actual results of operations of NT Valdos UAB for 2016, the plans for 2017 and the projected growth in Lithuania's GDP. Impairment was recognised within 'Other expenses' in the statement of comprehensive income. As at 31 December 2017, there were no changes in assessment assumptions and the Company did not recognise any fair value changes. The fair value of the financial assets is attributed to Level 3 in the fair value hierarchy ('Non-observable data').

On 5 February 2018, the Company's Board of Directors adopted a decision to make amendments to the agreement on sale of shares of NT Valdos UAB. Based on this decision, an arrangement was signed with Lietuvos Energija UAB on 8 February 2018, which stipulated the sale price premium of EUR 4,049 thousand that corresponded to the management's assumptions regarding the outstanding balance of the amount receivable for the sale of shares in the statement of financial position as at 31 December 2017.

Movements in allowance for doubtful other non-current amounts receivable during the periods ended 31 December 2017 and 2016 were as follows:

	2017	2016
Carrying amount at 1 January	722	895
Reversal of allowance	(148)	(173)
Carrying amount at 31 December	**574**	**722**

(All amounts in EUR thousands unless otherwise stated)

11 Other financial assets (continued)

Movements in allowance for doubtful other current amounts receivable during the periods ended 31 December 2017 and 2016 were as follows:

	2017	2016
Carrying amount at 1 January	221	213
Reversal of allowance	(2)	(2)
Recognised as doubtful receivables during the reporting period	119	10
Carrying amount at 31 December	**338**	**221**

The expenses of allowance for doubtful receivables was included in 'Other expenses' in the statement of comprehensive income.

The ageing analysis of the Company's other non-current amounts receivable not past due or past due but not impaired is as follows:

	2017	2016
Not past due	1,799	7,178
Past due up to 30 days	-	-
Past due from 30 to 60 days	-	-
Past due 60 to 90 days	-	-
Past due over 90 days	-	-
Carrying amount	**1,799**	**7,178**

The ageing analysis of the Company's other current amounts receivable not past due or past due but not impaired is as follows:

	2017	2016
Not past due	15,721	8,086
Past due up to 30 days	30	9
Past due from 30 to 60 days	3	1
Past due 60 to 90 days	3	2
Past due over 90 days	-	18
Carrying amount	**15,757**	**8,116**

As at 31 December 2017 and 2016, the fair value of other current amounts receivable approximated their carrying amount. The fair value of other current amounts receivable is attributed to Level 3 in fair value hierarchy.

The ageing analysis of the Company's other non-current amounts receivable impaired as at 31 December 2017 and 2016 is as follows:

	2017	2016
Not past due	-	-
Past due up to 30 days	-	-
Past due from 30 to 60 days	-	-
Past due 60 to 90 days	-	-
Past due over 90 days	574	722
Carrying amount	**574**	**722**

The ageing analysis of the Company's other current amounts receivable impaired as at 31 December 2017 and 2016 is as follows:

	2017	2016
Not past due	-	-
Past due up to 30 days	-	-
Past due from 30 to 60 days	-	-
Past due 60 to 90 days	-	-
Past due over 90 days	338	221
Carrying amount	**338**	**221**

(All amounts in EUR thousands unless otherwise stated)

12 Loans granted

	2017	2016
Loans granted to related companies (cash pool)	14,930	18,098
Carrying amount	**14,930**	**18,098**

On 27 April 2016, the Company entered into cash pool agreement, under which the Company granted short-term loans to Lietuvos Energija UAB group companies. These loans are subject to market interest rate, and they are valid until 26 April 2017, and provide for the possibility to extend them twice upon expiry of 12 months each.

13 Cash and cash equivalents

The Company's cash and cash equivalents comprised as follows:

	At 31 December 2017	At 31 December 2016
Cash at bank and in hand	60,700	99,045
Carrying amount	**60,700**	**99,045**

The fair values of the Company's cash approximate the carrying amount.

Based on the loan agreement signed with Luminor Bank AB, the Company pledged current cash balances and future inflows to bank accounts opened with this bank. As at 31 December 2017, the balance of pledged cash amounted to EUR 12,505 thousand (31 December 2016: EUR 34 thousand).

14 Share capital and share premium

As at 31 December 2017, the Company's share capital amounted to EUR 184,174,248.35 and it was divided into 635,083,615 ordinary registered shares with the nominal value of EUR 0.29 each.

Lietuvos Energija UAB owned 614,453,755 shares of the Company as at 31 December 2017.

The shareholders' structure of the Company as at 31 December 2017 and 2016 was as follows:

	Share capital At 31 December 2017		Share capital At 31 December 2016	
Shareholders	**(EUR)**	**%**	**(EUR)**	**%**
Lietuvos Energija UAB	178,191,588.95	96.75	178,191,588.95	96.75
Other shareholders	5,982,659.40	3.25	5,982,659.40	3.25
Total	**184,174,248.35**	**100.00**	**184,174,248.35**	**100.00**

Lietuvos Energija UAB is wholly owned (100%) by the State of Lithuania represented by the Lithuanian Ministry of Finance.

	Share capital		Share premium	
	(shares)	**(shares)**	**(EUR)**	**(EUR)**
	2017	**2016**	**2017**	**2016**
Number of shares at the beginning of the period	635,083,615	635,083,615	85,660,132	85,660,132
Number of shares at the end of the period	635,083,615	635,083,615	85,660,132	85,660,132

(All amounts in EUR thousands unless otherwise stated)

15 Revaluation reserve

The revaluation reserve comprised the surplus (excess) value of property, plant and equipment resulting from revaluation of assets.

Movements in the Company's revaluation reserve as at 31 December 2017 and 2016 were as follows:

	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 31 December 2015	**1,250**	**(187)**	**1,063**
Depreciation of revaluation reserve	(35)	5	(30)
Balance at 31 December 2016	**1,215**	**(182)**	**1,033**
Balance at 31 December 2016	**1,215**	**(182)**	**1,033**
Depreciation of revaluation reserve	(34)	5	(29)
Revaluation of emission allowances	1,512	(227)	1,285
Balance at 31 December 2017	**2,693**	**(404)**	**2,289**

16 Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5% of net profit are required until the reserve reaches 10% of the share capital.

As at 31 December 2017, the Company's legal reserve amounted to EUR 12,871 thousand (31 December 2016: EUR 10,872 thousand).

17 Dividends per share

On 27 December 2016, the Board of Lietuvos Energija UAB (holding 96.75% of the Company's shares) approved the dividend policy for the whole Lietuvos Energija UAB group, which sets uniform principles for appropriation of net profit for all the group companies. Based on the newly approved policy, the Company's proposed distribution of dividends depends on the Company's return on equity ratio, availability of financial resources for payment of dividends, implementation of economic projects important for the State and other circumstances.

On 24 March 2017, during the Ordinary Shareholders' Meeting of Lietuvos Energijos Gamyba AB, a decision was made to pay out dividends of EUR 0.020 per share for the period July-December 2016. On 29 September 2017, during the Extraordinary Shareholders' Meeting of Lietuvos Energijos Gamyba AB, a decision was made to pay out dividends of EUR 0.017 per share for the period January-June 2017.

	2017
Dividends (EUR'000)	23,498
Weighted average number of shares (units)	635,083,615
Dividends per share (EUR)	**0.037**

On 26 September 2016, during the Extraordinary Shareholders' Meeting of Lietuvos Energijos Gamyba AB, a decision was made to pay out dividends of EUR 0.043 per share for the period January-June 2016 from retained earnings.

	2016
Dividends (EUR'000)	27,309
Weighted average number of shares (units)	635,083,615
Dividends per share (EUR)	**0.043**

(All amounts in EUR thousands unless otherwise stated)

18 Borrowings

The Company's borrowings by maturity:

	At 31 December 2017	At 31 December 2016
Non-current borrowings		
Loan from Luminor Bank AB, EUR, to be repaid by 31 March 2027	10,114	11,340
Loan from SEB Bankas AB, in EUR, to be repaid by 23 February 2024	23,926	99,911
Total non-current borrowings	**34,039**	**111,251**
Current borrowings and current portion of non-current borrowings		
Loan from Luminor Bank AB, EUR, to be repaid by 31 March 2027	1,226	1,226
Loan from SEB Bankas AB, in EUR, to be repaid by 23 February 2024	19,982	19,982
Total current borrowings and current portion of non-current borrowings	**21,208**	**21,208**

On 21 February 2014 the Company concluded a loan agreement with SEB Bankas AB for maximum amount of EUR 158,000 thousand. The purpose of this agreement was to refinance three loans under the credit agreements with the banks operating in Lithuania and the European Bank for Reconstruction and Development. The loan is to be repaid by 23 February 2024. The Company made an early repayment of part of loan to SEB Bankas AB and signed a new credit agreement with the SEB Bankas AB on 5 July 2017 for the amount of EUR 60,000 thousand. The purpose of this agreement is in 2018 to refinance a long-term loan from SEB Bankas AB, under which, without making the rest of terms and conditions less favourable, the repayment term was extended and part of property, plant and equipment (CCU, Units 7 and 8 of the Reserve Power Plant) was released from pledge as collateral to secure the repayment of loan.

On 26 June 2013, the Company concluded a loan agreement with Nordea Bank AB Lithuania Branch (currently Luminor Bank AB) for the amount of EUR 25,000 thousand. The loan is to be repaid by 31 March 2027.

As at 31 December 2017, the Company had borrowings not withdrawn under a new credit agreement that was signed with SEB Bankas AB on 5 July 2017 (as at 31 December 2016 – none). The average interest rate payable on the Company's borrowings was 1.37% in 2017 (2016: 1.25%).

To secure the repayment of loans, in 2017 and 2016 the Company pledged its property, plant and equipment, cash balances and future inflows to bank accounts (Notes 6,13).

As at 31 December 2017, the fair value of the Company's borrowings was approx. EUR 50,064 thousand (31 December 2016: the fair value of the Company's borrowings was approx.. EUR 127,743 thousand). The fair value was estimated using 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 table below presents data on the Company's borrowings by interest rate repricing intervals:

	At 31 December 2017	At 31 December 2016
Every 1 to 3 months	43,908	119,893
Every 3 to 6 months	11,340	12,566
Total borrowings	**55,247**	**132,459**

19 Finance lease liabilities

The Company's future finance lease payments for equipment and other assets comprise as follows:

	At 31 December 2017		At 31 December 2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Finance lease payments:				
No later than 1 year	148	138	148	138
Later than 1 year an no later than 5 years	184	172	332	310
Minimum finance lease payments			**480**	**448**
Less: future finance charges	(22)	-	(32)	-
Present value of minimum finance lease payments	**310**	**310**	**448**	**448**

The Company's finance lease liabilities are secured by the lessor's right into the lessee's assets acquired under finance lease.

The fair value of the finance lease liabilities approximated their carrying amount.

(All amounts in EUR thousands unless otherwise stated)

20 Grants

The balance of grants includes grants received to finance the acquisition of assets. Movements on grants account during 2017 and 2016 were as follows:

	Assets-related grants			
	Fuel combustion equipment and other assets	Project for renovation, improvement of environmental and safety standards	Grants for emission allowances	Total
Balance at 1 January 2016	**28,044**	**252,268**	**31**	**280,343**
Depreciation of property, plant and equipment	(636)	(10,425)	-	(11,061)
Grants received	-	-	1,733	1,733
Utilisation of grant for emission allowances	-	-	(1,257)	(1,257)
Balance at 31 December 2016	**27,408**	**241,843**	**507**	**269,758**
Balance at 1 January 2017	**27,408**	**241,843**	**507**	**269,758**
Depreciation of property, plant and equipment	(628)	(19,149)	-	(19,777)
Grants received	-	74	1,128	1,202
Reversal of grants on recognition of impairment of PP&E (Note 3)	-	(72,872)	-	(72,872)
Utilisation of grant for emission allowances	-	-	(436)	(436)
Balance at 31 December 2017	**26,780**	**149,896**	**1,199**	**177,875**

In 2017, assets-related grants decreased by EUR 19,777 thousand due to depreciation of property, plant and equipment (2016: EUR 11,061 thousand). Depreciation expenses of property, plant and equipment were reduced by this amount in the statement of comprehensive income.

In 2017, the Company received emission allowances on a gratuitous basis in amount of EUR 1,128 thousand (31 December 2016: EUR 1,733 thousand (Note 2.6).

In 2017, a grant of EUR 74 thousand was received for property, plant and equipment.

21 Other non-current amounts payable and liabilities

The Company's other non-current amounts payable comprised as follows:

	At 31 December 2017	At 31 December 2016
PSO service fees received in advance (deferred income) (Note 3)	5,494	9,219
Non-current payables for material valuables	723	813
Provisions for pension benefits and indemnification for damages	487	448
Total	**6,704**	**10,480**

Provisions for pension benefits represent amounts payable calculated in accordance with the Lithuanian laws. Each employee terminating the employment at retirement age is entitled to receive a payment of two monthly salaries upon retirement.

The current portion of PSO service fees received in advance was included in advance amounts received, however, there was no amount due to be refunded in 2018. As described in Note 3, in 2019 the Company expects to refund EUR 5,545 thousand from PSO service fees received in advance, the discounted value of which represents EUR 5,494 thousand.

The fair values of other non-current amounts payable and liabilities approximate their carrying amounts.

(All amounts in EUR thousands unless otherwise stated)

22 Current income tax and deferred income tax

Income tax expense as at 31 December 2017 and 2016 comprised as follows:

	At 31 December 2017	At 31 December 2016
Income tax expense components		
Current income tax	3,381	1,786
Adjustment to previous year income tax	(725)	-
Deferred income tax (income)/expense	(7,480)	6,569
Adjustment to previous year deferred income tax	(2)	
Current income tax (income) / expenses	**(4,826)**	**8,355**

Movements in deferred income tax assets and liabilities during the reporting period were as follows:

Deferred income tax assets	PP&E revaluation/deemed cost (decrease in value)	Accumulated tax losses	Accrued expenses	Deferred income	Impairment of assets	Revaluation of emission allowances	Total
At 31 December 2015	**38,017**	**984**	**136**	**3,694**	**33**	**1,407**	**44,271**
Recognised in the statement of comprehensive income	(2,056)	(984)	(14)	(2,311)	-	192	(5,173)
At 31 December 2016	**35,961**	**-**	**122**	**1,383**	**33**	**1,599**	**39,098**
At 31 December 2016	**35,961**	**-**	**122**	**1,383**	**33**	**1,599**	**39,098**
Recognised in the statement of comprehensive income	(1,883)	-	330	1,527	4,664	(202)	4,436
At 31 December 2017	**34,078**	**-**	**452**	**2,910**	**4,697**	**1,397**	**43,534**

Deferred income tax liabilities	PP&E revaluation/deemed cost (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Revaluation of emission allowances	Total
At 31 December 2015	**(46,374)**	**(13,143)**	**(2,916)**	**-**	**(62,433)**
Recognised in the statement of comprehensive income	2,715	(4,231)	120	-	(1,396)
At 31 December 2016	**(43,659)**	**(17,374)**	**(2,796)**	**-**	**(63,829)**
At 31 December 2016	**(43,659)**	**(17,374)**	**(2,796)**	**-**	**(63,829)**
Recognised in the statement of comprehensive income	3,670	(1,180)	556	-	3,046
Recognised in other comprehensive income	-	-	-	(227)	(227)
At 31 December 2017	**(39,989)**	**(18,554)**	**(2,240)**	**(227)**	**(61,009)**
Net deferred income tax at 31 December 2015		**(18,162)**			
Net deferred income tax at 31 December 2016		**(24,731)**			
Net deferred income tax at 31 December 2017		**(17,475)**			

(All amounts in EUR thousands unless otherwise stated)

22 Current income tax and deferred income tax (continued)

Deferred income tax assets and deferred income tax liabilities were offset in the Company's statement of financial position as they relate to the same fiscal authority.

Deferred income tax recognised in the statement of financial position as at 31 December 2017 and 2016 comprised as follows:

	At 31 December 2017	At 31 December 2016
Deferred income tax assets	-	-
Deferred income tax liabilities	17,475	24,731
Net deferred income tax liability	**17,475**	**24,731**

When calculating deferred income tax as at 31 December 2017 and 2016, income tax rate of 15% was used. The Company's deferred income tax to be realised within 12 months amounted to EUR 3,000 thousand.

As at 31 December 2017, the Company had no accumulated unrealised tax losses.

Income tax expense reported in the statement of comprehensive income relating to the result of operations during the current reporting period may be reconciled to income tax expense that would arise using the statutory income tax rate applicable to profit before income tax:

	At 31 December 2017	At 31 December 2016
Profit before income tax	15,695	48,330
Income tax at a tax rate of 15%	2,354	7,250
Adjustment to previous year income tax	(727)	-
Investment relief	(3,381)	(997)
Reversal of previous year deferred income tax on write-off of units 5 and 6	(1,581)	-
Tax effects of (non)deductible expenses/ (non)taxable income	(1,491)	2,102
Income tax	**(4,826)**	**8,355**

23 Trade payables

The Company's trade payables comprised as follows:

	At 31 December 2017	At 31 December 2016
Payables for electricity and related services	12,975	13,937
Payables for contractual works, other services	1,022	1,154
Payables for gas and heavy fuel oil	2,703	4,628
Payables for material valuables	205	185
Payables for property, plant and equipment	475	459
Total	**17,380**	**20,364**

The fair values of trade payables approximated their carrying amounts.

24 Advance amounts received

The Company's advance amounts received comprised as follows:

	At 31 December 2017	At 31 December 2016
PSO service fees received in advance (deferred income)	-	177
Other advance amounts received	1,135	1,107
Total	**1,135**	**1,284**

(All amounts in EUR thousands unless otherwise stated)

25 Provisions for emission allowances

Movements in current year portion of provisions for emission allowances as at 31 December 2017 and 2016 were as follows:

Balance at 31 December 2015	**3,735**
Emission allowances utilised (Note 5)	(2,999)
Revaluation	(736)
Provisions for emissions	1,316
Balance at 31 December 2016	**1,316**
Balance at 31 December 2016	**1,316**
Emission allowances utilised (Note 5)	(932)
Revaluation	(384)
Provisions for emissions	528
Balance at 31 December 2017	**528**

For the purpose of the statement of comprehensive income, expenses of provision for emission allowances utilised were reported net of government grants (Note 20).

26 Other amounts payable and liabilities

The Company's other amounts payable comprised as follows:

	At 31 December 2017	At 31 December 2016
Dividends payable	777	1.050
Other payables and current liabilities	322	475
Vacation reserve	595	538
Employment-related liabilities	605	503
Taxes payable	467	458
Accrued expenses from purchases of electricity	111	1
Carrying amount	**2,877**	**3,025**

The fair values of other amounts payable approximated their carrying amounts.

27 Sales revenue

The Company's sales revenue consists of revenue from sale of electricity and related services. Sales revenue for the periods ended 31 December is presented below:

	At 31 December 2017	At 31 December 2016
Revenue from sale of electricity in domestic market	103,033	106,495
Whereof: PSO revenue	*47,123*	*36,275*
Revenue from capacity reserve services	40,449	41,200
Revenue from sale of thermal energy	3,717	4,063
Total	**147,199**	**151,758**

(All amounts in EUR thousands unless otherwise stated)

28 Segment reporting

In 2017, the management distinguished its operating segments based on the reports reviewed by the Board. The Board is the principal decision-making body on the Company level. With effect from 2012, the Board started analysing the operations in terms of profitability of the regulated and commercial activities of the Company. Adjusted EBITDA is a profitability measure analysed by the Board. When calculating this EBITDA indicator, as compared to EBITDA indicator disclosed in the Company's annual report, additional elimination of management's adjustments is made. The reports analysed by the Board are in line with the financial statements prepared in accordance with IFRSs, except for the format of presentation. In 2017, the changes were made in the segment reporting in view of how the Board analysed the Company's operations, i.e. operating profit was replaced with adjusted EBITDA. The comparative information was adjusted accordingly.

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

Information on the Company's segments for the year ended 31 December 2017 is presented in the table below:

2017	Regulated activities	Commercial activities	Total
Total revenue of segments	**97,180**	**52,635**	**149,815**
Adjusted EBITDA	**32,971**	**20,763**	**53,734**
Management's adjustments	**16,805**	**-**	**16,805**
Due to effects of regulation of earnings from commercial activities[1]	5,438	-	5,438
Due to effects of restatement of one-off revenue from regulated activities for the previous periods[2]	11,367	-	11,367
Other adjustments	**(49,266)**	**(5,037)**	**(54,303)**
Depreciation and amortisation expenses of non-current assets	(20,177)	(4,779)	(24,956)
Impairment of non-current and other assets (increase in value)	(31,385)	(1,046)	(32,431)
Write-offs of non-current assets	-	(11)	(11)
Revaluation of emission allowances and provisions thereon	2,296	-	2,296
Disposal of shares, part of business	-	799	799
Operating profit	**510**	**15,726**	**16,236**
Finance income			244
Finance (costs)			(886)
Share of result of associates			101
Profit before tax			**15,695**

Information on the Company's segments for the year ended 31 December 2016 is presented in the table below:

2016	Regulated activities	Commercial activities	Total
Total revenue of segments	**102,967**	**69,955**	**172,922**
Adjusted EBITDA	**41,145**	**22,506**	**63,651**
Management's adjustments	**(5,598)**	**-**	**(5,598)**
Due to effects of regulation of earnings from commercial activities[1]	(1,876)	-	(1,876)
Due to effects of restatement of one-off revenue from regulated activities for the previous periods[2]	(3,722)	-	(3,722)
Other adjustments	**(19,279)**	**10,256**	**(9,023)**
Depreciation and amortisation expenses of non-current assets	(15,434)	(5,118)	(20,552)
Impairment of non-current and other assets (increase in value)	(567)	(6)	(573)
Write-offs of non-current assets	-	(1)	(1)
Revaluation of emission allowances and provisions thereon	(3,278)	-	(3,278)
Disposal of shares, part of business	-	15,381	15,381
Operating profit	**16,268**	**32,762**	**49,030**
Finance income			656
Finance (costs)			(1,493)
Share of result of associates			137
Profit before tax			**48,330**

[1] In 2014 the NCC adopted a resolution under which the Company was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Company's hydroelectric plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Company. On 17 October 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of the NCC was repealed. Despite the court judgement, the NCC has not decided yet about the compensation of PSO funds not paid to the Company in 2016. As a result, the amount deducted from the PSO funds and accounted for by the Company in 2016 was equal to EUR 1.9 million. Meanwhile, at the end of 2017, as part of implementation of the court judgement, the NCC allocated to the Company EUR 5.4 million of PSO funds for the year 2018, which will

(All amounts in EUR thousands unless otherwise stated)

compensate the Company's revenue not received in 2015. This amount was recognised as revenue in the Company's financial statements for 2017. The adjustments were intended to reflect the Company's normalised performance results for the current year.

[2] In 2014, the NCC 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 3,7 million. In 2017 the NCC 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, the Company recognised revenue of EUR 11.4 million 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.

As at 31 December 2017 and 2016, all major items of revenue of the Company (including other operating income) were treated as earned inside Lithuania. Sales of electricity via the Lithuanian bidding area on Nord Pool Spot power exchange were not treated as revenue earned from outside Lithuania, since the end user of electricity sold on the power exchange was unknown.

All assets of the Company are located in Lithuania.

Revenue from customers accounting for 10% or more of the Company's total revenue:

	2017	2016
Baltpool UAB	34,308	25,146
Litgrid AB	43,209	41,932
Total	**77,517**	**67,078**

29 Other operating income

As at 31 December 2017 and 2016, the Company's other operating income comprised as follows:

	At 31 December 2017	At 31 December 2016
Disposal of part of business (Note 3)	799	19.773
Sale of metal scrap	1.217	1.003
Gain on disposal of property, plant and equipment	93	28
Disciplinary measures	67	45
Other income	440	315
Total	**2.616**	**21.164**

30 Finance income

As at 31 December 2017 and 2016, the Company's finance income comprised as follows:

	At 31 December 2017	At 31 December 2016
Dividends	-	40
Other income	90	405
Interest income	154	204
Foreign exchange positive effect	-	7
Total finance income	**244**	**656**

31 Finance costs

As at 31 December 2016 and 2015, the Company's finance costs comprised as follows:

	At 31 December 2017	At 31 December 2016
Interest expenses	(874)	(1,479)
Foreign exchange negative effect and other expenses	-	(2)
Other finance costs	(12)	(12)
Total finance costs	**(886)**	**(1,493)**

(All amounts in EUR thousands unless otherwise stated)

32 Related-party transactions

The Company's transactions with related parties during the year ended 31 December 2017 and year-end balances arising on these transactions are presented below:

Related party	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Loans granted	Purchases	Sales
Associates of the Company	85	-	402	1,021	13
Lietuvos Energija UAB group companies	1,129	3,491	14,528	10,107	1,005
Parent company of Lietuvos Energija UAB	1,135	3,963	-	444	230
EPSO-G group companies controlled by the State	3,070	15,968	-	31,477	135,089
Total	**5,419**	**23,422**	**14,930**	**43,049**	**136,337**

The Company fulfils the functions of a designated undertaking, i.e. the Company purchased all electricity projected to be generated at the wind power plants and sold it on the power exchange. In the above tables of transactions with related parties, the purchases (amounting to EUR 5,258 thousand for the year ended 31 December 2017) and sales (amounting to EUR 54,264 thousand for the year ended 31 December 2017) of electricity generated at the wind power plants cover the total amount of transactions in the Company's sales revenue.

The Company's transactions with related parties during the year ended 31 December 2016 and year-end balances arising on these transactions are presented below:

Related party	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Loans granted	Purchases	Sales
Associates of the Company	116	11	-	840	20
Lietuvos Energija UAB group companies	2,051	4,808	4,773	20,055	19,891
Parent company of Lietuvos Energija UAB	1,099	3,877	13,325	4,611	352
EPSO-G group companies controlled by the State	627	14,348	-	2,862	109,042
Total	**3,893**	**23,044**	**18,098**	**28,368**	**129,305**

The major sale transactions during the years ended 31 December 2017 and 2016 comprised transactions with LITGRID AB and BALTPOOL UAB. Transactions with entities other than those controlled by the Ministry of Finance of the Republic of Lithuania comprised transactions in the ordinary course of business, and accordingly, they were not disclosed.

There were no guarantees or pledges given or received in respect of the related-party payables and receivables, except for guarantees to associate as disclosed in Note 38. Related-party payables and receivables are expected to be settled in cash or netted against payables/receivables to/from a respective related party.

Compensation to key management personnel:

	2017	2016
Employment-related payments	218	195
Termination benefits	-	-
Other significant payments to key management personnel	48	49

In 2017 and 2016, key management personnel included the chief executive officer and the directors of departments (including the acting directors of departments).

33 Employee benefits and related social security contributions

	2017	2016
Wages and salaries	5,943	5,649
Termination benefits	166	23
Social security contributions	1,897	1,755
Change in accrued vacation reserve	79	29
Change in social security contributions on accrued vacation reserve	26	10
Total	**8,111**	**7,466**

(All amounts in EUR thousands unless otherwise stated)

34 Other expenses

	2017	2016
Expenses of disposal of shares and part of business	-	4,392
Other	2,185	1,857
Operation taxes	1,920	1,817
Expenses of security	642	786
Business support and management services	883	517
Insurance	242	338
Lease	163	179
Sponsorship, charity	156	123
Audit	77	34
(Increase in value) impairment of amounts receivable	1	9
Total	**6,269**	**10,052**

Services provided by the audit firm to the Company comprised as follows:

	2017
Audit of financial statements under the contracts	30
Assurance and other related services	2
Other services	2
Total	**34**

35 Basic and diluted earnings per share (EUR)

Basic and diluted earnings per share in 2017 and 2016 were as follows:

	2017	2016
Net profit attributable to the owners	20,521	39,975
Weighted average number of shares (units)	635,083,615	635,083,615
Basic and diluted earnings/(loss) per share (in EUR)	**0.032**	**0.063**

36 Offsetting financial assets and financial liabilities

As at 31 December 2017 and 2016, the Company had no offset financial assets and financial liabilities.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements mentioned above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Per the terms of each agreement, an event of default includes: failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party; or bankruptcy.

37 Net debt reconciliation

This note contains net debt analysis and changes in net debt during the respective reporting periods.

Net debt balances as at 31 December 2017 and 2016 were as follows:

	2017	2016
Cash and cash equivalents	(60,700)	(99,045)
Liquid investments	(14,930)	(18,098)
Financial debts payable within one year (including overdraft)	34,211	111,561
Financial debts payable after one year	21,346	21,346
Net debt	**(20,073)**	**15,764**
Cash and liquid investments	(75,630)	(117,143)
Financial debts with variable interest rate	55,557	132,907
Net debt	**(20,073)**	**15,764**

(All amounts in EUR thousands unless otherwise stated)

37 Net debt reconciliation (continued)

For the purpose of calculation of net debt, the financial debts in the table above include only debts to financial institutions and other debts related to financing.

There is no definition of net debt in the accounting standards, because no unanimous decision has been reached in terms of its definition and in terms of what should/shouldn't be included in the calculation of net debt as the issuer of the standards considered the amendments to IAS 7.

Reconciliation between net debt balances and cash flows from financing activities for 2017 and 2016:

	Other assets		Financial liabilities					
	Cash / Overdraft	Liquid investments *	Finance lease, current portion	Finance lease, non-current portion	Current borrowings	Non-current borrowings, current portion of	Non-current borrowings, non-current portion	Total
Net debt at 1 January 2016	**(66,176)**	**-**	**138**	**448**	**-**	**17,212**	**128,462**	**80,084**
Cash flows	(32,869)	(18,098)	-	(138)	-	-	(13,215)	(64,320)
Other non-monetary changes	-	-	-	-	-	3,996	(3,996)	-
Net debt at 31 December 2016	**(99,045)**	**(18,098)**	**138**	**310**	**-**	**21,208**	**111,251**	**15,764**
Cash flows	38,345	3,168	-	(138)	-	-	(77,212)	(35,837)
Net debt at 31 December 2017	**(60,700)**	**(14,930)**	**138**	**172**	**-**	**21,208**	**34,039**	**(20,073)**

* Liquid investments are financial assets that are accounted for as loans at amortised cost. Cash flows from them are classified under investing activities.

As from 1 January 2017, there is a requirement to explain the changes in financial liabilities, the cash flows from which were or will be classified as cash flows from financial activities in the statement of cash flows. The disclosure above contains more information than that required under IAS 7, because it includes asset, which is treated by the Company as part of net debt.

Comparative information does not necessarily has to be disclosed in the first-year presentation of disclosures. Since the Company seeks to provide the users of the financial statements with detailed and complete information about the net debt and reconciliation of changes in net debt to cash flows, the reconciliation of cash flows from financing activities and changes in net debt for the year 2016 has been also disclosed in these financial statements.

38 Off-balance sheet commitments and contingencies

Guarantees issued and received

On 28 February 2013, the Company signed a guarantee agreement with Swedbank for the total amount of EUR 30 thousand to secure the fulfilment of the Company's obligations in relation to payments to Nord Pool Spot AS. As at 31 December 2017, the guarantee amount was equal to EUR 30 thousand (31 December 2016: EUR 30 thousand).

On 10 June 2013, the Company signed a guarantee agreement with Swedbank to secure the fulfilment of the Company's obligations in relation to payments to Nord Pool Spot AS. As at 31 December 2017, the effective guarantee amount was equal to EUR 2,900 thousand (31 December 2016: EUR 2,900 thousand).

The Company had issued a guarantee for Kauno Energetikos Remontas UAB to Luminor Bank AB to secure an irrevocable and unconditional payment of EUR 1,883 thousand upon first written demand. The Company had issued a guarantee to the Bank for proper fulfilment of obligations by Kauno Energetikos Remontas UAB under credit agreement No KS 12/12/01 signed between the Bank and Kauno Energetikos Remontas UAB on 4 December 2012. The credit agreement expires on 31 January 2018. With effect from 1 January 2016, Kauno Energetikos Remontas UAB was reorganised by way of merger into Energetikos Paslaugų ir Rangos Organizacija UAB. As at 31 December 2017, the guarantee amount was equal to EUR 1,419 thousand.

On 3 December 2014, the Company signed a guarantee agreement with Swedbank AB under which the Company issued a guarantee to secure the fulfilment of obligations of Geoterma UAB under the credit agreement signed between the bank and Geoterma UAB. Upon expiry of the guarantee term, in April 2017 the Company paid to the bank EUR 109 thousand for failure to fulfil the obligations by Geoterma UAB. The Company reported this amount as receivable and recognised an impairment loss.

On 6 October 2016, Luminor Bank AB signed an agreement on issuance of bank guarantee to the Company in amount of EUR 1.1 million, with maximum amount of EUR 2 million. The guarantee beneficiary is General Electric International Inc., the guarantee expires on 15 January 2019, and the guarantee amount as at 31 December 2017 was equal to EUR 1.1 million.

As at 31 December 2017, no other guarantees were received by the Company from other entities.

(All amounts in EUR thousands unless otherwise stated)

38 Off-balance sheet commitments and contingencies (continued)

Legal disputes

Lietuvos Energijos Gamyba AB (hereinafter "the Company") filed a complaint to Vilnius Regional Administrative Court in respect of Resolution No O3-852 of 17 October 2014 of the National Control Commission for Prices and Energy (hereinafter "the NCC") *On determining the cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2015,* and in respect of the NCC's Resolution No O3-866 of 30 October 2014 *On determining the buy-up prices for the year 2015 for electricity produced at the Lithuanian Power Plant of Lietuvos Energijos Gamyba AB*. By these Resolutions, the NCC implements its Resolution of 30 September 2014 *On the scheduled audit of Lietuvos Energijos Gamyba AB*. In the Company's opinion, the estimates of return on investments given in the Resolutions are inaccurate and incorrect. On 15 June 2017, Vilnius Regional Administrative Court dismissed the Company's complaint. On 17 July 2017, Lietuvos Energijos Gamyba AB appealed to the Supreme Administrative Court of Lithuania. The hearing of the appeal has not been scheduled yet at the Supreme Administrative Court of Lithuania.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court with request to repeal the provisions of the NCC's Resolution No O3-939 of 19 December 2014 *Regarding the amendment to the NCC's Resolution No O3-866 of 30 October 2014 On determining the buy-up prices for the year 2015 for electricity produced at the Lithuanian Power Plant of Lietuvos Energijos Gamyba AB.* The court proceedings have been suspended until the issue of a definitive judgement in the case, whereby Lietuvos Energijos Gamyba AB disputed paragraphs 1, 2, 3 and 5 of the NCC's Resolution No O3-852 of 17 October 2017 and paragraph 1 of the NCC's Resolution No O3-866 of 30 October 2014 (the administrative case described above).

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-875 of 30 October 2014 *On recalculation of the price components for heat production at the Lithuanian Power Plant of Lietuvos Energijos Gamyba AB*. By this Resolution, the NCC declared the Company as being not compliant with the requirements for estimation of return on investments set forth in the Methodology for Determining Prices of Heat, and obliged the Company to eliminate the alleged infringement. In the Company's opinion, the Resolution is unjustified. The NCC's estimates of return on investments are inaccurate and contravene the legal acts. In addition, Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-934 of 11 December 2014 *On unilateral establishment of the price components for heat production at the Lithuanian Power Plant of Lietuvos Energijos Gamyba AB*. By this Resolution, the NCC implemented the NCC's Resolution No O3-875 of 30 October 2014 *On recalculation of the price components for heat production at the Lithuanian Power Plant of Lietuvos Energijos Gamyba AB.* Accordingly, these two disputes were combined into one case at Vilnius Regional Administrative Court, in respect of which on 17 November 2015 Vilnius Regional Administrative Court passed a decision not in favour of the Company. In disagreement with such decision of the Court, the Company appealed to the Supreme Administrative Court of Lithuania regarding the decision of 17 November 2015 of Vilnius Regional Administrative Court. On 7 March 2017, the Supreme Administrative Court of Lithuania dismissed the Company's appeal.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court with request to repeal the provisions of the NCC's Resolution No O3-562 of 22 October 2015 *On determining the cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2016* and NCC's Resolution No O3-579 of 30 October 2015 *On determining the PSO service fees and price for the year 2016.* The Company finds the Resolutions of the NCC as unjustified and unlawful as they relate to and are intended to implement other Resolutions of the NCC that had already been appealed against by the Company. On 2 June 2017, Vilnius Regional Administrative Court dismissed the Company's complaint of 23 November 2015. On 3 July 2017, the Company appealed to the Supreme Administrative Court of Lithuania. The hearing of the appeal has not been scheduled yet at the Supreme Administrative Court of Lithuania.

On 29 December 2016, Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court with request to repeal paragraph 1 of the NCC's Resolution No. O3-391 of 29 November 2016 *On determining the cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2017*. In the Company's opinion, application of a proportionate cost allocation approach in respect of assuring secondary capacity reserve services is unjustified. On 19 April 2017, Vinius Regional Administrative Court dismissed the Company's complaint. On 18 May 2017, the Company appealed to the Supreme Administrative Court of Lithuania. The hearing of the appeal has not been scheduled yet at the Supreme Administrative Court of Lithuania.

On 17 July 2017, Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-265 of 16 June 2017 *On the approval of the unscheduled audit statement of Lietuvos Energijos Gamyba AB* and with request to repeal Lietuvos Energijos Gamyba AB unscheduled audit statement No E3-1 of 5 May 2017 2017. On 7 December 2017, Vilnius Regional Administrative Court dismissed the Company's complaint. On 5 January 2018, the Company appealed to the Supreme Administrative Court of Lithuania. The hearing of the appeal has not been scheduled yet at the Supreme Administrative Court of Lithuania.

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.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court (a revised complaint was filed on 22 January 2018) with request to repeal the NCC's Resolution No O3E-559 of 30 November 2017 *On determining the cap prices for electricity capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2018,* the NCC's Resolution No O3E-598 of 20 December 2017 amending Resolution No O3E-559, and the NCC's Resolution No O3E-599 *On amendment to determining the PSO service fees and prices for the year 2018.* In the Company's opinion, the NCC's Resolution No O3E-559 of 30 November 2017 and Resolution No O3E-598 of 20 December 2017 amending Resolution O3E-559 of 30 November 2017 could not have been adopted, i.e. could not have been adopted on the basis of the NCC's Resolution No O3-274 of 28 September 2012 *On the results of survey of electricity capacity reserve market*, the validity of which had been disputed in another administrative case, as well as on the basis of the NCC's Resolutions disputed by the Company in its revised complaint, whereby, in the Company's opinion, the application of a proportionate cost allocation approach in determining the cap prices for assuring the secondary emergency active capacity reserve services and the tertiary active capacity reserve services, and in calculating the PSO service fees was unjustified. The Company's complaint was accepted, the hearing has not been scheduled yet.

(All amounts in EUR thousands unless otherwise stated)

38 Off-balance sheet commitments and contingencies (continued)

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court with request to repeal paragraphs 3.1 and 3.2 of the NCC's Resolution No O3-72 of 10 March 2017 *On infringement by Lietuvos Energijos Gamyba AB when carrying out the activities regulated by the National Control Commission of Prices and Energy*. Based on the paragraphs of the Resolution subject to complaint, the NCC decided to impose a fine of EUR 5,643 to the Company, because the Company failed to submit the set of annual financial statements for 2014 together with independent auditor's report and a written confirmation by the Company's management in accordance with the deadlines defined by law and as additionally granted by the NCC. In the Company's opinion, the imposed fine was unjustifiable, since the sanction was imposed after the expiry of the limitation period, the sanction imposed was disproportionate, and minor nature and attenuating circumstances of the infringement were not taken into account. On 6 September 2017, Vilniaus Regional Administrative Court dismissed the Company's complaint of 10 April 2017. On 5 October 2017, the Company appealed to the Supreme Administrative Court of Lithuania. The hearing of the appeal has not been scheduled yet at the Supreme Administrative Court of Lithuania.

Tax audits

The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year inspect the books and accounting records and impose additional taxes or fines. The Company's management is not aware of any circumstances that might result in a potential material liability in this respect.

Future minimum lease payments under irrevocable operating lease contracts

	2017	2016
Within one year	193	193
After one year, but not later than within five years	771	771
After five years	14,445	14,638
Total	**15,409**	**15,602**

The future minimum lease payments include long-term lease contracts for state-owned land, which is used for industrial, warehousing, transport and engineering network purposes. Operating lease expenses totalled EUR 197 thousand in 2017.

39 Capital management

Capital consists of the total amount of equity reported in the statement of financial position.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the operating risks. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, repay capital to shareholders or issue new shares. As at 31 December 2017, there were no changes in risk management objectives, policy or procedures, except for the changes in dividend policy.

On 27 December 2016, the Board of Lietuvos Energija UAB group approved a common dividend policy, which sets uniform principles for payment of dividends for all the group companies. Dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by a company will depend on the ratio of return on equity and net profit. 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 payment of dividends, implementation of economic projects important for the State and other circumstances. Between 60% and 85% of 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 a 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 ratio of financial debts to equity becomes equal to or exceeds 1.0.

According to the Law on Companies of the Republic of Lithuania, the Company's equity must be not less than ½ of the amount of the authorised share capital. No other external capital requirements are applicable to the Company. As at 31 December 2017 and 2016, the Company complied with this requirement.

40 Events after the end of the reporting period

Based on its evaluation of the projected volume of services to be provided at the units of the Lithuanian Power Plant in 2018, the situation in the market of electricity generation and system services, the changes and outlooks in the regulatory environment, and in view of the opinion expressed by the Company's Supervisory Council, on 11 December 2017 the Company's Board of Directors passed a decision to decommission Unit 7 of the Lithuanian Power Plant with effect from 1 January 2018, and to preserve it. Preservation of the Unit will be conducted in a way so that at the request of LITGRID AB and/or the Lithuanian Ministry of Energy, the Unit could be put back into operation expeditiously (within the period not longer than three days).

Based on the decision of the Board of Directors of 22 December 2017, the Company concluded an agreement with the Lithuanian electricity transmission system operator LITGRID AB regarding the purchase-sale of the tertiary active capacity reserve. The final results of the auction of the tertiary active capacity reserve of LITGRID AB, based on which the services of the reserve, which is intended to operate voltages on 330 kV transmission network and to restore the secondary emergency capacity reserve, will be provided in 2018 to the extent of 260 MW by the Company's Combined-Cycle Unit.

There were no other significant events between 31 December 2017 and the date of approval of the financial statements.

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