ANNUAL REPORT
2018

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

for the year ended 31 December 2018, prepared according to International Financial Reporting Standards as adopted by the European Union, presented together with the independent auditor’s report

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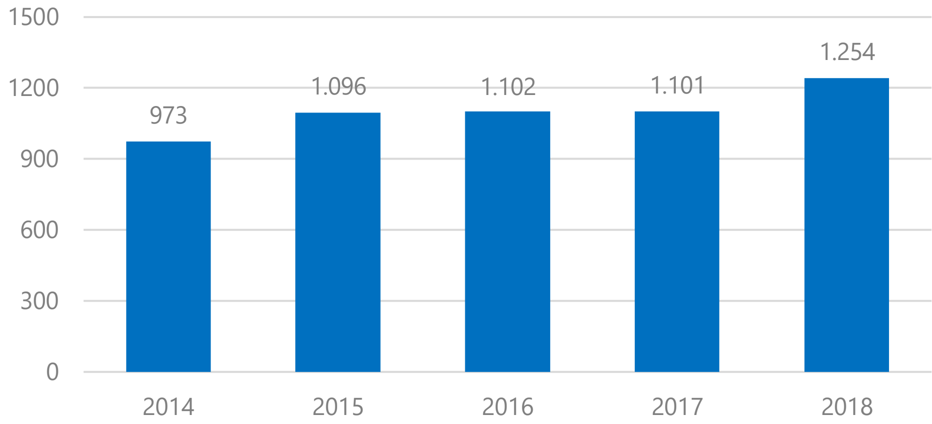
Key Financial Indicators of the Lietuvos Energija Group

		2018	2017	Δ, EUR million	Δ, %
Revenue	EUR million	1,254.2	1,100.8	153.4	13.9%
Cost of goods sold	EUR million	974.5	740.5	234.0	31.6%
Operating expenses	EUR million	127.2	132.0	-4.8	-3.6%
EBITDA	EUR million	149.9	227.2	-77.3	-34.0%
EBITDA margin	%	12.0%	20.6%		
Adjusted EBITDA	EUR million	225.2	238.7	-13.6	-5.7%
Adjusted EBITDA margin	%	18.0%	21.7%		
EBIT	EUR million	-5,2	97.1	-102.3	-105.3%
FFO	EUR million	137,1	223,1	-85,9	-38,5%
Net profit	EUR million	-7,9	93.5	-101.5	-108.5%
Net profit margin	%	-0.6%	8.5%		
Adjusted net profit	EUR million	116.4	130.1	-13.7	-10.5%
Adjusted net profit margin	%	9.3%	11.8%		
Investments	EUR million	411.3	253.4	157.9	62.3%
		At 31 Dec 2018	**At 31 Dec 2017**	**Δ, EUR million**	**Δ, %**
Total assets	EUR million	2,854.1	2,505.1	349.0	13.9%
Equity	EUR million	1,316.6	1,343.6	-27.1	-2.0%
Borrowings	EUR million	864.5	614.1	250.4	40.8%
Net debt	EUR million	736.0	442.3	293.7	66.4%
Return on equity (ROE)	%	-0.6%	7.0%		
Adjusted return on equity (ROE)	%	8.8%	9.8%		
Return on assets (ROA)	%	-0.3%	3.8%		
Equity ratio	%	46.1%	53.6%		
Net debt / EBITDA	times	4.91	1.95		
Net debt / Adjusted EBITDA	times	3.27	1.85		
Net debt / Equity	%	55.9%	32.9%		
FFO / Adjusted net debt	%	18.6%	50.4%		
Assets turnover ratio	times	0.439	0.439		
Current liquidity	times	1.156	1.285		
Working capital	EUR million	-19.0	-8.8	-10.3	-117.4%
Working capital / Revenue	%	-1.5%	-0.8%		

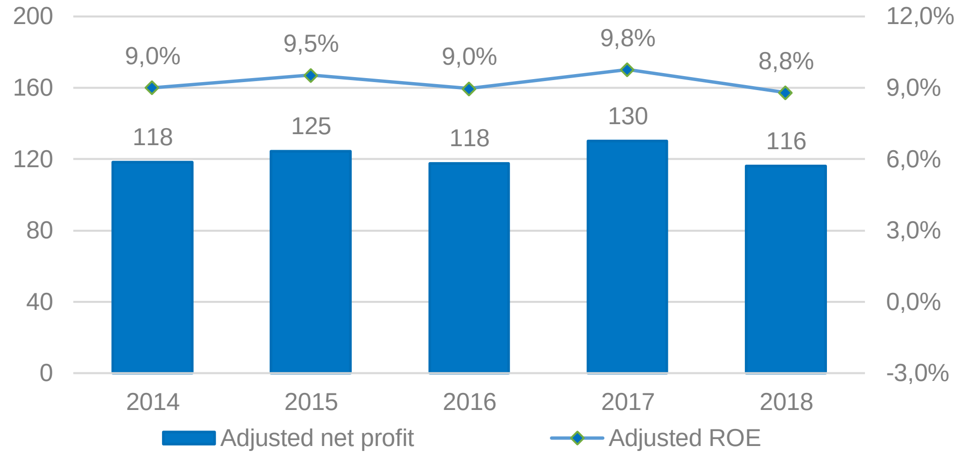
Revenue growth was determined by price changes in the electricity and gas markets as well as growing demand for electricity

↑14%



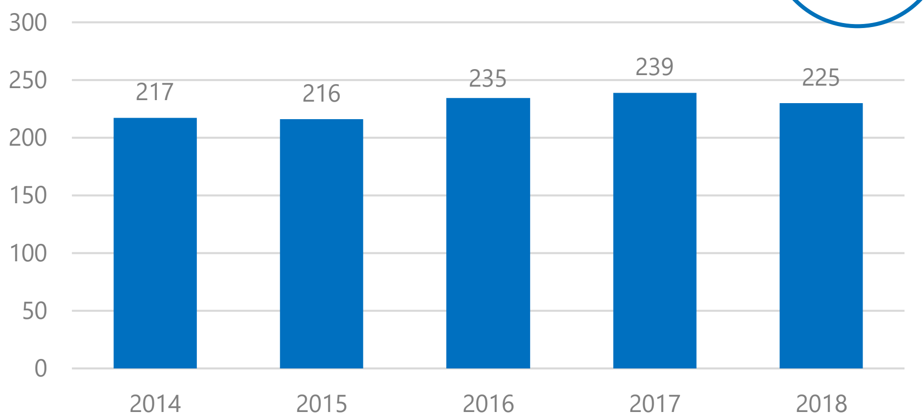
Adjusted **net profit** decreased by 11%. **Adjusted return on equity** reached 8.8%

↓11%



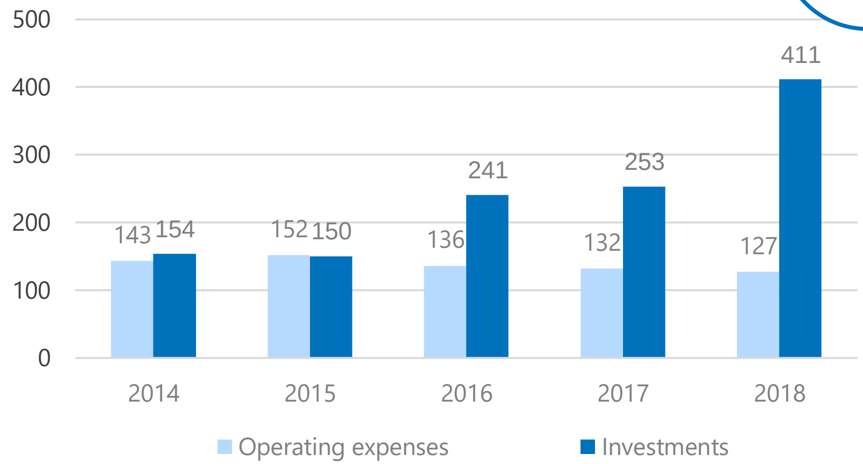
Adjusted **EBITDA** decreased by 6%. The decline was determined by lower result of electricity trading activity due to high electricity prices in the market.

↓6%



Operating expenses decreased by 3%. Investments grew mainly due to CHP projects.

↑62%



Adjusted EBITDA and adjusted net profit for 2014–2015 are presented before the elimination of the effect of recalculation of regulated revenue of ESO and LDT because such data is collected from the beginning of 2016.
Financial data is presented in million euros.

Foreword by the Chairman of the Board

Dear Customers, Partners, Employees and Shareholders,

After announcing the strategy LE 2030 of Lietuvos Energija in May 2018, we have set ambitious targets for our entire group of companies. As we understand clearly that renewable and smart energy as well as the international cooperation are the future, we are bravely on this path. Lietuvos Energija will not only pay out EUR 1.6 billion of dividends to the state, which means to all of us, in 12 years, but will also innovate to improve the lives of all of us, and will also accelerate the development in foreign markets. These commitments of our business have been confirmed by the largest companies of the group Lietuvos Energijos Gamyba and Energijos Skirstymo Operatorius (ESO), that have launched their strategies recently.

International investors have also expressed their confidence in the future trend of Lietuvos Energija. In 2018, we have distributed the second 10-year green bond issue with the value of EUR 300 million. Its demand has even four times outstripped the supply. Despite the fact that the financial markets are in a worse situation than last year, we borrowed money cheaper than in 2017 when the first 10-year bond issue, that was also with a size of EUR 300 million, was distributed. This suggests that the international partners value our determination to become a modern and green energy-oriented group. And the award received in January of 2019 from the Nasdaq Baltic exchange for maintaining relations with investors only encourages further progress in this direction.

We have not only announced the strategy in this year, but have also taken clear steps to implement it. To promote innovations, the Smart Energy Oriented Venture Capital Fund, that was established by Lietuvos Energija, invests in start-ups that will, without doubt, develop amazing solutions and show great results. In the pursuit of the set targets we are also expanding the green generation. In 2018, we have acquired three operating wind farms and the project that is being developed. Lietuvos Energija already operates 32 wind turbines that already generate the total power of 76.1 MW. We are the second largest wind power producers in the Baltic States! Lietuvos Energija Renewables, the company that was established in mid-January of 2019, is preparing to unite these capabilities and strengthen the group's green generation.

In 2018, the companies of Lietuvos Energija group have moved into a new qualitative operational phase during which they have even further improved the services they provide. ESO now is focused on its main activities - electricity and gas distribution and network maintenance, and Lietuvos Energijos Tiekimas that starter operating in October, after it took over the activities of electricity supply from ESO, operates under one-stop-shop principle thus enabling the customers to buy gas and electricity more easily.

The market situation also brings challenges. In 2018, the electricity price that was decreasing in the preceding five years has changed its direction and started to grow. This was due to the rising oil and gas prices, increasing electricity demand, low precipitation in Scandinavia and increasing costs for allowances. This will have an increasing impact on Lithuanian business and household customers. However, Lietuvos Energija Group will continue to work towards ensuring as better price as possible for its consumers.

Lietuvos Energija is undergoing massive changes. We will become a green and innovative international company that will bring tangible benefits to every resident of Lithuania.

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

THE COMPANY AND THE GROUP

About the Group and the Company

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

The Lietuvos Energija Group implements energy projects of strategic importance for Lithuania, and pursues the objectives set forth in the National Energy Strategy. The Group employing about 3,800 employees manages and operates the key energy generation capacities of Lithuania that ensure the security of energy supply, a distribution network covering the entire territory of the country. Group provides services to more than 1.6 million consumers across Lithuania, offers electricity supply services to consumers abroad, supplies gas to 570 thousand consumers. In 2018, 1.01 TWh of electricity was generated and 9.6 TWh distributed to consumers and 7.6 TWh of natural gas was transported via gas distribution pipelines.

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

1.01 TWh of electricity generated

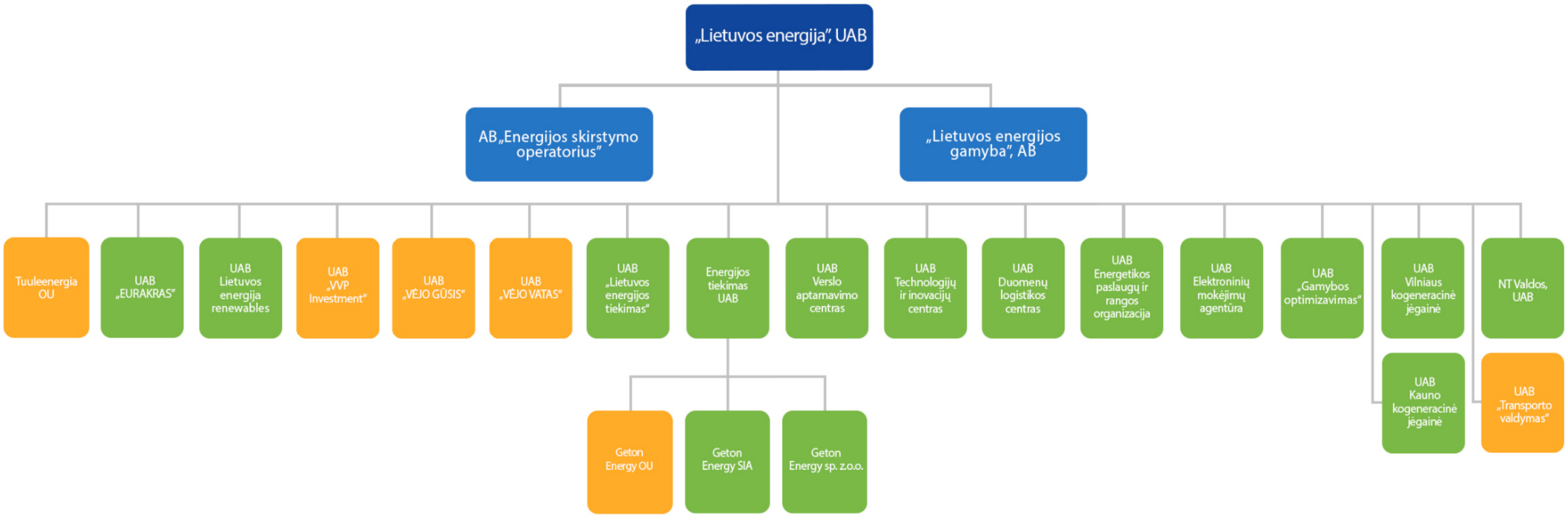
7.0 TWh of electricity distributed

5.1 TWh of natural gas distributed

More than 1.6 million customers served

Structure of the Group

At the end of the reporting period, the Lietuvos Energija Group consisted of 24 companies: the parent Company and 23 directly and indirectly controlled companies. The main business activities of the Group are the generation of electricity and heat, electricity trading, distribution and supply, and trade in natural gas and its distribution. Activities of the Group's companies servicing these main types of business activities comprise ITT, real estate, transport, repair of energy facilities, public procurement, accounting, administration of employment relationships, and other services



The Supervisory Board is formed of 5 members (3 of them are independent) **The Board** is formed of 5 members (working at the Company) **CEO** – Chairman of the Board	**The Supervisory Board** is formed of 3 members (1 of them is independent) **The Board** is formed of 5 or 3 members (working at the Company) **CEO** – Chairman of the Board	**The Board** is formed of 3 members (2 shareholder representatives and 1 independent)* **CEO** is not chairman of the Board	**CEO** The Board is not formed

** The structure of the Board is different across companies: the Board is not formed until active operations; the Board of service providers is formed ensuring the representation of all shareholders.*

The Strategy of the Group

In May 2018, Lietuvos Energija has presented the Strategy of the Group for 2030. Sustainable international development, quality, effectiveness, and transparency will be in focus during the implementation of the new strategy of Lietuvos Energija. The strategy includes the development of energy infrastructure and green energy, development of global competitiveness of the company and the country in general, creating a commercial organisation, development of new energy service platforms and the hub of energytech competences. Sustainable development will aim for quality and effectiveness to improve customer service, infrastructure quality, further clear the group activities, ensure stable return for the State, and maintain the top transparency standards in its activities. The implementation of the new strategy must support staying in the leadership position of the best prices for energy distribution services in the European Union.

During the upcoming twelve years Lietuvos Energija, the state capital energy company, is planning a material transformation: it will increase green generation capacities, expand its operations in international markets, will create and introduce innovations in the energy sector. All this will be implemented to ensure a stable return that will reach 1.6 billion EUR in 2018-2030 and maintain the best price and quality to customers.

Lietuvos Energija group strategic directions 2018-2030:

Sustainable development – direction to international growth through strategic power generation, green energy, development of commercial organisation and creating of new energy.

Quality and efficiency – improving customer service, infrastructure quality, further clear group activities, ensure stable return for the State.

Transparency – maintain the top transparency standards in Lietuvos Energija activities.

Strategy LE 2030

Value for the country

- **Best** price and quality
- International standards of **transparency**
- **Catalyst** for the energy industry
- **Stability** of strategic production capacity
- By 2030, half of **dividends** from abroad

Innovations and investments

- Investments of **~ 6 billion** euros
- 50% of value created from **green energy**
- **Wind, solar, innovations**, new technologies and business models
- **Quality, "smartification" and efficiency** of the distribution network
- Development of **strategic power generation** and colaboration with TSO in the **synchronization project**

International expansion

- Up to 50% of value in **international** markets
- International-level **talent**
- An international **brand**
- Among the **10 most advanced** new energy companies

Please find the strategy of Lietuvos Energija LE 2030 via this link.

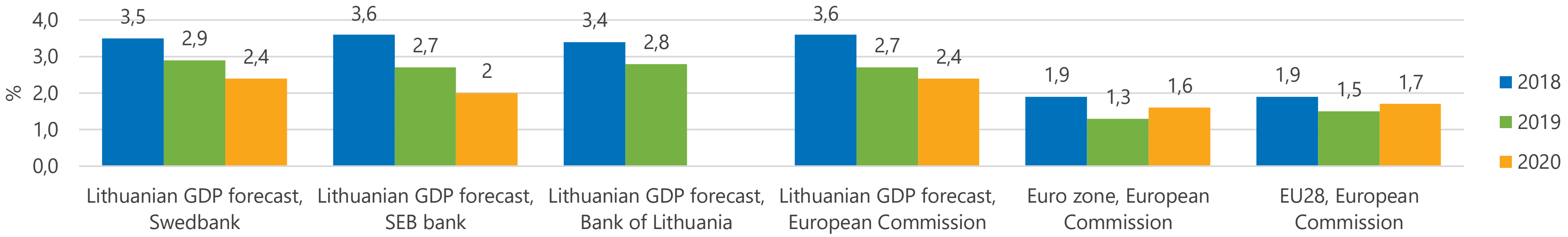
Business environment

The changes in general domestic product have the biggest impact on increase in demand for energy and competitive environment, in which the Company is operating. The general domestic product has been growing for several years in the European Union already. The growth in 2017 was the fastest over the last 10 years. In 2017, the economies of all the Member States of the European Union were growing for the first time since 2007. The growth will continue. However, according to the forecasts, due to increasing global uncertainties, it will be more moderate. According to the forecast of the European Commission published in February 2019[1], total growth of the general domestic product in 2018 was going to reach 1.9 percent in the European Union (EU28), and the same 1.9 percent in the euro zone . Meanwhile, the economic growth should be 1.5 and 1.3 percent in 2019, and 1.7 and 1.6 percent in 2020, respectively. The European Commission informed that the growth of the Lithuanian economy was going to reach 3.6 percent in 2018, 2.7 percent in 2019, and 2.4 percent in 2020 –. A slightly bigger growth was projected in the EU28, the euro zone and Lithuania in autumn 2018[2].

The growth of the Lithuanian economy is also forecasted by the economists of the Lithuanian banks in the publications of Lithuania's economic outlook. According to the forecasts presented by the analysts of SEB bank in February 2019[3], the real Lithuanian general domestic product is going to increase by 3.5 percent in 2018, by 2.9 percent in 2019, and by 2.4 percent in 2020. The Swedbank analysts published Lithuania's economy outlook in the end of January 2019[4]: it is forecasted that the growth of general domestic product will reach 3.6 percent in 2018, 2.7 percent in 2019, and 2.0 percent in 2020. According to the forecast of the Bank of Lithuania[5] made in October 2018, the Lithuanian general domestic product is going to grow by 3.4 percent in 2018, and by 2.8 percent in 2019.

As the energy consumption is closely related to the growth of general domestic product, the changes in economic growth rates in Lithuania and neighbouring countries may also affect the performance results of company's of the Group. Given the macroeconomic forecasts presented by economists for a year as well as the actual results of operations of ESO, we hold the view that the volume of transmitted electricity will increase at a moderate pace.

Growth of the general domestic product of the European Union, euro zone and Lithuania in 2018–2020, %

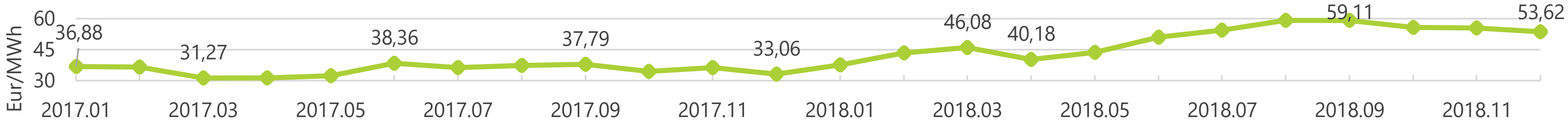


[1] *Source: European Commission. European Economic Forecast Winter 2019*
[2] *Source: European Commission. European Economic Forecast Autumn 2018.*
[3] *Source: SEB bank. Lithuanian Macroeconomic Review, 5/2/2019, No 68.*
[4] *Source: Swedbank Economic Outlook. January 2019.*
[5] *Source: Bank of Lithuania. Lithuanian Economy Review: October 2018.*

Situation in the electricity market

In 2018, the average price of electricity in the Nord Pool's Lithuanian trading zone increased strongly compared to the year of 2017. The average price in January-December of 2018 was EUR 49.96/MWh, 42, 3 % higher than in January-December of 2017, when it reached EUR 35.13/MWh[6]. Higher electricity price in market has a negative impact on the results of the energy supply Groups. This had a positive impact on LEG results, as the energy produced was sold at a higher price.

The average price of electricity in the Lithuanian trading zone on the Nord Pool power exchange



Situation in the natural gas market

In 2018, natural gas were imported to Lithuania from Russian company PAO Gazprom, Norwegian company Equinor, as well as part of gas was imported from Latvia.

Until 2016 natural gas sales in Lithuania have declined, i.e. the market receded. The biggest impact on the decline in natural gas consumption was the uncompetitive gas prices applied until 2014 and the lack of alternative gas supply. High natural gas prices made the new investments possible to other alternative energy sources (the use of biofuels for heat and electricity production). Only after an alternative supply of liquefied natural gas emerged and after reaching agreement with PAH Gazprom on a significant price reduction of imported natural gas from Russia, the decline in natural gas consumption in Lithuania has stopped. As gas prices became competitive again, in 2017 the natural gas market became more active and this is the first year when the consumption of natural gas has increased by almost 4 %. In 2018, the consumption of natural gas in Lithuania continued to grow, not taking into account the amount of Achema AB. The growth of the market was also positively influenced by the growing economy of Lithuania, especially the construction sector, as the number of new users has increased significantly.

In 2018 Lithuania's natural gas market was followed by slightly lower LNG imports than in 2017, when low LNG prices led to higher activity of domestic natural gas suppliers in the international LNG market.

In 2018, Lithuanian residents have been among those consumers who pay the least for electricity and natural gas in the European Union.

[6] *Source: Nord Pool*

Most significant events during 2018 and after the reporting period

JANUARY

- **4 January.** For the fourth year in a row Lietuvos Energija was recognised the most progressive state-owned company. In the good governance index of state-owned enterprises (SOE) published by the Governance Coordination Centre, Lietuvos Energija the only one of SOE received the highest A+ rating.
- **17 January.** The European Commission approved support to Vilnius CHP plant.
- **25 January.** The European Commission approved the financing of infrastructure research of Kruonis PSHP in preparing for the development of the plant.

FEBRUARY

- **1 February.** A new board of Lietuvos Energija Group and CEO Darius Maikštėnas were elected.
- **2 February.** Gilė simplified cash payment of fees for services provided at the places of payment acceptance.
- **12 February.** Construction of Vilnius cogeneration plant was commenced.
- **20 February.** Due to poor condition, a decision was taken to destroy no longer used chimneys in Elektrėnai Complex.

MARCH

- **3 March.** The Board of Lietuvos Energija adopted a decision to transfer Vilnius Third CHP (TE-3) as a non-monetary contribution to the authorised capital of daughter company Lietuvos Energijos Gamyba.
- **14 March.** Ovidijus Martinonis became a Board member supervising the field of grids development of ESO.
- **21 March.** Lietuvos Energija announced planning to separate the of public electricity supply from ESO and to transfer it to another Group's company– Lietuvos Dujų Tiekimas (LDT) that supplies natural gas to residents and business.
- **23 March.** Lietuvos Energija recieved a prestigious award of financial markets for the issue of green bonds.

APRIL

- **13 April.** Lietuvos Energija announced abandoning the contractor activity pursued by the Group's company EnePRO.
- **18 April.** Lietuvos Energija adopted a decision to wind up VAE SPB company belonging to the Group and no longer engaged in commercial activity.
- **23 April.** Energijos Tiekimas in Latvia will offer both, electricity and natural gas.
- **24 April.** CEO of the Group's company LITGAS became Tadas Adomaitis, whereas NT Valdos are under the management of Martynas Nenėnas.
- **27 April.** ESO started to provide the majority of its services by instalment. Not only the persons who install electricity or gas up to the boundary of their land plot will be able to use leasing, but also those who install an electricity or gas internal grid, solar power plant or have ordered an increase of power.

MAY

- **2 May.** At the General Meeting of Shareholders of Lietuvos Energija the amount of dividends 78.3 mln. EUR earmarked for the state budget.
- **23 May.** A general meeting of Lietuvos Energija shareholders approved the Group's strategy until 2030. It provides for paying EUR 1.6 billion in dividends during 12 years.
- **24 May.** Lietuvos Energija Group won in the European Business Awards the award Company of the Year within the category of achieving a turnover of EUR 150 million or higher.
- **30 May.** S&P Global Ratings approved the valid BBB+ credit rating with a stable perspective for Lietuvos Energija Group. This is the highest rating among analogous energy countries in the Baltic States and the second best among Eastern European analogous energy enterprises.

JUNE

- **7 June.** The Smart Energy Fund powered by Lietuvos Energija and the business accelerator allocated the first investments - invested EUR 350 thousand into two start-ups.
- **21 June.** The Board of Lietuvos Energija approved the second issue of the green bonds and increasing the medium-length non-property securities programme up to EUR 1.5 billion.

JULY	• **3 July.** Lietuvos Energija placed a EUR 300 million issue of green bonds with a 10-year term to maturity. An annual interest of 1.875 percent is paid for the bonds. • **10 July.** The Smart Energy Fund powered by Lietuvos Energija, managed by Contrarian Ventures invested EUR 250 thousand pounds into the energy technology start-up Voltaware operating in the United Kingdom. • **17 July.** ESO announced an investment plan that foresees to make investments of EUR 2.1 billion during 2018-2027. • **31 July.** Lietuvos Dujų Tiekimas was granted a public supply licence. From 1 October, the company, under the name Lietuvos Energijos Tiekimas (LET) started providing not only gas but also electricity.
AUGUST	• **10 August.** Dalia Andriulionienė withdrew from the position of the Chairperson of the Board and CEO of Energijos Skirstymo Operatorius upon mutual agreement of the parties. • **10 August.** Lietuvos Energija signed a share purchase- sale agreement for the acquisition of three wind power plants with a capacity of 34 MW run by Vėjo Vatas and Vėjo Gūsis. • **27 August.** The Smart Energy Fund powered by Lietuvos Energija, invested into the energy technology start-up Fusebox operating in Estonia.
SEPTEMBER	• **20 September.** During the #SWITCH event, the first open hackathon of Lietuvos Energija took place involving the participation of over 35 energy, IT specialists, marketing professionals, company managers. • **27 September.** LEG reported on its plans to install an experimental solar power plant floating on the water in Kruonis Pumped Storage Power Plant. The company intends to implement this exclusive project together with scientists of Kaunas University of Technology, whereas support in turning the innovative idea into reality is requested from the European Union foundations.
OCTOBER	• **1 October.** The supply of electricity and gas to residents was commenced by one company – Lietuvos Energijos Tiekimas (former Lietuvos Dujų Tekimas). • **2 October.** The Board of Energijos Skirstymo Operatorius elected Midaugas Keizeris as the new Chairman of the Board and CEO. • **3 October.** The Smart Energy Fund powered by Lietuvos Energija invests EUR 250 thousand into the PVcase tool automating the designing of solar power plants. • **9 October.** Lietuvos Energija Group, by implementing its strategic goals to become established in Poland, appointed Diana Kazakevič as a regional manager of Poland. • **18 October.** Lietuvos Energija established a unique Innovation Hub. The cooperation platform developed by it seeks to attract 500 innovation ideas from abroad and Lithuania.
NOVEMBER	• **1 November.** Energijos sprendimų centras has been merged with Energijos tiekimas. • **1 November.** Ignas Pranskevičius resigned from the position of Board member and Director of the Service Department of ESO. • **7 November.** The Ministry of Finance of the Republic of Lithuania has submitted to the Company a shareholder's decision to revoke Ramūnas Dilba from the Supervisory Board of the Company in accordance with his resignation from the Supervisory Board of the Company. • **November 17**. In Kruonis PSHP, a part of Lietuvos Energijos gamyba, a test aimed at Lithuanian energy system recovery after the total black-out was successfully completed. The situation has been simulated in a way that after the black-out, the energy supply has been recovered with the help of Kruonis PSHP. LNG has been supplied to polish and Estonian companies overland.
DECEMBER	• **December 10.** Lietuvos Energija confirmed the terms and conditions for the reorganisation of UAB Lietuvos Energijos Tiekimas and UAB LITGAS. UAB LITGAS, which ceased to exist without the liquidation procedure, was connected to UAB Lietuvos Energijos Tiekimas (that continues to operate) on the 1st of January, 2019.

- **December 10.** Lietuvos Energija confirmed the terms and conditions for the disentanglement of UAB Energijos Tiekimas and establishment of a new company to which the activities of optimization of the works of power plants had to be transferred. The new company, UAB Gamybos Optimizavimas, started its activity on the 1st of January, 2019.
- **December 11.** The management Board of Lietuvos Energijos Gamyba decided to terminate the exploitation of Unit 8 of Lithuanian Power Plant from January 1, 2019 and to put it into preservation mode. The Unit 7 of the Lithuanian Power Plant has been in the preservation mode from January 1, 2018. Both units will be kept in the preservation mode until their necessary function during the anticipated test of the Baltic States energy systems isolated work.
- **December 20.** Lietuvos Energijos Gamyba (LEG) revised its strategy. The main focus in the Strategy is on the principal activity of LEG – strategic power generation, as a basis for achieving the growth objectives of the entire Group.
- **December 27.** Lietuvos Energija has acquired 100% percent of shares of VVP Investment JSC from the group of natural persons and legal entities. VVP Investment JSC currently develops a wind farm of 20 turbines with capacities of 60 MW in the north-western part of Lithuania.
- **December 27.** Supervisory board of the ESO recalled the management Board of the ESO and elected a new management Board for the next four-year period.
- **December 31.** Seeking to develop its renewable generation portfolio further and optimize the activities of its wind energy generation companies, Lietuvos Energija has approved the establishment of a new company. UAB Lietuvos Energija Renewables will control the shares of its existing subsidiaries, engaged in wind power generation and renewable power generation development.

2019 JANUARY
(after the reporting period)

- **January 7.** Taking into account a notification received from Ms. Eglė Čiužaitė (dated on the 7th of January, 2019) on her resignation from the position of the Chief Executive Officer of the Company, the Board and the Supervisory Board of the Company adopted a decision to recall Ms. Eglė Čiužaitė from the position of Chief Executive Officer of the Company from the 21st of January, 2019.
- **January 8.** Lietuvos Energijos Gamyba announced the start of the project aimed at installing a one-megawatt energy storage system in Kaunas A. Brazauskas' HPP. Operating in synergy with the plant, the new storage system would become the first and the biggest innovation of this kind in the Baltic States.
- **January 18.** Implementing the Strategy LE 2030 and gradually uniting and merging the electricity and natural gas trading, supply, and related activities, Lietuvos Energija announced its plans to initiate the reorganisation process of UAB Lietuvos Energijos Tiekimas and Energijos Tiekimas UAB.
- **January 18.** ESO updated its strategy. The main goal laid down in the new document – reliable, effective and smart grid that enables further market development and the best customer experience.
- **January 31.** At the solemn ceremony of The Nasdaq Baltic Awards 2019, Lietuvos energija received award for the best bond issuer's relations with investors. The company has received a favourable opinion after evaluating the quality of information disclosure in the annual report and other statements, transparent governance of the company and its presentation to investors as well as other criteria.

2019 FEBRUARY
(after the reporting period)

- **February 1.** The Ministry of Finance of the Republic of Lithuania (hereinafter – the Ministry of Finance), being the holder of a 100 per cent shareholding in the Company, submitted to the Company a shareholder's decision to appoint Daiva Kamarauskienė the member of the Supervisory Board of the Company. She has replaced Ramūnas Dilba, a former member of the Supervisory Board of the Company.
- **February 13.** Lietuvos Energija announced international search for a strategic partner to develop offshore wind energy projects. Lithuanian company has initiated an Expression of Interest (EOI) process to select an experienced partner for the development of projects in the European Economic Area. The company expects to find an experienced partner with a proven track record who would bring best-practises and expertise in building offshore wind projects and, later on, could develop joint offshore wind energy projects in Lithuania.
- **February 25.** Lietuvos energija signed a partnership agreement with the adult coding school „Vilnius Coding School". Implementing the Strategy LE 2030 and preparing for the global transformation of the energy sector, the company expects to attract data analysts, data engineers, big data project managers, and professionals with skills in artificial intelligence.
- In the combined cycle unit, owned by Lietuvos Energijos Gamyba, trials have been implemented with an aim to test the power plant's readiness to participate in the first stage of the Baltic States energy systems isolated work regime. In January, the tests have been carried out in Kruonis PSHP.

2019 MARCH (after the reporting period)	• **4 March.** In preparation for the implementation of smart energy accounting in Lithuania, ESO launched public procurement procedures for the necessary infrastructure. • **12 March.** Taking into account the opinion of the Supervisory Board, the Board of Lietuvos Energija nominated Rimgaudas Kalvaitis as the CEO of LEG. Aleksandr Spiridonov has been appointed as the head of UAB Lietuvos energija renewables. Darius Montvila was elected as the head of the commercial organization, which will start its activities after the merge of UAB Lietuvos Energijos Tiekimas and Energijos Tiekimas UAB. • **14 March.** Geton Energy, the company of the group of energy companies of Lietuvos Energija since 2017 operating on the wholesale electricity market of Poland, has joined Nasdaq Commodities OMX exchange in Scandinavia.
2019 APRIL (after the reporting period)	• **9 April.** Taking into account the opinion of the Supervisory Board, the Board of Lietuvos Energija elected the board of the commercial organization, which will start its activities after the merge of UAB Lietuvos Energijos Tiekimas and Energijos Tiekimas UAB. Member of the board Tadas Adomaitis will be responsible for the wholsale activities, Haroldas Nausėda will be responsible for business clients and development, Andrius Kavaliauskas will be responsible for private customers and development of services. • **9 April.** Lietuvos Energija resumed the sale of shares of Data Logistics Centre (DLC), one of the most advanced IT and telecommunications companies in the Baltic region, which provides data transmission and data centre services. • **15 April.** It was announced that Lietuvos Energija will seek to include a trade union representative in to the ESO Supervisory Board in 2019.

ANALYSIS OF THE GROUP`S FINANCIAL AND OPERATIONAL RESULTS

Analysis of the Group's financial and operating results

Key operating indicators		2018	2017	Δ, +/-	Δ, %
Electricity					
Volume of electricity distributed:	TWh	9.59	9.22	0.37	4.0%
Distributed to customers of independent suppliers	TWh	6.17	6.00	0.17	2.9%
Public and guaranteed supply	TWh	3.42	3.22	0.19	6.0%
Volume of electricity generated (incl. Kruonis PSHP)	TWh	1.01	1.28	-0.27	-20.9%
Generated electricity using renewable energy sources (excl. Kruonis PSHP)	TWh	0.46	0.59	-0.13	-21.4%
Volume of electricity sold:	TWh	5.82	5.43	0.38	7.1%
Public and guaranteed supply	TWh	3.42	3.22	0.19	6.0%
Sales in retail market	TWh	2.40	2.21	0.19	8.6%
Number of newly connected customers	units	30,976	29,640	1,336	4.5%
Duration of connection of new customers (average)	calendar days	47.6	48.7	-1.1	-2.3%
Quality indicators of electricity supply					
SAIDI (with *force majeure*)	min.	81.37	137.83	-56.46	-41.0%
SAIFI (with *force majeure*)	units	1.14	1.32	-0.18	-13.6%
Technological costs in the distribution network	%	6.03%	6.14%		-1.8%
Gas					
Volume of gas distributed	TWh	7.60	7.37	0.23	3.2%
Volume of gas sold in retail market	TWh	10.77	11.47	-0.70	-6.1%
Volume of gas purchased:	TWh	10.30	11.88	-1.58	-13.3%
Volume of LNG purchased	TWh	5.25	6.35	-1.10	-17.3%
Volume of natural gas purchased	TWh	5.05	5.53	-0.48	-8.7%
Number of newly connected customers	units	14,741	12,531	2,210	17.6%
Duration of connection of new customers (average)	calendar days	89.2	165.6	-76.4	-46.2%
Quality indicators of gas supply					
SAIDI (with *force majeure*)	min.	0.606	1.161	-0.556	-47.8%
SAIFI (with *force majeure*)	units	0.006	0.007	0.001	-15.2%
Technological costs in the distribution network	%	2.06%	2.13%		-3.1%

Key operating indicators

The volume of distributed electricity slightly increased in 2018 compared to 2017 and totalled 9.59 TWh (+0.37 TWh). The distribution of electricity to customers of the independent suppliers grew and amounted to 6.17 TWh (+0.17 TWh), the volumes of public and guarantee supply increased by 6.0% and amounted to 3.42 TWh (2017: 3.22 TWh).

Electricity generation at Kaunas Algirdas Brazauskas Hydroelectric Power Plant decreased by 24.5% in 2018 compared to 2017 due to a lower level of water in the Nemunas river and amounted to 0.35 TWh. Electricity generation volumes at Kruonis Pumped Storage Hydroelectric Plant also decreased (-14.4%) due to repair works and amounted to 0.47 TWh.

Conditions suitable for the production by the combined cycle unit (CCU) at the Elektrėnai Complex occurred in March when cold weather entered all Scandinavian and Baltic countries and caused higher electricity consumption. Moreover, the production volumes at wind power plants declined significantly. Due to repair works of the Nordbalt interconnection during July–October 2018, CCU was switched on eight times for commercial production. The total of 0.06 TWh of electricity was produced at the Elektrėnai Complex in 2018 compared to 0.13 TWh produced in 2017.

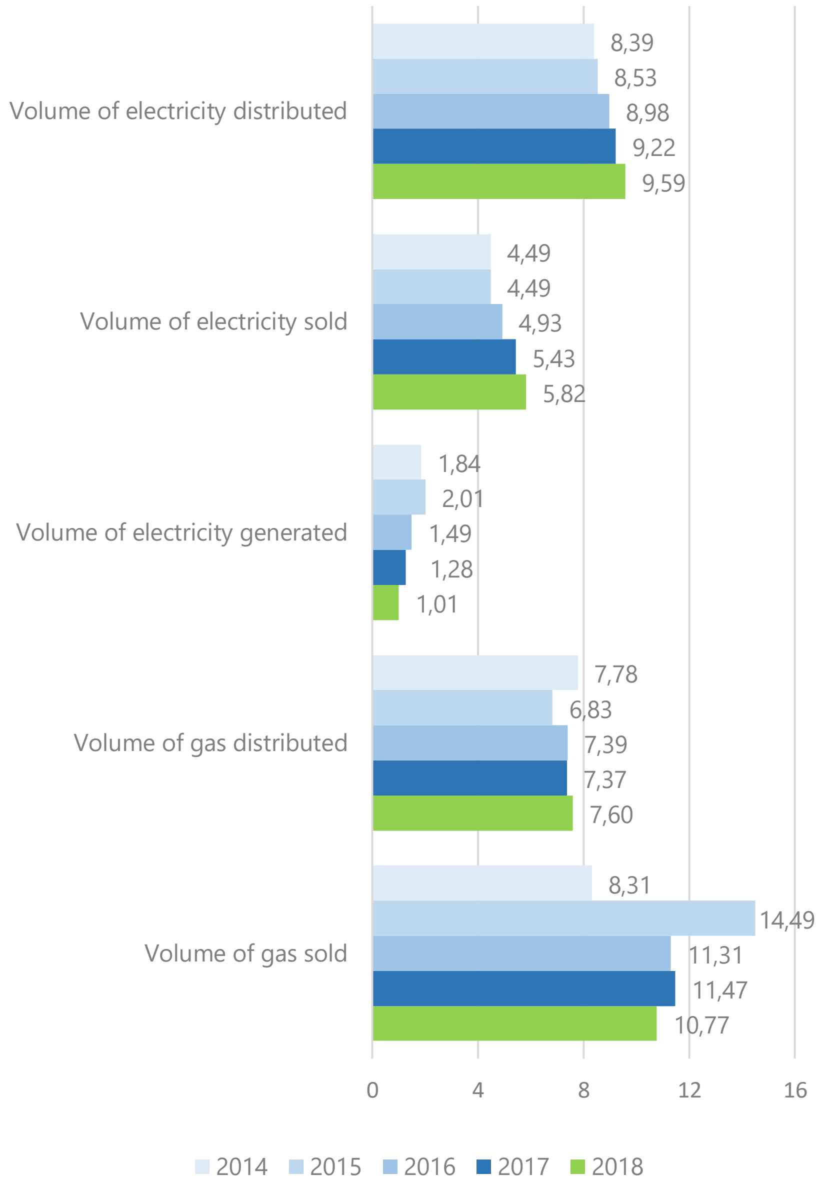
The volume of electricity generated at wind farms operating in Estonia and Lithuania totalled 0.13 TWh, which is 0.002 TWh or 2.2% less compared to the same period in the previous year. Due to low weather temperature, unfavourable weather conditions for the operation of the wind power plants prevailed in February. A portion of electricity generated from renewable energy sources made up 47% of the Group's total electricity generation volume in Q1-4 of 2018 (2017: 46%).

In 2018, technological costs in the electricity distribution network declined to 6.03% (6.14% in 2017). In 2018, SAIDI ratio, with the impact of force majeure circumstances, improved and was 81.37 minutes (2017: 137.83 minutes). The main reason for the improvement of this indicator was a significant decline in the time interval required for the removal of breakdowns. In 2018, electricity network breakdowns were removed by ESO in as little as 1.3 hours, on average, from the moment of registration (3.5 hours, on average, in 2017). The duration of the removal of breakdowns has been shortened as a result of close cooperation with meteorologists, the digitalisation of the management of dispatch control centres and greater efficiency and effectiveness of the organisation of breakdown removal services. SAIFI indicator was equal to 1.14 time (2017: 1.32 time). The change in the indicator was caused by larger investments in the underground electricity network, which is more resilient to natural disasters.

The volume of gas distributed by the Group companies increased in 2018 by 3.2% or 0.23 TWh. The volume of gas sold in retail market decreased by 6.1% or 0.70 TWh in 2018. This was mostly affected by lower volume of gas sold to non-household customers due to lower level of consumption.

In 2018, technological costs in the gas distribution network declined from 2.13% to 2.06%. Gas distribution SAIDI ratio, with the impact of force majeure circumstances, significantly decreased during 2018 and was 0.61 minute (1.16 minute in 2017) and SAIFI ratio was approximately equal to 0.006 unit (approx. 0.007 unit in 2017).

Electricity distribution and generation, gas distribution and sale, TWh



Key financial indicators

Financial data is presented in million euros unless otherwise stated

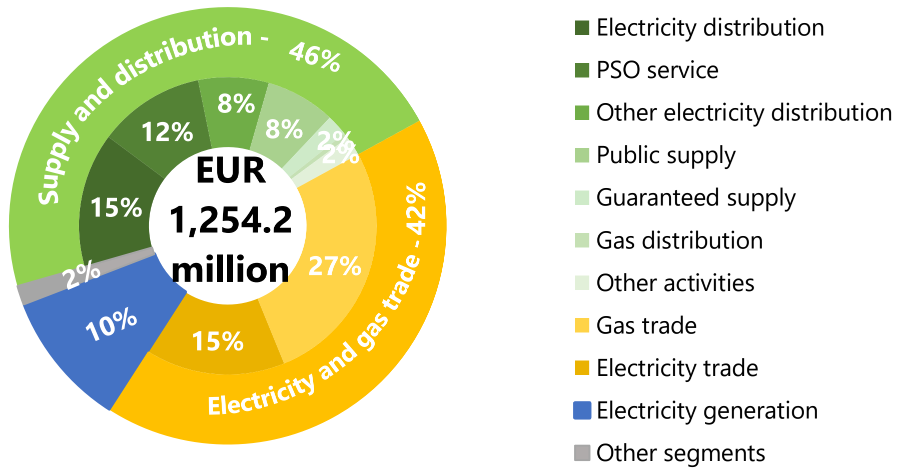
Revenue

Revenue of the Lietuvos Energija group increased by 13.9% (EUR 153.4 million) in 2018 as compared to 2017 and totalled EUR 1,254.2 million. The main reasons causing revenue changes were as follows:

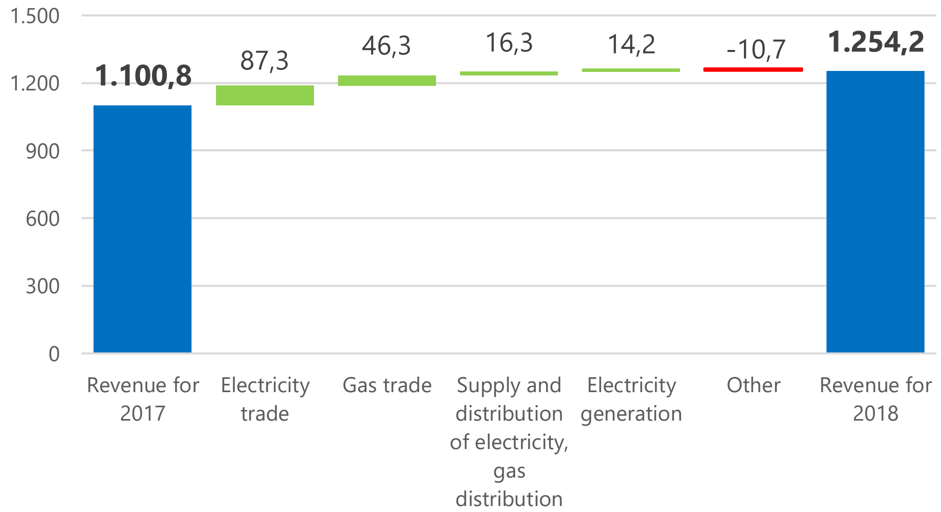
1. **Higher revenue from trade in electricity.** The Group's consolidated revenue from trade in electricity increased by EUR 87.3 million. The increased price in the electricity market affected growth in revenue in this segment. An average electricity price on the Nord Pool exchange as per Lithuania price area increased by 42.1% and was 49.96 EUR/MWh (2017: 35.15 EUR/MWh). Price increase was influenced by repairs of the NordBalt electricity link with Sweden, unfavourable weather conditions for electricity generation, repairs of nuclear power plants in Scandinavia, and higher energy consumption. Revenue in this operating segment also grew due to greater electricity sale volumes in the retail market (+8.6%) that rose due to a greater number of customers in Lithuania and unusually hot weather. In addition, in 2018 the Group received income of EUR 36.5 million from the subsidiary of Energijos Tiekimas based in Poland that started its operations at the end of 2017.
2. **Higher revenue from trade in gas.** The Group's consolidated revenue from sale of gas increased by EUR 46.3 million; the main reason of this is increased sale price of gas for non-household customers. The price grew due to changes in the gas market and a full utilisation of Gazprom discount for the gas price in the middle of 2017. Revenue from sale of gas to non-household customers increased by EUR 35.9 million. Revenue from sale of gas to household customers rose by EUR 7.1 million due to an increased number of consumers.

The main sources of the Group's revenue: revenue from the segment of electricity supply and distribution and gas distribution (EUR 582.7 million during 2018) constitutes 46% of the Group's total revenue (2017: 51%). Revenue from the segments of trade in electricity and gas (EUR 527.8 million in 2018) represents 42% of the total revenue (36% in 2017). The share of revenue from electricity generation in the total revenue structure accounts for 10% (2017: 10%).

The Group's revenue structure in 2018



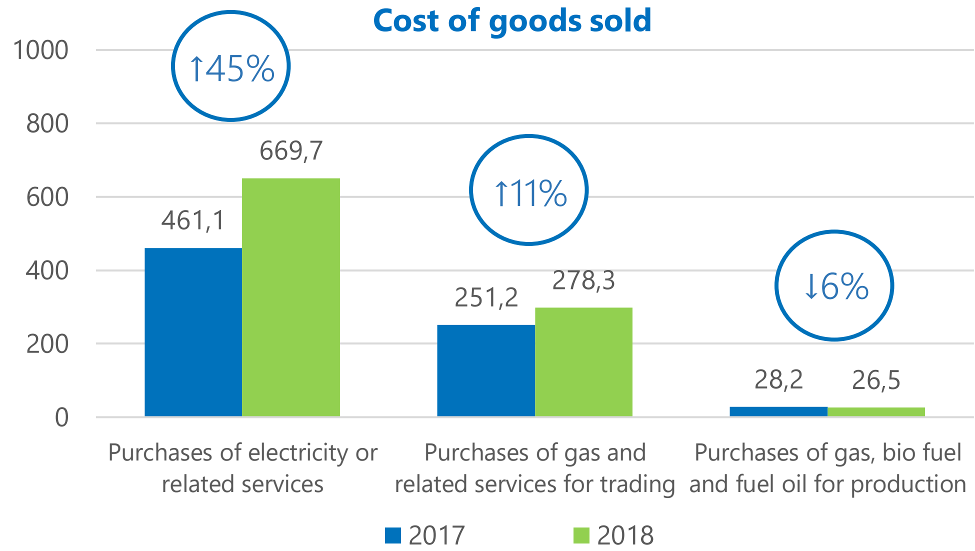
Dynamics of the Group's revenue by operating segment



Cost of sales

During the reporting period the Group's expenses for the purchase of electricity, gas, fuel and related services (cost) increased by 31.6% compared to 2017 and amounted to EUR 974.5 million (EUR 740.5 million in 2017). The main factors affecting the cost of sales were as follows:

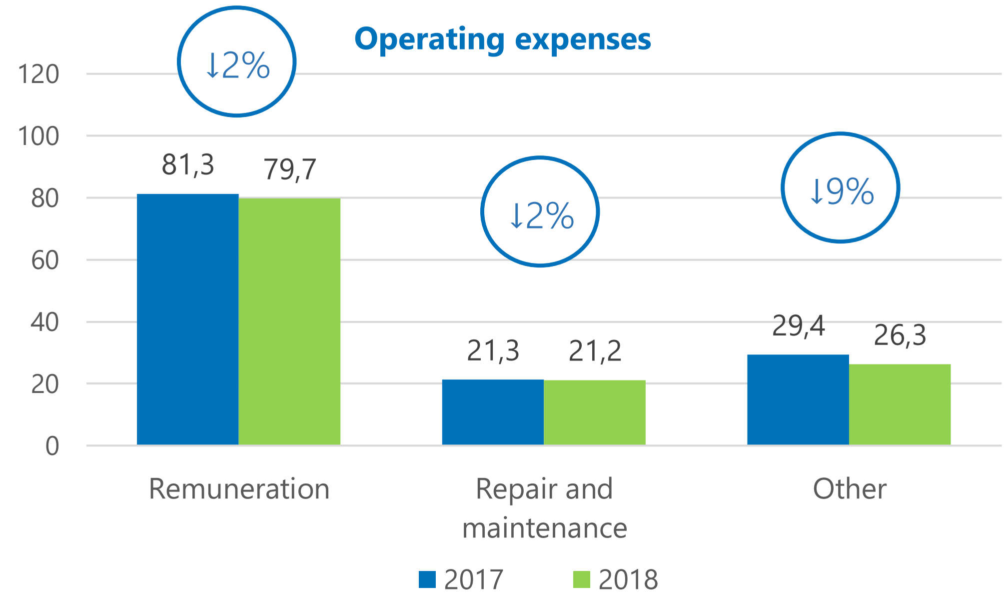
1. **Purchase expenses of electricity or related services** increased by EUR 208.6 million or 45% compared to a respective period of 2017 and amounted to EUR 669.7 million. The growth was influenced by increased electricity purchase prices and higher sale volumes. In addition, similarly to growth in revenue, growth in costs was affected by the subsidiary of Energijos Tiekimas in Poland which started its operations at the end of 2017.
2. **Purchases of gas and related services for trading** increased by EUR 27.1 million or 10.8% compared to 2017 and this increase was caused by a higher purchase price of gas.



Operating expenses

The Group's operating expenses decreased by 3.6% (EUR 4.8 million) compared to 2017 and amounted to EUR 127.2 million in 2018. The main reasons causing decline in operating expenses were as follows:

1. **Lower remuneration expenses.** Remuneration expenses declined by EUR 1.6 million or 2% as a result of decrease in the number of employees. As at 31 December 2018, the Group had 3,826 (31 December 2017: 4,513) employees (the number of employment contracts is presented).
2. **Lower expenses of other activities.** As a result of improvement of operational efficiency various other expenses decreased in 2018 as compared to 2017. The most significant decrease in other expenses was due to lower support expenses (EUR -0.8 million) after the discontinuance of the activities of the Lietuvos Energija Support Fund.



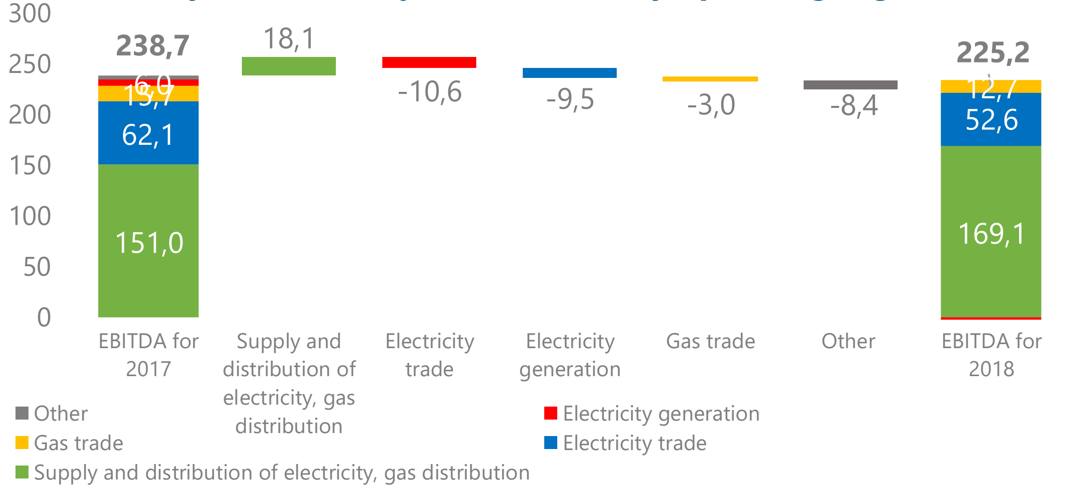
EBITDA

In 2018, the Group's adjusted EBITDA amounted to EUR 225.2 million, which is 5.6% or EUR 13.5 million less than adjusted EBIDTA for 2017, which was equal to EUR 238.7 million. The adjusted EBITDA margin reached 18.0% in the reporting period (21.7% in 2017). The main reasons for the change in the Group's adjusted EBITDA were as follows:

1. **Higher EBITDA of electricity and gas distribution segment.** The growth of the Group's adjusted EBITDA was determined by a positive change (EUR +18.1 million) in the results of the activity of electricity and gas distribution. The increase resulted from improved operational efficiency, higher investments in modernisation and development of the networks. In accordance with the electricity sector regulation that became effective from 2016, Energijos Skirstymo Operatorius is encouraged to save costs and a part of such savings remain with the company.
2. **Lower EBITDA of electricity trading segment.** EBITDA of electricity trading segment for 2018 was lower by EUR 10.6 million compared to 2017. This was affected by unusually high prices of electricity at the Nord Pool exchange. Increased demand of electricity along with high electricity purchase prices, yet fixed sale prices, have had a negative effect on the EBIDTA result in this segment.
3. **Lower EBITDA of electricity generation segment.** EBITDA result for 2018 decreased by EUR 9.5 million due to the lower EBITDA of the Elektrėnai Complex, which was determined by the decreased scope of provided regulated services as well as lower income received from these services. It was partly compensated by higher sales revenue of Kaunas Algirdas Brazauskas Hydro Power Plant, better commercial results of Kruonis Pumped Storage Hydroelectric Plant, and lower costs of the dismantling projects at the Elektrėnai Complex.
4. **Lower EBITDA of gas trading segment.** In 2018, the EBITDA result of gas trading segment was EUR 3.0 million lower than in 2017. This was due to the increased price for the purchase of gas in the market and decreasing sales margins due to more intense competition.

**Adjusted EBITDA indicator is based on management adjustments that are not presented in the financial statements. A more detailed description of the management adjustments is presented in Consolidated and Company Financial statements, Note 40 "Operating segments"*

Dynamics of adjusted EBITDA by operating segment



	2018	2017	Δ, +/-
Operating profit	**-5.2**	**97.1**	**-102.3**
Depreciation and amortisation expenses	87.5	87.4	0.1
Impairment expenses and write-offs of PPE	64.4	45.0	19.4
Reversal (impairment) of amounts receivable and loans	11.2	-	11.2
Expenses of the revaluation of emission allowances	-8.9	-2.3	-6.6
EBITDA	**149.9**	**227.2**	**-77.3**
Management's adjustments* and write-offs of inventories and receivables			
Recalculation of regulated revenue of ESO (1)	64.0	10.9	53.1
Recalculation of regulated revenue of LET (2)	20.2	1.0	19.2
Recalculation of regulated revenue of LITGAS (3)	4.5	7.8	-3.3
Write-offs of inventories and receivables	1.4	0.9	0.5
Gas price discount provided by Gazprom (4)	-	8.7	-8.7
Recalculation of regulated revenue of LEG (5)	-	-11.4	11.4
Regularisation of commercial activities of LEG (6)	-	-5.4	5.4
Change in market value of open financial derivative instruments	-14.9	-1.1	-13.8
Total adjustments	**75.2**	**11.5**	**63.7**
Adjusted EBITDA	**225.2**	**238.7**	**-13.5**

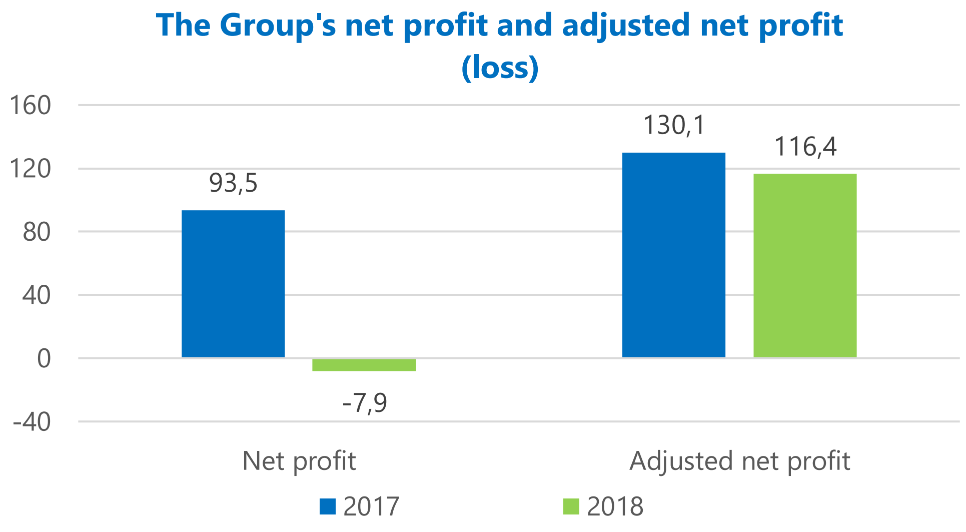
(1) elimination of the effect of the difference between the actual profit earned during the reporting and earlier periods and the allowable return on investments for respective periods as established by the National Commission for Energy Control and Prices.
(2) elimination of deviation between actual and regulated revenue of the gas supply and electricity public supply, by which the company's future financial results will be adjusted.
(3) elimination of deviation between the designated supplier's actual and regulated revenue, by which the company's future financial results will be adjusted.
(4) elimination of expenses, which, in management's view, are related to the prior periods.
(5) elimination of the result of audits of regulated activities for prior periods, recalculation of expenses and income.
(6) elimination of the effect of the commercial activity regularisation, which was annulled by the court's decision, on the company's financial results.

Net profit

In 2018, the Group's net profit result was a loss of EUR 7.9 million, which is EUR 101.5 million worse than net profit of EUR 93.5 million earned in 2017. The major impact on the net profit results for 2018, as compared to 2017, was caused by the following factors:

1. **Higher cost of goods sold (-).** Decline in net profit of the reporting period was mainly caused by increase in purchase prices of electricity and gas, acquisition cost of electricity and gas that increased at a higher rate than sales revenue, the total impact – EUR 104.7 million.
2. **Following the valuation of ESO's non-current assets** impairment of assets in electricity part and reversal of impairment in gas part was recorded in the income statement, which in total had a negative impact of EUR 49 million on consolidated net profit.
3. **Asset revaluation and impairment expenses of EUR 34.4 million had a significant impact on net profit for 2017 (+).** The recognised impairment of assets (units 7 and 8 of the Elektrėnai Complex) of Lietuvos Energijos Gammyba had the largest effect on net profit, which was equal to EUR 26.7 million.

Following the assessment (elimination) a positive/negative effect of the recalculation of regulated income and one-off items, the Group's adjusted net profit decreased by EUR 13.7 million or 10.5% and amounted to EUR 116.4 million. The reasons were the same as explained in EBITDA section.



Net profit adjustments	2018	2017	Δ, +/-
Net profit for the reporting period	**-7.9**	**93.5**	**-101.5**
Revaluation of ESO's assets	49.0	-	49.0
Recalculation of regulated revenue of ESO	54.4	9.3	45.1
Recalculation of regulated revenue of LET	17.2	0.9	16.3
Recalculation of regulated revenue of LITGAS	3.8	6.6	-2.8
Gas price discount provided by Gazprom	-	7.4	-7.4
Recalculation of regulated revenue of LEG	-	-9.7	9.7
Regularisation of commercial activities of LEG	-	-4.6	4.6
Impairment of assets of LEG	-	26.7	-26.7
Adjusted net profit	**116.4**	**130.1**	**-13.7**

Equity

In 2018, the equity of the Lietuvos Energija group increased by 2.0% or EUR 27.1 million and amounted to EUR 1,316.6 million as at 31 December 2018. Changes in equity were caused by the following factors:

1. During the reporting period the Group allocated and paid to the main shareholder dividends amounting to EUR 78.3 million for 2017 (EUR 80.9 million including minority shareholders).
2. The Group's equity decreased by EUR 62.8 million due to changes in the accounting policies of ESO upon adopting the new IFRS.
3. As a result of the revaluation of ESO's assets, the impact on the revaluation reserve due to the increase in value was EUR 123.1 million.

The Group's equity ratio decreased during the reporting period and reached 46.1% as at 31 December 2018 (31 December 2017: 53.6%). This ratio decreased due to increase in the Group's assets.

Investments

The Group's investments amounted to EUR 411.3 million in 2018 or 62.3% more than in the same period in the previous year. The major part of investments was allocated for the renewal (30%) and development (20%) of the electricity distribution network; also, investments in Vilnius and Kaunas co-generation power plants increased significantly (22%).

Investments in the renewal of the electricity distribution network decreased in 2018 by EUR 6.7 million compared to 2017. Investments made by Energijos Skirstymo Operatorius (ESO) in the renewal of the electricity distribution network amounted to EUR 121.5 million in 2018. Investments allocated by ESO for the development of the electricity distribution network totalled EUR 83.7 million in 2018. During the twelve-month period of 2018, ESO connected 31.0 thousand new customers to the electricity distribution network, which is 4.5% more than in 2017 when 29.6 thousand new customers were connected. In 2018, admissible electric power of newly connected customers was 445 thousand kW, which is 7.3% more than in 2017 (414 thousand kW).

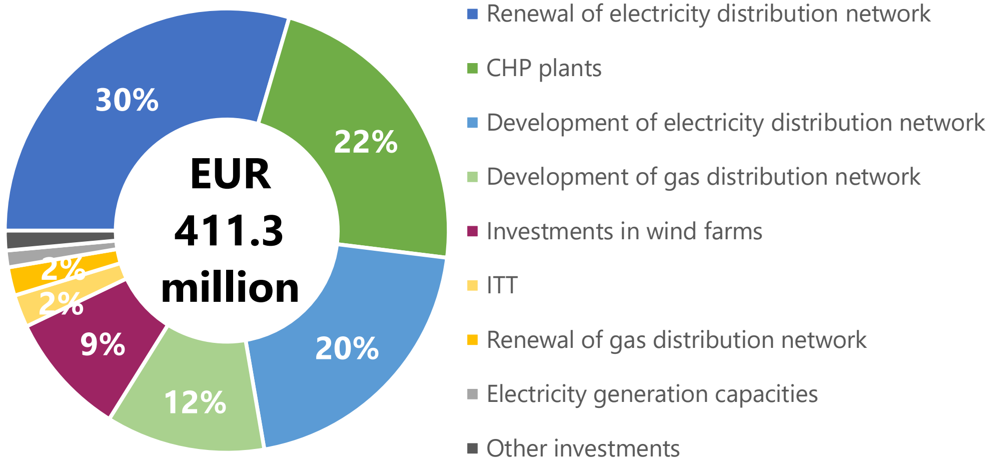
In 2018, the construction works in connection with the projects of Vilnius and Kaunas co-generation power plants gained momentum. Investments in these projects amounted to EUR 92.2 million during a period of twelve months of 2018.

In 2018, ESO's investments in the development of gas distribution network amounted to EUR 47.7 million and were 78% higher compared to EUR 26.7 million invested in 2017. During of 2018, ESO constructed 614.2 km of the gas distribution pipelines (372.5 km constructed during a respective period in 2017) for the connection of new customers to the gas network.

On 5 November 2018, the Company completed the share purchase and sale transaction regarding the acquisition of 100% of shares of Vėjo Vatas UAB and Vėjo Gūsis UAB and the shareholder's claim rights from Stemma Group UAB. Vėjo Vatas UAB holds the wind power park with the capacity of 14.9 MW and Vėjo Gūsis UAB holds the wind power parks with the capacity of 10 MW and 9.1 MW.

As at 31 December 2017, the Group's assets amounted to EUR 2,505.1 million. The Group's assets increased by 13.9% or EUR 349 million during 2018 and amounted to EUR 2,854.1 million as at 31 December 2018. The change in the Group's assets was mainly affected by increased property, plant and equipment as a result of investments made by the Group's companies. Moreover, the increase in value amounting to EUR 76 million was recorded following the valuation of property, plant and equipment of ESO.

Group's investment structure in 2018, %



Dynamics of the Group's investments by sector	2018	2017	Δ, +/-	Δ, %
Renewal of electricity distribution network	121.5	128.2	-6.7	-5%
Co-generation power plants	92.2	10.1	82.1	814%
Development of electricity distribution network	83.7	52.2	31.4	60%
Development of gas distribution network	47.7	26.7	20.9	78%
Investments in wind farms (1)	37.1	0.0	37.1	100%
ITT	9.7	15.4	-5.6	-37%
Renewal of gas distribution network	8.5	8.2	0.3	4%
Electricity generation capacities	5.0	1.9	3.1	162%
Other investments	5.9	10.7	-4.8	45%
Total	**411.3**	**253.4**	**157.9**	**62%**

(1) The disclosed amount of investments in the wind power plants shows increase in the amount of the Group's property, plant and equipment due to the acquisition of the wind farms

Financing

The Group's net debt increased by 66.4% or EUR 293.7 million compared to the amount of net debt at the end of 2017 and amounted to EUR 736.0 million as at 31 December 2018. The increase in the net debt was mostly influenced by investments made by the Group's companies.

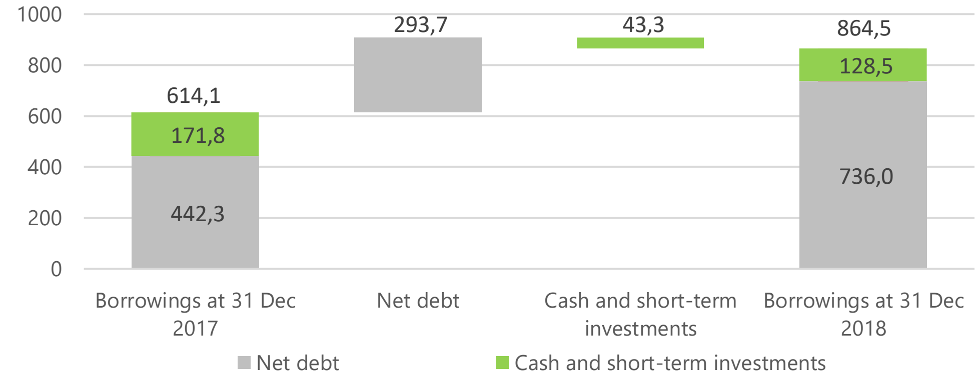
During 2018, the Group's borrowings increased by 40.8% or EUR 250.4 million and amounted to EUR 864.5 million as at 31 December 2018 compared to EUR 614.1 million as at 31 December 2017. As at 31 December 2018, borrowings amounting to EUR 614.6 million were subject to a fixed interest rate (71.1% of the total borrowings) and the remaining amount of borrowings was subject to a variable interest rate.

The average repayment period of the borrowings as at 31 December 2018 was 7.6 years (31 December 2017: 6.2 years). In July 2018, Lietuvos Energija issued the second 10-year EUR 300 million worth issue of green bonds. The annual interest of 1.875 will be payable on these bonds.

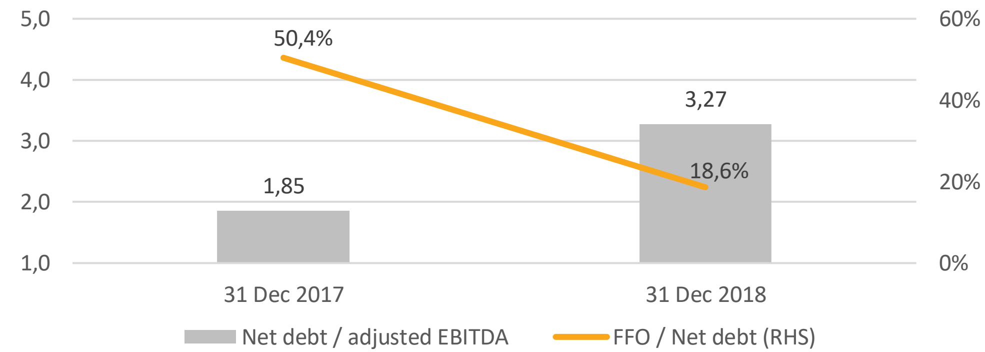
The Group's net debt to the Group's equity ratio increased from 32.9% at the 2017 year-end to 54.8% at the 2018 year-end. The Group's current liquidity ratio was 1.15 (31 December 2017: 1.29) as at 31 December 2018. The Group manages liquidity by entering into the credit line agreements with banks. The Group's unwithdrawn credit line facilities amounted to EUR 157.7 million as at 31 December 2018. All the credit lines are committed, i.e. funds are paid by the bank upon demand.

In May 2018, the international credit rating agency Standard & Poor's extended the assignment of a BBB+ credit rating with a stable perspective to Lietuvos Energija.

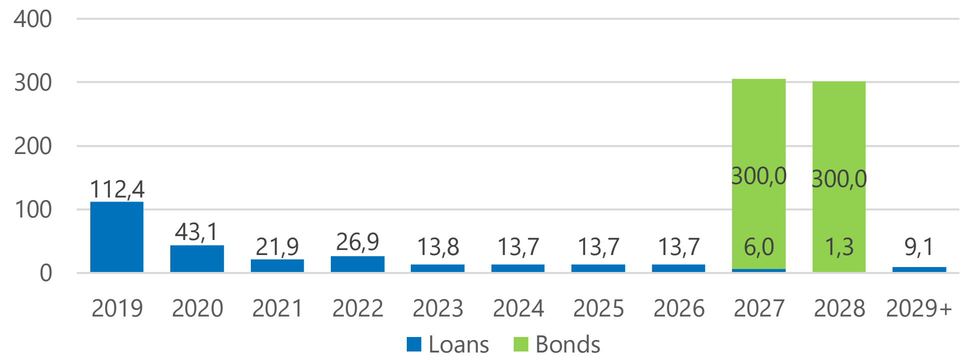
The Group's borrowings and net debt



The Group's net debt ratios



Repayment schedule of the Group's borrowings



Definitions

Working capital	Current assets (excluding non-current assets held for sale) - cash and cash equivalents - short-term investments and term deposits - current liabilities (excluding current portion of financial liabilities)
EA	Emission allowances
Current liquidity	Current assets at the end of the period / current liabilities at the end of the period
EBITDA	Operating profit (loss) + depreciation and amortisation expenses + expenses on revaluation and provisions for emission allowances + impairment expenses of non-current assets + write-off expenses of non-current assets
EBITDA margin	EBITDA / Revenue
FFO	EBITDA + interest income - interest expenses - current year income tax expenses
Guaranteed supply	Supply of electricity in order to meet electricity demand of customers who have not selected an independent supplier under the established procedure or an independent supplier selected by them does not fulfil its obligations, terminates activities or the agreement on the purchase and sale of electricity
Net debt	Borrowings - cash and cash equivalents - short-term investments and term deposits - a portion of other non-current financial assets representing investments in debt securities
Net profit margin	Net profit / Revenue
Adjusted net profit	Net profit + effect of the gas price discount to consumers +/- recalculation of regulated revenue from liquefied natural gas +/- recalculation of regulated revenue from electricity and gas transmission/distribution
Adjusted net profit margin	Adjusted net profit / Revenue
Adjusted net debt	Net debt adjusted for the put option execution obligation of Kauno Kogeneracinė Jėgainė UAB, provision for pensions to employees and a cash balance not available for immediate use in the ordinary course of business
Adjusted EBITDA	EBITDA + management's adjustments
Adjusted EBITDA margin	Adjusted EBITDA / Revenue
Adjusted return on equity (ROE)	Adjusted net profit (loss) / the average amount of equity during the reporting period
Customers of independent suppliers	Electricity users who have selected an independent electricity supplier as their supplier
Return on equity (ROE)	Net profit (loss) / the average amount of equity during the reporting period
Equity ratio	Equity at the end of the period / total assets at the end of the period
SAIDI	Average duration of unplanned interruptions in electricity or gas transmission
SAIFI	Average number of unplanned long interruptions per customer
Assets turnover ratio	Revenue / total assets at the end of the period
Return on assets (ROA)	Net profit (loss) for the period / the average amount of total assets during the reporting period
Operating expenses	Expenses, excluding purchase expenses of electricity and related services, gas and fuel oil for production, depreciation and amortisation, impairment expenses (non-current assets, construction in progress, amounts receivable, etc.), expenses of revaluation of property, plant and equipment, write-offs of non-current assets, inventories and amounts receivable and EA revaluation expenses.
Public supply	Electricity supply activity performed in accordance with the procedure and terms established by legal acts by an entity holding a public supply licence

Key financial indicators of the Lietuvos Energija group for 2014–2018

Financial data		2018	2017	2016	2015	2014
Revenue	EUR million	1,254,2	1,100.8	1,101.6	1,095.8	972.7
Cost of goods sold	EUR million	975,7	740.5	727.5	774.0	612.4
Operating expenses	EUR million	127,2	132.0	136.2	151.9	143.3
EBITDA	EUR million	149,9	227.2	232.8	172.8	217.5
EBITDA margin	%	12,0%	20.6%	21.1%	15.8%	22.4%
Adjusted EBITDA	EUR million	225,2	238.7	234.6	215.8	216.9
Adjusted EBITDA margin	%	18,0%	21.7%	21.3%	19.7%	22.3%
EBIT	EUR million	-5,2	97.1	147.4	65.1	-390.9
FFO	EUR million	137,1	223.1	216.1	171.1	199.4
Net profit	EUR million	-7,9	93.5	118.4	55.3	-280.0
Net profit margin	%	-0,6%	8.5%	10.7%	5.0%	-28.8%
Adjusted net profit	EUR million	116.4	130.1	117.7	124.5	118.2
Adjusted net profit margin	%	9.3%	11.8%	10.7%	11.4%	12.2%
Investments	EUR million	411.3	253.4	240.5	150.4	153.5
		At 31 Dec 2018	**At 31 Dec 2017**	**At 31 Dec 2016**	**At 31 Dec 2015**	**At 31 Dec 2014**
Total assets	EUR million	2,854.1	2,505.1	2,432.2	2,339.2	2,369.2
Equity	EUR million	1,316.6	1,343.6	1,319.5	1,304.5	1,308.9
Borrowings	EUR million	864.5	614.1	494.4	420.7	391.6
Net debt	EUR million	736.0	442.3	315.8	251.8	175.9
Return on equity (ROE)	%	-0.6%	7.0%	9.0%	4.2%	-18.1%
Adjusted return on equity (Adjusted ROE)	%	8.8%	9.8%	9.0%	9.5%	9.0%
Return on assets (ROA)	%	-0.3%	3.8%	5.0%	2.3%	-10.9%
Equity ratio	%	46.1%	53.6%	54.3%	55.8%	55.2%
Net debt / EBITDA	times	4.91	1.95	1.36	1.46	0.81
Net debt / Adjusted EBITDA	times	3.27	1.85	1.35	1.17	0.81
Net debt / Equity	%	55.9%	32.9%	23.9%	19.3%	13.4%
FFO / Net debt	%	18.6%	50.4%	68.4%	68.1%	113.4%
Assets turnover ratio	times	0.439	0.439	0.453	0.468	0.411
Current liquidity ratio	times	1.156	1.285	1.046	1.049	1.073
Working capital	EUR million	-19.0	-8.8	-34.0	-8.5	-39.8
Working capital / Revenue	%	-1.5%	-0.8%	-3.1%	-0.8%	-4.1%

Key financial indicators of the Lietuvos Energija group for 2014–2018 (continued)

Operating indicators		2018	2017	2016	2015	2014
Electricity						
Volume of electricity distributed	TWh	9.59	9.22	8.98	8.53	8.39
Distributed to customers of independent suppliers	TWh	6.17	6.00	5.83	5.41	5.17
Public and guaranteed supply	TWh	3.42	3.22	3.15	3.12	3.22
Generated electricity (incl. Kruonis PSHP)	TWh	1.01	1.28	1.49	2.01	1.84
Generated electricity using renewable energy sources (excl. Kruonis PSHP)	TWh	0.46	0.59	0.49	0.27	0.32
Volume of electricity sold	TWh	5.82	5.43	4.93	4.49	4.49
Public and guaranteed supply	TWh	3.42	3.22	3.15	3.12	3.22
Sales in retail market	TWh	2.40	2.21	1.78	1.37	1.27
Number of newly connected customers	units '000	30.98	29.64	29.36	28.50	26.43
Duration of connection of new customers (average)	calendar days	48	49	66	78	-
Quality indicators of electricity supply						
SAIDI (with *force majeure*)	min.	81.37	137.83	172.92	106.53	144.04
SAIFI (with *force majeure*)	units	1.14	1.32	1.25	1.06	1.29
Technological costs in the distribution network	%	6.03%	6.14%	6.49%	6.76%	7.31%
Gas						
Volume of gas distributed	TWh	7.60	7.37	7.39	6.83	7.77
Volume of gas sold	TWh	10.77	11.47	11.31	14.49	8.31
Volume of gas purchased	TWh	10.30	11.88	11.77	14.56	-
Volume of LNG purchased	TWh	5.25	6.35	7.55	4.81	-
Volume of natural gas purchased	TWh	5.05	5.53	4.22	9.75	-
Number of newly connected customers	units '000	14.74	12.53	5.29	4.08	3.59
Duration of connection of new customers (average)	calendar days	89	166	160	216	205
Quality indicators of gas supply						
SAIDI (with *force majeure*)	min.	0.606	1.161	0.529	1.034	2.172
SAIFI (with *force majeure*)	units	0.006	0.007	0.006	0.007	0.009
Technological costs in the distribution network	%	2.06%	2.13%	2.25%	2.48%	2.42%

RESULTS OF OPERATIONS OF THE GROUP`S COMPANIES

Energijos Skirstymo Operatorius AB

Energijos Skirstymo Operatorius AB (ESO) started its operations on 1 January 2016 after the merger of LESTO AB and Lietuvos Dujos AB. The main functions of ESO include electricity and natural gas distribution, guaranteed electricity and gas supply, connection to electricity and gas networks, ensurance of safe and reliable operation of electricity and gas distribution networks, their operation, maintenance, management and development. During the implementation of the project initiated by Lietuvos Energija UAB, the purpose of which is to optimise the activities of the Group and concentrate the function of energy supply to a single company, the activity of public electricity supply was unbundled from the Company from 1 October 2018 and transferred to another Group company, i.e. Lietuvos Energijos Tiekimas UAB, which is a supplier of natural gas to household customers and businesses. ESO owns and operates more than 125 thousand kilometres of electricity lines: 70% of them consist of overhead electricity lines, and 30% of electricity cables. The Company also operates gas distribution pipelines with the length of nearly 9 thousand kilometres.

Financial indicators

in EUR million unless otherwise stated	2018	2017	Δ, +/-
Revenue	624.0	612.3	11.7
Operating expenses (OPEX)	89.8	94.7	-5.0
EBITDA	122.4	140.1	-17.6
Adjusted EBITDA	169.1	150.9	18.2
Net profit	15.7	77.6	-61.9
Assets	1,591.6	1,277.8	313.8
Equity	640.0	607.6	32.4
Borrowings	631.5	372.7	258.8
Net debt	629.2	366.2	263.0
Adjusted EBITDA margin, %	27.1%	24.6%	
Net debt / Equity, %	98.3%	60.3%	
Net debt / Adjusted EBITDA	3.72	2.43	
Return on equity, %	2.5%	12.6%	
Equity / Assets, %	40.2%	47.6%	

Key financial results

ESO's revenue for 2018 amounted to EUR 624.0 million, which is a 1.9% increase compared to 2017. Revenue increased due to a higher quantity of electricity and natural gas distributed to customers of the Company and a one-off transaction on the transfer of the public energy supply business to Lietuvos Energijos Tiekimas UAB. Electric power transmission is the main source of the Company's revenue. During 2018, electricity transmission revenue comprised 68.1% of the Company's total revenue. Revenue from public supply of electricity represented 11.8% and revenue from natural gas distribution made up 6.6% of the Company's total revenue. The adjusted EBITDA increased by 12.3% as a result of more effective activities of the Company and the growing value of regulated assets due to investments in the renewal of networks.

Operating expenses amounted to EUR 89.8 million, which is 5.2% less compared to the same period in 2017. The most significant decline was noted in employee benefits and related social security contributions, as well as repair and maintenance expenses, which dropped by, respectively, 5.0% and 11.8%.

In 2018, ESO's investments in the electricity and gas distribution networks amounted to EUR 271.3 million, which is 19.9% more than in 2017 when they were equal to EUR 226,2 million. The main reasons for increase in expenses were higher costs for contract works and higher number of new customers. During 2018, 31.0 thousand new customers were connected to the electricity distribution network. In 2018, ESO's investments in the construction and reconstruction of gas systems amounted to EUR 56.2 million or 60.9% more compared to 2017. In 2018, ESO connected 14.7 thousand customers to the gas pipelines, which is 17.6% more than in 2017 when 12.5 thousand customers were connected.

Lietuvos Energijos Gamyba AB

Lietuvos Energijos Gamyba (LEG) brings together the state-owned electricity generating facilities, namely, the reserve power plant and the combined cycle unit at the Elektrėnai Complex, Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP), Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas HPP) and Vilnius thermal power plant No 3 (Vilnius TE-3) which was taken over from Lietuvos Energija UAB from 31 March 2018. LEG's main objective is to contribute to ensuring the country's energy security by consolidating production capacity.

Key financial results

Electricity production by the power plants operated by the company and sale of electricity produced totalled 0.883 TWh in 2018, which is a 23% decrease compared to 2017 when 1.147 TWh of electricity were produced and sold. In 2018, the results of operations were significantly affected by natural conditions, pre-planned important works. Due to dry summer the volume of energy produced at Kaunas HPP dropped by a quarter in 2018 compared to 2017. The major repairs were carried out in Kruonis PSHP for the first time in its history, leading to one of four units being unavailable for six months.

The company's revenue in 2018 decreased by 14.5% compared to 2017. Such decrease was mostly caused by decrease in electricity production volumes at the Elektrėnai Complex and decrease in revenue from regulated activities of the Elektrėnai Complex. Expenses incurred by the company in 2018 amounted to EUR 94.2 million. Expenses attributable to purchase of electricity, related services and fuel for electricity generation represented the major portion of the company's expenses (EUR 61.9 million or 65.7%). In 2018, operating expenses amounted to EUR 21.0 million, which is 5.4% or EUR 1.14 million more than in 2017. The main reason that determined higher operating expenses was larger costs related to the agreement on the maintenance of the combined cycle unit at the Elektrėnai Complex.

The company's adjusted EBITDA for 2018 is EUR 8.9 million lower from the previous year's adjusted EBITDA. EBITDA indicator was influenced by a lower volume of regulated services provided by the Elektrėnai Complex and lower income received from these services. However, it was partly compensated by higher sales revenue of Kaunas HPP and better commercial results of Kruonis PSHP.

The company's investments in property, plant and equipment and intangible assets amounted to EUR 5.0 million in 2018 (2017: EUR 1.9 million). In 2018, investments were mainly allocated for major repair works of the second unit of Kruonis PSHP.

Financial indicators

in EUR million unless otherwise stated	2018	2017	Δ, +/-
Revenue	130.7	149.8	-19.2
Operating expenses (OPEX)	20.3	20.0	0.3
EBITDA	44.8	70.5	-25.7
Adjusted EBITDA	44.8	53.7	-8.9
Net profit	29.6	20.5	9.1
Assets	656.7	636.3	20.4
Equity	386.6	353.9	32.8
Borrowings	38.2	55.6	-17.3
Net debt	-9.7	-5.1	-4.5
Adjusted EBITDA margin, %	34.3%	35.9%	
Net debt / Equity, %	-2.5%	-1.5%	
Net debt / Adjusted EBITDA	-0.22	-0.10	
Return on equity, %	8.0%	5.8%	
Equity / Assets, %	58.9%	55.6%	

Wind farms

Lietuvos Energija owns four operating wind power park companies in Lithuania and Estonia. On 5 November 2018, the Company completed the share purchase and sale transaction regarding the acquisition of 100% of shares of Vėjo Vatas UAB and Vėjo Gūsis UAB and the shareholder's claim rights from Stemma Group UAB. The overall capacity of the wind turbines owned by Lietuvos Energija increased nearly twice after the completion of the above-mentioned transaction and is equal to 76 MW. Lietuvos Energija is the second largest wind power producer in the Baltic countries and holds around a 9% share of the market.

Eurakras UAB operates a park of eight wind turbines with the overall capacity of 24 MW, located in Geišiai and Rotuliai II villages, Jurbarkas district. Wind turbines for this wind power park were produced by the German company Nordex. The installed capacity of each turbine is equal to 3 MW.

Tuuleenergia OU operates the park of six wind turbines with the overall capacity of 18.3 MW, located in Mali and Tamba, Estonia. All six wind turbines for this wind power park were produced by the German company Enercon. The installed capacity of each turbine is equal to 3 MW.

Vėjo Gūsis UAB operates two wind power parks in Liepynė and Kreivėnai, the districts of Tauragė and Kretinga. The overall capacity of eleven wind turbines reach 19.1 MW.

Vėjo Vatas UAB operates the wind power park of seven wind turbines with the overall capacity of 14.9 MW in Kreivėnai, the district of Tauragė.

Key financial results

The total of 183 GWh of electricity were produced at the wind power park controlled by the Group and sold in 2018. Vėjo Vatas and Vėjo Gūsis were acquired only in November 2018, therefore the total volume attributed to Lietuvos Energija is slightly lower, i.e. 124 GWh. The average wind speed in the territories in which the wind power parks are located was approximately 7% lower than in 2017 resulting in more modest production results compared to 2017. The accessibility of the wind power parks operating in Lithuania reached more than 99% in Lithuania, while the average indicator in Estonia is only one percentage point lower.

The Group's consolidated revenue from wind power parks reached EUR 9.4 million in 2018, which is EUR 0.6 million more compared to 2017. In 2018, EBITDA amounted to EUR 7.7 million (2017: EUR 7.5 million). The average EBITDA margin of the controlled wind power parks was 82.7% in 2018. The net profit earned from the wind power parks for 2018 reached EUR 2.7 million (2017: EUR 2.4 million).

Financial indicators

in EUR million unless otherwise stated	2018	2017	Δ, +/-
Revenue	9.4	8.8	0.6
Operating expenses (OPEX)	1.5	1.2	0.3
EBITDA	7.7	7.5	0.2
Net profit	2.7	2.4	0.3
Assets	99.8	63.6	36.2
Equity	25.4	8.5	17.0
Borrowings	67.2	48.4	18.8
Net debt	62.4	43.6	18.8
EBITDA margin, %	82.7%	86.2%	
Net debt / EBITDA	8.06	5.78	
Return on equity, %	12.5%	25.8%	
Equity / Assets, %	25.5%	13.3%	

Lietuvos Energijos Tiekimas UAB

The core line of business of Lietuvos Energijos Tiekimas (LET) is the purchase (import) and sale of natural gas to customers. The Company started the activity of public electricity supply with effect from 1 October 2018. The company supplies natural gas to business customers operating in the sectors of energy, industry and small commercial businesses, and to private customers – overall 594 thousand customers. The company supplies electricity to more than 1.64 million private customers.

Key financial indicators

In 2018, LET supplied 7,409 thousand MWh of natural gas to customers, excluding gas supplied under transactions for balancing of the natural gas supply schedule. The volume of gas supplied declined by 10% compared to 2017 mainly as a result of decline in gas sales to commercial customers in Latvia and Lithuania. Following the acquisition of public supply electricity operations from ESO from 1 October 2018, the volume of electricity supplied to customers over the last three months of 2018 totalled 0.88 TWh.

In 2018, the company's revenue totalled EUR 332.4 million, i.e. 39% higher compared to 2017. Revenue growth resulted from the acquisition of the public electricity supply business. In 2018, the company incurred losses of EUR 5.1 million (2017: net profit of EUR 7.6 million was earned). The company's operations were loss-making due to higher purchase prices of electricity compared to established prices for the public electricity supply service. These losses will be compensated through the regulatory mechanism in the upcoming periods.

Financial indicators

in EUR million unless otherwise	2018	2017	Δ, +/-
Revenue	311.7	239.9	71.7
Operating expenses (OPEX)	6.4	4.2	2.2
EBITDA	-9.8	4.8	-14.6
Adjusted EBITDA	13.4	13.3	0.1
Net profit	-5.1	7.6	-12.7
Assets	131.9	85.6	46.3
Equity	11.5	21.3	-9.7
Borrowings	22.5	31.3	-8.9
Net debt	11.0	25.7	-14.7
Adjusted EBITDA margin, %	4.3%	5.5%	
Net debt / Adjusted EBITDA	0.82	1.93	
Return on equity, %	-30.8%	43.7%	
Equity / Assets, %	8.7%	24.8%	

Energijos Tiekimas UAB

Energijos Tiekimas UAB is the largest independent Lithuanian capital electricity supplier. The company has over 6.9 thousand customers in Lithuania. The company owns a company operating in Estonia (Geton Energy OU), in Latvia (Geton Energy SIA) and in Poland (Geton Energy sp. z o.o.) that are engaged in power supply.

Key financial indicators

The company's sales revenue for 2018 amounted to EUR 123.1million; EUR 44.9 million more compared to 2017. Main reason was increase in market prices of electricity. The rise in prices was influenced by the global increase in raw material prices, temperature changes caused by natural anomalies and the limited capacity of the 700 MW power link between Lithuania and Sweden in 2018 QIII-IV. Quantity of electricity supplied by the company in 2018 increased by 11% up to 1.73 TWh (1.55 TWh in 2017). Net profit was EUR 11.8 million (EUR 4.9 million in 2017). The main reason for the increase in net profit is the growing market value of financial instruments.

Financial indicators

„Lietuvos energijos" grupės dalis

in EUR million unless otherwise stated	2018	2017	Δ, +/-
Revenue	123.1	78.1	44.9
Operating expenses (OPEX)	2.7	2.4	0.3
EBITDA	15.3	7.2	8.1
Adjusted EBITDA	0.6	6.4	-5.8
Net profit	11.8	4.9	6.9
Assets	115.5	50.4	65.1
Equity	35.8	25.8	10.0
Borrowings	56.6	16.3	40.3
Net debt	19.7	4.2	15.5
Adjusted EBITDA margin, %	0.5%	8.0%	
Net debt / Adjusted EBITDA	33.60	0.65	
Return on equity, %	38.2%	17.3%	
Equity / Assets, %	31.0%	51.1%	

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

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

The overview of Lietuvos Energija Group performance covers a period from 1 January 2018 until the report date.

Creation of value for Lithuania

Approved strategy of Lietuvos energija up to 2030

Lietuvos Energija has published an operating strategy for 12 years up to 2030 that provides for a fundamental transformation. The company will increase production capacities in the green energy and will expand to international markets where it will implement innovations in the energy sector. By implementing all that, a stable return will be ensured that will amount to EUR 1.6 billion during 2018-2030 and the best price and quality for customers will be maintained. Major attention is planned to be paid to sustainable development that consists of the assurance of strategic generation, development of green generation, creation of a commercial organization and the new energy. Since now Lietuvos Energija will go on a path of international development and will create high added value products. It is planned that half of the dividends earned by the group in 2030 will be received from activity abroad and this way the state budget will be supplemented with the profit earned from activities abroad. Lietuvos Energija will create a future energy by making it light, invisible green and global.

Succesful second issue of green bonds

Lietuvos Energija has successfully placed the second issue of green bonds for EUR 300 million. The bonds have been acquired by 115 investors from 22 states which demand exceeded the supply by even 4 times. Although the situation on the market is more complicated, this year Lietuvos Energija managed to place an emission even cheaper than last year – the profitability of bonds with a 10-year term to maturity is 2.066 per cent, less than that of 2.193 per cent in 2017 when the first issue, also of EUR 300 million and with a 10-year term was placed. The majority of bonds were acquired by investors from France, Germany, Great Britain, Italy, and Lithuania. With the attracted funds, Lietuvos Energija is planning to finance further investments into the wind energy, efficiency enhancement of the electricity distribution grid, as well as projects on energy production from waste and bio-mass. Lietuvos Energija undertakes to use funds attracted with the green bonds only for financing such investments that are intended for the green energy projects.

Innovation Centre established by Lietuvos Energija

In October, Lietuvos Energija established a unique Innovation Centre which created the cooperation platform leinnovationhub.com will become the first step in seeking to implement available ideas in energy for Lithuanian and foreign start-ups. The Innovation Centre focuses on four key areas of cooperation: open infrastructure, open financing, open partnership and open culture. The centre expects to attract to them more than 500 innovation ideas, mostly from future foreign partners.

Signing a cooperation agreement with Kaunas University of Technology

In the strengthening of its partnership with educational establishments, "Lietuvos energija" has signed a cooperation agreement with Kaunas University of Technology.
On the basis of the agreement signed, the partners will be able to cooperate in developing and implementing research, human resources and other projects, to create together scientific production as well as to exchange scientific and technological information between each other and to systematize it, to cooperate in improving the courses of study, in organizing traineeships for the students, applicability of the knowledge acquired in practical work.
Kaunas University of Technology and Lietuvos Energija also are planning to tackle together technological issues and to collaborate in creating conditions for research..

Improvement of the strategic infrastructure

Preparation for the development of Kruonis Pumped Storage Plant

LEG has assessed the possibilities for the expansion of Kruonis PSHP with the installation of the fifth hydro unit. The results of the analysis show that under current market conditions the existing 900 MW capacity is sufficient for the operation of the power plant, but its expansion is important for assuring sufficient electricity capacity and competitive power system in Lithuania in future. Higher production capacity of Kruonis PSHP is expected to be achieved by building the fifth asynchronous hydro unit with the capacity of 225 MW.
A large part of preparatory works for the expansion project of Kruonis PSHP has been already performed. The implementation of the project is expected to continue for about four years.
In January 2018, the European Commission approved of a partial funding of studies on the power plant's poles site and infrastructure. The aim of these studies is to assess

whether the current condition of the poles site, on which the new pipeline would be constructed, meets the requirements established in the design. Partial funding of the feasibility study of the fifth unit of Kruonis PSHP was also approved. This study will aim to assess whether a synchronous or asynchronous unit would be more suitable in meeting today's needs and will also cover a socio-economic analysis.

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

ESO will ensure reliable electricity supply to residents and business in Eastern Lithuania

By preparing for synchronising the electricity grids with the continental European network the electricity and gas distribution company Energijos Skirstymo Operatorius and the electricity transmission system operator Litgrid will implement a common project that will ensure reliable supply of electricity to residents and business in Eastern Lithuania. Lithuania has planned to synchronise electricity grids with the continental Europe until 2025. By then all high voltage transmission lines connecting Lithuanian and Byelorussian electricity grids will be disconnected. The construction of high voltage transmission lines that would ensure quality and uninterrupted electricity supply in Eastern Lithuania would cost EUR 20.36 million, however joint work of the companies' experts enabled to find a considerably cheaper solution that would cost EUR 1.2 million.

ESO opens electricity transmission grids to innovation developers

EEnergijos Skirstymo Operatorius (ESO) opens the infrastructure of the electricity distribution grid for testing innovative solutions. Innovation developers may, under real conditions and free of charge, test technological solutions and equipment, whereas successful innovations would be considered by ESO for the application on a broader scope. All companies creating innovative solutions in the energy field, technology start-ups, universities and research centres may participate in the Sandbox project. ESO will grant access to the infrastructure free of charge. The testing of equipment will be free, whereas the project participants will have a possibility to discuss the test results with ESO specialists. This ESO initiative reflects a general approach of Lietuvos Energija Group to implement actively the development of innovations by establishing possibilities to test and to implement novelties contributing to the development of services, improvement of quality and growth in customer satisfaction. ESO will grant access to the distribution grid or data for equipment and technological solutions that would enable to systemise the grid, enhance its reliability, efficiency, to integrate renewable energy resources and electricity producing consumers. Applications to experiment with micro-grids, regulation loan, energy storage, environmental protection technologies are welcome.

ESO plans investing during the decade up to 2.1 billion euros

Energijos Skirstymo Operatorius (ESO) will invest into the enhancement of reliability, safety and smartness of the electricity and gas grid. The company described the planned investments in the investment plan for 2018-2020 published in July. In total, up to EUR 2.1 billion are planned to be invested. ESO plans to make investments in three directions. The first one is reliable and resilient to climate phenomena grid. By replacing overhead lines into underground, dismantling unreliable and frequently malfunctioning equipment, the company will seek to ensure an interrupted and quality energy distribution through the environmentally safe electricity and gas grid. Investments into the second direction – creation of remote-controlled network is aimed to improve the restoration of energy supply in case of failures, to establish conditions to make decisions on the network control based on real information, also facilitate the integration of renewable energy resources. The third direction is a smart grid. It is aimed to improve the quality of ESO services, make premises for customers to follow precisely the consumption of energy, get precise bills and save energy by rationally using it.

Experimental solar plant on water is planned in the basin of Kruonis Pumped Storage Power Plant

LEG plans to install an experimental solar plant floating on the water at Kruonis Pumped Storage Power Plant (Kruonis PSPP). The company intends to implement this exceptional project together with scientists of Kaunas University of Technology) (KTU), whereas assistance in turning the innovative idea into reality is requested from European Union funds. The floating power plant would be the first such type power plant in the countries of this region and would stand out for its technical solutions. It would be possible to utilize an area of over 300 ha of the upper basin of Kruonis PSPP. The construction of the power plant would adjust to the variable water level in the basis and would be resilient to waving and ice.

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

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

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

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

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

New services to customers

The purified activity of Lietuvos Energija Group enables to concentrate even more on the creation of new services, improvement of quality and accessibility of the services provided, improvement of customer service and development of the service channels.

Electricity rate has reduced for the fifth year in a row

In 2018, electricity rate further reduced in Lithuania. It has been estimated that since 2013 the average electricity price for residents has reduced by as many as 23 %. The price of the most popular in the country - Standard one-time zone tariff plan - has reduced since February 2018 down to 11.3 cent per kWh. Residents who have chosen the Standard two-time zone tariff plan now pay 12.2 cent (during the day-time on working days) and 9.1 cent per kWh (during the night time and on weekends). Based on Eurostat, electricity prices for residents are among the smallest in Europe - last year cheaper electricity in the entire EU was only in Bulgaria and Hungary.

ESO offered a possibility for customers to get all services by leasing

Nuo By consistently expanding the fields of activity, since now the electricity and gas distribution company Energijos Skirstymo Operatorius (ESO) will provide the majority of its services by instalment. Not only the persons who install electricity or gas up to the boundary of their land plot will be able to use leasing, but also those who install an electricity or gas internal grid, solar power plant or have ordered an increase of power. It is expected that the leasing service will primarily alleviate a financial burden for settlers – will help plant expenses and will facilitate concerns of housewarming.

Customers are offered also gas condense boilers

LET offers to customers to get from one hands condense gas boilers and water heaters, components necessary for them, also installation services, as well as order the supply of gas. The company plans to offer even more additional services in the future that would make gas heating, its installation and use even more convenient and simpler.

The new activity is focused not only on new, but also on existing customers. Upon changing the boilers acquired earlier with the news, condense-technology ones, they may cut down their consumption of gas up to 20 %.

Residents may acquire electricity and gas more conveniently – from one supplier

By refining activities, since 1 October Lietuvos Energija separated the activity of electricity to supply to residents from Energijos Skirstymo Operatorius (ESO) under its management and transferred it to the Group's another company – Lietuvos Energijos Tiekimas (former Lietuvos Dujų Tiekimas). It is planned that the biggest benefit of change will be felt by those customers who bought electricity from ESO and gas – from LDT. Since now, they have to communicate on all issues associated with electricity or gas supply only with one company. Therefore, energy acquisition for them has become simpler and more convenient. The premises to separate activities and to concentrate the supply of electricity and gas at one company emerged after the Seimas approved an amendment to the Law on Electricity prepared by the Ministry of Energy on 30 June 2018.

More convenient service and faster connection

ESO agreed with road-builders to organise common works faster

Energijos Skirstymo Operatorius (ESO) and the Lithuanian Road Administration under the Ministry of Transport and Communications (LAKD) signed a cooperation agreement that will enable to enhance efficiency of grids modernisation and road reconstruction works, and to install electricity and gas for new customers faster. In the cooperation agreement signed between ESO and the Road Administration it was planned to coordinate jointly the planning and implementation of renewal, development of Lithuanian electricity grids, as well as road reconstruction works. This means that the organisations shall share annual work plans, will establish favourable conditions to carry out necessary works in the zones where energy distribution grids and roads intersect. If possible, renewal works of electricity grids and roads will be carried out simultaneously in specific locations.

LET employed a robot for customer consulting

Digital technologies increasingly applicable in the energy field also improve the service of natural gas users. To serve corporate customers, the natural gas supply and trade company Lietuvos Dujų Tiekimas developed a robotic self-service system that expeditiously informs on the volumes of gas consumption and systemic services use. The robot named Linas took over a part of consultants' functions at the company and, by analysing nearly real time data gives advice to customers, also forecasts future trends. It is important that the robot gives messages not only after a happened fact, but forms a piece of news even before it, by advising what actions could be taken. The renewed self-service system is supplemented with the so-called "monitoring room"' wherein the tools of analysis enabling to monitor conveniently and assess the usage of services, also to analyse costs and fees paid have been installed.

Gilė simplified cash payments

Gilė belonging to Lietuvos Energija Group and taking care of the service of electricity and gas customers simplifies the services of paying fees with cash for provided services at the places of payment acceptance. Since 1 February, customers who pay fees for electricity and gas with cash at the places of payment acceptance – Lithuanian post offices, Maxima cash desks, Perlas terminals and elsewhere – will no longer have to take care of the calculation of the amount payable. A customer will only have to bring a reading showed by his electricity or gas meters, say the customer's code, and the amount payable will be calculated automatically. This sum will include the fee for electricity consumed and other amounts, if any, for example, debts, overpayment, monthly fee, or a fee for electricity for common needs of a house. If the customer does not have the necessary amount of money, it will be possible to pay only a part of the fee in a number of places of payment acceptance, and pay the remaining amount later. If not a full amount is paid, customers will be reminded thereof by a bill sent to them.

ESO abolished a part of permanent places of work

For more than a half-year, accounting management specialists of ESO have worked remotely. Instead of travelling to the office in the morning, they go to customers directly from their homes. This solution enabled to increase the time allocated to customer service by 15 %, and to give up the space of 3 thousand square meters. Before implementing this novelty, a pilot project was carried out which showed that mobile staff members allocate to customers 7 % more time, therefore they respond to their enquiries faster and look into a problem more thoroughly. Upon abolishing a part of permanent places of work, specialists are subject to a lesser load of administrative work, therefore now 15 % more time is devoted to customer service and solution of their problems. Besides, employees' satisfaction and motivation to improve has increased, as by planning day and week tasks they may spend more of their time to the family and leisure.

Businesses that have used ESO advice will save more than EUR 1 million a year

Already for the second year, the electricity and gas distribution company Energijos Skirstymo Operatorius (ESO) has analysed the consumption of electricity by corporate customers and submitted individual recommendations to them in order they could save by choosing a more favourable tariff plan. 631 company, having changed its plan free of charge by taking into consideration the advice, will save up to EUR 1.03 million during 2018.

ESO will resolve faults even faster or it will pay compensations

In 2018 resolving faults of the electricity grid twice as fast, ESO makes another step and seeks to reduce by half the maximum duration of resolving faults. If works nevertheless would still last longer than it has been promised, compensation would be paid to customers. On the suggestion of ESO, the company and the Ministry of Energy agreed that the maximum time of resolving electricity faults will reduce by half – up to 12 hours instead of the effective 24-hour period. If a fault is not eliminated during this period, ESO customers will be able to get compensations. During the first half year, ESO eliminated a failure in the electricity grid within nearly 1.4 hour from the registration of malfunction. Last year this took 3.5 hours on average

Diversification of activities

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

Construction of Vilnius co-generation power plant has been started

On 12 February, by commemorating the beginning of constriction works of the new Vilnius co-generation power plant, a memo capsule was embedded in the land plot of the plant on Jočiočių str. It contains a letter to future generations on ambitions of the current society to create a cleaner environment in the capital and the entire Lithuania. It has been planned to launch the plant at the end of 2019. It is expected that the new Vilnius co-generation power plant, using biofuel and municipal waste, will produce nearly half of the heat centrally supplied to the capital, and such an amount of electricity that would suffice to procure approximately 80 % of Vilnius households. The plant will

cut down annual expenses for heat to Vilnius residents by EUR 13 million, and for waste management – by EUR 10 million. By following examples of the most modern power plants operating in centres of European cities, modern smoke cleaning equipment will be installed in the Vilnius co-generation power plant that will ensure a completely safe and pollution-free generation of energy. Upon completing the construction, the Vilnius co-generation power plant will be one of the most modern in the whole Europe in terms of environmental protection and energy generation technologies.
Construction of Kaunas co-generation power plant started in December 2017.

Expected to reduce maintenance expenses of the LNG terminal by approximately EUR 0.5 million

The appointed supplier of liquefied natural gas, LITGAS optimised a schedule of the prescribed supply of goods and this way expects to cut down maintenance costs of the LNG terminal by approximately EUR 0.5 million in 2018.

LDT strengthens relationships with the USA: an arrangement was signed with one more American supplier of LNG

The natural gas supply and sale company Lietuvos Dujų Tiekimas (Lietuvos Energijos tiekimas since October) belonging to Lietuvos Energija Group signed in the United States a memorandum of understanding with the USA company Freeport LNG that finishes the construction of a liquefied natural gas (LNG) terminal in Quintana Island, state of Texas (USA). The signed arrangement will open a way to import American gas from this terminal in the future. Last year, Lietuvos Dujų Tiekimas imported from the USA two cargoes of liquefied natural gas, and, in terms of USA LNG import volumes, occupied the third place in Europe after Spain and Portugal. The first cargo of natural gas extracted in the USA reached the shores of the Baltic Sea in August 2017 after Lietuvos Dujų Tiekimas had acquired it from Cheniere company managing the first USA LNG terminal Sabine Pass. Currently, Lietuvos Dujų Tiekimas and LITGAS belonging to Lietuvos Energija Group have signed about 15 non-binding general trade agreements with world suppliers of LNG supplying about half of the whole world with LNG.

Development abroad

Lietuvos Energijos Group has increased attention to the Latvian market - secondary company in Latvia Geton Energy of Energijos Tiekimas belonging to the Group will offer to its corporate customers a general package of the supply of natural gas and electricity. Geton Energy will cooperate with another company of Lietuvos Energija Group – Lietuvos Dujų Tiekimas on this market.
In October, by implementing the goal set out in the new strategy LE 2030 to become established in Poland during the next two years, Lietuvos Energija has made one step further – appointed a regional manager for Poland in October. This office has been assumed by Ms. Diana Kazakevič, Director of the Business Development and Support Department of one of the Group's companies.

Investments into start-ups

Smart Energy Orientated Venture Capital Fund set up by Lietuvos Energija under the management of Contrarian Ventures has invested this year into five start-ups. The Lithuanian capital start-up Aerodiagnostika that creates a pilot-free aircraft platform and the start-up Switchee operating in Great Britain that has developed the first smart thermostat intended for large managers and owners of social housing received investments in the amount of EUR 350 thousand. Besides, the fund has invested more by about EUR 280 thousand to the Great Britain start-up Voltaware creating an electricity consumption and control platform. Investments into the latter start-up have been made with the British energy giant BP. It is planned that solutions of the start-ups will be applied in Lithuania and will contribute to the goal of Lietuvos Energija to become one of the most innovative companies.
The Estonian start-up Fusebox has received an investment of EUR 50 thousand. It is expected that the platform developed by it and the service will help electricity users become market participants by contributing to the grid balancing. The fund invested EUR 250 thousand into the PVcase tool being developed in Lithuania that will automate the designing of solar power plants. It is expected that the technology under development will enable to significantly shorten up some designing stages of solar power plants and this way reduce designing expenses even more.
The company also invests in French and US start-up "Sterblue" that develops software for unmanned aircrafts (drones) that allows inspecting power lines and wind power plants without human intervention.

Wind farms acquired and project development

Lietuvos Energija has signed the share purchase agreement for the acquisition of two companies. The company seeks to acquire from "Stemma Group" a 100% shareholding of companies "Vėjo vatas" and "Vėjo gūsis". "Vėjo vatas" manages a 14,9 MW wind farm, while "Vėjo gūsis" manages 10 MW and 9,1 MW wind farms, and the total power of all three wind parks exceeds 34 MW. On the 27th day of December "Lietuvos energija" has acquired from a group of natural and legal persons a 100% shareholding of UAB "VVP Investment". UAB "VVP Investment" develops a 600 megawatt (MW) wind farm of 20 wind power plants in northwest Lithuania.
In developing green energy activities and seeking to optimize the activities of energy production companies managed by it, Lietuvos Energija establishes a new company.
The shares of all wind farms that are already in the possession and of those being developed are planned to be transferred to a new company called Lietuvos Energija

renewables". In the future, the group's investment in energy production from renewable energy sources will be also developed through this company. Lietuvos Energija will own 100% of the shares of the new company.

„Energijos Tiekimas offered installing solar plants for free

The independent electricity supplier Energijos Tiekimas was the first in Lithuania that offered legal persons to install a solar plant. A source of generating the renewable energy will be installed on the roof of the company, whereas electricity produced by it will be sold to a customer at the agreed rate. Energijos Tiekimas may install a solar plant for companies that consume at least 200 thousand of kWh (kilowatt hours) energy a year. The minimum power of the offered solar plant – 50 kW, whereas for installing such power plant, a roof of at least 700 m2 is necessary.

Enhancement of operational efficiency

Non-core activities are abandoned

The board of Lietuvos Energija Group of energy companies adopted a decision on the abandonment of yet another non-core activity. During the nearest months, consistent actions will be taken in abandoning contractor activity pursued by one of the Group's company – energy services and contraction organisation (EnePRO) - providing the services of construction, reconstruction, repair and maintenance of energy equipment. It has been planned that a project on the abandonment of contractor activity will be implemented as soon as possible. EnePRO will complete the available contracts and will not take new orders, also will settle accounts with suppliers. By reducing the volumes of operation up to the minimum, the company will implement the most important projects it has commenced.
Lietuvos Energija also adopted a decision to wind up VAE SPB company belonging to the Group no longer engaged in commercial activity. By taking the decision to terminate operation of the company, consideration has been made to the draft of the National Energy Independence Strategy (NEIS). The draft offers giving priority to the development of renewable energy resources and does not foresee provisions and objectives associated with the implementation of a project on a new nuclear power plant. The decision to liquidate VAE SPB has been approved by the shareholder of Lietuvos Energija – the Ministry of Finance. The winding up of the company has also been approved by the Ministry of Energy.
By purifying activity, NT Valdos - a company of Lietuvos Energija Group that manages real estate - realised the real estate no-longer used in the Group's activity at public auctions organised since the beginning of 2016, in total 79 objects for EUR 50 million, excluding the VAT.
NT Valdos have also implemented a project on the separation of activities. After Lietuvos Energija approved conditions for the separation of NT Valdos, a new company of the Group - Transporto Valdymas – was set up to which was delegated transport management activity. Lietuvos Energija owns 100 % of Transporto Valdymas shares. Currently, a sale process of Transporto Valdymas takes place.

Disposition of ineffective equipment in Elektrėnai Complex

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

Considering that chimneys 1 and 2 of the Elektrėnai Complex have not been used since 2014 and their condition deteriorates every year and thus can pose an increasing threat to the safety of people, LEG initiated their dismantling project. The chimneys were constructed as early as at the beginning of the 1960s. The middle chimney with the height of 250 m will be dismantled first as its condition is the worst. This chimney was used to remove smoke emitted from units 5 and 6 that are currently being dismantled. This chimney is damaged by the occurrence of electrochemical corrosion of reinforcing bars and has signs of the emergency condition of the structure. The dismantling of this chimney is expected to be completed by the end of 2019. The dis-mantling of the lower chimney with the height of 150 m will follow, which was used to emit smoke from units 1 and 4 that are currently fully dismantled. The contracts on the dismantling of these chimneys are planned to be signed at the beginning of 2019.

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

Social Responsibility

Social responsibility of Lietuvos Energija group companies are based on its values and define the Group's approach to its activities, including the social, environmental and transparent principles in its internal processes and in its relations with concerned parties.

The Corporate Social Responsibility Policy has been approved by the Group Company. This document defines general responsible policies and provisions under which the business culture and practice of the socially responsible and sustainable group of companies is being developed.

Responsible activities and corporate responsibility of Lietuvos Energija Group include:

- corporate governance (transparency, ethics, compliance, zero tolerance for corruption),
- corporate social responsibility:
    - *economic* responsibility (profitable activity, resource savings, relationships with suppliers and responsibility for products and services),
    - *environmental* responsibility (sustainable development, energy efficiency, pollution reduction and waste management),
    - *social* responsibility (human and labour rights, quality of workplace, equal opportunities, safety and health protection),
- civic and responsible behaviour with concerned parties (relations with institutions, cooperation with scientific and innovation communities) (we have established an **Innovation Fund**), partnership with communities in which we operate,
- accountability to the public (Corporate Responsibility Progress Reports).

Lietuvos Energija complies with the ten Global Compacts principles which define corporate responsibility in the areas of human rights, employees' rights, environmental protection and anti-corruption, as well as seek to reduce the impact of their activities to environment, community and other businesses. Moreover, by joint efforts Lietuvos Energija tackles economic, social and environmental challenges, and contributes to the development of society and growth of economy. These generally accepted and declared guidelines for responsible behaviour are a clear and strong reference for the development of socially responsible business activities.

Human Rights

In the provision of its services and activities in different communities, the Group operates in accordance with the principles of the protection of human rights, promotes and respects international protection of human rights in its sphere, and ensures that it does not contribute to violations of human rights and advocates any violation thereof.

In 2018 no discrimination or other incidents related to human rights violations have been identified in Group companies.

Occupational Health and Safety

Group companies comply with the general provisions and principles of occupational health and safety, also the basic guidelines of their implementation defining the requirements of Occupational Health and Safety Policy of Lietuvos Energija, as well as all the requirements of the Lithuanian legislation regarding occupational health and safety.

Great attention is paid to accident prevention: Lietuvos Energija keeps OHSAS 18001: 2007 certificates in order to control and improve health and safety performance, moreover, workplaces of employees and contractors, as well as the quality of work organization are constantly being checked, new and innovative measures are constantly being introduced to enhance the safe environment; furthermore, employees are provided with all personal and collective security measures. In order to develop the knowledge of employees to increase their competences and responsibilities, great attention is also paid to the development of employees. Group companies organize free medical checks for all employees who need it. Employees who work outdoors are vaccinated against tick-borne encephalitis and are offered vaccination against influenza.

Environmental Protection

In its activities, the Group of companies seeks to protect the environment, contribute to more sustainable use of natural resources, and implement modern, efficient and environmentally safe technologies in production activities. Group companies follow the requirements of environmental legislation and norms, as well as professionally apply preventive measures that reduce the negative impact on the environment.

The most important environmental issues raised are the following: safe operation of equipment, safe use of environmentally hazardous materials and waste management.

The Group companies fulfil all its environmental requirements and, on their own initiative, take care of the construction of new facilities and the renovation of the old ones, so that the impact on the environment shall be even lower. Group companies organize environmental management campaigns. Meetings between employees from different companies and departments are organized through video conferencing, in order to reduce transport costs and reduce the environmental impact of emissions. Paper saving and the sorting of electronic devices used in the activity is encouraged.

Group companies support the ISO 14001 environmental management standard. A globally recognized certificate indicates that a company that owns it follows the most important requirements for identifying, monitoring, managing, and improving environmental aspects.

Public Initiatives

Group companies implement large-scale, long-term social responsibility initiatives, which are combined with the active involvement of targeted public groups and ideas for security and energy efficiency. Initiatives include topics ranging from primary education on energy, excursions to power plants to promoting energy efficiency.

Provision of Support

Until 2017 Group companies provided support through Support Fund of Lietuvos Energija established in 2014. The Fund has brought together and coordinated the support provided by all Group companies to projects, programs and activities of public interest. Currently, Group companies do not provide any support.

Transparency and Anti-corruption Activities

Group companies do not tolerate any manifestations of corruption and are in favour of honest business and transparent communication with state institutions, supporting the Policy of Zero Tolerance of Corruption, valid throughout Group companies of Lietuvos Energija.

The Group companies pay all taxes transparently, ensure the transparency of their purchases, and require potential and existing suppliers to act transparently and fairly. The Group companies sell electricity on the stock exchange in a transparent manner; they do not participate in any bribery transactions as well as suggest non-transparent behaviour. The Group provides the responsible authorities with observations and suggestions on new or revised relevant legislation and evaluates their transparency.

The Risk is minimised by the existence of complex internal control mechanisms to identify potential corruption risk factors. Corruption prevention is one of the functions of the Group's prevention units. Group companies constantly monitor their activities, improve their operational processes and take actions to correct identified violations and eliminate emerging threats to the good name of the Group companies.

Employees of Group companies follow the policy and principles of Zero Tolerance of Corruption. Group companies do not tolerate any forms of corruption, neither direct nor indirect. The Zero Tolerance Corruption Policy is available on the Company's website. All employees of Lietuvos Energija Group must notify any employee of the company carrying out the functions of prevention about the suspected violations of the Policy of Zero Tolerance of Corruption using the Trust Line by tel.: +370 640 88889 or by e-mail: pasitikejimolinija@le.lt. All other parties are also being urged to send reports about the violations of the Policy of Zero Tolerance of Corruption to these contacts. Anonymity is guaranteed.

Transparent Sales

According to the Law on Public Procurement, the Central Public Procurement Information System measures the projects of technical specifications of all the purchases made by the Group companies, except for low value purchases, reports on procurement procedures and information on ongoing procurements. Group companies carry out all purchase and sales procedures in the most correct and transparent manner.

Responsibility

In order to increase their accountability to the public, the major Group companies publish annual Reports on Corporate Social Responsibility published on their websites, for investors, and on the Global Compact site profile (www.globalcompact.org).

A comprehensive Social Responsibility Report of Lietuvos Energija Group, integrated in 2018 will present the progress of the Group companies in this field, and will be prepared and published separately after this report.

Group Plans for 2019

In 2019, it is planned to increase the value of the Group companies and continue the implementation of strategic projects of the Group - construction of cogeneration power plants in Vilnius and Kaunas. Upon the development of the Group, there will be the capacities of the renewable sources of energy developed and acquired. It is also planned to implement distribution network intelligence (digitisation) projects. The Group will strengthen strategic generation and will be ready for synchronization testing. It is intended to consolidate the commercial activities of the Group and create a commercial organisation ready for international development, as well as develop innovative services and products. The Group will continue to focus on the development of the organisation, with the goal of improving employee experience within the organisation.

Corporate Governance

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

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

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

The Company's shareholder is the State which controls 100% of its shares. The rights and obligations of the shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, which adopts the main decisions relating to the implementation of the ownership rights and obligations.

For the fourth year in a row, Lietuvos Energija Group has been recognised as the best managed state-owned company. For 2016, the company received the highest possible "A+" rating. The analysis was made by the Governance Coordination Centre which assesses state-owned companies by different criteria and establishes the good governance index.

Report of the Audit Committee of Lietuvos Energija

In 2018, in implementing the functions laid down in the regulations of the Audit Committee of the Company's Supervisory Board, the Audit Committee of Lietuvos Energija held 24 sittings. In 2018, the activities of the Audit Committee covered the following areas:

- Monitoring carried out by the independent auditor on the financial reporting process and discussion on financial statements of Lietuvos Energija Group;
- Monitoring of the efficiency of internal control and risk management systems of Lietuvos Energija Group;
- Assessing the efficiency of the business processes of Lietuvos Energija and providing recommendations for their improvement;
- Monitoring the effectiveness of the organisation of internal audit process;
- Getting acquainted with the observations of internal audit submitted to the Management of Lietuvos Energija Group;
- Monitoring whether the Management of Lietuvos Energija considers the recommendations and observations made by the internal and Independent Auditor or an Audit Firm;
- Granting permission to the Audit Firm to participate and submit proposals for the purchase of services other than the audit of financial statements in the purchase;
- Familiarisation with the main projects and initiatives in the Group of companies;

The detailed information on the activities of the Audit Committee in 2018 was presented in the Audit Committee's reports and submitted to the Supervisory Board of Lietuvos Energija.

The Audit Committee declares that in 2018 there were no factors restricting the activity of the Audit Committee and the Audit Committee received from the Lietuvos Energija group all information necessary for the exercise of its functions. In 2018, the Audit Committee did not identify any significant findings having a negative impact on the activity of the Lietuvos Energija group of which the Company's Supervisory Board would not be informed.

Irena Petruškevičienė

Chair of the Audit Committee

Supervisory Bodies

Supervisory Board

On 1 June 2017, the Minister of Finance approved the updated Corporate Management Guidelines replacing the former procedure for the formation of the Supervisory Board. Under the Corporate Management Guidelines, the Supervisory Board is a collegial supervisory body provided in the Statute of the Company. The Supervisory Board is elected by the General Meeting of Shareholders for the period of four years. The Supervisory Board of Lietuvos Energija consists of 5 members – 2 members representing the Ministry of Finance and 3 independent members. The Supervisory Board elects its Chairman from its members. Such a method for the formation of the Supervisory Board is in line with the corporate management principles. The term of office of the Supervisory Board operating at the time of report publication: from 30/08/2017 to 29/08/2021. No members of the Supervisory Board have any participation in the capital of the company or group enterprises. **At the date of publication of the report, the Supervisory Board of Lietuvos Energija consisted of the following members:**

					
	Darius Daubaras *(born 1973)* *Chairman, independent member*	***Daiva Lubinskaitė-Trainauskienė*** *(born 1970)* *Independent member*	***Andrius Pranckevičius*** *(born 1976)* *Independent member* *(since 22/12/2017)*	***Aušra Vičkačkienė*** *(born 1974)* *Member*	***Daiva Kamarauskienė*** *(born 1963)* *Member* *(since 1/2/2019)*
Education	*University of Cambridge, Master's degree in International Relations; University of Pennsylvania, USA, Business Administration Master's Degree in the field of finance and business management; University of Denver, USA, Bachelor's Degree in Business Administration with a major in finance and management*	*ISM University of Management and Economics, Master's Degree; Public Relations Professional Studies at Vilnius University; Vilnius University, Diploma of a Specialist in Philology*	*Kaunas University of Technology, Bachelor's degree in Business Administration and Master's degree in Marketing Management; Harvard Business School, Leadership Development*	*Vilnius University, Master's degree in Management and Business Administration; Vilnius University, Bachelor's degree in Management and Business Administration*	*Vilnius University Faculty of Economics fakultetas, master's degree*
Place of employment, position	*SAUDI ARAMCO Finance and Development Project Division, Senior Adviser; Member of the Supervisory Board of "Smart Energy Fund powered by Lietuvos Energija" (since 27/7/2018)*	*Thermo Fisher Scientific Baltics, UAB, Director of Personnel; Association of Personnel Management Professionals (PVOA), Board Member; ISM Masters Club, Member*	*Linas Agro Group AB, Deputy Chief Executive Officer, Member of the Board; Kekava PF, Chief Executive Officer and Chairman of the Board*	*Assets Management Department of the Ministry of Finance, Director Turto bankas, VĮ, Board Member (till 29/01/2018) Būsto paskolų draudimas, UAB, Board Member*	*Budget Department of the Ministry of Finance, Director*

Changes in the structure of the Company's Supervisory Board during the reporting period: On 7th November, 2018, the Ministry of Finance of the Republic of Lithuania, the holder of a 100 per cent shareholding in Lietuvos Energija, has submitted to the Company a shareholder's decision to revoke Ramūnas Dilba from the Supervisory Board of the Company in accordance with his resignation from the Supervisory Board of the Company. Ramūnas Dilba was appointed to the Supervisory Board of the Company since 22nd November, 2017. As of 6th November, 2018, Ramūnas Dilba started working as a Chancellor of the Ministry of Energy of the Republic of Lithuania. On the 1st of February, 2019, the Ministry of Finance of the Republic of Lithuania submitted to the Company a shareholder's decision to appoint Daiva Kamarauskienė the member of the Supervisory Board of the Company.

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

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

Information about the Committees

The committees of the Supervisory Board are formed in the group of companies Lietuvos Energija. They have the competence to submit conclusions, opinions and suggestions to the Supervisory Board of Lietuvos Energija. The committee must have at least three members, where at least one member has to be a member of the Supervisory Board and at least one member has to be independent. The members of the committees are elected for the period of four years. The activities of the committees apply to Lietuvos Energija and it's directly and indirectly controlled subsidiaries, including the Company, as well as other legal persons with different legal status, over which Lietuvos Energija may have significant influence.

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

- The **Audit committee** is responsible for submission of objective and impartial conclusions and suggestions regarding audit, transactions with associated parties, as provided in the Law on Companies of the Republic of Lithuania, and functioning of internal control system in the group of companies to the Supervisory Board;
- The **Risk management and business ethics supervision committee** is responsible for submission of conclusions and suggestions regarding management and control system in the group of companies and/or status of implementation of the main risk factors and risk management tools to the Supervisory Board; for compliance with business ethics, maintenance of bribery and corruption risk system and submission of recommendations to the Supervisory Board;
- The **Nomination and remuneration committee** is responsible for submission of conclusions and suggestions about appointment, revocation of the management and supervisory bodies of the group of companies, and about incentive issues to the Supervisory Board, as well as for the evaluation of performance of the Board and its members and submission of appropriate opinion. The committee's functions also cover formation of common remuneration policy in the group of companies, determination of the size and composition of remuneration, incentive principles, etc.

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

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

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

Committee member	Number of shares held at the Company and the Group	Name of employer, job position
Andrius Pranckevičius Chairperson Independent member	-	AB „Linas Agro Group" Deputy General Manager and Member of the Board; PF „Kekava" CEO and Member of the Board
Darius Daubaras Independent member	-	„Saudi Aramco", Finance and Project Development Department, Senior Adviser
Šarūnas Rameikis Independent member	-	R.Mištauto ir T.Milickio Law Firm „Konsus", Lawyer

The term of office of the incumbent Risk Management and Business Ethics Supervision Committee will last until 19 April 2022.
Overall 6 meetings of the Risk Management and Business Ethics Supervision Committee were held in 2018.

Main functions of the committee:

- To monitor the way the risks relevant for the achievement of the targets set for Lietuvos Energija and its group entities are identified, assessed and managed;
- To assess the adequacy of internal control procedures and risk management measures in view of the risks identified;

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

Members of the Audit Committee (during the reporting period):

Committee member	Number of shares held at the Company and the Group	Name of employer, job position
Irena Petruškevičienė Chairperson Independent member	-	ISM University of Management and Economics, Head of Master's Study module "Finance Strategy and Management". The Authority of Audit, Accounting, Property Valuation and Insolvency Management, Member of Audit Supervision Committee. European Stability Mechanism (ESM), Member of Auditors Board.
Danielius Merkinas Independent member	-	NNT Termo, UAB, CEO, Chairman of the Board. Nordnet, UAB, Head of Commerce, Chairman of the Board. Mercado prekyba, UAB, CEO. Litcargo, UAB, Chairman of the Board Lietuvos paštas AB, Member of the Board
Aušra Vičkačkienė Member	-	Lithuanian Ministry of Finance, Asset Management Department, Director
Ingrida Muckutė Member (since 23 March, 2018)	-	The Ministry of Finance of the Republic of Lithuania, Head of Accountability, Audit, Property Valuation and Insolvency
Šarūnas Radavičius Independent member (since 23	-	Rodl & Partner, UAB, CEO

The term of office of the incumbent Audit Committee will last until 12 October 2021. Overall 24 meetings of the Audit Committee were held in 2018.

Main functions of the committee:

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

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

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

Committee member	Number of shares held at the Company and the Group	Name of employer, job position
Daiva Lubinskaitė-Trainauskienė Chairperson Independent Member	-	UAB „Thermo Fisher Scientific Baltics" Director of Human Resources Personnel Management Professionals Association, Member of the Management Board
Aušra Vičkačkienė Member	-	Lithuanian Ministry of Finance, State Asset Management Department, Director
Ramūnas Dilba Member (until 7 November, 2018)	-	Lithuanian Ministry of Finance, European Union Investment Department, Director
Lėda Turai-Petrauskienė Independent Member (since 23 March 2018)	-	L-CON Global UAB, leadership training partner, shareholder, ISM University of Management and Economics, Head of Leadership Module of „Executive MBA" programme

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

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

Main functions of the committee:

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

Management bodies

Board

The Board is a collegial management body provided for in the Articles of Association of the Company. Board members are elected by the proposal of the Committee of the Appointment and Remuneration for the term of office of four years and removed from office by the Supervisory Board. The Board consists of 5 members and elects the Chairman, the CEO of the Company, from among its members. Board members have to ensure the appropriate performance of Company activities/mentoring of the respective areas at Group level in the field of its competences. No Board Members have any interest in the capital of the Company or Group Enterprises. Remuneration for the activities in the Board is paid in accordance with the guidelines established by the shareholder of the Company. The term of office of the Board operating at the time of report publication: from 1/2/2018 to 31/1/2022. No members of the Board have any participation in the capital of the company or group enterprises. **At the date of publication of the report, the Board of Lietuvos Energija consisted of the following members:**

					
	Darius Maikštėnas *(born. 1970)* *Chairman of the Board, CEO*	***Vidmantas Salietis*** *(born 1987)* *Member of the Board, Commerce and Services Director*	***Darius Kašauskas*** *(born 1972)* *Member of the Board, Finance and Treasury Director*	***Dominykas Tučkus*** *(born 1982)* *Member of the Board, Infrastructure and Development director*	***Živilė Skibarkienė*** *(born 1976)* *Member of the Board, Organisational Development Director*
Education	*Harvard Business School, General Management Program;* *Baltic Management Institute, Executive MBA degree;* *Kaunas University of Technology, Bachelor's degree in Business Administration*	*Stockholm School of Economics in Riga (SSE Riga),* *Bachelor's degree in Economics and Business*	*ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics;* *ISM University of management and Economics, BI Norwegian Business School, Master's degree in Management;* *Vilnius University, Master's degree in Economics*	*L. Bocconi University (Italy), Master's degree in Finance;* *L. Bocconi University (Italy), Bachelor's degree in Business Management and Administration*	*Mykolas Romeris University, Faculty of Law, Doctoral degree in Social Sciences Field of Law; Vilnius University, Faculty of Law, Master's degree in Law*
Place of employment, position	*AB Energijos skirstymo operatorius, Member of the Supervisory Board;* *„WIDER COMMUNICATIONS INCORPORATED", DELAWARE CORPORATION, USA akcininkas, valdybos narys;* *„WIDER COMMUNICATIONS LIMITED", PRIVATE LIMITED COMPANY, UK vienasmenis valdybos narys.*	*Energijos tiekimas UAB, CEO (till 2/4/2018);* *Geton Energy SIA, Chairman of the Board;* *Geton Energy OÜ, Chairman of the Board;* *Energijos tiekimas UAB,* *Member of the Board (since 23/4/2018);* *UAB LITGAS, Member of the Board (till1/1/2019);* *Lietuvos Energijos Tiekimas UAB (prev. Lietuvos Dujų Tiekimas UAB), Member of the Board (till 28/8/2018, chairman of the board since 28/8/2018);* *Elektroninių mokėjimų agentūra UAB, member of the Board (since 10/12/2018);* *NT Valdos, UAB member of the Board (since 29/10/2018), chairman of the board (since 30/10/2018);* *„Gamybos optimizavimas" UAB, member of the Board (since 7/12/2018).*	*Elektroninių mokėjimų agentūra UAB, Member of the Supervisory Board (till 23/3/2018);* *Duomenų logistikos centras UAB, Chairman of the Board;* *Lithuanian Energy Support Foundation, Member of the Board;* *288th DNSB Vingis, Member of the Revision Commission;* *Energetikos paslaugų ir rangos organizacija UAB, Chairman of the Board (Member since 19/3/2018, Chairman since 22/3/2018);* *AB Energijos skirstymo operatorius, Member of the Supervisory Board.*	*Lietuvos Energijos Gamyba AB, Chairman of the Board.* *LITGAS UAB, Chairman of the Board (until 1/1/ 2019).* *Lietuvos energijos Tiekimas UAB, Chairman of the Board (until 28/8/ 2018), Member of the Board (from 28/8/ 2018).* *Energijos Tiekimas UAB, Chairman of the Board (until 14/6/ 2018), Member of the Board (from 14/6/ 2018).* *Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board.* *Eurakras UAB, Chairman of the Board* *Tuulueenergia OU, Chairman of the Board (till 28/1/2019)* *Vilnius Third Combined Heat and Power Plant, Member of the Board (from 19/3/2018).* *Lietuvos Energija Renewables UAB, member of the Board (since 3/1/ 2019).* *-KŪB Smart Energy Fund powered by Lietuvos Energija, Member of the Advisory Committee.*	*Lietuvos Energijos Gamyba AB, Member of the Supervisory Board,* *Verslo Aptarnavimo Centras, UAB, Member of the Board (since 4/4/2018, Chairwoman since 26/9/2018).* *Technologijų Ir Inovacijų Centras, UAB, Chairwoman of the Board (until 26/9/2018).* *Elektroninių Mokėjimų Agentūra UAB, Member of the Board (from 10/122018).*

Changes in the structure of the Company's Board during the reporting period: At the beginning of 2018, the temporary Board of the Company was formed by the decision of the Supervisory Board (form 22/11/2017 until 1/2/2018, until a permanent board was formed). Composition of the temprary Board: Mindaugas Keizeris (Chairman of the Board, Acting Director General, Director of Strategy and Development), Ilona Daugėlaitė (Member of the Board, Director of Organizational Development), Darius Kašauskas (Member of the Board, Director of Finance and Treasury), Dominykas Tučkus (Member of the Board, Production and Service Director).

The average salary of the members of the Board of Lietuvos Energija, operating in the reporting period for 2018* (in euros):

Chairman of the Board and CEO	Darius Maikštėnas	5,925
Member of the Board, Finance and Treasury Director	Darius Kašauskas	6,101
Member of the Board, Organisational Development Director	Živilė Skibarkienė	4,674
Member of the Board, Infrastructure and Development Director	Dominykas Tučkus	6,091
Member of the Board, Commercion and Service Director	Vidmantas Salietis	6,319

** without the salary paid to member of the board; not indexed*

In 2018, the average remuneration received by the members of the Board of Lietuvos Energija, who were working at the end of the reporting period, for the duties of the Board member averaged EUR 1,200 per month. (assuming an average of 5 board members were active). Total remuneration of all board members in 2018 was EUR 71,982.

In 2018, the average remuneration received by the members of the Supervisory Board of Lietuvos Energija, who were working at the end of the reporting period, for the duties of the Supervisory Board member averaged EUR 810 per month. (assuming an average of 3 Supervisory Board members out of 5 received remuneration).

In 2018, total remuneration of the members of Audit Committee amounted to EUR 19,320.

In 2018, total remuneration of the members of Risk management and business ethics supervision Committee was EUR 2,580.

Organisational Culture and Employees

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

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

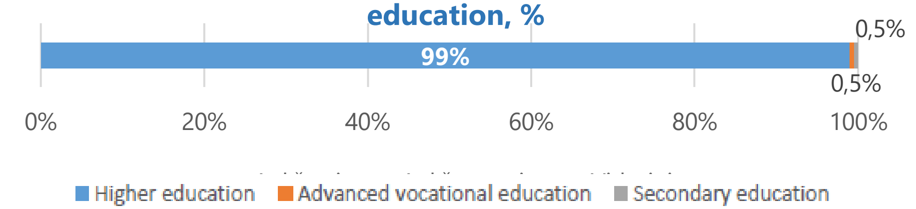
On 31 December 2018, the Group had employees 3,826 employees. The biggest part of Group's employees consisted of men – 72 percent, women comprised 28 percent. Among the executives, the gender breakdown was very similar: 71 percent of the executives were men, and 29 percent % – women.

63% of employees working in the Group hold a higher education degree, of whom 18 have doctoral degrees, 26% acquired an advanced vocational education, 7% have a secondary education.

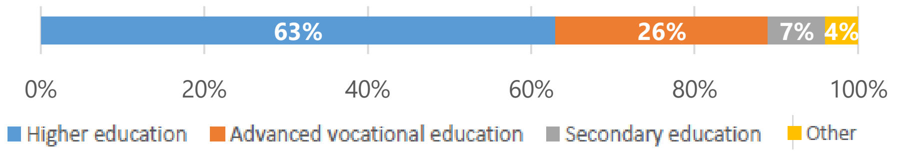
On 31 December 2018, the Company had 125 employees. The total of 99% of the Company's employees have higher university education, of whom 2 have PhD degrees. 2 employees are certified professional project managers (PRINCE2 and PMP), 3 certified financial analysts (CFA), 1 certified internal auditor (CIA), 1 certified fraud examiner (CFE), 2 certified risk management assurance experts (CRMA), 1 certified risk management expert (ISO 31000:2009), 4 employees have professional Board Member's qualification of the Baltic Institute of Corporate Governance. The Company's employees are active members of the associations, unions and academic communities (Scientific Board of the Lithuanian Energy Institute; the Supervisory Board of the Lithuanian Energy Institute; Technological Development Committee of the Agency for Science, Innovation and Technology, Risk Management Professionals Association Board).

Company	Total number of employees
Lietuvos Energija UAB	125
Energijos Skirstymo Operatorius AB	2,387
Lietuvos Energijos Gamyba AB	372
Energetikos Paslaugų ir Rangos Organizacija UAB	24
Technologijų ir Inovacijų Centras UAB	166
Duomenų Logistikos Centras UAB	14
Energijos Tiekimas UAB	47
Elektroninių Mokėjimų Agentūra UAB	6
NT Valdos, UAB	64
Transporto Valdymas UAB	58
LITGAS UAB	14
Verslo Aptarnavimo Centras UAB	462
Lietuvos Energijos Tiekimas UAB	46
Vilniaus Kogeneracinė Jėgainė UAB	29
Kauno Kogeneracinė Jėgainė UAB	7
Gamybos Optimizavimas UAB	1
Eurakras UAB	2
VĖJO GŪSIS UAB	1
VĖJO VATAS UAB	1
Total	**3,826**

Structure of the Companys employees' by education, %



Structure of Groups employees' by education, %



Average monthly salary of the Company's employees in 2018 (before taxes):

Category	Average salary, EUR
Head of the company	5,630
Top level executives	5,396
Middle level managers	4,483
Experts, specialists	2,072

The Company's total wage fund for 2018 was EUR 3.3 million.

Average monthly salary of the Group's employees in 2018 (before taxes):

Category	Average salary, EUR
Head of the company	5,185
Top level executives	4,758
Middle level managers	2,315
Experts, specialists, workers	1,286

The Group's total wage fund for 2018 was EUR 60,68 million.

Development of the organization and its culture

In the 4th quarter of 2018, the strategic initiatives for the coordinated development of the organization, management of human resources, the formation of organizational culture, operational efficiency, new staff development, strengthening and sustaining competences were continued.

In the 4th quarter of 2018, a transformation of matrix management was commenced in the organisation, the functions were identified that require the solutions of matrix management to ensure their greatest effect. The matrix management will help the organisation to make decisions faster, to better manage the process, budgets, to share information more effectively. In order to implement this transformation, the operational guidelines have been prepared, the necessary internal documents have been updated, meetings with the functional and company managers have been organised.

The review process of the group's remuneration system, which has been identified as one of the strategical priorities, was started in the 4th quarter of 2018 and will be continued in 2019.

An analysis of the current situation has been carried out, the market situation has been reviewed, and improvements to the system, that will help ensure internal fairness and improve the attractiveness of the organization in the labour market, have been carried out and coordinated with the Supervisory Board.

Development of competences

Lietuvos Energija group is consistently concerned with the improvement of the qualifications of its employees and ensures that employees have all the statutory certificates required for their work, and that they develop the competences required for their work.

Various training sessions to improve general, vocational and managerial competencies have been organized at the organizational level in individual companies, for example, Leadership, MS Excel, Change Management, Communication, Project Management, Business Process Management, etc.

Quarterly newcomer days were held in the 4th quarter of 2018. The updated strategy of the Group and other relevant information were presented to the newcomers.

Traineeship opportunities

The companies of the group create the conditions for college, university and vocational school students to apply their theoretical knowledge and acquire practical skills.

Supervisory and Management Bodies of the Listed Companies of the Group

As at 31 December 2018, the Supervisory Board of Energijos Skirstymo Operatorius consisted of the following members (term of office till 29 March 2022):

Full name	Participation in the capital of the Company and Group companies,%	Term of office	Place of employment
Darius Maikštėnas Chairman	-	2018-03-30 – 2022-03-29	Lietuvos Energija, UAB, CEO
Darius Kašauskas Member	-	2018-03-30 – 2022-03-29	Lietuvos Energija, UAB, Finance and Treasury Director
Kęstutis Betingis Independent member	-	2018-05-28 – 2022-03-29	Betingio ir Ragaišio Lawyer Firm, lawyer

During the reporting period the Supervisory Board of Energijos Skirstymo Operatorius AB was active with the term of office 3/12/2015-30/3/2018. Members during the reporting period: Ilona Daugėlaitė, Petras Povilas Čėsna.

As at 31 December 2018, the Board of Energijos Skirstymo Operatorius consisted of the following members (term of office till 26 December 2022):

Full name	Participation in the capital of the Company and Group companies,%	Term of office	Place of employment
Mindaugas Keizeris Chairman	-	2018-12-27 – 2022-12-26	Energijos Skirstymo Operatorius AB, CEO
Augustas Dragūnas Member	-	2018-12-27 – 2022-12-26	Energijos Skirstymo Operatorius AB, Director of Finance and Administration
Virgilijus Žukauskas Member	-	2018-12-27 – 2022-12-26	Energijos Skirstymo Operatorius AB, Director of Network Operations
Ovidijus Martinonis Member	-	2018-12-27 – 2022-12-26	Energijos Skirstymo Operatorius AB, Director of Network Development
Renaldas Radvila Member	-	2018-12-27 – 2022-12-26	Energijos Skirstymo Operatorius AB, Director of the Services

Head of the Company: On 1st August, 2018 it has received a notification from Mrs. Dalia Andrulionienė on her resignation from the position of the Chairwoman of the Board of the Company from 10th August, 2018. By the agreement of the parties, Mrs. Dalia Andrulionienė resigned from the position of Chief Executive Officer of ESO also on 10th August, 2018 onwards. Mr. Augustas Dragūnas, Member of the Board and Director of Finance and Administration Division of ESO, temporarily took the position of acting Chief Executive Officer of the Company from 10th August, 2018 till 27 December 2018.

As at 31 December 2018, the Supervisory Board of Lietuvos Energijos Gamyba AB consisted of the following members (term of office till 25 March 2022):

Full name	Participation in the capital of the Company and Group companies,%	Term of office	Place of employment
Dominykas Tučkus Chairman	-	2018-03-26 – 2022-03-25	Lietuvos Energija, UAB, Infrastructure and Development Director
Živilė Skibarkienė Member	-	2018-03-26 – 2022-03-25	Lietuvos Energija, UAB, Organisational Development Director
Rimgaudas Kalvaitis Independent member	-	2018-03-26 – 2022-03-25	Technology Competence Center UAB, CEO; Lietuvos radijo ir televizijos centras AB, independent board member; Luno, UAB, consultant

During the reporting period the Supervisory Board of Lietuvos Energijos Gamyba AB was active with the term of office 10/8/2017 – 23/3/2018. Members during the reporting period: Mindaugas Keizeris (chairman), Dominykas Tučkus.

As at 31 December 2018, the Board of Lietuvos Energijos Gamyba AB consisted of the following members (term of office till 2 April 2022):

Full name	Participation in the capital of the Company and Group companies,%	Term of office	Place of employment
Eglė Čiužaitė Chairwoman	-	2018-04-03 – 2019-01-21*	Lietuvos Energijos Gamyba, AB, CEO
Darius Kucinas Member	-	2018-04-03 – 2022-04-02	Lietuvos Energijos Gamyba, AB Director of Production
Mindaugas Kvekšas Member	-	2018-04-03 – 2022-04-02	Lietuvos Energijos Gamyba, AB, Director of Finance and Administration

*** Head of the Company:** The Company's Board and the Supervisory Board received the notice of E. Čiužaitė regarding her resignation from the office of Managing Director and thus on 07 January 2019 decided to remove E. Čiužaitė from the office of the Company's Managing Director from 21 January 2019. E. Čiužaitė also resigned from the office of the Company's Board member and chairwoman of the Board from 21 January 2019. The Production Director Darius Kucinas has been acting as a temporary Managing Director from the Company from 22 January 2019. The Company initiated public election of a new Managing Director. On 27 March, 2019 the Supervisory Board of the Company elected the new member of the Management Board Rimgaudas Kalvaitis. The elected member of the Management Board of the Company started his duties as of the end of the meeting of Company's Supervisory Board that elected him. After the meeting of the Supervisory Board, the Management Board of the Company has elected Rimgaudas Kalvaitis as the Chairman of the Management Board and Chief Executive Officer of the Company.

Guidelines for Ensuring the Transparency of State-Controlled Enterprises

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

	State-controlled enterprise, and procurements and investments completed, ongoing and planned in the financial year.		reports of the Company. There is no position of a deputy manager in the Company.
3.	12. A state-controlled enterprise, which has been attributed to category I or II in the Description of the Procedure for the Implementation of Property and Non-Property Rights of the State, shall draw up an annual report and a 6-month interim report (hereinafter – the interim report).	+	
4	13. Information about a state-controlled enterprise shall be available to the public (published on the website of the company and where a state-controlled enterprise does not have its own website, on the website of the institution representing the State).	+	
CONTENT OF THE ANNUAL REPORT AND THE INTERIM REPORT OF STATE-CONTROLLED ENTERPRISES			
5.	The annual report shall indicate (provide): 14.1.1. the business strategy and objectives (financial and non-financial), unless that is a commercial secret of a state-controlled enterprise (if there is information considered as a commercial secret in the business strategy and objectives of a state-controlled enterprise, a summary business strategy and objectives without such information shall be indicated (provided)); 14.1.2. conformity of achieved business results with the business objectives of a state-controlled enterprise; 14.1.3. main events of major importance to the operations of a state-controlled enterprise over the reporting period; 14.1.4. information about the market of the services provided or the products produced, unless that is a commercial secret of a state-controlled enterprise; 14.1.5. major customers and their main groups, unless that is a commercial secret of a state-controlled enterprise. Where state-controlled enterprises disclose information about segments, major customers shall be indicated by separate segments; 14.1.6. investments over the reporting period, the largest ongoing or planned investment projects; 14.1.7. total annual salary fund, average monthly wage by positions and/or units; 14.1.8. implemented social and environmental initiatives and policies;	+ + + + + + + +	

	14.1.9. information about compliance with the provisions of the Description: indication how they are complied with, which provisions are not complied with and why;	+	
	14.1.10. main financial indicators describing the operations (profitability, liquidity, asset use efficiency), their change over 3 years;		
	14.1.11. managing bodies;	+	
	14.1.12. information about the carried out annual audit of financial statements (the auditing entity, remuneration for the audit);	+	
	14.1.13. other important information which came to light before the publication of the annual report or the performance report and which is of relevance to the operations of a state-controlled enterprise;	+	
	14.2. companies controlled by a state-controlled enterprise: 14.2.1. information and reports to be disclosed by public limited liability companies in their annual report in accordance with the Republic of Lithuania Law on Financial Statements of Entities and the Corporate Governance Code, if their securities are traded on the regulated market;	+	
	14.2.2. dividend policy; 14.2.3. information about the implementation of the business strategy and objectives (financial and non-financial).	+	
6.	15. In the interim report of a state-controlled enterprise, the interim report summarizes the most important information about indicators describing the activities of a state-controlled enterprise and their changes in comparison with previous periods.		
	ACCOUNT KEEPING AND SETS OF FINANCIAL STATEMENTS		
7.	16. State-controlled enterprises shall keep their accounts in accordance with international accounting standards.	+	Following the Articles of Association of the Company, the Company keeps its account in accordance with IFRS. Audits of the annual financial statements are carried out in the Company. The audit company also verifies the conformity of the annual report with audited financial statements.
8.	A state-controlled enterprise shall draw up a set of annual financial statements and a set of 6-month interim financial statements.	+	
9.	An audit of the sets of the annual financial statements of state-controlled enterprises shall be carried out in accordance with the International Standards on Auditing.	+	

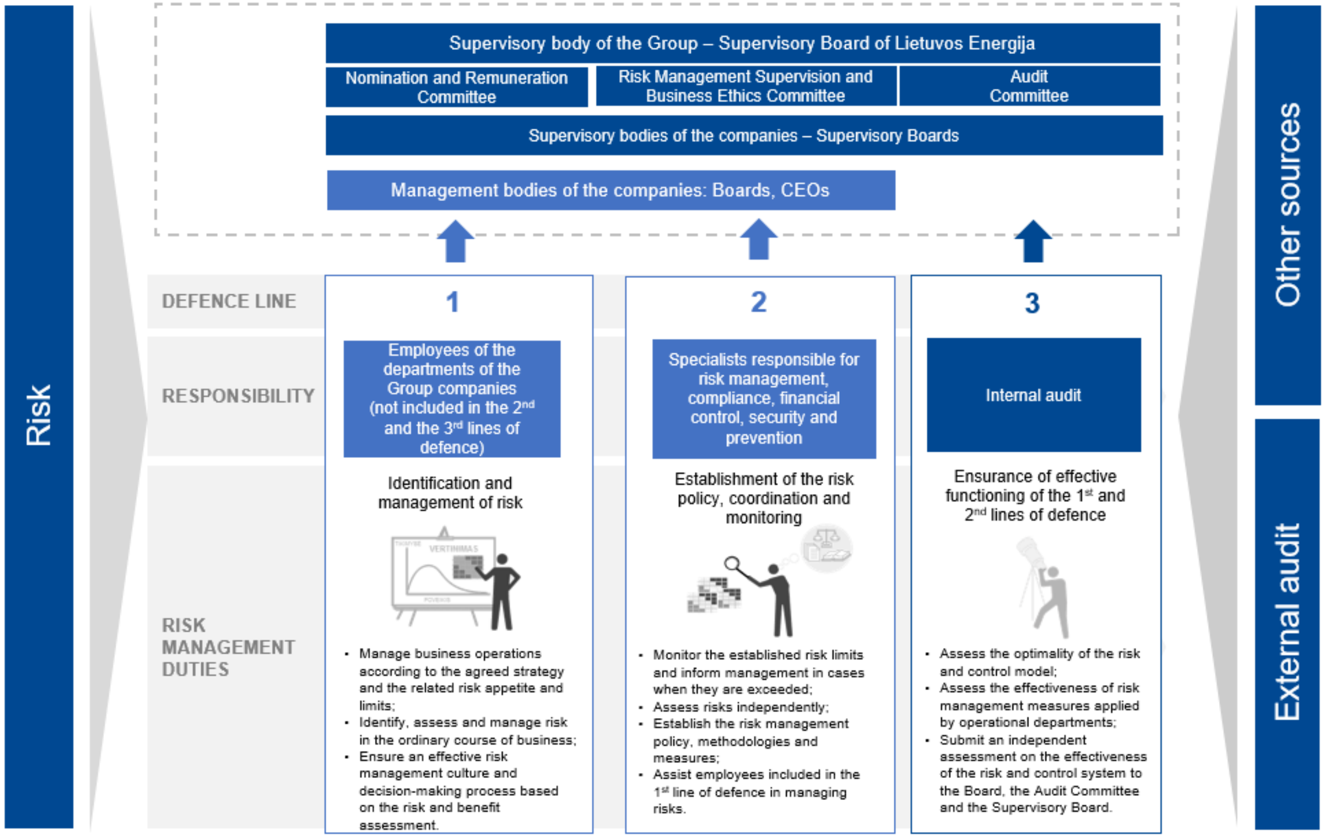
	SUBMISSION AND PUBLISHING OF REPORTS, PERFORMANCE REPORTS AND SETS OF FINANCIAL STATEMENTS		
10.	19. A state-controlled enterprise shall publish its annual report, interim report, a set of financial statements and a set of 6-month interim financial statements, as well as information about the functions carried out by the state-controlled enterprise (special obligations) and the independent auditor's reports on the annual financial statements on its website: 19.1. a state-controlled enterprise shall publish its annual report or annual performance report, a set of annual financial statements, information about the special obligations performed by it and the independent auditor's report on annual financial statements, which shall be certified under the procedure set out by legal acts, **not later than on 30 April;** 19.3. a state-controlled enterprise shall publish a set of 6-month interim financial statements and its interim report or interim performance report **not later than on 31 August**;	+ +	
11.	The documents referred to in paragraph 19 shall be published in PDF format; it shall be technically possible to print them out.	+	
12.	A state-controlled enterprise shall provide its annual report, interim report, set of annual financial statements, information about the special obligations performed by it, the independent auditor's report on annual financial statements and a set of 6-month interim financial statements to the institution representing the State at the time set out in sub-paragraphs 19.1 and 19.3. The state-controlled company shall, together with the set of annual financial statements and the annual report, submit to the institution representing the State information about the salary of its managers for the previous year, the assessment indicators of performance results applicable for determining the variable part of the monthly wage of the managers, the achievement of such indicators, the variable part of the monthly salary applied for the managers (in euros and in percentage of the fixed part of the monthly wage applied for the managers) and the variable part of the disbursed monthly wage (in euros and in percentage of the fixed part of the monthly wage applied for the managers).	+	

Risk factors and their management

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

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

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



The risk management principles established by Lietuvos Energija are consistently applied across the entire 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 of companies and which is expressed in the results of operations or values of incidents. The risk appetite and risk tolerance limits of the Lietuvos Energija group are established by the Board of Lietuvos Energija and reviewed once a year. Where risk appetite and risk tolerance limits are exceeded by the Company, action plans are prepared in order to meet the mentioned thresholds. The effectiveness of the management plans is assessed by the Company's Board, the Company's Supervisory Board and the Lietuvos Energija group's Risk Management and Business Ethics Supervision Committee under the Supervisory Board.

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

Risk factor	Description	Main risk management policies	Risk level
Health and safety of employees, residents and contractors	With regard to the principal business activity companies due to a specific character of the activity and nature of works the Group bears an inherent risk of health and safety of employees and residents. This risk remains a priority area for many years and the main causes of this risk, in addition to high-risk working environment, include the lack of awareness or experience/knowledge and rushing when carrying out works. The number of internal accidents did not change significantly in 2018, however one fatal accident occurred (the employee of the Group company died). With regard to residents one fatal accident was related to electricity equipment and a dangerously close proximity to it. To prevent the occurrence of such accidents in the future, public communication campaigns are being conducted. There were no fatal accidents during the performance of works by contractors in 2018.	• Motivational and disciplinary system for employees and contractors. • External and internal educational activity. • Modern training bases. • Regular control and monitoring of (employees'/contractors') occupational safety.	Very high
Disruptions in electricity distribution and generation activities (risk of a cyber attack)	By observing external factors, geopolitical situation the Group understands its strategic importance for the country's security and by cooperating with external establishments and by introducing internal measures it aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime. In 2018, processes related to cyber threat monitoring/detection were strengthened by introducing and updating existing systems. In 2018, the relevance of information security increased as a result of the General Data Protection Regulation and internal and external changes being implemented (introduction of smart meters, digitalisation of processes, etc.).	• Improvement of resistance through tests/trainings. • Enhancement of detection/suspension. • Cooperation with external institutions.	Very high
Risk of rise in borrowing costs	Considering the fact that the Group finances its operations by obtaining loans discipline in planning long-term investments and controlling costs becomes particularly important. Therefore the Group pays additional attention both to the control of costs and investment plans and aims to retain the existing credit rating that would allow maintaining borrowing costs at the same level. The overall deterioration of the country's economy or failure to properly manage investments could worsen the situation.	• Internal measures for the control of finances. • Monitoring of the situation in the market.	High
Lack of financing for the strategy implementation	A possible delay of strategic programmes that are expected to generate income would suspend a further implementation of the strategy.	• Monitoring of the projects portfolio at the level of the Board of Lietuvos Energija.	High
Regulation	Regulatory risk manifests through a complicated planning of cash flows and risk of damage to reputation. The National Commission for Energy Control and Prices remains the main regulatory authority making the largest impact on the prices of services provided by the companies and their revenue by establishing ceilings for them. The most relevant regulation issues for Lietuvos Energijos Gamyba in 2018 were as follows: The risk of reduction of commercial activities of Kruonis PSHP due to the transfer of taxation of Kruonis PSHP and system services tariffs; the risk of reduction (loss) of the volume of provided tertiary capacity reserve services due to change in demand for reserve services and regulation of ordering such services.	• Efforts are made to fulfil the requirements of the regulatory authority in as specific manner as possible and to unify the principles of cooperation with the regulatory authority at the Group level. • For the purpose of ensuring compliance with new requirements, the Group-level projects engaging the best specialists of the Group with regard to the issue concerned are organised. • The compliance function is strengthened and formed at the Group.	Very high

Indicators on the implementation of strategic objectives

Priority	Strategic directions, objectives and indicator		Measurement unit	Actual result of 2017	Target for 2018	Actual result of 2018
SUSTAINABLE DEVELOPMENT	**Sustainable development of the LE group**	Group's EBITDA, in EUR million (adjusted)	EUR million	239	-	225
		Group's EBITDA, in EUR million (adjusted) **excluding non-core operations being sold and acquisitions of companies*	EUR million		228	228
EFFICIENCY AND QUALITY	**Quality of infrastructure**	Electricity SAIDI with *force majeure**	minutes	126	100	79
		Electricity SAIFI with *force majeure**	times	1.23	1.00	1.09
		Natural gas SAIDI with *force majeure**	min.	1.16	1.03	0.61
		Natural gas SAIFI with *force majeure**	times	0.01	0.01	0.01
	Customer experience	GCSI (Global Customer Satisfaction Index)	index	78	80	79
		Duration of new customer connection to electricity networks	calendar days	45.9	35	46
		Duration of new customer connection to natural gas networks	calendar days	146.2	80	79
	Central activities identified	Income from non-core activities	EUR million	56	-	41
	Stable return on capital and optimal capital structure	ROE (adjusted)	%	9.8%	>= 5.7%	8.8%
		Credit rating	rating	BBB+	>= BBB-	BBB+
TRANSPARENCY	**Transparent and mature corporate governance**	Management index assessed the Management Coordination Centre	index	A+ (2016)	A+ (2017)	A+ (2017)

** With force majeure: does not include interruptions when "an accident" was recorded at the Company due to natural disasters according to the Regulations on the Investigation and Recording of Accidents and Interruptions at Energy Facilities of the State Energy Inspectorate and interruptions that occurred at the fault of the operator.*

Main Information about the Company and the Group

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

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

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

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

As of 31 December 2018, the authorised share capital was divided into ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

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

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

Year	Auditor	Opinion
2018	PricewaterhouseCoopers UAB	Unqualified
2017	PricewaterhouseCoopers UAB	Unqualified
2016	PricewaterhouseCoopers UAB	Unqualified

Information on Controlled Companies

Companies directly or indirectly controlled by Lietuvos Energija UAB are as follows (at the day of reporting):

Company	Registered office adress	Effective ownership interest (%)	Share capital (EUR'000)	The main activities
„Lietuvos energijos gamyba", AB	Elektrinės g. 21, Elektrėnai, Lithuania	96.82	187,921	Production and supply of electricity and trading
„Energijos skirstymo operatorius"	Aguonų g. 24, Vilnius, Lithuania	94.98	259,443	Supply and distribution of electricity to the consumers; distribution of natural gas
NT Valdos, UAB	Geologų g. 16, Vilnius, Lithuania	100	37,295	Disposal of real estate, other related activities and provision of services
UAB Duomenų logistikos centras	A. Juozapavičiaus g. 13, Vilnius, Lithuania	79.64	4,033	Information technology and telecommunication services
UAB Energetikos paslaugų ir rangos organizacija	Motorų g. 2, Vilnius, Lithuania	100	1,100	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to electricity networks, repair of energy equipment and production of metal structures
UAB Elektroninių mokėjimų agentūra	Žvejų g. 14, Vilnius, Lithuania	100	1,370	Provision of collection services
Energijos tiekimas UAB	Žvejų g. 14 Vilnius, Lithuania	100	17,240	Supply of electricity, export / import of electricity and balancing services
Geton Energy OÜ	Narva mnt 5, 10117 Talin, Estonia	100	35	Supply of electricity
Geton Energy SIA	Darzciema g. 60, LV-1048, Ryga, Latvia	100	500	Supply of electricity
Geton Energy, sp. Z.o.o.	Puławska 2-B, PL-02-566, Warsaw, Poland	100	10 mln. zloty	Supply of electricity
UAB Technologijų ir inovacijų centras	A. Juozapavičiaus g. 13, Vilnius, Lithuania	100	6,440	Provision of information technology and telecommunications and other services
UAB Verslo aptarnavimo centras	P. Lukšio g. 5 b, Vilnius, Lithuania	100	580	Public procurement organization and execution, accounting and personnel administration services
UAB „Lietuvos energijos tiekimas"	Žvejų g. 14, Vilnius, Lithuania	100	21,420	Supply of electricity and gas and trade
Lietuvos energijos paramos fondas	Žvejų g. 14, Vilnius, Lithuania	100	3	Provision of support to projects, initiatives and activities, relevant to the society
UAB Vilniaus kogeneracinė jėgainė	Žvejų g. 14, Vilnius, Lithuania	100	21,003	Modernization of the provision of centralized supply of heat
UAB Kauno kogeneracinė jėgainė	Žvejų g. 14, Vilnius, Lithuania	51	24,000	Modernization of the provision of centralized supply in Kaunas city
Tuuleenergia OU	Keskus, Parnu, Estonia	100	499	Production of renewable electricity
UAB „EURAKRAS"	Žvejų g. 14, Vilnius, Lithuania	100	4,621	Production of renewable electricity
UAB „VĖJO GŪSIS"	Žvejų g. 14, Vilnius, Lithuania	100	7,443	Production of renewable electricity
UAB „VĖJO VATAS"	Žvejų g. 14, Vilnius, Lithuania	100	2,896	Production of renewable electricity
UAB „VVP Investment"	Žvejų g. 14, Vilnius, Lithuania	100	250	Development of a renewable energy (wind) power plant project
UAB Lietuvos energija renewables	P. Lukšio g. 5B, Vilnius, Lithuania	100	3	Analysis and coordination of the activities of legal entities belonging to the Company
UAB „Transporto valdymas"	Smolensko g. 5, Vilnius, Lithuania	100	2,359	Vehicle rental, leasing, repair, maintenance, renewal and service
UAB „Gamybos optimizavimas"	Žvejų g. 14, Vilnius, Lithuania	100	350	Planning, optimization, forecasting, trading, brokering of electricity and other energy production regimes

Information on Securities of the Group Companies

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

Lietuvos Energijos Gamyba AB as at 31 December 2018, had issued 648,002,629 ordinary registered shares with the nominal value of EUR 0.29. Shares of Lietuvos Energijos Gamyba have been listed on the main list of NASDAQ OMX Vilnius stock exchange. ISIN code of the issue is LT0000128571.
Lietuvos Energijos Gamyba has concluded the securities accounting agreement on the accounting of securities issued and management of personal securities accounts with SEB Bankas AB..

Energijos Skirstymo Operatorius AB as at 31 December 2018, had issued 894,630,333 ordinary registered shares with the nominal value of EUR 0.29. Shares of Energijos Skirstymo Operatorius AB have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange. ISIN code of the issue is LT0000130023.
AB Energijos Skirstymo Operatorius has concluded the agreement on the accounting of securities issued by the company and management of personal securities accounts with SEB Bankas AB.

Structure of the authorised share capital and shareholders owning more than 5 per cent of the issuer's authorised share capital as at 31 December 2018:

Company	Total nominal value of shares (in EUR)	ISIN code	Securities' abbreviation	Trading list	Full name of the shareholder (name of the company)	Percentage of voting rights conferred by shares owned
Lietuvos Energijos Gamyba AB	187,920,762.41	LT0000128571	LNR1L	BALTIC MAIN LIST	Lietuvos Energija UAB	96.82%
Energijos Skirstymo Operatorius AB	259,442,796.57	LT0000130023	ESO1L	BALTIC MAIN LIST	Lietuvos Energija UAB	94.98%

Lietuvos Energija UAB has issued two issues of green bonds with the total nominal value of EUR 600 million listed in the Stock Exchanges of Luxemburg and NASDAQ Vilnius. The amount of Bond Programme is EUR 1.5 billion.

Company	Total nominal values of the issue, EUR	ISIN code	Buy-out date
Lietuvos Energija UAB	300,000,000.00	XS1646530565	14/7/2027
Lietuvos Energija UAB	300,000,000.00	XS1853999313	10/7/2028

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

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

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

Lietuvos Energija, UAB

CEO

Darius Maikštėnas

Material events of the Company during 2018

01.02.2018	Regarding the election of Lietuvos Energija, UAB, Board, Chairman of the Board and CEO
31.01.2018	CORRECTION: Reporting dates in 2018
02.03.2018	Preliminary financial data of Lietuvos Energija for January 2018
02.05.2018	Regarding the resolutions of the Ordinary General Meeting of the Shareholders of Lietuvos Energija, UAB
02.11.2018	Regarding relocation of the operation optimization activity of electrical plants of Energijos Tiekimas UAB to the newly established company
13.02.2018	Regarding separation of NT Valdos and UAB Transporto Valdymas establishing
21.02.2018	CORRECTION: Reporting dates in 2018
28.02.2018	Lietuvos Energija enters a new stage of operations with financial performance retained at a stable level
28.02.2018	Regarding a Proportional Transfer Agreement of the issue of Lietuvos Energija Green Bonds Transfer
03.07.2018	Lietuvos Energija Issuance of Notes
13.03.2018	CORRECTION: Reporting dates in 2018
21.03.2018	Regarding forthcoming transfer of public electricity supply activities from ESO to Lietuvos Dujų Tiekimas
22.03.2018	Lietuvos energija, UAB Annual information for the year 2017
30.03.2018	Regarding the non-monetary contribution to the authorized capital of Lietuvos Energijos Gamyba, AB
30.03.2018	Preliminary financial data of Lietuvos Energija for 2 months of 2018
17.04.2018	Regarding Lietuvos Energija Board decisions
20.04.2018	REPEATED 18.04.2018 Regarding liquidation of UAB VAE SPB, a subsidiary of Lietuvos Energija, UAB
05.09.2018	Lietuvos Energija, UAB audited interim financial statement for the period of 6 months 2018
05.11.2018	Regarding Acquisition of 100 Percent of Shares and Claim Rights of the Company, Developing the Wind Park Project
23.05.2018	Regarding the Approving of Strategy of Lietuvos Energija Group 2030
31.05.2018	Preliminary financial data of Lietuvos Energija for 4 months of 2018
06.03.2018	Regarding the non-monetary contribution to the authorized capital of "Lietuvos energijos gamyba", AB
06.08.2018	Lietuvos Energija, UAB, initiated a reorganisation of Energijos Tiekimas UAB and UAB Energijos Sprendimų Centras
14.06.2018	Regarding the transaction on sale of the shares of Duomenų logistikos centras, UAB, a subsidiary of Lietuvos Energija, UAB
21.06.2018	Lietuvos Energija, UAB has scheduled a second issue of green bonds
26.06.2018	Regarding the Investor's Letter of Lietuvos Energija
29.06.2018	Preliminary financial data of Lietuvos Energija for 5 months of 2018
07.05.2018	Lietuvos Energija Income Increased by 16 Percent due to High Gas and Electricity Demand
07.11.2018	Regarding revoke of the member of the Supervisory Board of Lietuvos Energija
07.11.2018	Growing demand for electricity and gas as well as better results of distribution activities improved Lietuvos Energija's results
07.11.2018	Regarding closing of acquisition of 100 percent of UAB Vėjo Vatas and UAB Vėjo Gūsis shares and claim rights
23.07.2018	CORRECTION: Reporting dates in 2018
31.07.2018	Preliminary financial data of Lietuvos Energija for 6 months of 2018
08.10.2018	Lietuvos Energija, UAB approved the reorganisation of Energijos Tiekimas, UAB and Energijos Sprendimų Centras, UAB
17.08.2018	Lietuvos Energija initiated a reorganisation of Lietuvos Dujų Tiekimas and LITGAS
29.08.2018	Regarding a Proportional Transfer Agreement of part of green bonds emission
30.08.2018	CORRECTION: Reporting dates in 2018
31.08.2018	Preliminary financial data of Lietuvos Energija for 7 months of 2018

31.08.2018	This year the revenues of Lietuvos Energija increased by 16 per cent and profit by 12 per cent
24.09.2018	Regarding the Loan Agreement with Transporto Valdymas, UAB
28.09.2018	Preliminary financial data of Lietuvos Energija for 8 months of 2018
10.08.2018	Regarding acquisition of 100 percent of UAB "Vėjo vatas" and UAB "Vėjo gūsis" shares and claim rights
10.12.2018	Regarding the approval of the terms and conditions for the reorganisation of UAB Lietuvos energijos tiekimas and UAB LITGAS
10.12.2018	Regarding separation of UAB Energijos tiekimas and establishment of UAB Gamybos optimizavimas
22.10.2018	Lietuvos Energija plans to outsource the activity of optimizing the operation of electrical plants by Energijos Tiekimas UAB to a newly established company
19.11.2018	Regarding AB Energijos Skirstymo Operatorius decision to appeal the decision of the National Commission for Energy Control and Prices
30.11.2018	Preliminary financial data of Lietuvos Energija for 10 months of 2018
27.12.2018	Regarding Acquisition of Shares of VVP Investment, JSC
28.12.2018	Preliminary financial data of Lietuvos Energija for 11 months of 2018
31.12.2018	Regarding the establishment of UAB Lietuvos Energija Renewables
31.12.2018	Reporting dates of Lietuvos Energija in 2019

Material event after the reporting period

18.01.2019	**Lietuvos Energija plans to reorganise UAB Lietuvos Energijos Tiekimas and Energijos Tiekimas UAB**
31.01.2019	Preliminary financial data of Lietuvos Energija for 12 months of 2018
01.02.2019	Regarding a New Member of Supervisory Board of Lietuvos Energija
28.02.2019	Interim information of Lietuvos Energija UAB for the twelve-month period of 2018:
28.02.2019	Preliminary financial data of Lietuvos Energija for 1 month of 2019
12.03.2019	Regarding the Loan Agreement with UAB Lietuvos Energijos Tiekimas
25.03.2019	Regarding the sale of 100 percent shares of UAB VĖJO VATAS, UAB VĖJO GŪSIS, UAB EURAKRAS, UAB VVP Investment
29.03.2019	Preliminary financial data of Lietuvos Energija for 2 months of 2019
02.04.2019	Regarding the decision of AB Energijos Skirstymo Operatorius to refuse the appeal in court
08.04.2019	Correction: Reporting dates of Lietuvos Energija in 2019
12.04.2019	Lietuvos Energija Group will hold an Investor Conference Webinar to introduce the financial results for the year 2018 and guidance for 2019

Corporate Governance Report

Lietuvos Energija, UAB (hereinafter referred to as the Company), acting in compliance with Article 22(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of NASDAQ Vilnius AB, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius AB as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with are indicated and the reasons for such non-compliance are specified.

Summary of the Corporate Governance Report

The corporate governance model of the Lietuvos Energija Group was implemented following the governance guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 (link to the document). The guidelines were updated on 1 June 2017 (link, in Lithuanian).

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 management bodies ant its members, committees etc. is provided in annual report and in the table below, in which information on compliance with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius is disclosed.

The Corporate Governance Report was prepared in accordance with the new version of the Code of Conduct for the Management of Listed Companies of AB Nasdaq Vilnius, approved at the meeting of the Board of AB Nasdaq Vilnius on 15 January 2019 (Minutes No. 19-63), at the meeting of the Bank of Lithuania on 7 January 2019 (Decision No. 241-3).

PRINCIPLES/ RECOMMENDATIONS	YES/NO/ NOT APPLICABLE	COMMENTARY
Principle 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights **The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.**		
1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	Yes	All information that shall be public in accordance with legal acts is published in Lithuanian and English via informational system of stock-exchange Nasdaq Vilnius and on the website of the Company. The place, date and time of the General Meeting of Shareholders convened by the Company is determined in order to enable the shareholders to participate in the decision-making process where significant corporate matters are discussed.
1.2. 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 of their holders.	Yes	The Company's authorized share capital consists of EUR 0.29 nominal value ordinary shares, which provide their holders equal property and non-property rights.
1.3. 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 rights, provided by the shares are indicated in the Company's Articles of Association, which is publicly available on the Company's website.
1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	No	The Articles of Association of the Company do not provide that the mentioned transactions must be approved by the general meeting of shareholders.
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the	Yes	The Company convenes General Meetings of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania.

company should specify the last day on which the proposed draft decisions should be submitted at the latest.		
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.	Not applicable	The Company's sole shareholder is the State. The rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania. There are no shareholders residing overseas; therefore, this recommendation is not relevant.
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The institution implementing the rights of the Company's shareholder may exercise its right to attend the General Meeting of Shareholders under the procedure laid down in the legal acts and this right is not restricted.
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured and it must be possible to identify the participating and voting person.	Not applicable	As the rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, the adoption of decisions at General Meetings of Shareholders takes place according to the internal procedures of the Ministry.
1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	Yes	Information on candidates to a collegial body of a state-owned company elected by the General Meeting of Shareholders is provided under the procedure established in the laws. The selection procedures and selection requirements are set by separate legal acts. Information on the candidate's education, work experience, competence, position held and former positions (CV), declaration of interests and other documents specified in the legal acts are provided. An opinion on the suitability of candidates is submitted by the Selection Commission formed in accordance with the procedure established by legal acts. The declarations of interest disclose all circumstances that could give rise to a conflict of interest between a candidate and the Company, as well as the measures for managing it. Information about the proposed audit company is also included in the notice on the draft decisions of the general meeting of shareholders if such issue is included in the agenda.
1.10. Members of the company's collegial management body, heads of the administration[7] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Not applicable	As the rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, the adoption of decisions at General Meetings of Shareholders takes place according to the internal procedures of the Ministry.

Principle 2: Supervisory board

2.1. Functions and liability of the supervisory board

The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.

The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.

2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Yes	All members of the Supervisory Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare.

[7] *For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.*

		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.
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Yes	Collegial bodies of the Company follow the prescribed recommendations. Before taking decisions, members of the collegial bodies discuss their influence to the Company's performance and the shareholder. The Company's Articles of Association oblige the collegial bodies of the Company and also each of their members to act on behalf of the Company and its shareholders. Communication with the shareholders and obligations for them are established in accordance with requirements of legal acts. The Company's Supervisory Board informed the institution holding the rights of the Company's shareholder on its activity at least once (1) a quarter, submitted quarterly reports on the Company's performance.
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Yes	The Company's Supervisory Board is independent from the Company's management bodies and takes decisions that are significant to the Company's activities and strategy, acts independently in accordance with requirements of legal acts.
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[8] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Yes	Members of the Supervisory Board have the right to express their opinion concerning all questions included to the agenda that according to work regulations of the Supervisory Board must be properly reflected in the protocol 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.
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Yes	In exercising its competence to supervise the activities of the Company's management bodies, the Supervisory Council performs the duties specified in the recommendation, and submits its opinion on tax planning issues.
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	Yes	The Company ensures that the Supervisory Board is supplied with all of the resources required for its activities (monitors technical aspects of the Supervisory Board meetings, provides all the required information and performs other functions specified in the Supervisory Board's Work Regulations). 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.
2.2. Formation of the supervisory board **The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.**		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Yes	Pursuant to the Law on Companies of the Republic of Lithuania, the Supervisory Board is elected and the qualification of its members is assessed at the general meeting of shareholders. The main activities of the Company are the exercise of the functions of the parent company of the group, and the majority of the members of the Supervisory Board have experience in the field of corporate governance.

[8] *For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.*

2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	Yes	The members of the Supervisory Board are elected according to the maximum term of office, specified in the Law on Companies of the Republic of Lithuania – for 4 years per term of office. The Articles of Association of the Company stipulate that a member of the Supervisory Board may not hold office for more than 3 consecutive terms. The Company's Articles of Association provide a possibility to revoke (dismiss) both separate members of the Supervisory Board and the whole Supervisory Board in corpore, without waiting for their mandates' terms to end. The members of the Supervisory Board (separate or the body itself) may be dismissed by the General Shareholder Meeting.
2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory Board and the CEO of the Company is not the same person. The members of the Supervisory Board and the Chairman have not been members of the Board of the Company or the CEO of the Company.
2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	Yes	Members of the Supervisory Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. In 2018 there were 16 (sixteen) Supervisory Board's meetings, and all of them were attended by all members of the Supervisory Board.
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	Yes	Information on the candidates to the Company's Supervisory Board members (as well as information on the candidate's compliance with the independence requirements) is provided to the General Meeting of Shareholders in accordance with the Law on Companies of the Republic of Lithuania (see commentary on recommendation 1.9).
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	Yes	The independent member of the Supervisory Board is remunerated for his/her activity in the Supervisory Board according to the procedure and terms established in the agreement signed with him on activity as an independent member of the Supervisory Board. The conditions of the agreement with the independent member of the Supervisory Board are approved by the General Meeting of Shareholders. According to the Corporate Governance Guidelines, the amount of remuneration to the independent member of the Supervisory Board has been limited to a maximum amount sum calculated in proportion to the remuneration of the CEO of the Company (1/4 of the CEO's remuneration to an independent member of the Supervisory Board and 1/3 of the Independent Chairman of the Supervisory Board).
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.	Yes	The Supervisory Board makes an assessment of its activity every year. The Supervisory Board assesses the organization of meetings, efficiency, the need for competences, mutual cooperation, and sufficiency of the information furnished by the management for decision-making. Information on the working procedure regulations of the Supervisory Board, applied practices, adopted decisions is not published; however, the Supervisory Board informs the institution implementing the right of the Company's shareholder thereof at least once a quarter.

Principle 3: Management Board

3.1. Functions and liability of the management board

The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.

3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	The Company's Board carries out the duty of implementation of the Company's strategy approved by the Company's Supervisory Board.

3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	As there is the Supervisory Board formed in the Company, the Board performs the functions of the Company's collegial management body. The obligation to take into account the Company, the shareholders, the employees and other interest groups is established in the agreement on performance in the Board signed by each member of the Board.
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	The Board of the Company adheres to the aforementioned recommendation, approves and ensures compliance with internal policies.
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[9] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	The Board of the Company follows the aforementioned recommendation.
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence.	Yes	When appointing the CEO of the Company the Board takes into account the balance of his/her qualifications, experience and competence as well as the opinion of the Company's Supervisory Board.
3.2. Formation of the management board		
3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	Yes	The Board of the Company ensures the balance of its members' qualifications. The main activities of the Company are the exercise of the functions of the parent company of the group, and the majority of the members of the Board have experience in the field of corporate governance.
3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	Yes	Information on candidates to the Board of a state-owned company is provided under the procedure established in the laws. The selection procedures and selection requirements are set by separate legal acts. An opinion on the suitability of candidates is submitted by the Selection Commission formed in accordance with the procedure established by legal acts. Information on the candidate's education, work experience, competence, position held and former positions (CV), declaration of interests and other documents specified in the legal acts are provided at the meeting of the Company's Supervisory Board, which elects the Board or its individual members. Information on offices held by members of the Board or their involvement in activities of any other companies is constantly collected, accumulated, and published in the annual report, as well as on the Company's website.
3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company.	Yes	The members of the Board after their election are acquainted with the Company's activities, organizational and management structure, strategy, activities and financial plans.
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	The members of the Board are elected according to the maximum term of office, specified in the Law on Companies of the Republic of Lithuania – for 4 years per term of office. Limitations concerning re-election of the members of the Board are not provided in the Company's Articles of Association, nevertheless, limitations provided by valid legal acts are applied to candidates to members of the Board. The Company's Articles of Association provide a possibility to revoke (dismiss) both separate members of the Board and the whole collegial body in corpore, without waiting for their mandates' terms to end. The members of the Board (separate or the body itself) may be dismissed by the Supervisory Board.

[9] *Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf*

3.2.5. Chair of the management board should be a person who's current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	Yes	Current or past positions of the Chairman of the Board of the Company do not create preconditions for possible impartiality. The Chairman of the Board of the Company is a member of the Board and CEO of the Company, but in this case the impartiality of its activities is ensured, as there is the Supervisory Board formed in the Company.
3.2.6. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent[10], it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.	Not applicable	There is the Supervisory Board formed in the Company.
3.2.7. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	No	Since the Company has a Supervisory Board that has the competence to elect and revoke the members of the Board, the remuneration of the Board members is also determined by the Supervisory Board.
3.2.8. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	Yes	The members of the Board act in good faith towards the Company and in accordance with the interests of the Company and taking into account the welfare of the society.
3.2.9. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	Yes/No	Each year the members of the Company's Board perform an assessment of their activities by completing the questionnaires, which include the evaluation of the work of the Board.
Principle 4: Rules of procedure of the supervisory board and the management board of the company **The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.**		
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	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.
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	Yes	Meetings of collegial bodies proceed according to the pre-approved schedule. An annual plan of meetings and their agendas are formed for the Supervisory Board which, with consideration to activities of the group of Companies and processes going on in them, is supplemented in the course of the year. Meetings of the Supervisory Board are held once a month and of the Board – once a week. Members of the Supervisory Board suggest issues to be discussed during meetings. Members of the Supervisory Board are familiarized with activities pursued not only by the Company, but also those of separate companies of the Group.

[10] *For the purposes of this Code, the criteria of independence of the members of the board are interpreted as the criteria of unrelated persons defined in Article 33(7) of the Law on Companies of the Republic of Lithuania.*

4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials 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 present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	Yes	Members of the collegial body are informed on the agenda of a meeting in advance. The agenda of the future meeting is discussed at the end of the current meeting, and issues are included into the agenda of the future meeting by consensus. In the course of the meeting, the agenda is not usually changed. All members of collegial bodies receive the material necessary for decision-making on issues on the agenda in advance and have a possibility to become familiar with them, also to ask questions before the meeting and during the meeting; they have the right to suggest that materials of the issue discussed should be supplemented, or ask to specify it. All members of the collegial bodies are informed about any received comments or specification.
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	Yes	Meetings of the Supervisory Board are also attended by the Board of the Company. Dates and agenda of the meetings are coordinated in such a way that they could be attended by all members of collegial bodies. The Supervisory Board and the Board cooperate in forming agendas of the meetings by including relevant issues on activities of the Company or the Group's companies.

Principle 5: Nomination, remuneration and audit committees

5.1. Purpose and formation of committees

The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.

Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.

5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees[11].	Yes	There are three supervisory committees set up at the Company - Risk Management and Operational Ethics Supervision, Nomination and Remuneration and Audit committees that operate on the Group level.
5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	Not applicable	
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	Not applicable	See the comments for recommendation 5.1.1
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes	Committees consist of at least 3 members by involving also independent members. Chairpersons of all committees are independent members of the Supervisory Board.
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made	Yes/No	Committees are advisory bodies of the Supervisory Board. Their regulations are approved and members are appointed by the Supervisory Board. Committees prepare reports on their performance at least once every 6 (six) months that is delivered at the meeting of the Supervisory Board.

[11] *The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).*

public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.		The number of meetings is not disclosed in the annual report; however, the Supervisory Board and the institution implementing the rights of the Company's shareholder inform on the main decisions adopted in them at least once every 6 months.
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	All chairpersons of committees are members of the Supervisory Board. The members of the Supervisory Board have the right to attend meetings of committees. If necessary, at the invitation of committees, particular employees or experts attend the meetings. Chairpersons of committees have a possibility to maintain direct relationships with the institution implementing the shareholder's rights.
5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.	Yes	The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and conform with, however, not limited to, the functions laid down in this principle.
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.	Yes	The Nomination and Remuneration Committee submits an opinion on candidatures to the management and supervision bodies of the Group's companies (if necessary, it may submit an opinion also regarding other candidatures). Decisions on the approval of such candidatures are adopted by the Supervisory Board. An opinion on the suitability of the mentioned candidatures is also submitted by the Company's Board (including the CEO).
5.3. Remuneration committee		
5.3.1. The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	Yes	The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and comply with, however, are not limited to, the functions listed in this principle. The Nomination and Remuneration Committee submits an opinion on the guidelines for the top-level management policy to the Supervisory Board. The Supervisory Board adopts decisions on the approval of such remuneration guidelines with consideration to the opinion of the Nomination and Remuneration Committee.
5.4. Audit committee		

5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[12].	Yes	The main functions of the Audit Committee are described in the Corporate Governance Guidelines and conform with the functions laid down in the legal acts regulating the activities of the audit committee.
5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.	Yes	All members of the committee are provided with detailed information on specific issues of the Company's accounting system.
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	Yes	Meetings of the Audit Committee are attended by the Head of the Internal Audit Unit, and, if necessary, by other employees when discussing specific issues. The Audit Committee also cooperates with other committees, and, if necessary, joint meetings are organised. If necessary, a meeting of the Audit Committee is attended by representatives of the company conducting an independent audit of financial statements.
5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	Yes	The Audit Committee receives the information referred to in this paragraph, submits an opinion on annual plans of internal audit that is approved by the Supervisory Board. The Internal Audit Unit informs the Audit Committee on the implementation of internal audit plans and submits reports. If necessary, a meeting of the Audit Committee is attended by representatives of the company conducting an independent audit of financial statements.
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	Audit committee performs these functions.
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	The Audit Committee submits its performance reports to the Supervisory Board at least once every 6 months.
Principle 6: Prevention and disclosure of conflicts of interest **The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.**		
6.1. Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	The Company does observe the recommendations. According to the Company's Articles of Association, each candidate to a member of the collegial body is obliged to provide a declaration of interest to the body electing him/her stating all of circumstances which could lead to a conflict of interests between the candidate and the Company. In the event a new circumstance emerge that may give rise to a conflict of interest between a member of the collegial body and the Company, a member of the Supervisory Board must immediately inform in writing the Company and the Supervisory Board of such new circumstances. Besides, according to the Company's Articles of Association, members of the Board may not have any other job or hold any other office that would be incompatible with their activity on the Board, including the holding of management positions in other legal entities (except for the position and work in the company or the Group of companies), work in civil service, statutory service. Members may hold any other position or have other job, except for the position held in the Company and other legal entities the participant whereof the Company is, also engage in educational, creative, or authorship activity only on receipt of prior consent from the Supervisory Board.
Principle 7: Remuneration policy of the company		

[12] *Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.*

The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.		
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	Yes/No	The Remuneration Policy of the Company approved by decision of the Board governs the setting and payment of remuneration in the Company. The Company's remuneration policy is not published on the Company's website, but the Company plans to publish its remuneration policy in the nearest future.
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	Yes	The Remuneration Policy defines remuneration components, their maximum amounts, the principles of allocation and payout, which are common for all companies of the Group. According to the provisions of the Remuneration Policy, the variable remuneration component is paid only in case the target achievement value is at least 70 percent. If criteria for the evaluation of performance results are not met, i.e. the goal achievement value is below 70 percent, the variable remuneration component is not paid.
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	Yes	The Remuneration Policy is aimed at defining the principles of employee remuneration. The published Guidelines for Corporate Governance of State-Owned Energy Group, provide for the principles of remuneration of collegial bodies. The remuneration of members of collegial bodies carrying out supervisory functions does not depend on the performance of the Company.
7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	Yes	The Company follows this recommendation in accordance with provisions of the Labor Code of the Republic of Lithuania, without exceeding the sums laid down therein.
7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	Not applicable	The financial incentive scheme is not applied at the Company.
7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	Yes/No	The Company follows the provisions of the Guidelines for Corporate Governance of State-Owned Energy Group approved by the Ministry of Finance of the Republic of Lithuania, also the principles laid down in Resolution No. 1341 of the Government of the Republic of Lithuania "On the Remuneration of Managers of State-Owned Enterprises" (as subsequently amended) (hereinafter – the Resolution). The Company has been providing the Ministry of Social Security and Labor of the Republic of Lithuania with information on the implementation of the Resolution. There have been no major changes in the Remuneration Policy in the past few years.
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	No	Remuneration policy of the Group has been approved by the Board of the Company.
Principle 8: Role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.**		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	The Company's management system provides protection for the rights of the stakeholders that are protected by laws. The Company pursues the maximum possible transparency in its relations with all stakeholders and the compliance with the highest ethical requirements and principles – in its activities,

		because honest and open business activities are one of the key elements of impeccable business reputation. The Company takes into account the changing customer needs, constantly improving its operational processes, empowering employees, taking care of the safety and health of its employees, seeking to maintain a close relationship with investors and ensure information accessible to all, continuously updating the information and posting it in the "Investors" section of its website.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	Yes	The Company observes these recommendations when establishing the general rules applied to the Group of companies. Interest holders (e.g. trade unions of employees of daughter companies) may participate in the management of daughter companies to the extent provided for by the laws.
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company does observe the recommendations. The stakeholders are given access to the necessary information.
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	Yes	The Company has a trust line, information can also be provided anonymously by e-mail: pasitikejimolinija@le.lt.
Principle 9: Disclosure of information **The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.**		
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:		
9.1.1. operating and financial results of the company;	Yes	The Company's operating and financial results are published each month, also in the Company's interim and annual reports.
9.1.2. objectives and non-financial information of the company;	Yes	The Company's business objectives and non-financial information is published in the Company's interim and annual reports, the Company's strategy and activity plans.
9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	Not applicable	The Company is a state-owned enterprise whose rights are exercised by the Ministry of Finance of the Republic of Lithuania.
9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.6. potential key risk factors, the company's risk management and supervision policy;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.7. the company's transactions with related parties;	Yes	The information is published on the Company's website. The Company's announcements on material events are published on the information disclosure system used by Nasdaq Vilnius Stock Exchange.
9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.9. structure and strategy of corporate governance;	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.
9.1.10. socialinės atsakomybės politikos, kovos su korupcija iniciatyvas ir priemones, svarbius vykdomus ar planuojamus investicinius projektus.	Yes	The information is published in the Company's interim and annual reports, and on the Company's website.

Šis sąrašas laikytinas minimaliu, ir bendrovės yra skatinamos neapsiriboti tik informacijos, nurodytos šiame sąraše, atskleidimu. Šis Kodekso principas neatleidžia bendrovės nuo pareigos atskleisti informaciją, numatytą teisės aktuose.		
9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Yes	The Company discloses the Group's consolidated results.
9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	Yes	The information specified in Item 4 of the recommendation is published in the Company's annual report and on the Company's website. The Company makes public the salary to the Company's CEO and other benefits associated with the functions as members of the management bodies.
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	The Company discloses the information via the information disclosure system used by the Vilnius Stock Exchange in the Lithuanian and English languages simultaneously. The Company observes the recommendation and announces its material events before or after a trading session on the Vilnius Stock Ex-change, except for the cases provided for by legal acts. The Company does not disclose the information likely to impact the price of the issued by it securities in its comments, interviews or otherwise by the time such information is announced via the information system of the Stock Exchange.
Principle 10: Selection of the company's audit firm **The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.**		
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	Yes	The Company executes its annual financial statement audit. The audit firm also verifies the compliance of the Company's annual report with its audited financial statements.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	No	The audit firm is being selected according to the procedure, laid out in the Public procurement law of the Republic of Lithuania, the selected audit firm is proposed to the General Shareholder Meeting by the Company's Board.
10.3. The audit firm is being selected according to the procedure, laid out in the Public procurement law of the Republic of Lithuania, the selected audit firm is proposed to the General Shareholder Meeting by the Company's Board.	Yes	The Company does observe the recommendations.

INDEPENDENT AUDITOR`S REPORT

Independent auditor's report

To the shareholder of Lietuvos energija UAB

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Lietuvos energija UAB ("the Company") and its subsidiaries ("the Group") as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

What we have audited

The Company's and the Group's separate and consolidated financial statements comprise:

- the Company's and the Group's statements of financial position as at 31 December 2018;
- the Company's and the Group's statement of profit or loss and other comprehensive income for the year then ended;
- the Company's and the Group's statements of changes in equity for the year then ended;
- the Company's and the Group's statement of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial 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 and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Law of the Republic of Lithuania on the Audit of Financial Statements that are relevant to our audit of the separate and consolidated financial statements in the Republic of Lithuania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Law of the Republic of Lithuania on the Audit of Financial Statements.

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

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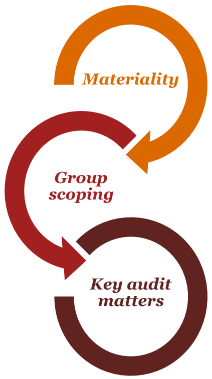
The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in note 33 to the financial statements.

Our audit approach

Overview



Materiality

- Overall Company materiality is EUR 4.1 million
- Overall Group materiality is EUR 4.9 million

Audit Scope

- We conducted audit work at 6 reporting units, all of them are in Lithuania
- Our full scope audit addressed 87% of group assets and 92% of revenue.

Key Audit matters

Company:

- Impairment of investments in subsidiaries

Group:

- Property, plant and equipment accounted for at revalued amount

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

Materiality

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

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

Overall Company materiality	EUR 4.1 million (2017: EUR 5.0 million)
Overall Group materiality	EUR 4.9 million (2017: EUR 5.3 million)
How we determined it	Overall Company materiality represents 5% of average profit before tax for the years 2016-2018. Overall Group materiality represents 5% of average adjusted profit before tax for the years 2016-2018: 2017 profit before tax was adjusted for impairment losses of property, plant and equipment (EUR 32 million) and one-off recalculation of revenue from regulated activities (EUR 17 million); and 2018 profit before tax was adjusted for revaluation loss (EUR 68 million) and reversal of impairment (EUR 7 million) of property, plant and equipment.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark for the Company and the Group because, in our view, it is the generally accepted measure and it is the measure against which the performance of the Company and the Group is most commonly assessed. The Company's current year performance depends on results of its subsidiaries in the current and prior periods, and on subsequent dividend payments, thus we chose average figure to eliminate unusual deviations. The Group's profit before tax depends on approved tariffs for regulated activities, which incorporate gas and electricity prices in the current and prior periods. Because of the specifics how tariffs are regulated in the market, we chose average of 3 years to eliminate the impact of annual fluctuations. We eliminated certain gains and losses as described above as in our view they had significant impact on earnings reported which caused profits before tax in these years volatile. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 250 thousand for the Group and above EUR 200 thousand for the Company, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of investments in subsidiaries (refer to notes 4, 8) The carrying value of investments in subsidiaries (EUR 1,207 million) as at 31 December 2018 represents 58% of total assets of the Company in the separate financial statements. During the year ended 31 December 2018, the Company has recognised an impairment loss of investments in subsidiaries of EUR 6.8 million. The management of the Company applied significant judgement is assessment whether impairment indications exist and made significant assumptions in determining recoverable amounts of investments using discounted cash flows analysis or net asset value. We focused on this area because of the magnitude of the balances and significant dividends paid by subsidiaries, which might be considered as impairment indicator.	We obtained understanding of the management's process for the monitoring of the performance of the subsidiaries and for assessment of the recoverable value of investments in subsidiaries. We have obtained the management's assessment whether impairment indicators exist, analysed and discussed it with the management. For those entities, where impairment indicators were identified, we obtained impairment tests, discussed with management the basis for expected future performance, analysed the major inputs in the calculations including profitability, discount rate assumptions and sensitivity to selected assumptions. When assessing impairment indicators and analysing the inputs used in the impairment tests, we leveraged our knowledge from audit of subsidiaries and audit procedures applied to property, plant and equipment as discussed in key audit matter below.

Key audit matter	How our audit addressed the key audit matter
Property, plant and equipment accounted at revalued amount (refer to notes 4, 6, 24) Property, plant and equipment is the most significant item of assets on the consolidated statement of financial position and amounted to EUR 2,092 million as at 31 December 2018. The property, plant and equipment accounted for at revalued amount had a net book value of EUR 1,318 million and the most significant component was the electricity distribution network with a net book value of EUR 1,206 million. In 2018, the Group's management performed a valuation of the assets attributed to the electricity distribution network. Valuation was performed as at 31 August 2018 with reference to the valuation report delivered by independent valuers. Based on the valuation performed, management has determined that fair value of the property, plant and equipment of the electricity	Our procedures in relation to property, plant and equipment revaluation included as follows: • We evaluated the independent external valuers' competence, capabilities and objectivity. • We obtained the cash flow model used by the management to determine the value of assets employed in electricity businesses. • We tested the model as to whether it is mathematically accurate, discussed with management key inputs and assumptions, traced them to external or Group's internal information, where appropriate, and assessed sensitivity of the cash flow model to changes in selected assumptions. • We also involved PwC valuation expert who assessed the appropriateness of the model, inputs, assumptions used as the basis of the valuation and the reasonableness of the discount rate applied.

distribution network is higher than the net book value as at 31 December 2018 by EUR 46.3 million and accounted for it: increase of EUR 122.6 million was recognised directly in equity and decrease of EUR 76.3 million (net of write-off of grants of EUR 8.9 million) was recognised in profit or loss. The total revaluation gain of the group amounted to EUR 45.7 million, of which increase of EUR 122.3 million was recognised directly in equity and decrease of EUR 76.6 million (net of write-off of grants of EUR 8.9 million) was recognised in profit or loss.

Valuation of electricity distribution network assets was carried out in the following stages: (i) replacement cost of new assets (RCN) was estimated; (ii) physical and functional obsolescence of assets was determined; (iii) economic obsolescence of assets was assessed (using the income method).

In determining the replacement cost, the external valuers took into account property- specific current information such as cost of materials, installation works, labour, transportation and

- We obtained the model for calculating the replacement cost new (RCN) and depreciated replacement cost (DRC), tested the reasonableness of inputs used and the determination of physical and functional obsolescence of assets for selected items, by comparing to recent construction prices of comparable new assets and verifying formulas and data used to arrive from RCN to DRC.
- We also checked the allocation of fair value surplus or reduction to individual items based on economic obsolescence principles and performed detailed allocation testing for selected items.

We also considered whether or not there was bias in determining fair value.

We also considered the adequacy of disclosures in Notes 4 and 6.

handling fees, overall costs of contractor, also indirect costs, such as engineering and design costs.

Then physical and functional obsolescence of assets was determined to estimate depreciated replacement cost (DRC) for each individual asset.

Finally, income method was used to determine the economic obsolescence of assets. Based on the results of the economic obsolescence test, the values of assets determined by DRC method were reduced on a pro rata basis, except for assets for which such allocation would have resulted in a value lower than the asset's regulated asset base (hereinafter – RAB) value. For such assets the RAB value was considered to be its fair value. The amount of reduction that would otherwise have been allocated to an asset was allocated pro rata to the other assets.

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

How we tailored our Group audit scope

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

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

- Lietuvos Energija UAB
- Energijos Skirstymo Operatorius AB
- Lietuvos Energijos Gamyba AB
- Energijos Tiekimas UAB
- Litgas UAB
- Lietuvos Energijos Tiekimas UAB

The audit of these entities was performed by PwC Lithuania and covered 92% of Group's revenue and 87% of Group's assets. In addition, the group engagement team carried out selected audit procedures on significant remaining items such as property, plant and equipment held by subsidiaries Vilniaus Kogeneracinė Jėgainė UAB and Kauno Kogeneracinė Jėgainė UAB in the amount of EUR 108 million, and assessed other significant areas that may impact consolidated financial statements, such as compliance with debt covenants by Vilniaus Kogeneracinė Jėgainė UAB. For other subsidiaries, the Group audit team performed group level analytics to obtain sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Reporting on other information including the consolidated annual report

Management is responsible for the other information. The other information comprises the consolidated annual report, including the corporate governance report 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 consolidated annual report, we considered whether the consolidated annual report includes the disclosures required by the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings, the Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

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

- the information given in the consolidated annual report for the financial year ended 31 December 2018, for which the financial statements are prepared, is consistent with the financial statements; and
- the consolidated annual report has been prepared in accordance with the Law of the Republic of Lithuania on Consolidated Financial Reporting by Groups of Undertakings and the Law of the Republic of Lithuania on Financial Reporting by Undertakings.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group for the year 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 10 years.

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

On behalf of PricewaterhouseCoopers UAB

Rasa Radzevičinė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
16 April 2019

CONSOLIDATED AND COMPANY`S FINANCIAL STATEMENTS

CONSOLIDATED AND THE COMPANY'S FINANCIAL STATEMENTS

for the year ended 31 December 2018
prepared in accordance with International Financial Reporting Standards, as adopted by the European Union,
presented together with the independent auditor's report

The Company's and the Group's consolidated financial statements were approved by Lietuvos Energija UAB management and signed on 16 April 2019:

Darius Maikštėnas
Chief Executive Officer

Darius Kašauskas
Finance and Treasury Director

Giedruolė Guobienė
Head of Accounting Services Centre of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018)

Lietuvos Energija UAB, company code 301844044, address: Žvejų g. 14, LT-09310, Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION
At 31 December 2018
(All amounts in EUR thousands unless otherwise stated)

	Notes	Group At 31 December 2018	Group At 31 December 2017
ASSETS			
Non-current assets			
Intangible assets	5	106,330	36,360
Property, plant, and equipment	6	2,091,590	1,761,082
Prepayments for non-current assets	14	23,621	21,911
Investment property	7	6,494	14,878
Amounts receivable after one year	9.10	160,606	170,488
Other financial assets	11	2,008	426
Other non-current assets	12	6,094	3,239
Deferred income tax assets	23	14,468	7,084
Total non-current assets		**2,411,211**	**2,015,468**
Current assets			
Inventories	13	43,137	56,866
Prepayments and deferred expenses	14	30,655	38,119
Trade receivables	15	143,120	112,563
Other amounts receivable	16.10	25,436	27,800
Other current assets		2,147	1,093
Prepaid income tax		4,192	2,102
Other financial assets	11	656	-
Cash and cash equivalents	18	127,835	171,756
		377,178	**410,299**
Non-current assets held for sale	19.10	65,706	79,301
Total current assets		**442,884**	**489,600**
TOTAL ASSETS		**2,854,095**	**2,505,068**

	Notes	Group At 31 December 2018	Group At 31 December 2017*
EQUITY AND LIABILITIES			
Equity			
Share capital	20	1,212,156	1,212,156
Reserves	21	212,802	99,380
Retained earnings (deficit)		(156,763)	(13,706)
Equity attributable to owners of the parent		**1,268,195**	**1,297,830**
Non-controlling interest		48,356	45,796
Total equity		**1,316,551**	**1,343,626**
Liabilities			
Non-current liabilities			
Non-current borrowings and bonds	22	735,410	480,068
Finance lease liabilities	22	14,334	187
Grants and subsidies	24	208,874	200,311
Deferred income tax liability	23	38,688	36,049
Provisions	26	30,571	1,893
Deferred revenue	25	115,261	54,509
Other non-current amounts payable and liabilities	27	11,274	7,306
Total non-current liabilities		**1,154,412**	**780,323**
Current liabilities			
Current portion of non-current borrowings	22	61,819	119,599
Current borrowings	22	47,727	14,082
Current portion of finance lease liabilities	22	5,220	145
Trade payables	28	93,237	98,338
Advance amounts received	25	55,325	27,765
Income tax liabilities		3,436	3,695
Provisions	26	2,788	2,498
Deferred revenue	25	7,912	5,242
Other current amounts payable and liabilities	29	102,682	109,421
		380,146	**380,785**
Liabilities related to non-current assets held for sale		2,986	334
Total current liabilities		**383,132**	**381,119**
Total liabilities		**1,537,544**	**1,161,442**
TOTAL EQUITY AND LIABILITIES		**2,854,095**	**2,505,068**

** Reclassified upon enactment of IFRS 15 as of 1 January 2018 (Note 2.1)*

Lietuvos Energija UAB, company code 301844044, address: Žvejų g. 14, LT-09310, Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION
At 31 December 2018
(All amounts in EUR thousands unless otherwise stated)

	Notes	Company At 31 December 2018	Company At 31 December 2017
ASSETS			
Non-current assets			
Intangible assets	5	1,874	-
Property, plant, and equipment	6	427	421
Prepayments for non-current assets	14	816	3,899
Investments in subsidiaries	8	1,206,921	1,148,917
Amounts receivable after one year	9.10	679,593	492,938
Other financial assets	11	2,008	426
Deferred income tax assets	23	1,077	549
Total non-current assets		**1,892,716**	**1,647,150**
Current assets			
Prepayments and deferred expenses	14	62	42
Other amounts receivable	16.10	631	5,322
Prepaid income tax		15	147
Short-term loans	17	189,324	169,395
Cash and cash equivalents	18	231	52,517
		190,263	**227,423**
Non-current assets held for sale	19.10	7,141	14,717
Total current assets		**197,404**	**242,140**
TOTAL ASSETS		**2,090,120**	**1,889,290**

	Notes	Company At 31 December 2018	Company At 31 December 2017
EQUITY AND LIABILITIES			
Equity			
Share capital	20	1,212,156	1,212,156
Reserves	21	19,811	14,516
Retained earnings (deficit)		78,231	117,103
Total equity		**1,310,198**	**1,343,775**
Liabilities			
Non-current liabilities			
Non-current borrowings and bonds	22	671,245	433,668
Provisions	26	-	2,903
Other non-current amounts payable and liabilities	27	378	9,807
Total non-current liabilities		**671,623**	**446,378**
Current liabilities			
Current portion of non-current borrowings	22	57,401	95,013
Current borrowings	22	47,721	2,794
Trade payables	28	947	506
Prepayments received	25	51	1
Provisions	26	806	-
Other current amounts payable and liabilities	29	1,373	823
Total current liabilities		**108,299**	**99,137**
Total liabilities		**779,922**	**545,515**
TOTAL EQUITY AND LIABILITIES		**2,090,120**	**1,889,290**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018
All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2018	2017*	2018	2017
Revenue from contracts with customers	30	1,208,444	1,081,219*	3,188	2,972
Other income	31	45,782	19,612*	703	516
Dividend income	37	-	-	67,378	124,704
		1,254,226	**1,100,831**	**71,269**	**128,192**
Operating expenses					
Purchases of electricity, gas for trade, and related services	32	(947,989)	(712,298)	-	-
Purchases of gas and heavy fuel oil		(26,545)	(28,193)	-	-
Depreciation and amortisation	5,6,19,24	(87,460)	(87,357)	(7)	(3)
Wages and salaries and related expenses		(79,741)	(81,336)	(5,067)	(4,105)
Repair and maintenance expenses		(21,200)	(21,318)	-	-
Result of revaluation of property, plant and equipment	6,7,24	(67,671)	(7,103)	-	-
(Impairment)/reversal of impairment of investments in subsidiaries		-	-	(6,815)	(9,414)
Reversal (impairment) of amounts receivable and loans		(9,876)	1,003	(11,198)	(2,701)
Impairment of property, plant and equipment	6.19	7,205	(33,387)	-	-
Other expenses	33	(26,144)	(33,709)	(1,357)	(5,810)
Total operating expenses		**(1,259,420)**	**(1,003,698)**	**(24,444)**	**(22,033)**
Finance income	34	1,621	2,163	10,069	3,588
Finance costs	35	(14,899)	(9,098)	(12,169)	(4,291)
Results of the revaluation and closing of derivative financial instruments		(573)	-	(572)	-
Profit/(loss) before income tax		**(19,045)**	**90,198**	**44,153**	**105,456**
Current year income tax (expenses)/benefit	36	(3,495)	(2,682)	7	2
Deferred income tax (expenses)/benefit	36	14,598	6,009	528	456
Profit for the year		**(7,942)**	**93,525**	**44,688**	**105,914**
Attributable to:					
Owners of the parent		(9,209)	89,103	44,688	105,914
Non-controlling interest		1,267	4,422	-	-

** Reclassified upon enactment of IFRS 15 as of 1 January 2018 (Note 2.1)*

	Notes	Group		Company	
		2018	2017	2018	2017
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss					
Gain/(loss) on revaluation of property, plant and equipment		123,139	259	-	
Recalculation of the defined benefit plan obligation, net of deferred income tax		77	(187)		
Items that will not be reclassified subsequently to profit or loss, total		**123,216**	**72**	**-**	**-**
Items that will be reclassified subsequently to profit or loss					
Translation of net investments in foreign operations into the Group's presentation currency		(26)	42		-
Items that will be reclassified subsequently to profit or loss, total		**(26)**	**42**	**-**	**-**
Total other comprehensive income/(loss)		**123,190**	**114**	**-**	**-**
Total comprehensive income (loss) for the period		**115,248**	**93,639**	**44,688**	**105,914**
Attributable to:					
Owners of the parent		108,195	89,217	44,688	105,914
Non-controlling interest		7,053	4,422	-	-

STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2018
All amounts in EUR thousands unless otherwise stated

Group	Notes	Equity attributable to owners of the Company: Share capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	Total
Balance as at 1 January 2017		**1,212,156**	**34,696**	**57,475**	**-**	**(35,952)**	**1,268,375**	**51,172**	**1,319,547**
Revaluation of property, plant and equipment, net of deferred income tax effect		-	-	218	-	-	218	41	259
Translation of net investments in foreign operations into the Group's presentation currency		-	-	-	42	-	42	-	42
Result of change in actuarial assumptions						(187)	(187)	-	(187)
Total other comprehensive income (loss)		**-**	**-**	**218**	**42**	**(187)**	**73**	**41**	**114**
Profit for the reporting period		-	-	-	-	89,103	89,103	4,422	93,525
Total comprehensive income for the period		**-**	**-**	**218**	**42**	**88,916**	**89,176**	**4,463**	**93,639**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(4,867)	-	4,867	-	-	-
Transfer to reserves and movement in reserves		-	11,816	-	-	(11,816)	-	-	-
Dividends	37	-	-	-	-	(59,752)	(59,752)	(5,598)	(65,350)
Change in non-controlling interest due to changes in the Group's structure		-	-	-	-	31	31	(31)	-
Acquisition of shares from non-controlling interest in Eurakras UAB		-	-	-	-	-	-	(5,182)	(5,182)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB		-	-	-	-	-	-	972	972
Balance as at 31 December 2017		**1,212,156**	**46,512**	**52,826**	**42**	**(13,706)**	**1,297,830**	**45,796**	**1,343,626**
Balance as at 1 January 2018		**1,212,156**	**46,512**	**52,826**	**42**	**(13,706)**	**1,297,830**	**45,796**	**1,343,626**
Effect of change in accounting policies following the adoption of new IFRS	2	-	-	-	-	(59,647)	(59,647)	(3,145)	(62,792)
Restated balance as at 1 January 2018		**1,212,156**	**46,512**	**52,826**	**42**	**(73,353)**	**1,238,183**	**42,651**	**1,280,834**
Revaluation of non-current assets, net of deferred income tax effect		-	-	117,357	-	-	117,357	5,782	123,139
Translation of net investments in foreign operations into the Group's presentation currency		-	-	-	(26)	-	(26)	-	(26)
Result of change in actuarial assumptions		-	-	-	-	73	73	4	77
Total other comprehensive income (loss)		**-**	**-**	**117,357**	**(26)**	**73**	**117,404**	**5,786**	**123,190**
Net profit for the reporting period		-	-	-	-	(9,209)	(9,209)	1,267	(7,942)
Total comprehensive income for the period		**-**	**-**	**117,357**	**(26)**	**(9,136)**	**108,195**	**7,053**	**115,248**
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(6,746)	-	6,746	-	-	-
Emission allowances utilised		-	-	(473)	-	473	-	-	-
Depreciation of the revaluation reserve of emission allowances		-	-	(29)	-	29	-	-	-
Transfer to reserves, movement in reserves		-	3,339	-	-	(3,339)	-	-	-
Dividends	37	-	-	-	-	(78,265)	(78,265)	(2,596)	(80,861)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB		-	-	-	-	-	-	1,172	1,172
Acquisition of subsidiary		-	-	-	-	82	82	-	82
Part of the increase in the authorised share capital of Lietuvos Energijos Gamyba AB by way of in-kind contribution attributable to non-controlling interest		-	-	-	-	-		76	76
Balance as at 31 December 2018		**1,212,156**	**49,851**	**162,935**	**16**	**(156,763)**	**1,268,195**	**48,356**	**1,316,551**

STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2018
All amounts in EUR thousands unless otherwise stated

Company	Note	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2017		**1,212,156**	**9,758**	**-**	**75,699**	**1,297,613**
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	-	-
Total other comprehensive income/(loss)		**-**	**-**	**-**	**-**	**-**
Net profit for the reporting period		-	-	-	105,914	105,914
Total comprehensive income for the period		**-**	**-**	**-**	**105,914**	**105,914**
Transfers to legal reserve		-	4,758	-	(4,758)	-
Dividends	37	-	-	-	(59,752)	(59,752)
Balance as at 31 December 2017		**1,212,156**	**14,516**	**-**	**117,103**	**1,343,775**
Balance as at 1 January 2018		**1,212,156**	**14,516**	**-**	**117,103**	**1,343,775**
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	-	-
Total other comprehensive income/(loss)		**-**	**-**	**-**	**-**	**-**
Net profit for the reporting period		-	-	-	44,688	44,688
Total comprehensive income for the period		**-**	**-**	**-**	**44,688**	**44,688**
Transfer to legal reserve		-	5,295	-	(5,295)	-
Dividends	37	-	-	-	(78,265)	(78,265)
Balance as at 31 December 2018		**1,212,156**	**19,811**	**-**	**78,231**	**1,310,198**

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2018	2017	2018	2017
Cash flows from operating activities					
Net profit for the period		(7,942)	93,525	44,688	105.914
Adjustments for non-cash items:					
Depreciation and amortisation expenses	5,6,19	96,730	107,579	7	3
Impairment of property, plant and equipment	6.19	(7,205)	106,259	-	-
Grants designated for property, plant and equipment in respect of which impairment and/or revaluation was recognised	24	(10,003)	(72,872)	-	
Result of revaluation of property, plant and equipment	6	76,617	(1,379)		-
Result of revaluation of investment property	7	(18)	3,929		-
Revaluation of derivatives		(354)	(2,165)		-
Impairment/(reversal of impairment) of financial assets		9,876	(1,003)	11,198,	2.701
Impairment/(reversal of impairment) of investments in subsidiaries		-	-	6,815	9.414
Income tax expenses	36	(11,103)	(3,327)	(535)	(458)
(Depreciation) of grants	24	(9,270)	(20,222)	-	-
Increase (decrease) in provisions		404	(11,362)	(2,097)	2.903
Inventory write-down allowance/(reversal)		(718)	(98)	-	-
Expenses/(income) of revaluation of emission allowances		(8,933)	(2,296)	-	-
Emission allowances utilised		908	932	-	-
Elimination of results of investing activities:					
- Dividend (income)	37	-		(67,378)	(124.704)
- (Gain)/loss on disposal and/or write-off of property, plant and equipment		477	2,258	-	-
- (Gain) loss on disposal of investments in subsidiaries and associates		-	(352)	-	(24)
Results of the revaluation and closing of derivative financial instruments		0	-	572	-
Other (income)/expenses of investing activities		82	-	15	217
Elimination of results of financing activities:					
- Interest (income)	34	(1,427)	(1,520)	(10,040)	(3.147)
- Interest expenses	35	12,442	7,858	11,217	3.802
- Other (income)/expenses of financing activities		2,263	597	924	48
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		(21,603)	3,672	106	(891)
(Increase) decrease in inventories, prepayments and other current assets		18,896	(55,678)	(20)	(32)
Increase (decrease) in amounts payable, deferred income and advance amounts received		44,721	(10,112)	(463)	347
Income tax (paid)		(6,309)	(9,663)	-	15
Net cash flows generated from (used in) operating activities		**178,532**	**134,560**	**(4.991)**	**(3,892)**

	Notes	Group		Company	
		2018	2017	2018	2017
Cash flows from investing activities					
(Purchase) of property, plant and equipment and intangible assets		(416,205)	(232,548)	(6,454)	(10,011)
Disposal of property, plant and equipment and intangible assets		48,162	5,525	-	-
Loans granted		-	-	(351,160)	(218,983)
Loan repayments received		-	34,759	140,117	51,091
(Acquisition) disposal of investments in subsidiaries	8	(23,509)	62	(46,254)	(19,060)
Grants received	24	25,523	7,798	-	-
(Acquisition) of bonds		-	-	-	-
Interest received		1,105	1,498	5,389	1,910
Dividends received		-	-	67,378	124,704
Other increases (decreases) in cash flows from investing activities		(1,582)	-	(1,582)	-
Net cash flows used in investing activities		**(366,506)**	**(182,906)**	**(192,566)**	**(70,349)**
Cash flows from financing activities					
Proceeds from borrowings	22	57,810	97,305	-	-
Issue of bonds	22	294,346	293,759	294.346	293.759
Repayments of borrowings	22	(155,421)	(284,904)	(95.052)	(106.662)
Finance lease payments	22	(544)	(158)	-	-
Interest paid	22	(10,402)	(4,436)	(7.746)	(786)
Dividends paid		(80,608)	(65,350)	(78.265)	(59.752)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB	8	7,840		-	
Redemption of shares from non-controlling interest		-	(4,284)		-
Result of the closing of derivative financial instruments		(573)	(1,050)	(572)	126
Other increases (decreases) in cash flows from financing activities		-	-	(9.699)	-
Net cash generated from financing activities		**112,448**	**30,882**	**103,012**	**126,685**
Increase (decrease) in cash and cash equivalents (including overdraft)		**(75,526)**	**(17,464)**	**(94,546)**	**52,444**
Cash and cash equivalents (including overdraft) at the beginning of the period		161,101	178,565	52,517	73
Cash and cash equivalents (including overdraft) at the end of period	18	**85,575**	**161,101**	**(42,029)**	**52,517**

1 General information

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

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

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

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

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

Company's shareholder	At 31 December 2018		At 31 December 2017	
	Share capital, in EUR '000	%	Share capital, in EUR '000	%
Republic of Lithuania represented by the Ministry of Finance of the Republic of Lithuania	1,212,156	100	1,212,156	100

As at 31 December 2018, the Group and the Company had 3,813 and 125 employees, respectively (31 December 2017: 4,513 and 104 employees, respectively).

The Company's management approved these financial statements on 16 April 2019.The Company's shareholders have a statutory right to approve or not to approve these financial statements and require that management prepare a new set of financial statements.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Company's and the Group's financial statements for the year ended 31 December 2018 are summarised below.

2.1 Basis of preparation

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

The Group's and the Company's financial statements as at and for the year ended 31 December 2018 have been prepared on a historical cost basis, except for property, plant and equipment measured at revaluated amount, investment property, emission allowances and certain financial instruments measured at fair value.

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

IFRSs and their amendments adopted by the Group and the Company for the first time in the financial year ended 31 December 2018 are as follows:

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

On 1 January 2018, the Group and the Company adopted IFRS 9, *Financial Instruments* for the first time.

All amounts in EUR thousands unless otherwise stated

The Company estimated expected credit losses on trade receivables and loans receivable by assessing the clients on an individual basis as all services are provided to the subsidiaries and the loans are also mainly granted to the subsidiaries. The Company's management assessed the impact of the adoption of IFRS 9, *Financial Instruments* and amendments thereto on the Company's financial statements and established that the requirements of the new standard do not have a significant impact on the measurement results of trade receivables and loans receivable that were applied prior to the effective date of this standard.

The Group accounted for the impact of the first-time adoption of IFRS 9 starting from 1 January 2018 using the modified retrospective approach. The first-time adoption of the standard had no impact on the measurement of financial assets and financial liabilities, except that impairment of amounts receivable, which was recalculated under the requirements of the new standard, increased by EUR 471 thousand. The impact of the adoption of this standard was reported in the statement of financial position of 2018 by reducing retained earnings and recognising additional impairment of amounts receivable.

On 1 January 2018, the Group and the Company assessed debt financial assets compliance to criteria "solely payments of principle and interest on the principal amount outstanding" and, which business models are applied to financial assets held and reclassified financial instruments into respective categories established by IFRS 9. The main impact of this reclassification is as follows:

	FAAC	FAFVOCI	FAFVPL
Amount receivable for the sale of LITGRID AB	174,535	-	(4,679)
Balance at 31 December 2017 under IAS 39	**174,535**	**-**	**(4,679)**
Reclassification of assets measured at amortised cost to financial assets measured at fair value through profit and loss	(174,535)		174,535
Balance at 1 January 2018 under IFRS 9	-	-	169,856

FAAC – financial assets subsequently measured at amortised cost;
FAFVOCI – financial assets subsequently measured at fair value through other comprehensive income;
FAFVPL – financial assets subsequently measured at fair value through profit or loss.

The first-time adoption of IFRS 9 affected the reclassification of the amount receivable for the sale of LITGRID AB from financial assets measured at amortised cost to financial assets subsequently measured at fair value through profit or loss. Other financial assets of the Company comprising trade receivables and loans granted are classified under the category of financial assets that are subsequently measured at amortised cost.

IFRS 15, Revenue from Contracts with Customers.

As at 1 January 2018, the Group and the Company adopted for the first time IFRS 15, *Revenue from Contracts* with Customers and amendments thereto. The Group and the Company accounted for the impact of the adoption of IFRS 15 starting from 1 January 2018 using the modified retrospective approach.

The Group's management assessed the impact of the adoption of IFRS 15, *Revenue from Contracts with Customers* and amendments thereto on the Group's financial statements and established that the requirements of the new standard will affect the recognition of revenue from new customer connection. Following the application of IFRS 15 with respect to revenue from new customer (NC) connection to the electricity system, the Group recognises such revenue over time, unlike the approach applied until 1 January 2018 (where revenue is recognised upon the fulfilment of an obligation). As effective legal acts require that a new customer conclude the transmission or public/guaranteed supply agreement with the Company, it means that a customer's connection to the network is not a separate performance obligation under IFRS 15, but it is interdependent with the electricity transmission service, therefore, NC connection revenue should be recognised over a period during which the electricity distribution service is provided. In view of this change, accrued NC connection revenue that had been recognised as revenue immediately between the period from 2 July 2009 and 31 December 2017 has been recalculated retrospectively and recognised over the estimated period of the provision of electricity distribution services to NC. Such a method of revenue recognition reduced the Group's retained earnings by EUR 73,318 million and will increase deferred revenue by a respective amount. The tax impact was estimated to be equal to EUR 10,997 thousand and was accounted for within retained earnings as well. The entry into force of IFRS 15 did not affect revenue from NC connection to the electricity networks that was accrued before 1 July 2009, because such revenue was recognised over time. Following the transfer of electricity public supply activities of Energijos Skirstymo Operatorius AB to Lietuvos Energijos Tiekimas UAB as of 1 October 2018, new customer connection is treated as a separate performance obligation under IFRS 15. This entails that inflows received from new customers will from 1 October 2018 be recognised as revenue upon connecting the customer to electricity distribution networks.

As a result of the application of IFRS 15 to the NC connection to gas network service revenue that was accrued and recognised in the statement of financial position over the useful life of property, plant and equipment created during the connection (i.e. deferred revenue) will from 1 January 2018 be recognised upon fulfilment of the connection obligation. Such estimation made by management is based on the fact that the Company's customers have a possibility to ensure the provision of natural gas distribution services by concluding a supply agreement with a natural gas supply company. A majority of the Group's customers make use of such a possibility. Consequently, the sole agreement concluded with the consumer is the NC connection agreement, under which all obligations assumed with respect to the consumer are deemed to be fulfilled when the connection service has been provided. Such a method of revenue recognition increased the Group's retained earnings by EUR 10,356 thousand and reduced deferred revenue by a respective amount. However, deferred NC connection revenue had an impact on the value of property, plant and equipment used in the gas segment (i.e. the impairment test showed that deferred NC connection revenue increased the carrying amount of property, plant and equipment used of the gas distribution network. As a result, such an accounting treatment of revenue had an impact on the carrying amount of property, plant and equipment used in the gas segment as it had exceeded the recoverable value, and value adjustment was reported within the Group's retained earnings (deficit) upon the initial adoption of IFRS 15. The total amount of these reclassifications in the gas segment, including a tax impact, is equal to zero.

The impact of the first-time adoption of IFRS 9 and IFRS 15 on the items of the Group's statement of financial position is shown in the table below:

	At 31 December 2017	IFRS 15	IFRS 9	At 1 January 2018
ASSETS				
Non-current assets				
Property, plant, and equipment	1,761,082	(10,356)	-	1,750,726
Deferred income tax assets	7,084	10,997	-	18,081
Current assets				
Trade receivables	112,563		(471)	112,092
EQUITY AND LIABILITIES				
Equity				
Retained earnings (deficit)	(13,706)	(59,194)	(453)	(73,353)
Non-controlling interest	45,796	(3,127)	(18)	42,651
Non-current liabilities				
Deferred revenue	54,509	63,839	-	118,348
Current liabilities				
Other current amounts payable and liabilities	114,663	(877)		113,786
Deferred revenue	*5,243*	*(877)*	-	*4,366*

All amounts in EUR thousands unless otherwise stated

The adoption of IFRS 15 affected the classification and presentation of the Group's revenue under contracts with customers and other income, therefore, as of 1 January 2018, income items *Repair services*, *IT and communications services*, and *Electricity equipment relocation income* are included within *Revenue under contracts with customers* in the statement of comprehensive income; comparative figures for 2017 have been also reclassified. Upon the enactment of the standard, the line item *Other income* of the statement of comprehensive income also comprises income from derivative financial instruments; comparative figures for 2017 have been also reclassified.

Statement of profit or loss and other comprehensive income

The impact of IFRS 15 on the comparative figures as at 31 December 2017 of the Group's statement of profit or loss and other comprehensive income due to the reclassification is presented in the table below:

	At 31 December 2017	IFRS 15	Reclassified as at 31 December 2017
Revenue from contracts with customers	1,064,459	16,760	1,081,219
Other income	36,372	(16,760)	19,612
	1,100,831	**-**	**1,100,831**

The application of IFRS 15 affected the presentation of the current portion of the Group's deferred revenue liabilities related to the connection of new customers to the gas and electricity distribution networks in the statement of financial position. As described in Note 2.20, revenue from the connection of new customers to the electricity and/or gas distribution networks is recognised immediately upon completion of the connection works. Therefore, the largest portion of the Group's deferred revenue as presented in the statement of financial position comprises liabilities recognised until 1 October 2018. Based on estimates of the Group, current deferred revenue liabilities comprise a significant portion of the Group's liabilities and are therefore presented separately from other amounts payable and liabilities in the statement of financial position at 31 December 2018. In this respect, current deferred revenue liabilities of the comparative period are presented in the Group's statement of financial position also separately from other amounts payable and liabilities.

The impact of IFRS 15 on the comparative figures as at 31 December 2017 of the Group's statement of financial position due to the reclassification is presented in the table below:

	At 31 December 2017	IFRS 15	Reclassified as at 31 December 2017
Deferred revenue	-	5,242	5,242
Other current amounts payable and liabilities	114,663	(5,242)	109,421

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018; on 26 February 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group and the Company did not conduct share-based payment transactions during 2018. According to the Group's and the Company's management, the first-time adoption of the amendment did not have any significant impact on the Group's and the Company's financial statements.

Annual improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or on or after 1 January 2018 (changes to IFRS 1 and IAS 28). On 7 February 2018, the European Commission, ensuring compliance with other accounting standards, approved the application of the improvements in the European Union retrospectively). 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. According to the Group's and the Company's management, the first-time adoption of the improvements did not have any significant impact on the Group's and the Company's financial statements.

Transfers of Investment Property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018; on 14 March 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2018). 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. According to the Group's and the Company's management, the first-time adoption of the amendment did not have any significant impact on the Group's and the Company's financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; on 28 March 2018, the European Commission approved the application of the interpretation in the European Union for annual periods beginning on or after 1 January 2018). 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 Group and the Company do not conduct significant settlements in foreign currencies, therefore, the amendment to the interpretation has no impact on the Group's and the Company's financial statements. According to the Group's and the Company's management, the first-time adoption of the interpretation did not have any significant impact on the Group's and the Company's financial statements.

All amounts in EUR thousands unless otherwise stated

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

Other standards, amendments and interpretations that became effective for the financial year beginning on 01 January 2018 are not relevant to the Group and the Company.

b) <u>*New standards, amendments and interpretations that are not yet effective*</u>

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 1 January 2019 or later and that have not been adopted when preparing these financial statements:
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; not yet adopted by the EU). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Group and the Company are currently assessing the impact of these amendments to the standards on their financial statements.

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

The Group and the Company will apply IFRS 16 *Leases* starting from 1 January 2019 using the modified retrospective approach. The value of assets being transferred under the lease agreement and related lease liabilities will be stated in the Group's and the Company's statement of financial position. The Group and the Company performed the calculation of assets transferred according to the lease agreement and related liabilities under IFRS 16. At 1 January 2019, the Company recognised assets and liabilities managed under the right of use, which indicates the impact of the first-time adoption of IFRS 16 on the Company's financial statements. At 1 January 2019, the Group recognised assets and liabilities managed under the right of use, which indicates the impact of the first-time adoption of IFRS 16 on the Group's financial statements. The management of the Group is assessing whether the lease of state-owned land is in compliance with the criteria of IFRS 16.

The impact of the first-time adoption of IFRS 16 on the items of the Group's statement of financial position is shown in the table below:

	At 31 December 2018	IFRS 16	At 1 January 2019
ASSETS			
Non-current assets			
Non-current assets managed on the basis of lease	35,523	11,274	46,797
EQUITY AND LIABILITIES			
Non-current liabilities			
Finance lease liabilities	14,334	9,843	24,177
Current liabilities			
Current portion of finance lease liabilities	5,220	1,431	6,651

The impact of the first-time adoption of IFRS 16 on the Company's financial statements is shown in the table below:

	At 31 December 2018	IFRS 16	At 1 January 2019
ASSETS			
Non-current assets			
Non-current assets managed on the basis of lease	-	847	847
EQUITY AND LIABILITIES			
Non-current liabilities			
Finance lease liabilities	-	637	637
Current liabilities			
Current portion of finance lease liabilities	-	211	211

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

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019; on 23 October 2018, the European Commission approved the application of the interpretation in the European Union for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Group and the Company are currently assessing the impact of the amendment to the interpretation on their financial statements.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019; on 22 March 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group and the Company are currently assessing the impact of the amendment to the standard on their financial statements.

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

Annual Improvements to the IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group and the Company are currently assessing the impact of these amendments on their financial statements.

Conceptual Framework for Financial Reporting (published on 29 March 2018; effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The Framework sets out the fundamental concepts for the preparation of financial statements that guide the publisher of the standards in developing the International Financial Reporting Standards. The Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to understand and interpret the Standards. The revised Framework establishes the definitions of assets and liabilities as well as criteria for recognising assets and liabilities in financial statements. The Framework sets out the following improvements:

a) Measurement. Revisions have been made to the concepts on the measurement of the elements constituting financial statements, including factors to be considered when selecting a measurement basis;
b) Presentation and disclosure. Revisions have been made to the concepts on presentation and disclosure, including when to classify income and expenses in comprehensive income;
c) Derecognition. Revisions have been made to the guidance on when assets and liabilities are to be removed from financial statements.

The revised Framework provides additional explanations related to the principles of prudence and substance over form, measurement uncertainty, and management's stewardship of the entity's economic resources. The Group and the Company are currently assessing the impact of the revisions of the Framework on their financial statements.

Definition of a Business – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendment to the standard was prepared with an aim to facilitate companies in determination whether they have acquired a business or a group of assets. The amendment confirms that a business is comprised of inputs and processes and clarifies that these processes must be substantial, and that inputs and processes must be used together to contribute to the ability to create outputs. The amendment narrows the definition of a business by focusing on goods and services provided to customers and other income from ordinary activities, rather than the provision of dividends or other benefits to investors or reduction of costs. In performing an assessment on the activities and assets acquired, companies may apply a test that permits a conclusion on whether an acquired group of assets is not a business if substantially the value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The Group and the Company are currently assessing the impact of the amendment on their financial statements.

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

2.2 Consolidation

Consolidation

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

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

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

Business combinations

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

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

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

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

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

2.3 Investments in subsidiaries (Company)

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

2.4 Investments in associates and joint ventures

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

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

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

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

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

All amounts in EUR thousands unless otherwise stated

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.6 Property, plant, and equipment

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

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

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

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

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

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

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

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

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

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

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

2.7 Intangible assets

(a) Patents and licenses

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

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

(b) Computer software

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

(*c) Emission allowances*

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

(d) Other intangible assets

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

2.8 Impairment of non-financial assets

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

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

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

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

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

2.9 Investment property

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

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

2.10 Non-current assets held for sale

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

2.11 Financial assets

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

Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of a financial asset.

Transaction costs comprise all charges and commission that the Company/Group would not have paid if it had not entered into an agreement on the financial instrument.

Following the adoption of IFRS 9 *Financial instruments* from 1 January 2018, the Company and the Group classify their financial assets into the following three new categories:

(i) financial assets subsequently measured at amortised cost;
(ii) financial assets subsequently measured at fair value through other comprehensive income;

and

(iii) financial assets subsequently measured at fair value through profit or loss.

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

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

Financial assets measured at amortised cost

Loans granted by the Company/Group, amounts receivable, and cash and cash equivalents are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows. These assets are stated at amortised cost using the effective interest method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses. Effective interest rate method is a method applied to allocate interest income over the relevant period so as to achieve a constant periodic rate of interest (effective interest) on the carrying amount. The effective interest rate exactly discounts estimated future cash inflows or outflows (excluding future expected credit losses) to gross carrying amount of the financial instrument over the expected life of the financial instrument or a shorter period, if necessary.

Financial assets are recognised as current assets, except for maturities greater than 12 months after the date of the preparation of the statement of financial position, in which case they are classified as non-current assets.

Assets held in order to collect contractual cash flows that represent solely payments of principal and interest (SPPI) are carried at amortised cost. Interest income calculated on these financial assets is recognised as finance income and amortised using the effective interest rate method. Any gain or loss arising from the write-off of assets is recognised in the statement of profit or loss and other comprehensive income. Impairment losses are accounted for as impairment and write-off expenses in the statement of profit or loss and other comprehensive income.

Financial assets at fair value through profit or loss

Debt instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at fair value through other comprehensive income (FVOCI) are stated as financial assets to be measured at fair value through profit or loss (FVPL).

To this category, the Company/Group attributes amounts receivable from disposal of business or equity instruments that do not meet the SPPI conditions. The Company/Group attributes financial assets to assets measured at fair value through profit or loss, if this eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising gains or losses thereof on different bases. A gain or loss on fair value measurement of debt investment is recognised in profit or loss in the period in which it arises.

Effective interest method

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

Impairment of financial assets – expected credit losses

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators.

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

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

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

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

For short-term trade receivables without a significant financing component the Company/Group applies a simplified approach required by IFRS 9 and measures the loss allowance at expected lifetime credit losses from initial recognition of the receivables.
The Company/Group assesses all material amounts receivable individually, and all immaterial amounts collectively.

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

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company/Group uses the loss coefficient matrix (on a collective basis). The loss coefficient matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss coefficients are updated during the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years or of customer types. To measure expected credit losses, trade receivables are grouped based on shared credit risk characteristics. The non-recoverability analysis is conducted for the last several years in order to determine the general default ratio. As regards different groups of consumers, a different loss coefficient matrix is used.

The lifetime expected credit losses of other amounts receivable are assessed based on the individual assessment basis. The Company's/Group's management performs the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower.

Recognition stages of expected credit losses:
1. Upon granting of a loan or concluding a finance lease agreement, the Company/Group recognises the expected credit losses for the twelve-month period. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
2. Upon establishing that the credit risk related to the borrower or lessee has significantly increased, the Company/Group accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Interest income from loans (finance leases) is calculated on the carrying value of the financial assets, without adjusting it by the amount of expected credit losses.
3. Where the Company/Group establishes that the recovery of the loan is doubtful or that the condition of the lessee shows that the loan of this lessee needs to be classified as doubtful debts, the Company/Group classifies this loan (finance lease receivables) as credit-impaired financial assets (doubtful loans and other receivables). Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets which is reduced by the amount of expected credit losses.

In stage 2, an assessment of the significant deterioration in the borrower's financial situation is performed by comparing the financial situation as at the time of the assessment and the financial situation as at the time of issuing the loan.

The latest point at which the Company/Group recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company/Group accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
a) significant financial difficulty of the borrower;
b) a breach of contract, such as a default or past due event for more than 90 days;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties;
f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

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

Derecognition of financial assets

A financial asset (or, where applicable a part of financial asset or group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows from the asset is retained, but an obligation is assumed to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the rights to receive cash flows from the asset are transferred and either (a) substantially all the risks and rewards of the asset have been transferred, or (b) substantially all the risks and rewards of the asset have neither been transferred nor retained, but control of the asset has been transferred:
  - if control is not retained, the financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised separately as assets or liabilities;
  - if control is retained, it shall continue to recognise the financial asset is continued to be recognised to the extent of continuing involvement in the financial asset.

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

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

2.12 Inventories

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

2.13 Cash and cash equivalents

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

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

2.14 Share capital

Ordinary shares are classified as equity.

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

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

2.15 Trade payables

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

2.16 Financial liabilities and equity instruments issued

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/Group 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.

Other financial liabilities

Other financial liabilities, including borrowings and bonds issued at the moment of initial recognition, are recognised at fair value, less transaction costs.

In subsequent periods, other financial liabilities are measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company/Group 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.

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

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.

2.17 Income tax and deferred income tax

Income tax

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

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

In 2018 and 2017, a standard income tax rate of 15 per cent was applicable to the companies in Lithuania.

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

Deferred income tax

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

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

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

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

Current and deferred income tax

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

2.18 Employee benefits

Social security contributions

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

Termination benefits

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

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

Long-term employee benefits

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

2.19 Provisions

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

Provisions for servitudes

Provisions for servitudes are recognised only when the Group and the Company have a legal obligation or irrevocable commitment as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses related to provision for servitudes are recognised as non-current intangible assets in view of amounts to be compensated. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate based on the interest rates for the period and taking into account specific risks associated with the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provisions for onerous contracts

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

2.20 Revenue and expense recognition

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

Revenue from sale of electricity to end customers

The Group's revenue from sale of electricity to end customers includes production, transmission, distribution, supply, public service obligations (PSO) and other services rendered in the process of sale of electricity to end customers. The prices of transmission, distribution and PSO services provided by the Group companies are regulated by the National Commission for Energy Control and Prices (hereinafter "the Commission").
Revenue from sale of electricity to household customers is recognised in each reporting period according to presented VAT invoices, in which the volume of electricity consumed is calculated. The volume of electricity consumed is calculated on the basis of declared or actual readings. If declared or actual readings are not available, revenue from sale of electricity is recognised based on the average method.
Revenue from sale of electricity to business customers is recognised upon sale of electricity based on the actual consumption of electricity which is determined according to the readings of electricity meters.
Revenue from electricity distribution services is recognised on a monthly basis referring to the readings of measuring devices as submitted by customers.
Revenue from sale of electricity is regulated.

Revenue from provision of public service obligation (PSO) services

The Group commits to render the services that serve the public interest in accordance with the procedures and terms established by the regulatory legal acts, including ensuring power system reserves in predetermined power plants, the activity of which is essential for the purpose of ensuring energy security of the state. The benefits of the services of ensuring power system reserves are brought to customers throughout the period of the service, during which, accordingly, the seller carries out its performance obligation.
When entering into an agreement, the customer commits to compensate the expenditures necessary for maintaining the reserve (including the expenditure incurred during electricity production tests). In view of the above, the progress of fulfilment of the performance obligation is assessed considering the actual duration of providing the service, the provision of which ensures the electricity system reserve.
In the agreement concluded with the customer, the consideration received by the Group comprises the fixed part paid in equal portions over the duration of the provision of the service.

Revenue from trade in electricity

The sales of electricity produced using own resources are conducted at the power exchange (hereinafter "the Exchange") by submitting electricity sale offers to the Exchange. On the Day-Ahead market, the transaction for the purchase and sale of electricity is considered as concluded if the automatic coupling algorithm does not by default reject the submitted offer of selling electricity. Transactions on the Intraday market are approved by market participants. Following the approval of the transaction, the system of the Exchange sends a confirmation of the concluded electricity sale transaction to the seller. The seller's performance obligation under the concluded transaction is to supply the volume of electricity as indicated in the seller's offer to the electricity transmission system. The performance obligation is to be carried out throughout a certain period during which the supply of the agreed volume of electricity is maintained to the network. The progress of fulfilment of the performance obligation is assessed considering the volume of electricity indicated in respect of the transaction.
The price of the transaction and consideration to be paid to the seller correspond to the amount indicated in the confirmation notice of the transaction. The entire consideration of the seller is fixed. Upon receipt of the confirmation on the conclusion of the transaction on the sale of electricity, the prices of that transaction remain unchanged.
Revenue is recognised considering the actually supplied electricity pertaining to the transaction, without any deduction of commissions that might be deducted by trading intermediaries representing the Company at the Exchange.

Revenue from electricity-related services

Other revenue from the services related to energy supply comprises the following: (1) revenue from generation of electricity of the active power reserve, (2) revenue from assurance of the power reserve, (3) revenue from reactive power and voltage management services, (4) system recovery after the total accident, including isolated operation testing (hereinafter "the Services").
The customer receives the benefits of other services related to energy supply at the same time the service is actually rendered to the customer. The customer may consume the benefits of the services separately or together with other services rendered to the customer. In the agreement, the services to be rendered to the customer are defined separately from other services stipulated under the agreement. The services are rendered per customer. The performance obligation under the agreement concluded with the customer is to be carried out throughout the period of validity of the agreement. The progress of fulfilment of the performance obligation is assessed considering the volume of services rendered, stated at power measurement units (kWh, MW/h, etc.).
Under the agreement concluded with the customer, the customer is provided an option to acquire additional services and regulating electricity on demand. The customer is not obligated to acquire from the seller any amount of additional services defined (in the agreement). The fixed consideration for the service of system recovery after the total accident, including the service of isolated operation testing, is to be paid to the seller as per agreement. The seller is entitled to 1/12 of the total price of the service each month. In view of the above, the whole of the agreement concluded with the customer is assessed at the moment of signing the agreement and the total consideration is attributed to the identified performance obligation.
For the purpose of its performance obligations, the seller recognises revenue pursuant to the provisions of IFRS 15 (paragraphs B39–B43) regarding *customer options for additional goods or services*, under which the revenue recognised is actually consistent with the invoices issued to the customer for the services relating to the supply and assurance of the active power and management of the reactive power rendered over time. Moreover, the seller additionally recognises 1/12 of the total price of the agreement that the seller intends to pay for the services of system recovery after the total

accident, including isolated operation testing, throughout the term of validity of the agreement, i.e. within one year.

Revenue from supply of thermal energy

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

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

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

Services of purchase of electricity generated by wind farms

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

Regulation of tariffs and profitability

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

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

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

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

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

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

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

Tariffs for import and export of electricity are not regulated.

Revenue from provision of PSO services

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

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

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

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

Revenue from distribution and supply of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised on a monthly basis referring to the readings of measuring devices provided by users or if users did not provide the readings of measuring devices, referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas (an accrual basis).

The price of transactions related to household customers is determined in a simple manner, as it is a fixed amount that does not comprise the variable or non-monetary consideration. The price of transactions related to non-household customers comprises a fixed and variable consideration and does not comprise non-monetary consideration. The amount of the consideration is not adjusted according to the effect of the time value of money. The transactions do not involve defined liabilities to return services of funds.

Revenue from household customers is recognised on a monthly basis referring to the quantities of gas calculated according to the approved methodology for the calculation of quantities of natural gas, i.e. the calculation of revenue takes into account mismatches between quantities of gas declared by household customers and quantities of gas used by them (an accrual basis). Revenue from household consumers does not form a significant part of revenue from natural gas distribution activities.

Revenue from supply of liquefied natural gas

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

Revenue from the LNGT security component

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

Reload and storage services

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

Construction contracts

Construction and contractual services comprise a number of interrelated works. Accordingly, the promise of the seller to render construction services to the customer is identified as a performance obligation in the agreement concluded with the customer. The performance obligations under the agreement concluded with the customer is to be carried out throughout the period of validity of the agreement. The progress in carrying the performance obligation is measured using the cost method.

After the completion of construction and contractual works, the seller grants a warranty period for these works and goods used. Pursuant to paragraph B31 of IFRS 15, whether the warranty is required by law, the warranty is aimed at protecting customers from the risk of purchasing defective products, therefore, it is not deemed a separate performance obligation of the seller.

The agreement concluded with the customer indicates the total price that the seller will recognise as revenue upon execution of the performance obligation over the validity period of the agreement. The seller and the customer may agree that the consideration for contractual works might increase due to additional works or other costs, but no variable consideration arises in the agreement concluded with the customer as a result of this condition.

Revenue under the agreement concluded is recognised as at a certain date on a stage of completion basis expressed in terms of percent. At the date of preparation of the financial statements, the seller assesses the ratio between the actually incurred expenses and the expenses projected in the estimate to the agreement and accounts for the amount of revenue as the product of the price of the agreement and the established stage of completion ratio.

Revenue from new customer connection to the electricity network

Until 1 January 2018

Until 1 January 2018, fees paid by new customers for connection to the electricity network were recognised upon the connection of the customer’s equipment to the electricity distribution networks.

From 1 January 2018 to 30 September 2018

From 1 January 2018 to 30 September 2018, fees received for the connection of new customers were recognised as income for the period in which the Group ensured the connection of a new customer to the electricity distribution networks, as it was concluded that connection to the network is not a separate performance obligation, but rather non-separable component of electricity supply and distribution service. Fees received from customers are initially recognised as contract liability and subsequently recognised as revenue on a proportionate basis over the period of estimated customer relationship, that is limited to the useful life of the related property, plant and equipment, being 27 years.

Since 1 October 2018

On 30 June 2018, the Seimas of the Republic of Lithuania adopted amendments to Law on Electricity No XIII-1456 (hereinafter “the Law”) allowing Energijos Skirstymo Operatorius AB to properly implement the transfer of the function of the public electricity supply to the other group company Lietuvos Energijos Tiekimas UAB (hereinafter “LET”). The amendments to the Law relevant to the activity of the public electricity supply came into effect as from 1 September 2018. In view of the changes in the Law and decisions adopted by the management and supervisory bodies of the Company, Energijos Skirstymo Operatorius AB, and LET, the function of the public electricity supply was transferred to LET as from 1 October 2018. The transfer of the activity of the public electricity supply to another group company of Lietuvos Energija UAB will provide for the creation of additional value to customers, as well as for enhanced concentration of the functions of the companies in respect of core activities carried out, i.e. the distribution and infrastructure activities in respect of Energijos Skirstymo Operatorius AB, and supply of electricity and natural gas in respect of LET. Following the implementation of these amendments, the provision of electricity distribution services to customers will be ensured without entering into an electricity purchase and sale agreement with Energijos Skirstymo Operatorius AB and instead an agreement with a supply company will be signed. The method of recognition of revenue from new customer connection was consequently changed.

As of 1 October 2018, revenue from new connection is recognised when the connection service is rendered, contrary to the previously applied method of revenue recognition when revenue was recognised throughout the period of provision of the electricity distribution service, since it is interdependent with the electricity transmission service. As from 1 October 2018, new customer connection is considered a separate performance obligation under IFRS 15. This entails that inflows received from new customers will from 1 October 2018 be recognised as revenue upon connecting the customer to electricity distribution networks. Payments received from new customers until 1 October 2018 that were previously deferred will continue to be deferred and be recognised as revenue over the period of expected customer relationship, that is limited to the useful life of the related property, plant and equipment, being 27 years.

Revenue from new customer connection to the Group's natural gas distribution network
Until 1 January 2018, payments made by users for the connection to the Group's gas system were recorded as deferred income in the statement of financial position and recognised as income over the depreciation period of the capitalised property, plant and equipment concerned. This revenue is included in the statement of comprehensive income as sales revenue.

From 1 January 2018, the fees paid by new customers for the connection to the Group’s gas system are recognised as revenue upon connecting the customer to the gas distribution pipeline.

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

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

Lease income
Lease income is recognised on a proportionate basis over the lease period.

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

2.21 Emission allowances

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

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

Intangible assets
The EU emission allowances are treated as intangible assets that were provided by the state or acquired by an entity 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 carried using the revaluation method using the active market prices. Increases in the carrying amount arising on the revaluation of emission allowances are presented in other comprehensive income and credited against revaluation reserve directly to equity and decreases in excess of the previously accumulated amount in the revaluation reserve are recognised in the profit or loss in the statement of comprehensive income. Upon the realisation of emission units, the positive balance in the revaluation reserve is recognised directly within retained earnings.

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

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

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

2.22 Leases

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

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

Where the Company and (or) the Group are lessors

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

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

Where the Company and (or) the Group are lessees

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

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

2.23 Grants and subsidies

Asset-related grants

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

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

Income-related grants

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

2.24 Dividend distribution

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

2.25 Contingencies

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

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

2.26 Events after the reporting period

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

2.27 Related parties

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

2.28 Inter-company offsetting

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

2.29 Fair value

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

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

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

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

2.30 Segment reporting

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

2.31 Financial guarantee contracts

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

All amounts in EUR thousands unless otherwise stated

2.32 Put option arrangements

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

3 Financial risk management

3.1 Financial risk factors

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

Market risk

Foreign exchange risk

As from 1 January 2015, Lithuania adopted the euro as its official currency. The sale/purchase contracts of the Group and the Company are mainly denominated in the euro. Foreign exchange risk is mainly characteristic to contracts concluded by the Company's subsidiaries for the purchase of natural gas from third parties. Aiming to reduce foreign exchange risk the agreement on natural gas purchase and supply is concluded in the same currency.

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

Interest rate risk

The Group's income and cash flows are affected by fluctuations in market interest rates because the Group's loans and borrowings had fixed and variable interest rates as at 31 December 2018. The Company has financial assets measured amortised costs with fixed interest rates, therefore, it is exposed to interest rate risk.

Interest rate risk is substantially related to the risk that the interest rate of the credits held by the Group might be subjected to adverse changes In managing its financial liabilities, the Group aims to keep the average maturities of the Group's non-current liabilities to not be less than 10 years. In exceptional cases relating to the specific nature of the business of projects being implemented, a shorter maturity of non-current liabilities assumed is also available.

In assuming debt obligations, it is aimed that non-current liabilities would bear a fixed interest rate. If the fixing of the interest rate is not possible due to objective reasons and the liability assumed comprises a significant amount (in the context of the Company or the Group), interest rate derivatives are used for the purpose of interest management, including interest rate swaps, interest rate options, interest rate collars, and interest rate swaptions. The aim must be that non-current borrowings with fixed interest rates comprised no less than 50% of the Group's consolidated long-term loan portfolio. The usage of any of the interest rate derivatives requires the expiry date of the derivative to correspond to the maturity date of the debt obligation.

The risk of adverse changes in the interest rate of the investment is not actively insured. Risk management measures are applied only when the market has obvious indications that the interest rate might significantly decrease, resulting in negative investment returns.

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

Group	Increase/decrease, percentage points	(Decrease)/increase in profit
2018	0.3/-0.3	(40)/40
2017	0.3/-0.3	(65)/65

Company	Increase/decrease, percentage points	(Decrease)/increase in profit
2018	0.3/-0.3	52/(52)
2017	0.3/-0.3	60/(60)

As at 31 December 2018, the Group and the Company had no significant valid interest rate swaps.

Fair values of financial instruments

The Company's and the Group's derivative financial instruments (Levels 1 and 2), the Company's and the Group's equity instruments (Level 1), the Company's and the Group's price premium payable and amounts receivable on acquisition of subsidiaries (Level 3) are measured at fair value.

Fair value is determined on the basis of quoted market prices, discounted cash flow models and option pricing models as appropriate.

The carrying amount of the Group's and the Company's financial assets and financial liabilities measured at amortised cost approximated their fair value, except for bond issue debts and debt obligations to OP Corporate Bank Plc and SEB Bankas AB taken over from Energijos Skirstymo Operatorius AB.

The bond issue debt of EUR 588,999 thousand (31 December 2017: EUR 293,981 thousand) (Note 22), the fair value of which was equal to EUR 599,261 thousand as at 31 December 2018 (31 December 2017: EUR 297,680 thousand), was reported in the Company's statement of financial position at 31 December 2018. The fair value was calculated by discounting future cash flows related to the coupon payments with reference to the interest rate observable in the market and the payment of EUR 300,000 thousand on 14 July 2027, as well as the payment of EUR 300,000 thousand on 10 July 2028. The cash flows were discounted using a discount rate of 1.9%. The bond issue debt is attributed to Level 2 of the fair value hierarchy.

As at 31 December 2017, the fair value of the Company's amounts receivable related to EUR 100,000 thousand green bond amounts receivable of the subsidiary Energijos Skirstymo Operatorius AB was approximately equal to EUR 101,283 thousand as at 31 December 2017. The fair value is estimated by discounting cash flows with reference to the interest rate observable in the market – 2.0865%.

All amounts in EUR thousands unless otherwise stated

As at 31 December 2018, the fair value of the Company's amounts receivable related to EUR 366,288 thousand green bond amounts receivable of the subsidiary Energijos Skirstymo Operatorius AB was approximately equal to EUR 372,238 thousand as at 31 December 2018. The fair value is estimated by discounting cash flows with reference to the interest rate observable in the market – 2.143%.

On 8 November 2017, the Company took over debt liabilities of its subsidiary Energijos Skirstymo Operatorius AB to creditors, i.e. the banks OP Corporate Bank Plc and SEB AB. As at 31 December 2018, the subsidiary's debt to the Company amounted to EUR 136,649 thousand (31 December 2017: EUR 234,700 thousand) (Notes 9 and 17). Accordingly, the carrying amount of debt liabilities to OP Corporate Bank Plc and SEB Bankas AB that were taken over by the Company was equal to EUR 136,649 thousand as at 31 December 2018 (31 December 2017: EUR 234,700) (Note 22). The fair value of financial assets and financial liabilities related to the debts taken over, which is calculated by discounting future cash flows with reference to the interest rate observable in the market, is equal to EUR 141,881 thousand. The cash flows were discounted using a discount rate of 0.809%. The measurement of financial assets and financial liabilities related to the debts taken over is attributed to Level 2 of the fair value hierarchy.

The carrying amount of the loans of Lietuvos Energijos Gamyba AB was equal to EUR 38,036 thousand (31 December 2017: EUR 55,247 thousand). The fair value of these borrowings was approx. EUR 34,655 thousand as at 31 December 2018 (31 December 2017: EUR 50,064 thousand). The fair value was measured as present value of discounted cash flows at a discount rate of 3.22% (31 December 2017: 2.37%).

As at 31 December 2018, the Group and the Company accounted for an amount receivable for the sale of Litgrid AB at fair value through profit or loss. The carrying amount of the amount receivable was equal to EUR 158,658 thousand. Their fair value is attributed to Level 3 in the fair value hierarchy. As at 31 December 2017, the carrying amount of the Group's and the Company's amounts receivable for the sale of Litgrid AB (Note 9) was equal to EUR 169,856 thousand. Their fair value approximated their carrying amount. Fair value was estimated on the basis of discounted cash flows using the rate of 0.614%.

Credit risk

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

The Group is not exposed to significant credit risk concentration related to trade receivables and other amounts receivable. Principally all loans granted, trade receivables and other amounts receivable of the Company are due from related parties (see Note 39). As at 31 December 2018 and 2017, other receivables of the Group principally consisted of the EPSO-G outstanding receivables for the sale of Litgrid AB shares in 2012 (Note 9).

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

The maximum exposure to credit risk as at 31 December 2018 and 2017 is equal to the carrying amount of financial assets and the nominal value of guarantees issued.

	Note	Group		Company	
		At 31 December 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017
Financial assets measured at amortised cost:					
Amounts receivable after one year	9	489	632	520,935	323,082
Trade receivables	15	143,120	112,563	-	-
Other amounts receivable	16	11,814	22,007	629	3,547
Short-term loans	17	-	-	189,324	169,395
Cash and cash equivalents	18	127,835	171,756	231	52,517
Amounts receivable under finance lease agreements					
Non-current portion	10	10,904	8,062	-	-
Current portion	10	3,029	3,217	-	-
Financial assets at fair value through profit or loss in the statement of comprehensive income					
Amount receivable on disposal of Litgrid AB (Notes 2,3,4)	9	158,658	169,856	158,658	169,856
Investments into convertible bonds	11	500	-	500	-
Derivative financial instruments	29	2,046	1,084	-	-
Total		**458,395**	**489,177**	**870,277**	**718,397**
Off-balance sheet commitments:					
Open guarantees issued	38	-	-	98,845	15,428
Total		**458,395**	**489,177**	**969,122**	**733,825**

Liquidity risk

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

As at 31 December 2018, the Group's current liquidity ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 1.156 and 1.043, respectively (31 December 2017: 1.285 and 1.135). As at 31 December 2018, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 469,939 thousand (31 December 2017: EUR 382,645 thousand).

As at 31 December 2018, the Company's current ratio (total current assets / total current liabilities) was 1.823 (31 December 2017: 2.442). As at 31 December 2018, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 157,740 thousand (31 December 2017: EUR 180,000 thousand).

The Company issued securities and guarantees in the amount of EUR 98,845 thousand as at 31 December 2018 (31 December 2017: EUR 15,428 thousand) to secure the fulfilment of obligations of the Group companies to credit institutions and other creditors (Note 38).

All amounts in EUR thousands unless otherwise stated

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

	Note	Group		Company	
		At 31 December 2018	At 31 December 2017	At 31 December 2018	At 31 December 2017
Amounts payable measured at amortised cost					
Borrowings	22	844,956	613,749	776,367	531,475
Finance lease liabilities	22	19,554	332	-	-
Non-current trade payables	27	729	852	-	-
Trade payables	28	93,236	98,338	947	506
Other current amounts payable and liabilities	29	73,575	80,387	1,045	108
Financial liabilities at fair value through profit or loss in the statement of comprehensive income					
Amounts payable for shares acquired		-	-	-	9,699
Derivative financial instruments	29	35	57	-	-
Off-balance sheet commitments:					
Open guarantees issued	38	-	-	98,845	15,428
Total		**1,032,085**	**793,715**	**877,204**	**557,216**

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

Group	2018				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Borrowings and finance lease liabilities	31,112	98,796	162,130	703,095	995,133
Trade payables and non-current amounts payable to suppliers	23,309	69,928	729	-	93,966
Other amounts payable	18,489	55,468	-	-	73,957
Derivative financial instruments	35	-	-	-	35
At 31 December 2018	**72,946**	**224,192**	**162,859**	**703,095**	**1,163,092**

Group	2017				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Borrowings and finance lease liabilities	34,864	104,592	167,633	378,140	685,229
Trade payables and non-current amounts payable to suppliers	24,585	73,754	852	-	99,191
Other amounts payable	20,097	60,290	-	-	80,387
Derivative financial instruments	57	-	-	-	57
At 31 December 2017	**79,603**	**238,636**	**168,485**	**378,140**	**864,864**

Company	2018				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	After 5 years	
Borrowings and finance lease liabilities	28,411	90,694	106,245	675,111	900,460
Trade payables and non-current amounts payable to suppliers	947	-	378	-	1,325
Open guarantees issued	18,475	55,426	5,147	19,796	98,845
At 31 December 2018	**47,833**	**146,120**	**111,770**	**694,907**	**1,000,630**

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

3.2 Capital risk management

Pursuant to the Lithuanian Republic Law on Companies, the authorised share capital of a public limited liability company must be not less than EUR 40 thousand, the authorised share capital of a private limited liability company must be not less than EUR 2.5 thousand, and the shareholders' equity must be not lower than 50% of the company's authorised share capital. As at 31 December 2018, the Company and all the companies of the Group, except for VVP Investment UAB, complied with these requirements. On 31 December 2018, VVP Investment UAB obtained a confirmation from the Company certifying that financial support will be provided for not less than 12 months after the approval of its financial statements. As at 31 December 2017, the Company and all the companies of the Group complied with these requirements.

When managing the capital risk in a long run, the Group seeks to maintain an optimal capital structure of subsidiaries to ensure a consistent implementation of capital cost and risk minimization objectives. The Group companies form their capital structure in view of internal factors relating to operating activities, the expected capital expenditures and developments and in view of business strategy of the Group companies, as well as based on external current or expected factors significant to operations relating to markets, regulation and local economic situation.

The Board of Lietuvos Energija UAB Group approved a common dividend policy, which sets uniform principles for the payment of dividends for all the group companies. The dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by the Company and the Group companies will depend on the ratio of return on equity and net profit earned. According to 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 significant circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period.

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

All amounts in EUR thousands unless otherwise stated

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

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

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

Revaluation of property, plant and equipment

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

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

Recent revaluations by the group of assets were performed:

Group	Recent revaluations performed
Land	2013
Buildings	2018
Structures and machinery	2018
Motor vehicles	2014
Other property, plant and equipment	2014
Construction in progress	2014

In 2018, the Group performed the revaluation of Buildings and Structures and machinery stated at revalued amount. Revaluations were performed by independent valuers using the cost approach and the income approach. Based on the revaluation results, increase in value in the amount of EUR 45,669 thousand was recognised. Detailed revaluation results are disclosed in Note 6.

As at 31 December 2018, other Group assets stated at revalued amounts were not revalued, because there were no indications of a significant difference between the net book amount and market value of assets stated at revalued amount.

In 2018, the Group performed a separate assessment for buildings, structures and machinery and construction in progress which are used in electricity supply and distribution activities performed by subsidiary Energijos Skirstymo Operatorius AB, i.e. assessed whether there was an indication that the market value of these assets had changed significantly due to internal or external factors. The carrying amount of the assessed assets was EUR 1,206 million as at 31 December 2018. The fair value of these assets was determined using the income approach and the cost approach. The fair value of these assets was tested by making cash flow forecast for the period until 2058, because the electricity supply activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – electricity lines (useful life of 40 years).

Key assumptions used in making cash flow forecast in 2018 were as follows:

– From 2019, the amount of electricity distributed will rise by half of the GDP, e.g. the projected GDP growth would be at 2,8%; therefore, the projected growth of the amount of electricity distributed would be at 1.4%;
– Setting the price cap of the electricity distribution service for 2019, in the Certificate of 17 October 2018, the Commission approved the rate of return on investments equal to 5.04% for this period. This rate is used to determine the return on investments for the period of 2019–2020. For the upcoming regulatory period of 2021–2025, the return on investments is calculated as the average between the rate of return on investments of 3.59% that was newly established by the Commission for the gas sector (for 2019–2023) and the rate of pre-tax return on investments of 5.96% that is estimated in the long term for the electricity sector. From 2026 (in the long term), the rate of return on investments of 5.96% is to be applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on the Commission’s website, the WACC Methodology as approved by the Commission, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate;
– The cash flows were discounted using a pre-tax discount rate of 5.96%;
– Operating expenses for 2019 are planned under the approved budget and operating expenses for 2020–2030 are planned on the basis of the planned directions for expense reduction set forth in the strategy of Energijos Skirstymo Operatorius AB. Starting from 2031, changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
– A part of operating expenses incurred is not included in the regulated prices of the electricity distribution and supply activity in accordance with the provisions of the Electricity Description;
– The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Electricity Methodology);
– Investments are shown under the ten-year investment plan for 2018–2027. More extensive investing is planned starting from 2028 and until 2035, i.e. all the investments that were not made in prior periods with reference to the amount calculated in accordance with the long-run average incremental cost (LRAIC) model approved by the Commission (“the Model“) are expected to be performed. It is planned that all items of technological assets that are currently depreciated or will become depreciated over the period until 2058 will be recovered until 2058;
– The cost of capital (return on investments and depreciation of non-current assets) is calculated and included when determining the prices of the distribution services for other regulatory periods in accordance with the Model approved by the Commission and in view of paragraph 7 of the Electricity Methodology;
– The valuation provides that the difference in the level of revenue in the amount of EUR 26.5 million, which resulted from the fact that the calculations of the 2016–2017 return on investments in excess of the level set by the Commission were based on the 2016–2017 actual historical return on investments and depreciation, rather than the actual return on investments and depreciation calculated on the basis of the LRAIC model, will be returned to Energijos Skirstymo Operatorius AB by the Commission’s Resolution of 17 October 2018 (establishing the price caps for electricity distribution services through medium and low voltage networks for 2019). These reduced amounts are expected to be returned to Energijos Skirstymo Operatorius AB during the upcoming regulatory period (starting from 2021). For the purposes of the calculation of return on investments for the year 2020 and upcoming periods, the rate of return on investments calculated on the basis of the LRAIC model will be applied.

The discount rate was determined using the Capital Asset Pricing Model (CAPM). It was assumed that the market player will not apply any unsystematic risk premium due to the following reasons:
- size of a business, if compared with the Lithuanian economy and other local companies (one of the largest companies in Lithuania);

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- monopolised and securely regulated business;
- this model also complies with the current methodology defined in regulatory legislation, which does not provide for any additional risk premiums.

The after-tax WACC is equal to 5.07% (it was used when for discounting to present value), and the supposed pre-tax WACC is equal to 5.96%. The pre-tax WACC of 5.96% was used in estimating return on RAB (included in annual income) starting from 2026.

Having assessed all above-mentioned assumptions and having performed the fair value assessment, the Group has identified that the carrying amount of property, plant and equipment attributed to the Electricity Business Segment as at the reporting date of 31 December 2018 would increase materially. Consequently, the Company's management decided to make adjustments to the fair value of the assets. The Group performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

1. By calculating the level of revenue and performing regular assessment of the adjustments of the return on investments arising between the actual return on investments, as calculated on the basis of the LRAIC model, and the actual (historical) return on investments, as calculated on the basis of the performance of investments, and depreciation, the value of property, plant and equipment would decrease by EUR 339 million;
2. If judicial authorities rejected the complaint concerning the Commission's resolution under which the income from distribution services for 2019 of Energijos Skirstymo Operatorius AB was reduced by EUR 26.5 million and interest in the amount of EUR 0.5 million was additionally charged, and also having regard to the fact that return on investments and depreciation calculated on the basis of the LRAIC model will be applied in the calculations of the return on investments for upcoming regulatory periods, the income for the forecast period (2019–2058) would decrease by the said amounts of EUR 26.5 million and EUR 0.6 million and the fair value of PP&E would decrease to EUR 1,119 million;
3. Sensitivity analysis scenario: had the Commission established the level of revenue starting from 2026 and applied a 20% lower rate of return on investments, i.e. equal to 4.78% (which is the average rate of return on investments effective for the electricity sector and the gas sector for the new regulatory period as established by the Commission in respect of Energijos Skirstymo Operatorius AB), the fair value of property, plant and equipment would decrease by EUR 308 million;
4. Sensitivity analysis scenario: if the (pre-tax) discount rate was applied within the interval of -/+ 20%, the value of assets would correspondingly decrease or increase. The sensitivity of the value of assets to the discount rate is presented in the table below:

Change in discount rate (after-tax)	**-20%**	**-10%**	**0%**	**10%**	**20%**
Discount rate (pre-tax), %	4.78%	5.36%	5.96%	6.56%	7.15%
Discount rate (after-tax), %	4.06%	4.56%	5.07%	5.58%	6.08%
Change in value of property, plant and equipment	521	242	0	-205	-376

In 2017, the Group performed the revaluation of Buildings. The valuation was carried out by independent property valuers using the sales comparison approach and the income approach. Based on the revaluation results, impairment in the amount of EUR 471 thousand was recognised.

As at 31 December 2018, other Group assets stated at revalued amounts were not revalued, because there were no indications of a significant difference between the net book amount and market value of assets stated at revalued amount.

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

Impairment test for assets carried at cost

The Group accounts for Gas distribution pipelines, Gas technological equipment and installations, Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant, Structures and machinery of Thermal Power Plant, Wind power plants and IT and telecommunication equipment at cost. In 2018 and 2017, the Group considered impairment of property, plant and equipment as described below.

a) Impairment test for property, plant and equipment of Gas distribution pipelines, Gas technological equipment and installations in 2018

The Group's property, plant and equipment of Gas distribution pipelines, Gas technological equipment and installations with the carrying amount of EUR 201,453 thousand as at 31 December 2018 are owned by the Company's subsidiary Energijos Skirstymo Operatorius AB. In 2018, the recoverable amount of these assets was tested for impairment by making forecast of Energijos Skirstymo Operatorius AB cash flow in natural gas distribution activities for the period until 2073, because the gas distribution activity is regulated on the basis of regulated asset base, which mainly consists of assets with long useful life – gas pipelines (useful life of 55 years).

Key assumptions used by the Group in making cash flow forecast in 2018 were as follows:

1. In setting the price cap of the gas distribution service for 2019–2023, the Commission approved the rate of return on investments equal to 3.59% for this period; From 2024 (in the long term), the rate of return on investments of 5.96% is to be applied for the cash flow forecast period (as calculated according to the calculation data, which is publicly available on the Commission's website, the WACC Methodology as approved by the Commission, and projected market trends). In the long term, an assumption is made that the rate of return on investments will approximate the discount rate;
2. The cash flows were discounted using a pre-tax discount rate of 5.96%;
3. The Company's operating expenses for 2019 are planned under the approved budget and operating expenses for 2020–2030 are planned on the basis of the planned directions for expense reduction set forth in the strategy of Energijos Skirstymo Operatorius AB. Starting from 2031" changes are planned referring to expected changes in the average annual consumer price index and remuneration prevailing during valuation;
4. A part of operating expenses incurred by the Company is not included in the regulated prices of the gas distribution activity in accordance with the provisions of the Gas Description;
5. The calculation of the level of revenue does not involve estimates that additional profit would be earned as a result of the planned performance efficiency (such a possibility is established in the Gas Methodology);
6. Investments are shown under the ten-year investment plan for 2018–2027. Starting from 2028 and until 2073, gradual decrease is expected to occur with each year.

Having assessed all above-mentioned assumptions and having performed the fair value assessment, the Company's subsidiary Energijos Skirstymo Operatorius AB has identified that the increase in the value of property, plant and equipment attributed to the gas distribution activity as at 31 December 2018 was equal to EUR 29.8 million. Since the increase in value is significant, the Group made a decision to reverse the decrease in the value of the Gas Business Segment established in prior periods and during 2018 Group reversed the decrease in value of the Gas Business Segment of EUR 10 million.

The Company's subsidiary Energijos Skirstymo Operatorius AB performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs using the following scenarios:

1. Had the Commission established the level of revenue for the subsidiary Energijos Skirstymo Operatorius AB Gas Business Segment starting from 2023 and applied a 10% lower rate of return on investments, i.e. equal to 5.36%, the recoverable amount of property, plant and equipment of the Gas Business Segment would decrease by EUR 22 million (in Group by EUR 8 million);

2. If the estimated pre-tax discount rate was at 6.26% (which is 5% higher than the discount rate of 5.96% used in the long-term model), an impairment of EUR 17 million would be recorded (in Group by EUR 6 million).

The assessment was based on discounted cash flows and the requirements of legal acts and methodologies regulating gas distribution and supply activities effective as at the 31 December 2018.

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

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

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

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

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

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

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

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

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

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

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

All amounts in EUR thousands unless otherwise stated

As a result of the analysis, the Group's management determined that it was necessary to account for an impairment loss as of 31 December 2017 based on the net book amount of assets attributed to Units 7 and 8 of the Elektrėnai Complex. The impairment loss relating to Units 7 and 8 of the EC amounted to EUR 31,384 thousand, impairment of assets amounted to EUR 104,256 thousand, and impairment of a grant, designated for assets in respect of which impairment was identified, amounted to EUR 72,872 thousand. Had the WACC (discount rate) increased/decreased by 0.5 p.p., the value in use of Units 7 and 8 of the Elektrėnai Complex would not change.
As at 31 December 2017, impairment test was carried out for property, plant and equipment of the Elektrėnai Complex's Combined-Cycle Unit and Biofuel and Steam Boiler Plants together with the Eelektrėnai Complex's commonly shared infrastructure. As a result of the impairment test, it was determined that the recoverable amount of assets exceeded their carrying amount of EUR 377,055 million. Accordingly, no impairment was recognised. Had the WACC (discount rate) increased/decreased by 0.5 p.p., the value in use of the Elektrėnai Complex's Combined-Cycle Unit and Biofuel and Steam Boiler Plants together with the Elektrėnai Complex's commonly shared infrastructure would significantly exceed the carrying amount of assets. The value in use is not sensitive to assumptions regarding the volume of investments, because any growth in the volume of investments would lead to growth of return on investments from assets used in the provision of regulated services and growth of depreciation expenses (as well as growth of the respective cash flows).
As at 31 December 2017, impairment of EUR 1,096 thousand and reversal of impairment of EUR 45 thousand was recognised in respect of individual items of assets of Lietuvos Energijos Gamyba AB.

As at 31 December 2018, the independent property valuers APUS TURTAS UAB determined the market value of the assets of the Company's subsidiary Lietuvos Energijos Gamyba AB stated at revalued amount. The valuation was performed using the comparable and cost method.

Having assessed all assumptions and reviewed the value of the assets, the Group has determined impairment of property, plant and equipment amounting to EUR 660 thousand as at 31 December 2018. As the value had decreased materially, the Group decided to reverse the assets revaluation established in the previous periods.

As at 31 December 2018, the management of the Company's subsidiary Lietuvos Energijos Gamyba AB assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in the purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets. No impairment indications were identified for property, plant and equipment accounted for using the cost method or, following the performance of the impairment test, it was determined that the recoverable amount exceeded its carrying amount, less grants.

<u>Depreciation rates of property, plant and equipment</u>

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

In 2018 and in 2017, the Group's management reviewed the depreciation rates used for property, plant and equipment. As from 1 January 2018, new depreciation rates of energy units No 7 and 8 of the Reserve Power Plant were established. For the remaining categories of property, plant and equipment, for which depreciation rates were not reduced for from 1 January 2017, depreciation rates were reduced in view of technical depreciation of the units and introduction of more stringent environmental requirements applicable as from 2024.

Name	Previously applied useful life (number of years)	Newly established useful life (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

As a result of the application of new depreciation rates, depreciation of non-current assets, less depreciation of grants, increased by EUR 4,980 thousand, depreciation of grants increased by EUR 8,713 thousand, and depreciation, excluding grants, increased by EUR 13,693 thousand during 2018.

<u>Impairment test for investments into subsidiaries and amounts receivable</u>

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

As at 31 December 2018, the Company's management carried out an impairment test to determine existence of indications of impairment for investments into subsidiaries and amounts receivable with reference to the external factors (changes in economic and regulatory environment, market composition, interest rate, etc.) and internal factors (return on investments, results of operations, etc.) that might have impact on impairment of investments into subsidiaries and amounts receivable.
Having identified impairment indications for investments in subsidiaries and amounts receivable as at 31 December 2018, the Company performed impairment testing for the following subsidiaries: Energijos Skirstymo Operatorius AB, Energijos Tiekimas UAB, Eurakras UAB, Tuuleenergia OÜ, Energetikos Paslaugų ir Rangos Organizacija UAB.

<u>Energijos Skirstymo Operatorius AB</u>
As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Energijos Skirstymo Operatorius AB and determined no impairment for investments into Energijos Skirstymo Operatorius AB as at 31 December 2018.
As at 31 December 2018, the Company tested for impairment its investment in subsidiary Energijos Skirstymo Operatorius AB using the following key assumptions:

1. The cash flow of gas distribution activity forecast covered the period until 2073, with reference to the fact that gas distribution activity is focused on regulated activity property plant and equipment base with a long time useful life assets (55 years); after 2073 calculated terminal cash flow;
2. The cash flow of electricity distribution activity forecast covered the period until 2058, with reference to the fact that electricity distribution activity is focused on regulated activity property plant and equipment base with a long time useful life assets (40 years); after 2058 calculated terminal cash flow;
3. The cash flows forecasted with the Weighted Average Cost of Capital - WACC of 5.96 % (electricity since 2026 and gas since 2024). WACC calculated according public information and methods, approved by regulatory institution and planned market trends;
4. Discount rate of 5,07% (after tax) was used to calculate discounted cash flows;
5. Forecasted operating expenses for the year 2019 according to approved budget, for the year 2020-2030 period according to Energijos Skirstymo Operatorius AB strategy and expected reduction in operating costs (forecasted operating expenses reduction

approximately lower by 16 % compared to the level approved by regulatory institution till 2030 (calculations based using forecasted macroeconomic assumptions: increase of payroll expenses and inflation also performance of activity excellence tools: process review, robotization, improvements and data-driven solution that will enable to run business more efficiently. Forecasted changes since 2031 according the projected average annual consumer price index (CPI) and wage developments;

6. Forecasted revenue level is not affected by the additional profit generated due to the planned efficiency of Energijos Skirstymo Operatorius AB;
7. Capital investments forecasted using approved 10 year capital investments plan, after 10 years using management assumptions provided.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The discount rate change has a significant impact for the result of impairment test. The sensitivity analysis showed that a 0.5 p.p. change in the discount rate would result in a decrease of the investment by up to EUR 213,9 million (at discount rate of 5.57%) or would have no impact for the value of investments (at discount rate of 4.57%).
2. The WACC change has a significant impact for the result of impairment test. The sensitivity analysis showed that a 0.5 p.p. change in the WACC would result in a decrease of the investment by up to EUR 154,9 million (at WACC of 5.46%) or would have no impact for the value of investments (at WACC of 6.46%).

Energijos Tiekimas UAB

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Energijos Tiekimas UAB and determined no impairment for investments into Energijos Tiekimas UAB as at 31 December 2018.

As at 31 December 2018, the Company tested for impairment its investment in subsidiary Energijos tiekimas AB using the discounted cash flow method. Discount rate of 7,0% (after tax) was used to calculate discounted cash flows.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Energijos Tiekimas UAB.

Eurakras UAB

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Eurakras UAB and determined no impairment for investments into Eurakras UAB as at 31 December 2018.

Impairment test for goodwill in EURAKRAS UAB

In 2016, the Company recognised goodwill of EUR 1,461 thousand relating to the acquisition of EURAKRAS UAB. As at 31 December 2018, the Company performed an impairment test for goodwill on a value-in-use basis and determined no impairment for goodwill.

The impairment test was performed using the discounted cash flow method and using the following key assumptions:

1. The cash flow forecast covered the period until 2045, with reference to the typical operational period of 30 years;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party;
3. During the first twelve months of operation, the price of electricity is set at 70.96 EUR/MWh based on the tariff established; After the expiry of the tariff, the electricity price forecast prepared by a third party is to be used.
4. The cash flows were discounted using a post-tax discount rate of 4.6%.

Based on the results of the tests performed as at 31 December 2018 and 31 December 2017, impairment of goodwill was not identified.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into EURAKRAS UAB and goodwill.

Tuuleenergia OÜ

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Tuuleenergia OÜ and determined no impairment for investments into Tuuleenergia OÜ as at 31 December 2018.

The impairment test was performed using the discounted cash flow method and using the following key assumptions:

1. The cash flow forecast covered the period until 2039;
2. The production volume is stable each year, based on the study of the wind power farm prepared by a third party;
3. During the first twelve months of operation, the price of electricity is the market price plus 54.00 EUR/MWh feed-in premium;
4. The cash flows were discounted using a post-tax discount rate of 4.5%.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would not have impact for the value of investments into Tuuleenergia OÜ.

Energetikos Paslaugų ir Rangos Organizacija UAB

As at 31 December 2018, the Company performed an impairment test for investment into subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB and determined impairment for investments into Energetikos Paslaugų ir Rangos Organizacija UAB in the amount of EUR 6,723 thousand (2017: EUR 1,626 thousand). Following the recognition of impairment, the investment's recoverable amount (which is equivalent to its fair value) is equal to EUR 0 thousand (31 December 2017: EUR 191 thousand).

As at 31 December 2017, the Company calculated impairment of loans receivable from Energetikos Paslaugų ir Rangos Organizacija UAB. In 2018, the Company made a number of decisions to cover the operating losses of Energetikos Paslaugų ir Rangos Organizacija UAB against monetary contributions (Note 8) by offsetting them against loans repayable by Energetikos Paslaugų ir Rangos Organizacija UAB to the Company as per the statement of financial position. The loans offset and their impairment were recognised in the Company's statement of financial position as 'Investments into subsidiaries'.

Impairment was largely caused by the decision passed by the Company's Board on 13 April 2018 concerning the discontinuation of non-core contract activity. Following the decision, consistent measures were taken to discontinue the provision of the services of construction, reconstruction, repair and maintenance of energy facilities by Energetikos Paslaugų ir Rangos Organizacija UAB. Energetikos Paslaugų ir Rangos Organizacija UAB will finalise the performance of existing contracts, will not accept new orders, and will settle with suppliers.

As at 31 December 2018, the subsidiary had obtained a loan of EUR 1,945 thousand from the Group's cash pool account. Given that Energetikos Paslaugų ir Rangos Organizacija UAB repaid the largest portion of funds borrowed from the Company's subsidiaries, the provision was reduced and the provision of EUR 806 thousand was recognised in the Company's statement of financial position as at

31 December 2018 in relation to the execution of the cash pool agreement signed between the Company and the Group companies.
As at 31 December 2018, the Company tested for impairment its investment in subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB using the net assets view method. The value of the investment using the net assets view method determined this way: all current and non-current assets measured at market value and deducting from it all trade debts and all other liabilities.

The Company's other investments in subsidiaries
As at 31 December 2018, there were no indications of impairment in respect of other investments in the subsidiaries of the Company.

As at 31 December 2017, impairment testing was performed for the following subsidiaries: Energijos Skirstymo Operatorius AB, Lietuvos Energijos Gamyba UAB, Litgas UAB, VAE SPB UAB, Energetikos Paslaugų ir Rangos Organizacija UAB.

Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB
As at 31 December 2017, the Company tested for impairment its investments in the subsidiaries Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB and determined no impairment in respect of the investments in Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB as at 31 December 2017.

Litgas UAB
As at 30 June 2017, the Company tested for impairment its investment in subsidiary LITGAS UAB using the discounted cash flow method and recognised impairment of EUR 3,225.23 thousand, which largely resulted from the payment of dividends in 2017. As at 31 December 2017, the Company re-performed an impairment test for investment and determined no additional impairment. Following the impairment, the recoverable amount of the investment was equal to EUR 8,631 thousand as at 31 December 2017 (31 December 2016: EUR 11,586 thousand).

The impairment test of investment in LITGAS UAB as at 31 December 2017 was performed by the Company based on the following key assumptions:
1. The cash flows were discounted using a post-tax equity discount rate of 8.2%;
2. The assumption is used that the activities of the company are to be ceased as of 2025.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. The changes in discount rates have a significant impact on the result of valuation. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would result in an increase in the value of the investment by up EUR 797 thousand (at discount rate of 7.2%) or decrease in the value of the investment by EUR 384 thousand (at discount rate of 9.2%).

VAE SPB UAB
As at 30 June 2017, the Company tested for impairment its investment in subsidiary VAE SPB UAB and recognised impairment of EUR 92 thousand. Following the recognition of impairment, the investment's recoverable amount (which is equivalent to its fair value) is equal to EUR 0 as at 31 December 2018 and 2017. On 11 October 2018, the liquidation procedures of the subsidiary VAE SPB UAB were finalised and the Company's investment in VAE SPB UAB and the established impairment were fully written off.

Energetikos Paslaugų ir Rangos Organizacija UAB
As at 31 December 2017, the Company performed an impairment test for investment into subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB and determined impairment for investments into Energetikos Paslaugų ir Rangos Organizacija UAB in the amount of EUR 1,626 thousand. Following the recognition of impairment, the investment's recoverable amount (which is equivalent to its fair value) is equal to EUR 191 thousand.

As at 30 June and 31 December 2017, the Company estimated impairment of EUR 7,001 thousand in respect of amounts receivable from Energetikos Paslaugų ir Rangos Organizacija UAB. In 2017, the Company made a number of decisions to cover the operating losses of Energetikos Paslaugų ir Rangos Organizacija UAB against monetary contributions (Note 8) by offsetting them against EUR 4,300 thousand loans repayable by Energetikos Paslaugų ir Rangos Organizacija UAB to the Company as per the statement of financial position. The loans offset and their impairment were recognised in the Company's statement of financial position as 'Investments into subsidiaries'.

Impairment was largely caused by worse results of operations for 2017 than those projected, and accordingly, by more conservative forecasts.

As at 31 December 2017, the subsidiary had obtained a loan of EUR 6,824 thousand from the Group's cash pool account. Given that the forecast of future cash flows of the subsidiary showed that the subsidiary would not be able to repay the loan in full, provision of EUR 2,903 thousand was recognised in the Company's statement of financial position as at 31 December 2017 in relation to the execution of the cash pool agreement signed between the Company and the Group companies.

As at 31 December 2017, impairment test of Energetikos Paslaugų ir Rangos Organizacija UAB was based on the following key assumptions:
1. Discount rate of 9.5% (after tax) was used to calculate discounted cash flows.
2. Annual growth rate of 2.0% was used.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs. Changes in discount rates have a significant impact on the establishment of the provision in relation to the execution of the cash pool agreement signed between the Company and the Group companies. The sensitivity analysis showed that a 1.0 p.p. change in the discount rate would result in a decrease of the provision by up to EUR 2,020 thousand (at discount rate of 8.5%) or increase in the provision by up to EUR 3,577 thousand (at discount rate of 10.5%).

Judgements and accounting estimates pertaining to control over Kauno Kogeneracinė Jėgainė UAB
As at 31 December 2018, the Company held 51% shareholding in Kauno Kogeneracinė Jėgainė UAB, and the remaining 49% of shares was held by FORTUM HEAT LIETUVA UAB (hereinafter "FORTUM").

Both shareholders have signed the Shareholders' Agreement under which key decisions over the business should be taken unanimously by the shareholders and / or by the Board which consists of equal number of representatives from both shareholders and one independent member. If the shareholders fail to reach the consensus on the deadlock situation, the Company has an option to buy (call option) all the shares of KKJ held by FORTUM, whereas FORTUM has an option to sell (put option) to the Company its shareholding in KKJ, for the price, the calculation of which is defined in the Shareholders' Agreement.

In the Group's management view, the call option's exercise price that the Company will have to pay to FORTUM for buyout of KKJ shares owned by FORTUM, in case the Company opts to buy them, approximates the fair value of the shares within the limits of the materiality (materiality threshold is based on the best estimate practice, such as +/- 15% of the market value), and thus the call option gives to the Group control over KKJ.

At 31 December 2018, the Group accounted for EUR 16,660 thousand (31 December 2017: EUR 9,996 thousand) put option exercise liability (Note 29) measured as net present value of the single future cash outflow, which would be paid to FORTUM for KKJ shares in a deadlock situation in case the put option is exercised.

Deferred payment on disposal of shares of Litgrid AB
In 2012, the shares of Litgrid AB held by the Company were transferred to a newly established private limited liability company EPSO-G UAB in return for a certain consideration based on the market value of the shares established by independent valuers. The purchase-sale agreement of shares of Litgrid AB provides for a premium to the final price, the amount of which depends on the return on regulated assets of the electricity transmission activity in 2014–2018. The Company assessed the price premium and concluded that according to the purchase-sale agreement of shares of Litgrid AB, the price premium was negative and amounted to EUR 4,679 thousand at 31 December 2018 (31 December 2017: EUR 4,679 thousand). UAB "EPSO-G" also prepared calculations and assessed that the price premium was negative and amounted to EUR 27,075 thousand. The Company disagrees with UAB " EPSO-G" prepared calculations. There is currently a debate on how to resolve the situation. For the purposes of the statement of financial position, the Company's management has conservatively assessed, on the basis of a pessimistic scenario, that the possible agreement between the parties would be the average value of the Company's and UAB "EPSO-G" calculations, i.e. to EUR 15,877 thousand. After this assumption the receivable on disposal of the shares of Litgrid AB was reduced by EUR 15,877 thousand as the sales price will be adjusted by the price premium. As at 31 December 2018, the amount receivable on disposal of the shares of Litgrid AB totalled EUR 158,658 thousand (31 December 2017: EUR 169,856) (Note 9). In the opinion of the Group's management, the amount of the price premium was calculated with prudency in the pessimistic scenario and can range between EUR 4,679 thousand and EUR 15,877 thousand. The deferred payment receivable is attributed to Level 3 of the fair value hierarchy.

Provisions for compensations for servitudes
On 1 November 2017, amendments to the Law on Electricity of the Republic of Lithuania came into effect. The amendments set forth compensation for servitudes established for the construction of electricity networks in land not owned by the operator. The Electricity Law provides that the construction of electricity transmission and distribution networks or other types of electricity installations will be subject to the payment of one-off compensations for damages related with the establishment of statutory servitudes (which came into effect on 10 July 2004). The management of the Group did not have the possibility of reliably assessing and accounting for payments for servitudes as at 31 December 2017, i.e. upon enactment of the Amendments to the Law on Electricity of the Republic of Lithuania, since the methodology for the calculation of payments for servitudes, establishing the conditions for the payment of compensations, had not been approved yet. The methodology came into force as of 31 July 2018. Under this methodology, an estimated gross amount of payments for servitudes was assessed and accounted for in 2018.

According to the management of the Group, payments for servitudes were capitalised and recognised as intangible assets, since they give legal right to the Company's subsidiary Energijos Skirstymo Operatorius AB to access its distribution network and gives future benefit of free access to either repair or modify the network as and when needed. Consequently, in 2018, the Group recognised intangible assets in the amount of EUR 28,563 thousand. These assets are carried at cost less impairment, their useful life is indefinite, as, according to the management, the servitudes would be used for an indefinite period, since the rights to use the predefined land plots are granted for an indefinite period of time (pursuant to the Agreement on the Payments for Servitudes and Point 4.130 of the Civil Code).

The estimated amount of payments for servitudes was accounted for in the statement of financial position as a provision for non-current liability (under IAS 37) and was equal to EUR 28,725 thousand at initial recognition. The estimation of the amount of the provision took into account the expected time of settlement and the number of applicants. The provision was calculated at the discounted value. For the purpose of the calculation of the provision, the discount rate was applied with reference to the lending rate of similar liabilities and was equal to 1.135%. As at 31 December 2018, the amount of the provision was equal to EUR 27,982 (Note 26). The total amount of the provision is included in non-current liabilities pursuant to the provisions of the aforementioned methodology, according to which the one-off compensation for statutory servitudes is to be paid within 2 years from the date of the submission of an eligible application.

Useful lives of property, plant and equipment
The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. However, other factors, such as technical or commercial obsolescence and physical wear and tear, result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following key factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Accrued revenue
Revenue from household customers is recognised upon declaration of readings of the meters by customers and receipt of payments. Accordingly, at the end of each reporting period, the amount of income earned but not yet paid by household customers is estimated and accrued by the management of the Group. Accrued sales revenue is estimated as 1/3 of total payments for electricity received over the last month of the reporting period. Accrued revenue is based on past experience and average term of settlement for electricity. The calculation does not include revenue recognised according to average invoices formed for household customers.
Moreover, with changes in electricity prices for household customers and unusual developments in the declared quantity of electricity, the Group measures the actually consumed quantity, determining the overdeclared or underdeclared quantity.

Impairment of amounts receivable (lifetime expected credit losses)
The Company's/Group's management decides on the performance of the assessment of amounts receivable on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower. These estimates require significant judgement. Judgement is based on information about substantial financial difficulties experienced by the debtor, probability that the debtor will enter bankruptcy or any other reorganisation, default of delinquency in payments.

In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company/Group assesses the debt on a collective basis.
For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company/Group uses the loss coefficient matrix (on a collective basis). The loss coefficient matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss coefficients are updated during

the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years or of customer types. A different loss coefficient matrix is used for different groups of customers and within different subsidiaries of the Group.
These estimates require significant judgement. These estimates are based on the information on historical statistics, and annual reviews whether the provisioning rates used for collectively assessed receivables are in line with the historical data of impairment of receivables, and that the provisioning rates used for collectively assessed receivables are approved for the upcoming year.

Accrued revenue from PSO and capacity reserve service fees

A part of fees received for PSO and tertiary capacity reserve services is allocated for the maintenance of the infrastructure of the Elektrėnai Complex and for the covering of expenses related to the testing of the necessary electricity generation facilities. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes. Allocated amount of PSO funds and the price for capacity reserve services are determined for the next calendar year by the Commission in view of the projected costs of the Company. In the Company's financial statements, income from these services is recognised on accrual basis based on actually incurred costs.

As at 31 December 2018, the Group recognised PSO funds of EUR 7,517 thousand within 'Other non-current amounts payable and liabilities' (Note 27) to be refunded (31 December 2017: PSO funds of EUR 5,034 thousand to be refunded). PSO funds to be refunded arose from lower than established actual fixed and variable costs incurred in the provision of the regulated services. As at 31 December 2018, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 0.92% (31 December 2017: 0.92%) was used, and the discounting effect of EUR 86 thousand (31 December 2017: EUR 51 thousand) was recognised within 'Other financial income'.

As at 31 December 2018, the amount payable of EUR 2,765 thousand (31 December 2017: the amount receivable of EUR 8,198 thousand), which will be compensated in 2019, was recognised within current amounts payable.

Accrual of income from capacity reserve and system services

As at 31 December 2018, based on *Methodology for establishing the prices for electricity and capacity reserve services* approved by Resolution No O3-229 of the Commission, the Group's management accounted for EUR 1,956 thousand (31 December 2017: EUR 511 thousand) of proceeds for capacity reserve and system services to be refunded under the line item 'Other non-current amounts payable and liabilities'. As at 31 December 2017, the Group's management accounted for the amount receivable of EUR 289 thousand under the line item 'Other current amounts payable and liabilities'.

The Group's and the Company's non-current assets held for sale

The Group and the Company classify property, plant and equipment and disposal groups as held for sale, if their carrying amount is recovered through a disposal rather than through continuing use, the assets and disposal groups are available for immediate sale, and a sale is considered highly probable in their current condition and under the conditions that are usual for sale of such assets and disposal groups. The Group and the Company are committed to a plan to sell these assets and disposal groups, and initiate an active programme to locate a buyer. The sale of assets is to be performed within one year of classification as held for sale and there are no indications that the plan will be significantly changed or withdrawn.

The Group's non-current assets held for sale consist of property, plant and equipment and disposal group, which includes transport business of the subsidiary Transporto Valdymas UAB (Note 17). The transport business comprises motor vehicles, agreements on lease of motor vehicles that are expected to be disposed all together, as well as other assets and liabilities related to transport business. The transport business is classified in the Group's financial statements as assets held for sale based on the Group's management decision to sell the business and initiation of location of the future investor to enter into sale transaction of transport business.
The line item 'Disposal group' also includes the subsidiary Duomenų Logistikos Centras UAB, which is intended to be disposed of by the Group.

The Group's non-current assets held for sale comprise investments in the subsidiaries Duomenų Logistikos Centras UAB and Transporto Valdymas UAB.
In November 2016, the Company's shareholder made a decision to launch the sale process of the Company's subsidiary Duomenų Logistikos Centras UAB. On 7 August 2017, the Company announced it has signed the agreement on the sale and purchase of the company's shares. On 21 June 2018, the Competition Council terminated the procedure for treatment of certain concentrations following the notice of the buyer on the abandonment of concentration. The Company passed the decision to agree with the termination of the agreement with the buyer. The Company does not withdraw from its plans to sell the company and continues to seek for a potential buyer and has renewed the sale process of Duomenų Logistikos Centras UAB.
For the purposes of the Company's statement of financial position at 31 December 2018, the investment into Duomenų Logistikos Centras UAB in the amount of EUR 4,705 thousand (31 December 2017: EUR 4,705 thousand) was accounted for under the line item 'Non-current assets held for sale'.
In September 2018, the Company approved the decision to launch the sale process of the Company's subsidiary Transporto Valdymas UAB. In implementing its plans of selling the company, the Company seeks for a potential buyer and has renewed the sale process of Transporto Valdymas UAB.
For the purposes of the Company's statement of financial position at 31 December 2018, the investment into Transporto Valdymas UAB in the amount of EUR 2,359 thousand was accounted for under the line item 'Non-current assets held for sale'.

In 2019, the Group's and the Company's management plans to continue active sales of assets and expects the sale transactions started in 2017–2018 to be finalised in 2019

All amounts in EUR thousands unless otherwise stated

5 Intangible assets

Group	Patents and licences	Computer software	Emission allowances	Other intangible assets	Goodwill	Total
At 31 December 2016						
Acquisition cost	17,957	13,572	11,838	1,435	1,461	46,263
Accumulated amortisation	(2,803)	(10,716)	(4)	(479)	-	(14,002)
Net book amount	**15,154**	**2,856**	**11,834**	**956**	**1,461**	**32,261**
Net book amount at 1 January 2017	**15,154**	**2,856**	**11,834**	**956**	**1,461**	**32,261**
Additions	483	316	-	4,376	-	5,175
Reclassified to/from PP&E categories	89	3,202	-	(3,000)	-	291
Write-offs / Emission allowances utilised	-	(2)	(932)	-	-	(934)
Revaluation of emission allowances	-	-	2,808	-	-	2,808
Grant received on emission allowances	-	-	1,128	-	-	1,128
Reclassified to assets held for sale	-	(15)	-	-	-	(15)
Amortisation charge	(1,668)	(2,631)	-	(55)	-	(4,354)
Net book amount at 31 December 2017	**14,058**	**3,726**	**14,838**	**2,277**	**1,461**	**36,360**
At 31 December 2017						
Acquisition cost	19,370	17,002	14,838	2,773	1,461	55,444
Accumulated amortisation	(5,312)	(13,276)	-	(496)	-	(19,084)
Net book amount	**14,058**	**3,726**	**14,838**	**2,277**	**1,461**	**36,360**
Net book amount at 1 January 2018	**14,058**	**3,726**	**14,838**	**2,277**	**1,461**	**36,360**
Additions	1,889	429	-	5,431	5,370*	13,119
Revaluation	-	-	31,816	-	-	31,816
Recognition of statutory servitudes				28,564		28,564
Reclassified to/from PP&E categories	36	3,517	-	(3,163)	-	390
Write-offs	-	(5)	-	(8)	-	(13)
Reclassifications between categories	-	737	-	(737)	-	-
Emission allowances utilised	-	-	(908)	-	-	(908)
Disposals	-	(2)	-	-	-	(2)
Grant received on emission allowances	-	-	2,555	-	-	2,555
Reclassified to/from assets held for sale	-	(5)	-	(5)	-	(10)
Amortisation charge	(1,506)	(3,989)	-	(46)	-	(5,541)
Net book amount at 31 December 2018	**14,477**	**4,408**	**48,301**	**32,313**	**6,831**	**106,330**
At 31 December 2018						
Acquisition cost	21,295	21,523	48,301	32,845	6,831	130,795
Accumulated amortisation	(6,818)	(17,115)	-	(532)	-	(24,465)
Net book amount	**14,477**	**4,408**	**48,301**	**32,313**	**6,831**	**106,330**

** Goodwill arising on business combination (Note 41)*

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. At the end of each reporting period, emission allowances are measured with reference to year-end market prices.

In 2016, the Group accounted for patents and licences identified in business combination that comprise the licence to produce electricity with an incentive rate. The fair value of the licence, at the moment of business acquisition, was determined to be EUR 14,900 thousand, amortisation period of the licence was set to be 12 years. The net book amount of the licence was EUR 11,278 thousand at 31 December 2018 (31 December 2017: EUR 12,520 thousand).

The table below includes information on the results of revaluation of emission allowances conducted in 2018:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit and loss	Total revaluation effect
Increase (decrease) in carrying amount	22,883	8,933	31,816
	22,883	**8,933**	**31,816**

All amounts in EUR thousands unless otherwise stated

Results of revaluation of emission allowances conducted in 2017:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit and loss	Total revaluation effect
Increase (decrease) in carrying amount	1,167	1,641	2,808
	1,167	**1,641**	**2,808**

The Company's intangible assets

Company	Other intangible assets	Total
At 31 December 2017		
Acquisition cost	-	-
Accumulated amortisation	-	-
Net book amount	-	-
Net book amount at 1 January 2018	-	-
Reclassified (to) from assets held for sale	1,874	1,874
Amortisation charge	-	-
Net book amount at 31 December 2018	**1,874**	**1,874**
At 31 December 2018		
Acquisition cost	1,874	1,874
Accumulated amortisation	-	-
Net book amount	**1.874**	**1.874**

On 3 December 2018, in the intangible assets category 'Other intangible assets' the Company accounted for assets of EUR 1,874 thousand which indicate future synergies that were identified on the acquisition of assets of TE-3 from Vilniaus Šilumos Tinklai AB on 12 October 2017. The benefit of synergies will be realised by ensuring the connection of Vilnius co-generation power plant, which is constructed by the Group, and other objects of the Group to the heat distribution infrastructure of Vilnius city.

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment

The Group's property, plant and equipment:

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations	Assets of Hydro Power Plant, Pumped Storage Power Plant and Lithuanian Power Plant	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
At 31 December 2016												
Cost or revalued amount	2,376	65,579	876,992	134,046	206,492	62,029	888,633	27,725	39,315	10,904	36,767	2,350,858
Accumulated depreciation	-	(7,297)	(71,390)	(9,120)	(87,243)	(1,684)	(330,267)	(10,483)	(20,340)	(3,862)	-	(541,686)
Accumulated impairment	-	-	-	-	-	-	(38,135)	-	-	-	(223)	(38,358)
Net book amount	**2,376**	**58,282**	**805,602**	**124,926**	**119,249**	**60,345**	**520,231**	**17,242**	**18,975**	**7,042**	**36,544**	**1,770,814**
Net book amount at 1 January 2017	**2,376**	**58,282**	**805,602**	**124,926**	**119,249**	**60,345**	**520,231**	**17,242**	**18,975**	**7,042**	**36,544**	**1,770,814**
Additions	-	130	3,387	(118)	22	-	139	4,814	3,120	843	235,314	247,651
Revaluation	-	(642)	1,113	-	-	-	-	-	-	-	-	471
Disposals	-	(414)	(265)	(11)	-	-	-	(455)	(4)	(1)	(35)	(1,185)
Write-offs	-	(24)	(4,329)	(89)	-	-	(11)	(13)	(30)	(8)	(60)	(4,564)
Reclassifications between categories	-	1,760	164,035	29,911	835	-	1,265	-	1,483	3,119	(202,408)	-
Reclassified to assets, intangible assets -	2	(13)	-	-	-	-	67	(71)	(3)	(217)	(235)	
Reclassified to assets held for sale	(52)	(23,261)	(456)	(781)	(1)	-	-	(9,825)	(345)	(265)	-	(34,986)
Reclassified from (to) investment property	-	(1,601)	-	-	-	-	-	-	-	-	(1,264)	(2,865)
Reclassified to finance lease	-	-	-	-	-	-	-	(4,579)	-	-	-	(4,579)
Reclassified from inventories	-	-	(1)	-	(19)	-	(3)	20	(5)	-	-	(8)
Impairment	-	(87)	(388)	-	-	-	(105,352)	-	-	-	(513)	(106,340)
Reversal of impairment	-	98	-	-	-	-	45	-	-	-	-	143
Depreciation charge	-	(2,635)	(40,128)	(4,720)	(7,296)	(1,311)	(37,180)	(3,874)	(3,713)	(2,368)	-	(103,225)
Decrease on disposal of subsidiary	-	-	-	-	-	-	-	(4)	(3)	(3)	-	(10)
Net book amount at 31 December 2017	**2,324**	**31,608**	**928,557**	**149,118**	**112,790**	**59,034**	**379,134**	**3,393**	**19,407**	**8,356**	**67,361**	**1,761,082**
At 31 December 2017												
Cost or revalued amount	2,324	41,432	1,037,447	167,712	207,279	64,229	779,526	7,605	37,051	14,130	68,804	2,427,539
Accumulated depreciation	-	(9,824)	(108,890)	(18,019)	(94,489)	(5,195)	(293,722)	(4,212)	(17,644)	(5,774)	(1,108)	(558,877)
Accumulated impairment	-	-	-	(575)	-	-	(106,670)	-	-	-	(335)	(107,580)
Net book amount	**2,324**	**31,608**	**928,557**	**149,118**	**112,790**	**59,034**	**379,134**	**3,393**	**19,407**	**8,356**	**67,361**	**1,761,082**

(Cont'd on the next page)

All amounts in EUR thousands unless otherwise stated

(continued)

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, gas technological equipment and installations	Assets of Hydro Power Plant, Pumped Storage Power Plant and Lithuanian Power Plant	Wind power plants and their installations	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
At 31 December 2017												
Acquisition cost	2,324	41,432	1,037,447	167,712	207,279	64,229	779,526	7,605	37,051	14,130	68,804	2,427,539
Accumulated depreciation	-	(9,824)	(108,890)	(18,019)	(94,489)	(5,195)	(293,722)	(4,212)	(17,644)	(5,774)	(1,108)	(558,877)
Accumulated impairment	-	-	-	(575)	-	-	(106,670)	-	-	-	(335)	(107,580)
Net book amount at 1 January 2018	**2,324**	**31,608**	**928,557**	**149,118**	**112,790**	**59,034**	**379,134**	**3,393**	**19,407**	**8,356**	**67,361**	**1,761,082**
IFRS 15 adoption impact – impairment*				(10,356)								(10,356)
Net book amount at 1 January 2018 (restated)	**2.324**	**31,608**	**928,557**	**138,762**	**112,790**	**59,034**	**379,134**	**3,393**	**19,407**	**8,356**	**67,361**	**1,750,726**
Additions	-	1	710	-	10	-	804	2,100	1,823	971	360,030	366,449
Revaluation	(35)	10,306	36,587	-	-	-	(96)	8	(1,149)	48	-	45,669
Disposals	-	(31)	(361)	-	-	-	(829)	(32)	(15)	(1)	(427)	(1,696)
Write-offs	-	(6)	(4,575)	(112)	(5)	(1)	(38)	(30)	(83)	(16)	(35)	(4,901)
Reclassifications between categories	-	1,717	195,023	57,009	3,666	14	1,766	-	3,825	585	(263,605)	-
Reclassified to assets, intangible assets	-	-	-	-	-	-	-	-	(71)	(2)	(317)	(390)
Reclassified to assets held for sale	-	(9,166)	(3,764)	-	-	-	-	(548)	(1,693)	(2,196)	-	(17,367)
Reclassified from (to) investment property	-	(4,502)	183	-	-	-	-	-	-	-	-	(4,319)
Reclassified to finance lease	-	-	-	-	-	-	-	(824)	-	(1,086)	-	(1,910)
Reclassified from inventories	-	-	2	-	(116)	-	(192)	-	(4)	(60)	1,960	1,590
Impairment	-	(15)	(17)	-	-	-	(195)	(56)	-	(16)	(1,066)	(1,365)
Reversal of impairment	-	25	388	10,931	-	-	-	-	-	-	-	11,344
Depreciation charge	-	(1,868)	(45,868)	(5,137)	(7,130)	(2,061)	(20,071)	(984)	(4,336)	(1,893)	-	(89,348)
Acquisition of subsidiaries	1,089	-	7,316	-	-	27,653	-	-	-	1,050	-	37,108
Net book amount at 31 December 2018	**3,378**	**28,069**	**1,114,181**	**201,453**	**109,215**	**84,639**	**360,283**	**3,027**	**17,704**	**5,740**	**163,901**	**2,091,590**
At 31 December 2018												
Cost or revalued amount	3,378	28,504	1,274,877	238,940	210,834	92,922	774,145	5,643	29,611	7,955	165,302	2,832,111
Accumulated depreciation	-	(435)	(160,696)	(37,487)	(101,619)	(8,283)	(307,550)	(2,616)	(11,907)	(2,215)	-	(632,808)
Accumulated impairment	-	-	-	-	-	-	(106,312)	-	-	-	(1,401)	(107,713)
Net book amount	**3,378**	**28,069**	**1,114,181**	**201,453**	**109,215**	**84,639**	**360,283**	**3,027**	**17,704**	**5,740**	**163,901**	**2,091,590**

** IFRS 15 adoption impact (Note 2.1)*

In 2018 and 2017, the Group's property, plant and equipment (excluding structures and machinery of Hydro Power Plant, Pumped Storage Power Plant and Thermal Power Plant (Combined Cycle Unit, Reserve Power Plant), gas distribution pipelines, gas technological equipment, wind power plants, and IT and telecommunication equipment) was accounted for at revalued amount.

All amounts in EUR thousands unless otherwise stated

In the period from August to December 2018, the Group carried out the valuation of buildings, structures and machinery and construction in progress with the carrying amount of EUR 1,206 million as at 31 December 2018. Independent property valuer Ernst & Young Baltic UAB carried out the valuation of assets with the carrying amount of EUR 1,134,743 thousand using the cost and income methods. Independent property valuer APUS TURTAS UAB carried out the valuation of assets with the carrying amount of EUR 2,468 thousand using the comparable and cost method.

Results of the revaluation conducted in 2018 are given below:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit and loss	Total revaluation effect
Increase (decrease) in carrying amount	122,286	(76,617)	45,669
	122,286	**(76,617)**	**45,669**

Results of the revaluation conducted in 2017 are given below:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit and loss	Total revaluation effect
Increase (decrease) in carrying amount	(908)	1,379	471
	(908)	**1,379**	**471**

In the opinion of the Group's management, the carrying amount of substantially all assets stated at revalued amount as at 31 December 2018 did not differ significantly from their fair value. The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2018 (refer to Note 2.29 for the description of the fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	1,845	1,533	3,378
Buildings	-	596	27,473	28,069
Structures and machinery	-	1,890	1,112,291	1,114,181
Motor vehicles	-	66	2,961	3,027
Other property, plant and equipment	-	42	5,698	5,740
Construction in progress	-	-	163,901	163,901
Total	**-**	**4,439**	**1,313,857**	**1,318,296**

The table below presents allocation between the fair value hierarchy levels of the Group's property, plant and equipment that was subject to revaluation as at 31 December 2017 (refer to Note 2.29 for the description of the fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	1,880	444	2,324
Buildings	-	7,286	24,322	31,608
Structures and machinery	-	3,114	925,443	928,557
Motor vehicles	-	1,329	2,064	3,393
Other property, plant and equipment	-	85	8,271	8,356
Construction in progress	-	-	67,734	67,734
Total	**-**	**13,694**	**1,028,278**	**1,041,972**

Land was largely attributed to Level 2 of the fair value hierarchy. The valuation was based on the market approach.

Buildings were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of buildings attributed to Level 2 was based on the comparative value method approach. The valuation of assets attributed to Level 3 was based on the income approach, comparative value method approach, the cost approach or mix of these approaches.

Structures and machinery were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of assets within Level 2 was based on the market approach. The valuation of assets within Level 3 was based on the income approach, comparative value method approach, the cost approach or mix of these approaches. The valuation was based on data and information available to the valuer to make accurate forecasts of future cash flows.

Motor vehicles were attributed to Levels 2 and 3 of fair value hierarchy. The valuation was based on the market approach and cost approach.

Construction in progress and other PP&E were mostly attributed to Level 3 of fair value hierarchy, valuation was based on income method or depreciated replacement cost method. The management considers, that cost of these assets approximate its fair value.

During 2018, the Group companies capitalised EUR 776 thousand of interest expenses on borrowings intended to finance development of non-current assets (2017: EUR 64 thousand). The average capitalised interest rate was 1.42% in 2018 and 0.82% in 2017.

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2018, the Group's commitments to purchase or construct property, plant and equipment amounted to EUR 490,432 million (31 December 2017: EUR 294.177 million).

As at 31 December 2018, the Group had pledged to the banks its property, plant and equipment in amount of EUR 58,583 thousand (31 December 2017: EUR 316,136 thousand) (Note 22).

All amounts in EUR thousands unless otherwise stated

The Company's property, plant and equipment

Company	Other PP&E	Construction in progress	Total
At 31 December 2016			
Cost or revalued amount	28	345	373
Accumulated depreciation	(25)	-	(25)
Net book amount	**3**	**345**	**348**
Net book amount at 1 January 2017	**3**	**345**	**348**
Additions	40	36	76
Depreciation charge	(3)	-	(3)
Net book amount at 31 December 2017	**40**	**381**	**421**
At 31 December 2017			
Cost or revalued amount	69	381	450
Accumulated depreciation	(29)	-	(29)
Net book amount	**40**	**381**	**421**
Net book amount at 1 January 2018	**40**	**381**	**421**
Additions	13	-	13
Depreciation charge	(7)	-	(7)
Net book amount at 31 December 2018	**46**	**381**	**427**
At 31 December 2018			
Cost or revalued amount	82	381	463
Accumulated depreciation	(36)	-	(36)
Net book amount	**46**	**381**	**427**

7 Investment property

Group	Investment property
Carrying amount at 1 January 2017	**46,207**
Additions	6,842
Reclassification from property, plant and equipment	2,865
Increase in value	7,009
Decrease in value	(10,938)
Reclassification to assets held for sale	(37,107)
Carrying amount at 31 December 2017	**14,878**
Carrying amount at 1 January 2018	**14,878**
Additions	-
Reclassification from property, plant and equipment	4,319
Increase in value	133
Decrease in value	(115)
Reclassification to assets held for sale	(12,721)
Carrying amount at 31 December 2018	**6,494**

In 2018, the Group's income from lease of investment property amounted to EUR 3,258 thousand (2017: EUR 3,086 thousand).

The Company had no investment property in 2018 and 2017.

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2018 (refer to Note 2.29 for the description of the fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Buildings	-	-	5,978	5,978
Structures	-	-	516	516
Total	**-**	**-**	**6,494**	**6,494**

The table below presents allocation of the Group's investment property based on fair value hierarchy levels as at 31 December 2017 (refer to Note 2.29 for the description of the fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Buildings	-	-	11,753	11,753
Structures	-	-	3,125	3,125
Total	**-**	**-**	**14,878**	**14,878**

The fair value of investment property as at 31 December 2018 and 31 December 2017 was determined in February–July 2018 and September–October 2017, respectively. Valuations were carried out by independent property valuers using the market approach and income approach. Investment property is attributed to Level 3 of fair value hierarchy. The valuation was based on data and information available to the valuer for making accurate forecasts of future cash flows. Future cash inflows were estimated with reference to comparable object rental prices, adjusted for location, condition and other factors affecting the value, and with reference to the actual rental prices of the subject object, adjusted for the occupancy rate. In the opinion of the Group's management, the value of investment property determined using the above-mentioned approach represented its fair value as at 31 December 2018 and 31 December 2017.

All amounts in EUR thousands unless otherwise stated

8 Investments in subsidiaries and associates

Company	2018	2017
Net book amount at 1 January	**1,148,917**	**1,172,187**
Increase in share capital of subsidiaries	41,038	28,375
Decrease in share capital of subsidiaries	-	(50,862)
Acquisition of companies	21,016	-
Acquisition of shares from non-controlling interest	-	4,284
Disposal of investments	-	(123)
Coverage of losses	5,142	4,470
Liquidation of subsidiaries	(17)	-
Reclassification to assets held for sale	(2,359)	-
(Impairment) of investments in subsidiaries	(6,815)	(9,414)
Net book amount at 31 December	**1,206,921**	**1,148,917**

Increase and decrease in share capital of subsidiaries

The table below presents information on increase/(decrease) in share capital, coverage of operating losses, payments for share capital during the period from 1 January to 31 December 2018 and balances of unpaid share capital as at 31 December 2018.

Subsidiary	Issue date	Number of newly issued shares	Issue price per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amend-ment to Articles of Associa-tion
Kauno Kogeneracinė Jėgainė UAB	19/01/2018	8,160,000	1.00	8,160	8,160	-	19/01/2018
Vilniaus Kogeneracinė Jėgainė UAB	21/12/2017	53,781,379	0.29	15,596	15,596	-	05/01/2018
Energetikos Paslaugų ir Rangos Organizacija UAB	30/01/2018	345,600	4.34	1,500	1,500	-	08/02/2018
Energijos Sprendimų Centras UAB	29/01/2018	600,000	1.50	900	900	-	10/04/2018
Elektroninių Mokėjimų Agentūra UAB	21/02/2018	370,000	1.00	370	370	-	27/02/2018
Increase in authorised share capital by way of in-kind contribution							
Lietuvos Energijos Gamyba AB	30/03/2018	12,919,014	0.62	8,062	8,062	-	31/03/2018
NT Valdos, UAB	01/08/2018	222,725	28.96	6,450	6,450	-	17/08/2018
Change in authorised share capital due to reorganisation							
Transporto Valdymas UAB	01/03/2018	81,470	28.96	2,359	2,359	-	
NT Valdos, UAB	01/03/2018	81,470	28.96	(2,359)	(2,359)	-	
Energijos Tiekimas UAB	31/10/2018	2,570,000	1.00	2,570	2,570	-	31/10/2018
Energijos Sprendimų Centras UAB	31/10/2018	(2,570,000)	1.00	(2,570)	(2,570)	-	02/11/2018
Energijos Tiekimas UAB	14/12/2018	(350,000)	1.00	(350)	(350)	-	14/12/2018
Gamybos Optimizavimas UAB	14/12/2018	350,000	1.00	350	350	-	14/12/2018
Total				**41.038**	**41.038**	**-**	

Offset prepayments made in 2017 for the increase of authorised share capital during 2018:

Subsidiary	Issue date	Number of newly issued shares	Issue price per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Offsetting of prepayments							
Vilniaus Kogeneracinė Jėgainė UAB	21/12/2017	53,781,379	0.29	15,596	3,898	11,698	05/01/2018
Total				**15,596**	**3,898**	**11,698**	

On 21 December 2017, the Company and its subsidiary Vilniaus Kogeneracinė Jėgainė UAB entered into the Share Subscription Agreement and increased the subsidiary's share capital by EUR 15,597 thousand by way of issuing additional 53,781,379 ordinary registered shares with the nominal value of EUR 0.29 each. Based on the agreement, the Company's initial contribution represented ¼ of the subscribed value of shares or EUR 3,899 thousand. The increase in the subsidiary's share capital had not been registered with the Centre of Registers at 31 December 2017. Accordingly, the Company's contribution of EUR 3,899 thousand was accounted for as the Company's prepayments. On 31 August 2018, the Company paid up a EUR 11,698 thousand share of the authorised share capital of subsidiary Vilniaus Kogeneracinė Jėgainė UAB. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 5 January 2018.
On 19 January 2018, the share capital of the Company's subsidiary Kauno Kogeneracinė Jėgainė UAB was increased from EUR 24,000 thousand to EUR 40,000 thousand by issuing 16,000 thousand ordinary shares with the nominal value of EUR 1 each. The Company was granted the right to acquire (subscribe) 8,160,000 new shares and FORTUM HEAT LIETUVA UAB was granted the right to acquire 7,840,000 new shares. The Company fully paid up for the newly issued shares. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 19 January 2018.

On 30 January 2018, the Company and its subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB entered into the Share Subscription Agreement and increased the subsidiary's share capital from EUR 1,000 thousand to EUR 1,100 thousand by way of issuing additional 345,600 ordinary registered intangible shares with the nominal value of EUR 0.29 each and the issue price per share equal to EUR 4.34. The nominal issue price of all newly issued shares is EUR 1,500 thousand. On 31 January 2018, the Company fully paid up the total price of the new issue of shares. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 08 February 2018.

On 15 February 2018, the Company established subsidiary Transporto Valdymas UAB that starting from 1 March 2018 took over the transport activity that was conducted by another subsidiary NT Valdos UAB until that date. The share capital of the subsidiary was formed by transferring to the established company an in-kind contribution that comprised the assets of NT Valdos UAB. The Company's investments in Transporto Valdymas UAB amount to EUR 2,359 thousand and investments in NT Valdos UAB were reduced by the respective amount.

The ordinary general meeting of shareholders of the Company's subsidiary Lietuvos Energijos Gamyba AB was held on 26 March 2018, during which a decision was passed to increase the share capital of the subsidiary by issuing new shares and paying for shares by the Company's in-kind contribution by way of transferring the set of assets of the third co-generation power plant in Vilnius to the ownership of the subsidiary. On 30 March 2018, the Company and the subsidiary entered into the

All amounts in EUR thousands unless otherwise stated

Share Subscription Agreement which stipulates that the Company transfers the ownership right to the set of assets of the third co-generation power plant in Vilnius (TE-3) with effect from 31 March 2018. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 11 April 2018.

On 1 August 2018, the Company paid up a EUR 600 thousand share of the authorised share capital of subsidiary Energijos Sprendimų Centras UAB and share premium of EUR 300 thousand.

On 1 August 2018, the Company and its subsidiary NT Valdos, UAB signed the share subscription agreement on the issue of new 222,725 ordinary registered shares with the nominal value of EUR 28.96 each. The Company acquired all shares of the new issue for EUR 6,450 thousand by paying the issue price through an in-kind (non-cash) contribution. The amended Articles of Association of the subsidiary were registered with the Register of Legal Entities on 17 August 2018.

On 8 October 2018, the Company approved the reorganisation terms of subsidiaries Energijos Tiekimas UAB and Energijos Sprendimų Centras UAB, under which Energijos Sprendimų Centras UAB, which ceased its activities without the liquidation procedure, is merged with Energijos Tiekimas UAB which continues its activities. Assets, rights and obligations of Energijos Sprendimų Centras UAB were taken over by Energijos Tiekimas UAB that continues its activities. The reorganisation of the companies was finalised on 31 October 2018. The Company's additional investments in Energijos Tiekimas UAB amount to EUR 2,570 thousand and the total investment held in Energijos Sprendimų Centras UAB was reduced by the respective amount.

On 10 October 2018, the Competition Council of the Republic of Lithuania passed the decision clearing the concentration by the acquisition of 100% of shares of Vėjo Vatas UAB and 100% of shares of Vėjo Gūsis UAB by the Company and acquisition of a full control over the latter companies according to the presented announcement on concentration. On 5 November 2018, the Company entered into the share purchase and sale agreement regarding the acquisition of 100% of shares of Vėjo Vatas UAB and Vėjo Gūsis UAB and the shareholder's claim rights. The Company's investment in Vėjo Vatas UAB and Vėjo Gūsis UAB amounted to EUR 6,132 thousand and EUR 12,919 thousand, respectively. Both investments were fully paid as at 31 December 2018.

Liquidation procedures of subsidiary VAE SPB UAB were finalised on 11 October 2018. On 18 April 2018, the Company passed a decision to liquidate dormant subsidiary VAE SPB UAB. The Ministry of Finance, which is a shareholder of the Company, approved the decision to liquidate VAE SPB UAB. The Ministry of Energy also approved of the termination of the company's activities. On 1 October 2018, prior to the liquidation VAE SPB UAB transferred to the Company shares of subsidiary Verslo Aptarnavimo Centras UAB with the nominal value of EUR 3 thousand. The liquidation statement was registered with the Register of Legal Entities on 11 October 2018 and the Company's total investment in VAE SPB UAB and impairment provision established were fully written off.

On 22 October 2018, the Company announced about its plan to initiate the transfer of the optimisation activity of operations of power plants of Energijos Tiekimas UAB to a company being established Gamybos Optimizavimas UAB. The Articles of Association of the new company of the Group were registered with the Register of Legal Entities on 14 December 2018 and the Company owns 100% of shares of Gamybos Optimizavimas UAB. The Company's investments in Gamybos Optimizavimas UAB amount to EUR 350 thousand and investments in Energijos Tiekimas, UAB were reduced by the respective amount.

On 27 December 2018, the Company acquired a 100% shareholding in VVP Investment UAB from the group of natural and legal persons. As at 31 December 2018, ownership rights of shares were held by the Company and the total investment in VVP Investment UAB amounted to EUR 1,962 thousand. As at 31 December 2018, the paid up part of the investment amounted to EUR 1,237 thousand, diluted price premium amounted to EUR 150 thousand, suspended payment – EUR 100 thousand and a respective unpaid part of the investment – EUR 475 thousand. The remaining unpaid part of the investment will be paid in 2019-2021.

Increase in share capital of the Group companies in 2017:

Subsidiary	Issue date	Number of newly issued shares*	Nominal value per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Energijos Sprendimų Centras UAB	29/08/2016	520,000	1.00	520	322	-	07/09/2016
Vilniaus Kogeneracinė Jėgainė UAB	19/12/2016	68,965,518	0.29	20,000	15,000	-	19/01/2017
Kauno Kogeneracinė Jėgainė UAB	28/12/2016	6,753,000	1.00	6,753	6,753	-	26/06/2017
Energijos Sprendimų Centras UAB	20/06/2017	700,000	1.00	1,000	1,000	-	22/09/2017
Elektroninių Mokėjimų Agentūra UAB	18/07/2017	300,000	1.00	300	300	-	01/08/2017
Offsetting of prepayments							
Vilniaus Kogeneracinė Jėgainė UAB	19/12/2016	68,965,518	0.29	20,000	5,000	-	19/01/2017
Total				**48,573**	**28,375**	**-**	

** Newly issued shares attributable to the Company*

Contributions made to increase the share capital were accounted for at the end of the previous reporting period within prepayments:

Subsidiary	Issue date	Number of newly issued shares	Nominal value per share, EUR	Total issue price	Amount paid up	Amount not paid up	Date of amendment to Articles of Association
Vilniaus Kogeneracinė Jėgainė UAB	21/12/2017	53,781,379	0.29	15,596	3,898	11,698	-
Total				**15,596**	**3,898**	**11,698**	

Acquisitions of subsidiaries

Acquisitions of new subsidiaries made in 2018 were accounted for within investments in subsidiaries:

Subsidiary	Date of acquisition of shares	Number of shares acquired	Nominal value per share, EUR	Total issue price	Paid up amount of the acquisition cost of shares	Unpaid amount of the acquisition cost of shares
Verslo Aptarnavimo Centras UAB	01/10/2018	9,987	0.29	3	3	
New acquisitions of the Group companies						
Vėjo Vatas UAB	31/10/2018	100,000	28.96	2,896	6,132	
Vėjo Gūsis UAB	31/10/2018	257,000	28.96	7,443	12,919	
VVP Investment UAB	27/12/2018	8,640	28.96	250	1,237	725
Total				**10,592**	**20,291**	**725**

All amounts in EUR thousands unless otherwise stated

Decrease in share capital

There were no decreases in share capital of the Group companies during 2018.

Decrease in share capital of the Group companies in 2017:

Subsidiary	Carrying amount at 31 December 2016	Decrease in share capital	Acquisition of non-controlling interest	Carrying amount at 31 December 2017
NT Valdos, UAB	80,337	(48,256)	-	32,081
EURAKRAS UAB	17,057	(2,606)	4,284	18,735
	97,394	**(50,862)**	**4,284**	**50,816**

On 19 April 2017, the Company passed a decision to reduce the share capital of NT Valdos UAB from EUR 85,550 thousand to EUR 37,295 thousand by way of annulment of 1,666,284 ordinary registered intangible shares with the nominal value of EUR 28.96 each. The total nominal value of the annulled shares of NT Valdos UAB was EUR 48,256 thousand. The share capital of NT Valdos UAB was reduced to pay out funds to the Company. On 14 July 2017, the Company received a partial payment for share capital reduction in amount of EUR 10,000 thousand. Based on the agreement signed between the Company and NT Valdos UAB on 12 October 2017, the remaining amount of EUR 38,256 thousand will be paid to the Company no later than by 11 August 2022. The amendments to the Articles of Association were registered on 11 July 2017.

On 5 May 2017, the Company and Renargo UAB (the holder of non-controlling interest in Eurakras UAB) passed a decision to reduce the share capital of Eurakras UAB from EUR 8,096 thousand to EUR 4,621 thousand by way of annulment of 120,000 ordinary registered intangible shares with the nominal value of EUR 28.96 each. The total nominal value of the annulled shares of Eurakras UAB was EUR 3,475 thousand. The share capital of Eurakras UAB was reduced to pay out funds to the Company. On 28 July 2017, the Company received a partial payment for the share capital reduction in amount of EUR 2,606 thousand, which represented 75% of the Company's interest in Eurakras UAB. The amendments to the Articles of Association were registered on 20 July 2017.

Acquisition of shares from non-controlling interest

On 26 March 2018, the Company increased the authorised share capital of Lietuvos Energijos Gamyba AB by EUR 3,747 thousand through the issue of 12,919,014 shares with the nominal value of EUR 0.29 each. Lietuvos Energija UAB committed to pay for the acquired shares by way of an in-kind contribution, i.e. Vilnius Thermal Power Plant No 3, as a whole complex of technological equipment and territories, the value of which was EUR 8,061,465. Following the change in the number of shares of Lietuvos Energijos Gamyba AB non-controlling interest decreased from 3.25% to 3.18%. The change in the number of shares of Lietuvos Energijos Gamyba AB resulted in the change in non-controlling interest in Verslo Aptarnavimo Centras UAB, which decreased from 1.60% to 1.59%. The non-controlling interest in Technologijų ir Inovacijų Centras UAB has also changed decreasing from 2.11% to 2.09%.

On 18 May 2017, the Company acquired 1,000 ordinary shares of Technologijų ir Inovacijų Centras UAB from Litgrid AB (the holder of non-controlling interest in Technologijų ir Inovacijų Centras UAB) with the nominal value of EUR 290 each, for the amount of EUR 847.

On 16 September 2017, the Company acquired 25% of ordinary registered shares of Eurakras UAB from Renagro UAB (the holder of non-controlling interest in Eurakras UAB) for the amount of EUR 4,283 thousand. The Company is the sole shareholder of Eurakras UAB.

Disposal of VšĮ Energetikų Mokymų Centras

On 8 August 2017, the Company sold its investment into VšĮ Energetikų Mokymų Centras with the carrying amount of EUR 123 thousand for the price of EUR 147 thousand. In the Group's consolidated financial statements at 31 July 2017, net assets of VšĮ Energetikų Mokymų Centras was negative and amounted to EUR 205 thousand. The result of disposal amounting to EUR 352 thousand was accounted for in the Group's consolidated statement of comprehensive income within 'Other income'.

Contributions against losses and impairment

Contributions against losses of the Group companies and impairment of investments in the subsidiaries during the period from 1 January to 31 December 2018:

Subsidiary	Carrying amount at 31 December 2017	Increase in share capital	Coverage of losses	(Impairment) / reversal of impairment	Carrying amount at 31 December 2018
Energetikos Paslaugų ir Rangos Organizacija UAB	191	1,500	5,072	(6,763)	-
VAE SPB UAB	-	-	70	(70)	-
Cash received upon liquidation of VAE SPB UAB				15	15
Shares of Verslo Aptarnavimo Centras UAB received upon liquidation of VAE SPB UAB				3	3
	191	**1,500**	**5,142**	**(6,815)**	**18**

On 28 September 2018, the Company passed a decision to cover retained deficit of subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB through the shareholder's contribution of EUR 3,237 thousand by offsetting loans payable by the subsidiary to the Company and accrued interest payable. The carrying amount of loans offset, net of impairment of EUR 2,700 thousand recognised in 2017, is equal to EUR 535 thousand.

On 21 December 2018, the Company passed a decision to cover retained deficit of subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB through the shareholder's contribution of EUR 4,537 thousand by offsetting loans payable by the subsidiary to the Company and accrued interest payable.

Contributions against losses of the Group companies and impairment of investments in the subsidiaries during the period from 1 January to 31 December 2017:

Subsidiary	Carrying amount at 31 December 2016	Coverage of losses	(Impairment) / reversal of impairment	Carrying amount at 31 December 2017
Energetikos Paslaugų ir Rangos Organizacija UAB	1,818	4,300	(5,927)	191
LITGAS UAB	11,855	-	(3,225)	8,630
VAE SPB UAB	92	170	(262)	-
	13,765	**4,470**	**(9,414)**	**8,821**

All amounts in EUR thousands unless otherwise stated

Prepayments for investments

According to the decisions of the Company's Board of 11 October 2018 and 2 November 2018 and the approval of the Company's shareholder of 19 October 2018, on 2 November 2018 Lietuvos Energija, UAB concluded the conditional share purchase and sale agreement regarding the acquisition of 100% shareholding in and shareholder's claim rights of the company engaged in the development of the project on the wind power park from the Polish company that develops wind and solar power plant parks. On 31 December 2018, the Company accounted for a partial payment of EUR 671 thousand for newly acquired shares and the transaction fee of EUR 144 thousand paid under the Polish civil law in the statement of financial position within prepayments for non-current assets (Note 14).

Cash flows from investments in subsidiaries

Reconciliation of the factors that had impact on cash flows from the Group's and the Company's investments into subsidiaries to data reported in the statement of cash flows:

	Group		Company	
	2018	2017	2018	2017
Acquisition of subsidiaries, including loans repayments	(22,741)	-	(22,741)	-
Increase in share capital of subsidiaries	-	-	(22,627)	(23,375)
Contributions to share capital of subsidiaries recognised as prepayments	-	-	-	(3,899)
Prepayments for shares	(816)	-	(816)	-
Decrease in share capital of subsidiaries	-	-	-	12,606
Acquisition of shares from non-controlling interest	-	-	-	(4,284)
Proceeds on disposal of shares of VšĮ Energetikų Mokymų Centras	48	62	-	62
Coverage of losses	-	-	(70)	(170)
Carrying amount	**(23,509)**	**62**	**(46,254)**	**(19,060)**

The Group's and the Company's cash flows related to buyout of shares from non-controlling interest:

	Group		Company	
	2018	2017	2018	2017
Acquisition of shares of EURAKRAS UAB	-	(4,283)	-	-
Acquisition of shares of Technologijų ir Inovacijų Centras UAB	-	(1)	-	-
	-	**(4,284)**	**-**	**-**

All amounts in EUR thousands unless otherwise stated

The Group's structure as at 31 December 2018:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Lietuvos Energija, UAB	Lithuania	Parent company	-	-	Parent company
Subsidiaries of the Group:					
Energijos Skirstymo Operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to consumers; distribution of natural gas
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.8164	3.1836	Electricity generation, supply, import, export and trade
NT Valdos, UAB	Lithuania	Subsidiary	100.0000	-	Operation of real estate, other related activities and provision of services
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.6360	20.3640	Provision of IT and telecommunication support services
Energetikos Paslaugų ir Rangos Organizacija UAB	Lithuania	Subsidiary	100.0000	-	Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
LITGAS UAB	Lithuania	Subsidiary	100.0000	-	Supply of liquefied natural gas via the terminal and trade in natural gas (100% of votes)
Elektroninių Mokėjimų Agentūra UAB	Lithuania	Subsidiary	100.0000	-	Provision of payment collection services
Energijos Tiekimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and natural gas
Geton Energy OÜ	Estonia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Geton Energy sp.z.o.o.	Poland	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.9072	2.0928	Provision of IT, telecommunication and other services
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	98.4061	1.5939	Organisation and execution of public procurement, accounting, legal, personnel administration services
Lietuvos Energijos Tiekimas UAB (former Lietuvos Dujų Tiekimas)	Lithuania	Subsidiary	100.0000	-	Supply of gas
Lietuvos Energija Support Fund	Lithuania	Subsidiary	100.0000	-	Provision of support for projects, initiatives and activities of public interest
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000	-	Modernisation of the district heating sector in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernisation of the district heating sector in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000	-	Electricity generation from renewable energy sources
Eurakras UAB	Lithuania	Subsidiary	100.0000	-	Electricity generation from renewable energy sources
Transporto Valdymas UAB	Lithuania	Subsidiary	100.0000	-	Transport management activity
Vėjo Vatas UAB	Lithuania	Subsidiary	100.0000	-	Electricity generation from renewable energy sources
Vėjo Gūsis UAB	Lithuania	Subsidiary	100.0000	-	Electricity generation from renewable energy sources
Gamybos Optimizavimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and natural gas
VVP Investment UAB	Lithuania	Subsidiary	100.0000	-	Electricity generation from renewable energy sources

All amounts in EUR thousands unless otherwise stated

The Group's structure as at 31 December 2017:

Company name	Country of business	Company type	Group's effective ownership interest, %	Non-controlling interest's effective ownership interest, %	Profile of activities
Lietuvos Energija, UAB	Lithuania	Parent company	-	-	Parent company
Subsidiaries of the Group:					
Energijos Skirstymo Operatorius AB	Lithuania	Subsidiary	94.9827	5.0173	Supply and distribution of electricity to consumers; distribution of natural gas
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.7516	3.2484	Electricity generation, supply, import, export and trade
NT Valdos, UAB	Lithuania	Subsidiary	100.0000	-	Operation of real estate, other related activities and provision of services
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.6360	20.3640	Provision of IT and telecommunication support services
Energetikos Paslaugų ir Rangos Organizacija UAB	Lithuania	Subsidiary	100.0000	-	Construction, repair, technical maintenance of electricity networks and related equipment, connection of users to the electricity networks, repair of energy equipment
LITGAS UAB	Lithuania	Subsidiary	100.0000	-	Supply of liquefied natural gas via the terminal and trade in natural gas (100% of votes)
Elektroninių Mokėjimų Agentūra UAB	Lithuania	Subsidiary	100.0000	-	Provision of payment collection services
Energijos Tiekimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of electricity and natural gas
Geton Energy OÜ	Estonia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Geton Energy sp.z.o.o.	Poland	Indirectly controlled subsidiary	100.0000	-	Supply of electricity
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.8942	2.1058	Provision of IT, telecommunication and other services
VAE SPB UAB	Lithuania	Subsidiary	100.0000	-	Business consulting and other management activities
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	98.3964	1.6036	Organisation and execution of public procurement, accounting, legal, personnel administration services
Lietuvos Dujų Tiekimas UAB	Lithuania	Subsidiary	100.0000	-	Supply of gas
Lietuvos Energija Support Fund	Lithuania	Subsidiary	100.0000	-	Provision of support for projects, initiatives and activities of public interest
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.0000	-	Modernisation of the district heating sector in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.0000	49.0000	Modernisation of the district heating sector in Kaunas city
Tuuleenergia OÜ	Lithuania	Subsidiary	100.0000	-	Electricity generation from renewable energy sources
Eurakras UAB	Lithuania	Subsidiary	100.0000	-	Electricity generation from renewable energy sources
Energijos Sprendimų Centras UAB	Lithuania	Subsidiary	100.0000	-	Provision of energy saving services

Indirectly controlled subsidiaries

On 6 June 2017, the Company's subsidiary Energijos Tiekimas UAB established subsidiary Geton Energy Sp.z.o.o, the share capital of which amounted to PLN 1,000 thousand. On 18 September 2017, Energijos Tiekimas UAB increased share capital of subsidiary Geton Energy Sp.z.o.o. As at 31 December 2017 and 31 December 2018, share capital of Geton Energy Sp.z.o.o amounted to PLN 10,000 thousand. The Company owns 100% voting rights at the shareholders' meeting of Energijos Tiekimas UAB, therefore the Group's effective ownership interest in Geton Energy Sp.z.o.o. is equal to 100% as at 31 December 2017 and 31 December 2018.
On 31 December 2017, the Company's subsidiary Energijos Tiekimas UAB controlled subsidiary Geton Energy SIA, the share capital of which amounted to EUR 500 thousand. As at 31 December 2018, share capital of Geton Energy SIA amounted to EUR 5,500 thousand. The Company owns 100% voting rights at the shareholders' meeting of Energijos Tiekimas UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2017 and 31 December 2018.
As at 31 December 2017 and 31 December 2018, the Company's subsidiary Energijos Tiekimas UAB controlled subsidiary Geton Energy OÜ, the share capital of which amounted to EUR 35 thousand. The Company owns 100% voting rights at the shareholders' meeting of Energijos Tiekimas UAB, therefore the Group's effective ownership interest is equal to 100% as at 31 December 2017 and 31 December 2018.

All amounts in EUR thousands unless otherwise stated

As at 31 December 2018, the Company had ownership interest in the following Group companies:

At 31 December 2018	Acquisition cost	Impairment	Contributions against losses	Carrying amount	Company's ownership interest, %	Group's effective ownership interest, %
Subsidiaries:						
Energijos Skirstymo Operatorius AB	710,921	-	-	710,921	94.98	94.98
Lietuvos Energijos Gamyba AB	307,997	-	-	307,997	96.82	96.82
NT Valdos, UAB	45,209	(9,036)	-	36,173	100.00	100.00
Energijos Tiekimas UAB	26,126	-	-	26,126	100.00	100.00
Vilniaus Kogeneracinė Jėgainė UAB	36,600	-	-	36,600	100.00	100.00
EURAKRAS UAB	18,735	-	-	18,735	100.00	100.00
Kauno Kogeneracinė Jėgainė UAB	20,400	-	-	20,400	51.00	51.00
LITGAS UAB	12,641	(4,010)	-	8,631	100.00	100.00
Lietuvos Energijos Tiekimas UAB (former Lietuvos Dujų Tiekimas)	8,369	-	-	8,369	100.00	100.00
Tuuleenergia OÜ	6,659	-	-	6,659	100.00	100.00
Technologijų ir Inovacijų Centras UAB	3,219	-	-	3,219	50.00	97.91
Elektroninių Mokėjimų Agentūra UAB	1,428	-	-	1,428	100.00	100.00
Energetikos Paslaugų ir Rangos Organizacija UAB	10,637	(22,710)	12,073	-	100.00	100.00
Verslo Aptarnavimo Centras UAB	298	-	-	298	51.00	98.41
Lietuvos Energija Support Fund	3	-	-	3	100.00	100.00
Vėjo Vatas UAB	6,132	-	-	6,132	100.00	100.00
Vėjo Gūsis UAB	12,919	-	-	12,919	100.00	100.00
VVP Investment UAB	1,962	-	-	1,962	100.00	100.00
Gamybos Optimizavimas UAB	350	-	-	350	100.00	100.00
rounding error		(1)		(1)		
	1,230,605	**(35,757)**	**12,073**	**1,206,921**		

All amounts in EUR thousands unless otherwise stated

As at 31 December 2017, the Company had ownership interest in the following Group companies:

At 31 December 2017	Acquisition cost	Impairment	Contributions against losses	Carrying amount	Company's ownership interest, %	Group's effective ownership interest, %
Subsidiaries:						
Energijos Skirstymo Operatorius AB	710,921	-	-	710,921	94.98	94.98
Lietuvos Energijos Gamyba AB	299,936	-	-	299,936	96.75	96.75
NT Valdos, UAB	41,117	(9,036)	-	32,081	100	100
Energijos Tiekimas UAB	23,906	-	-	23,906	100	100
Vilniaus Kogeneracinė Jėgainė UAB	21,003	-	-	21,003	100	100
EURAKRAS UAB	18,735	-	-	18,735	100	100
Kauno Kogeneracinė Jėgainė UAB	12,240	-	-	12,240	51	51
LITGAS UAB	12,640	(4,010)	-	8,630	100	100
Lietuvos Dujų Tiekimas UAB	8,369	-	-	8,369	100	100
Tuuleenergia OÜ	6,659	-	-	6,659	100	100
Technologijų ir Inovacijų Centras UAB	3,219	-	-	3,219	50	97.89
Elektroninių Mokėjimų Agentūra UAB	1,058	-	-	1,058	100	100
Energijos Sprendimų Centras UAB	1,670	-	-	1,670	100	100
Verslo Aptarnavimo Centras UAB	296	-	-	296	51	98.4
Energetikos Paslaugų ir Rangos Organizacija UAB	9,137	(13,246)	4,300	191	100	100
Lietuvos Energija Support Fund	3	-	-	3	100	100
VAE SPB UAB	1,117	(1,632)	515	-	100	100
	1,172,026	**(27,924)**	**4,815**	**1,148,917**		

The Group's investments in associates and joint ventures as at 31 December 2018 and 31 December 2017 were as follows:

Group	At 31 December 2018		At 31 December 2017	
	Carrying amount	Group's ownership interest, %	Carrying amount	Group's ownership interest, %
Geoterma UAB	2,142	23.44	2,142	23.44
Total	**2,142**		**2,142**	
Group's share of losses of associates	(2,142)		(2,142)	
Carrying amount	**-**		**-**	

As at 31 December 2018 and 31 December 2017, the Group did not account for its share of losses of associate Geoterma UAB for 2017, because the total amount of losses accumulated as at 31 December 2016 exceeded the Group's cost of investment and the Group did not have a commitment to cover these losses. The share of losses not recognised amounted to EUR 438 thousand as at 31 December 2016.

No data is available about associate's Geoterma UAB financial position as at 31 December 2018 and 2017 and financial performance results for the years ended 31 December 2018 and 2017. The table below presents the financial position and financial performance results of associates as at and for the year ended 31 December 2016 (unaudited):

	Assets	Liabilities	Sales revenue	Net profit/(loss) for the year
Geoterma UAB	6,042	7,390	1,228	(456)

On 15 February 2019, the State Property Fund applied to Klaipėda Regional Court for the initiation of bankruptcy proceedings against heat production company based in Klaipėda Geoterma UAB.

All amounts in EUR thousands unless otherwise stated

Summarised statement of financial position of the Group companies with non-controlling interest as at 31 December 2018 and 31 December 2017:

Company name	Current assets and liabilities			Non-current assets and liabilities			
Year	Assets	Liabilities	Total net current assets	Assets	Liabilities	Total net non-current assets	Net assets
Energijos Skirstymo Operatorius AB							
At 31 December 2018	124,690	(308,012)	(183,322)	1,445,398	(614,761)	830,637	647,315
At 31 December 2017	80,370	(282,516)	(202,146)	1,161,462	(326,563)	834,899	632,753
Lietuvos Energijos Gamyba AB							
At 31 December 2018	120,727	(30,583)	90,144	535,987	(239,495)	296,492	386,636
At 31 December 2017	117,662	(46,148)	71,514	518,626	(236,266)	282,360	353,874
Technologijų ir Inovacijų Centras UAB							
At 31 December 2018	5,294	(5,977)	(683)	7,951	(157)	7,794	7,111
At 31 December 2017	3,893	(5,361)	(1,468)	8,413	(153)	8,260	6,792
Duomenų Logistikos Centras UAB							
At 31 December 2018	1,736	(487)	1,249	4,271	(297)	3,974	5,223
At 31 December 2017	894	(354)	540	4,683	(317)	4,366	4,906
Verslo Aptarnavimo Centras UAB							
At 31 December 2018	3,598	(2,764)	834	134	-	134	968
At 31 December 2017	3,653	(2,706)	947	92	-	92	1,039
Kauno Kogeneracinė Jėgainė UAB							
At 31 December 2018	10,148	(3,030)	7,118	42,092	(10,100)	31,992	39,110
At 31 December 2017	9,977	(470)	9,507	14,057	(3)	14,054	23,561

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

All amounts in EUR thousands unless otherwise stated

Summarised statement of profit or loss and other comprehensive income of the Group companies with non-controlling interests for 2018 and 2017:

Company name / Year	Revenue	Profit/(loss) before tax	Income tax (expense)/benefit	Net profit (loss) from continuing operations	Other comprehensive income (loss)	Total comprehensive income (loss) for the year	Profit (loss) attributable to non-controlling interest	Dividends paid to non-controlling interest
Energijos Skirstymo Operatorius AB								
2018	623,385	(3,387)	11,457	8,070	114,583	122,653	405	1,766
2017	609,673	82,763	(6,956)	75,807	(187)	75,620	3,804	4,663
Lietuvos Energijos Gamyba, AB								
2018	130,651	35,207	(5,563)	29,644	18,879	48,523	944	763
2017	149,814	15,694	4,827	20,521	1,285	21,806	667	764
Technologijų ir Inovacijų Centras UAB								
2018	16,170	576	(108)	468	-	468	10	2
2017	14,321	339	(155)	184	-	184	4	6
Duomenų Logistikos Centras UAB								
2018	3,818	740	(118)	622	-	622	127	62
2017	3,836	491	(55)	436	-	436	89	15
Verslo Aptarnavimo Centras UAB								
2018	11,324	255	(61)	194	-	194	3	3
2017	11,209	544	(98)	446	-	446	7	2
Kauno Kogeneracinė Jėgainė UAB								
2018	-	(451)	-	(451)	-	(451)	(221)	-
2017	-	(280)	(22)	(302)	-	(302)	(148)	-

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

All amounts in EUR thousands unless otherwise stated

Summarised statement of cash flows of the Group companies with non-controlling interest for the years 2018 and 2017:

Company name / Year	Cash flows from operating activities	Income tax (paid) recovered	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase (decrease) in cash flows	Cash and cash equivalents at beginning of the year	Cash and cash equivalents at end of year
Energijos Skirstymo Operatorius AB								
2018	72,383	(1,128)	71,255	(292,714)	227,931	6,472	(4,206)	2,266
2017	136,439	(7)	136,432	(199,304)	48,004	(14,868)	10,662	(4,206)
Lietuvos Energijos Gamyba AB								
2018	64,257	(3,117)	61,140	(32,402)	(41,553)	(12,815)	60,700	47,885
2017	59,993	-	59,993	3,659	(101,997)	(38,345)	99,045	60,700
Technologijų ir Inovacijų Centras UAB								
2018	3,525	(15)	3,510	(2,412)	(48)	1,050	106	1,156
2017	1,894	140	2,034	(4,338)	2,113	(191)	297	106
Duomenų Logistikos Centras UAB								
2018	1,598	(40)	1,559	(479)	(305)	775	356	1,130
2017	1,233	(23)	1,210	(318)	(887)	5	351	356
Verslo Aptarnavimo Centras UAB								
2018	1,641	(167)	1,474	(4)	(260)	1,210	627	1,837
2017	371	(137)	234	-	(134)	100	527	627
Kauno Kogeneracinė Jėgainė UAB								
2018	(4,921)	-	(4,921)	(20,969)	25,906	16	9,761	9,777
2017	(4,325)	-	(4,325)	(5,285)	13,241	3,631	6,130	9,761

The table above has been prepared on the basis of the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

All amounts in EUR thousands unless otherwise stated

9 Amounts receivable after one year

Amounts receivable after one year comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Amounts receivable after one year				
Amount receivable on disposal of Litgrid AB (Notes 2, 3, 4)	158,658	169,856	158,658	169,856
Finance lease	1,459	-	-	-
Deposited guarantees	-	9	-	-
Amounts receivable on emission allowances lent	52	103	-	-
Loans granted	293	470	520,893	325,744
Other non-current amounts receivable	144	728	42	39
Total	**160,606**	**171,166**	**679,593**	**495,639**
Less: impairment	-	(678)	-	(2,701)
Carrying amount	**160,606**	**170,488**	**679,593**	**492,938**

Information on the fair value of amount receivable from EPSO-G on disposal of Litgrid AB is presented in Note 3.1. The key contractual terms in relation to repayment terms of the amount receivable and the interest rate applied were reviewed in 2016. Interest rate is based on 1 year EURIBOR.

According to the valid agreement between the Company and EPSO-G, during the period until 2022 EPSO-G will have to cover the debt for the shares of Litgrid AB acquired in 2012. The amount receivable for shares is stated at fair value through profit or loss, because the final amount payable by EPSO-G for shares depends on the recalculation of the final price premium. The amount of the price premium depends on return for 2014–2018 of regulated assets of the electricity transmission activity conducted by LITGRID. As at 31 December 2018, the fair value of the amount receivable that comprises the amount receivable for shares and final price premium, is equal to EUR 158,658 thousand. As at 31 December 2018, the amount of the price premium was negative and was equal to EUR 15,877 thousand (31 December 2017: EUR 4,679 thousand) (see Note 4).
The amount receivable for shares is classified as financial assets at fair value through profit or loss.

Expected credit losses of loans granted

As at 31 December 2018, the Company assessed whether credit risk of recipients of non-current and current loans has increased significantly and did not establish any indications and has no information indicating that credit risk of loan recipients on a collective and individual basis has increased significantly. Assumptions used in calculating 12-month expected credit losses related to loans receivable were as follows:

– The credit rating of all borrowers is equivalent to the Company’s credit rating (BBB+);
– Loss event probability of 0.13% is consistent with the S&P’s One-Year Global Corporate Default Rates presented in the publication announced by S&P the 2017 Annual Global Corporate Default Study;
– The coefficient of losses incurred in case of a loss event is equal to 90% in the energy sector according to the data of Moody's studies;
– Changes in the country’s macroeconomic conditions and/or business environment will have no significant impact on the increase in credit risk of borrowers over the next twelve months.

As at 31 December 2018, the Company calculated 12-month expected credit losses of EUR 92 thousand related to non-current and current loans receivable. The calculated expected credit losses were assessed as insignificant, therefore they were not accounted for in the Company's statement of financial position as at 31 December 2018.

Movements on the impairment account during the years ended 31 December 2018 and 31 December 2017:

	Group		Company	
	2018	2017	2018	2017
At 1 January	**678**	**922**	**2,701**	**-**
Impairment	-	4,261	-	7,001
Coverage of subsidiaries’ losses by loans granted	-	-	(2,701)	(4,300)
Reversal of impairment	(678)	(4,505)	-	-
At 31 December	**-**	**678**	**-**	**2,701**

In 2017, the Company recorded impairment of loans granted to subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB amounting to EUR 7,001 thousand. After a decision was made to cover the subsidiary’s operational losses by offsetting against receivable loans, the impairment of loans amounting to EUR 4,300 thousand was reclassified to ‘Investments in subsidiaries’ in the statement of financial position.

In 2018, the impairment of loans of Energetikos Paslaugų ir Rangos Organizacija UAB amounting to EUR 2,701 thousand was reclassified to ‘Investments in subsidiaries’ in the statement of financial position after the decision was made to cover the subsidiary’s operational losses by offsetting against loans receivable.

Loans granted

The Company’s loans granted as at 31 December 2018 comprised loans granted to the subsidiaries:

	Company			
	Interest rate type	Within one year (Note 17)	After one year	Total
Energijos Skirstymo Operatorius AB, green bonds	Fixed interest		366,288	366,288
Energijos Skirstymo Operatorius AB, loans taken over	Variable interest	57,402	82,246	139,649
Tuuleenergia OÜ	Fixed interest	300	20,446	20,746
Eurakras UAB	Fixed interest	-	24,355	24,355
Energijos Tiekimas UAB	Variable interest	32,998	3,500	36,498
Transporto Valdymas UAB	Variable interest	-	21,336	21,336
Vėjo Gūsis UAB	Fixed interest	-	167	167
Vėjo Vatas UAB	Fixed interest	-	2,555	2,555
Energetikos Paslaugų ir Rangos Organizacija UAB	Variable interest	1,221	-	1,221
Energijos Skirstymo Operatorius AB	Variable interest	76,320		76,320
Lietuvos Energijos Tiekimas UAB	Variable interest	14,098	-	14,098
Technologijų ir Inovacijų Centras UAB	Variable interest	1,668	-	1,668
Carrying amount		**184,006**	**520,893**	**704,899**

All amounts in EUR thousands unless otherwise stated

On 28 February 2018, the Company and Energijos Skirstymo Operatorius AB signed an additional arrangement to the Proportional Transfer Agreement for Green Bonds of 13 October 2017, under which Energijos Skirstymo Operatorius AB assumed additional green bonds based commitments amounting to EUR 66,288 thousand.

On 3 July 2018, the Company placed EUR 300 million worth 10 years' duration green bond issue ('the Issue'). Annual interest of 1.875% will be payable for bonds and they have been issued with the yield of 2.066%. Net cash inflows comprise 98.290% of the nominal value of the bond issue or EUR 294,345,619.

On 29 August 2018, the Company and its subsidiary Energijos Skirstymo Operatorius AB signed the Proportional Transfer Agreement for Green Bonds, under which the Company assumed a commitment to grant to the subsidiary a loan of up to EUR 250,000 thousand. The loan is granted for the financing of investments in the renewal of the electricity network according to the Green Bonds Description. Liabilities assumed under the agreement are to be fulfilled by 10 July 2028. The fixed interest rate under the agreement coincides with the effective interest rate on the green bonds issue and is set as 2.11%. The essential terms and conditions of the agreement coincides with the terms and conditions of the green bonds issue. The agreement does not provide for any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

The Company's loans granted as at 31 December 2017 comprised loans granted to the subsidiaries:

	Company			
	Interest rate type	Within one year (Note 17)	After one year	Total
Energijos Skirstymo Operatorius AB, green bonds	Fixed interest	-	100,000	100,000
Energijos Skirstymo Operatorius AB, loans taken over	Variable interest	95,012	139,688	234,700
Tuuleenergia OÜ	Fixed interest	3,300	20,746	24,046
Eurakras UAB	Fixed interest	-	24,355	24,355
Energetikos Paslaugų ir Rangos Organizacija UAB	Variable interest	-	2,700	2,700
NT Valdos, UAB	Variable interest	-	38,255	38,255
Carrying amount		**98,312**	**325,744**	**424,056**

Non-current loans by maturity:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Between 1 and 2 years	37	54	35,177	60,362
Between 2 and 5 years	110	162	42,703	87,543
After 5 years	147	254	443,012	177,839
Carrying amount	**293**	**470**	**520,893**	**325,744**

The weighted average interest rates (%) on non-current loans granted with fixed and variable interest rates:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Fixed interest rate	1.952	0.550	2.227	2.474
Variable interest rate	-	-	0.934	0.871

10 Finance lease receivables

The Group's finance lease receivables were reported in the following line items in the statement of financial position as at 31 December 2018:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Amounts receivable after one year	1,459	-	-	-
Other amounts receivable	377	-	-	-
Non-current assets held for sale	12,097	11,279		
Carrying amount	**13,933**	**11,279**	**-**	**-**

Finance lease receivables of subsidiary Transporto Valdymas UAB for the lease of motor vehicles are reported within non-current assets held for sale. Amounts receivable under the energy saving services agreements are included in the line items 'Amounts receivable after one year' and 'Other amounts receivable'.

The Group's finance lease receivables comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Minimum payments				
Within one year	3,697	3,917	-	-
From two to five years	9,620	6,836	-	-
After five years	3,049	3,303	-	-
Total	**16,365**	**14,056**	**-**	**-**
Unearned finance income			-	-
Within one year	(668)	(700)	-	-
From two to five years	(1,449)	(1,554)	-	-
After five years	(315)	(523)	-	-
Total	**(2,433)**	**(2,777)**	**-**	**-**
Carrying amount	**13,933**	**11,279**	**-**	**-**

The Group's finance lease receivables reported within amounts receivable after one year, non-current assets held for sale and other amounts receivable amounted to EUR 13,933 thousand as at 31 December 2018 (31 December 2017: EUR 11,279 thousand).

During 2015-2018, the Group signed repurchase agreements for motor vehicles. These agreements stipulated concrete repurchase amounts for motor vehicles used in long-term lease. The repurchase amount of motor vehicles stipulated in all repurchase agreements totalled EUR 5,402 thousand as at 31 December 2018 (31 December 2017: EUR 4,905 thousand). The repurchase term principally ranges from 1 to 5 years.

All amounts in EUR thousands unless otherwise stated

In view of (1) income received from long-term lease, (2) net book values of leased assets at the end of the lease term and (3) amounts for which these motor vehicles will be (or will not be) sold, in 2018 the reclassification of EUR 1,910 thousand (2017: EUR 4,579 thousand) from property, plant and equipment to non-current finance lease was made.

The Group does not earn contingent finance income related to finance lease arrangements.

Impairment of finance lease receivables (lifetime expected credit losses)
As at 31 December 2018, the Group assessed whether credit risk of finance lease clients has increased significantly and did not establish a significant increase in credit risk.

11 Other financial assets

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

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Convertible bonds of Contrain Ventures UAB	500	300	500	300
Innovation Fund Smart Energy Fund powered by Lietuvos Energija KŪB	1,508	126	1,508	126
Carrying amount	**2,008**	**426**	**2,008**	**426**

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

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Term deposits	656	-	-	-
Carrying amount	**656**	**-**	**-**	**-**

12 Other non-current assets

Other non-current assets comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Accrued sales revenue from energy saving schemes	1,007	-	-	-
Right to receive emission allowances in future	5,087	5,090	-	-
Less: impairment	-	(1,851)	-	-
Carrying amount	**6,094**	**3,239**	**-**	**-**

The Group's other non-current assets mainly consist of emission allowances held by subsidiary Lietuvos Energijos Gamyba AB. Change in value of emission allowances was estimated with reference to the market prices of emission allowances as at 31 December 2018 and 2017.

13 Inventories

The Group's and the Company's inventories comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Natural gas	37,350	46,084	-	-
Consumables, raw materials and spare parts	5,529	8,493	-	-
Heavy fuel oil	2,350	4,585	-	-
Other	455	957	-	-
Total	**45,684**	**60,119**	**-**	**-**
Less: impairment	(2,547)	(3,253)	-	-
Carrying amount	**43,137**	**56,866**	**-**	**-**

The Group's inventories expensed during the year ended 31 December 2018 were as follows:

	Group		Company	
	2018	2017	2018	2017
Natural gas	305,520	249,739	-	-
Heavy fuel oil	1,645	1,546	-	-
Other inventories	10,535	13,086	-	-
Total	**317,700**	**264,371**	**-**	**-**

Movements on the account of inventory write-down to net realisable value during 2018 and 2017 were as follows:

	Group		Company	
	2018	2017	2018	2017
Carrying amount at 1 January	**3,253**	**3,155**	**-**	**-**
Additional impairment	685	224	-	-
Reversal of impairment	(1,391)	(126)	-	-
Carrying amount at 31 December	**2,547**	**3,253**	**-**	**-**

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2018 amounted to EUR 2,645 thousand (31 December 2017: EUR 4,406 thousand).

Movements on the account of inventory write-down to net realisable value were recognised in the statement of comprehensive income within 'Other expenses'.

14 Prepayments and deferred expenses

The Group's and the Company's non-current prepayments as at 31 December 2018 and 2017 were as follows:

All amounts in EUR thousands unless otherwise stated

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Prepayments for property, plant, equipment	23,621	21,911	-	-
Prepayments for investments (Note 8)	-	-	816	3,899
Carrying amount	**23,621**	**21,911**	**816**	**3,899**

The Group's and the Company's current prepayments as at 31 December 2018 and 2017 were as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Prepayments for natural gas	5,806	27,881	-	-
Deposits related to power exchange	14,783	5,930	-	-
Deferred expenses	1,030	1,072	-	33
Prepayments for other goods and services	2,154	2,578	62	9
Prepayments for electricity due to overdeclaration by customers	4,439	-	-	-
Other prepayments	922	658	-	-
Assets under contracts with customers	1,521	-	-	-
Carrying amount	**30,655**	**38,119**	**62**	**42**

As at 31 December 2018, the Group's prepayments for natural gas consisted of prepayments for natural gas of subsidiary Lietuvos Energijos Tiekimas (former Lietuvos Dujų Tiekimas UAB) to suppliers in the amount of EUR 5,806 thousand.

As at 31 December 2017, the Group's prepayments for natural gas consisted of prepayments for natural gas of subsidiary Lietuvos Dujų Tiekimas UAB to Gazprom PAO in the amount of EUR 27,881 thousand.

15 Trade receivables

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Amounts receivable under contracts with customers				
Receivables for electricity	76,265	71,221	-	-
Receivables for gas from non-household customers	49,180	36,008	-	-
Receivables for gas from household customers	4,287	2,616	-	-
Receivables for contractual works	1,206	2,325	-	-
Receivables for sale of heat	657	1,071	-	-
Receivables for lease of assets	464	1,742	-	-
Receivables for exported electricity and electricity produced abroad	430	1,771	-	-
Receivables for IT and telecommunications services	768	819	-	-
Other trade receivables	19,450	5,146	-	-
Total	**152,707**	**122,719**	-	-
Less: impairment of trade receivables	(9,587)	(10,156)	-	-
Carrying amount	**143,120**	**112,563**	-	-

As at 31 December 2018 and 2017, the Group had not pledged the claim rights to trade receivables.

Impairment of amounts receivable (lifetime expected credit losses)

The Company/Group assesses material amounts receivable individually, and all immaterial amounts collectively.

The Company's/Group's management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on a particular borrower and a significant increase in the credit risk of that particular borrower.

For the purpose of determining the lifetime expected credit losses of amounts receivable in case of a collective assessment, the Company/Group uses the loss coefficient matrix. A different loss coefficient matrix is established in different subsidiaries of the Group and in each separate group of consumers. The table below presents information on the Company's/Group's trade receivables under contracts with customers as at 31 December 2018 that are assessed on a collective basis using the loss coefficient matrix.

	Loss coefficient*	Trade receivables	Values decrease
Not past due	1%	115,118	692
Up to 30 days	2%	6,147	145
30–60 days	8%	1,958	158
60–90 days	10%	643	64
90–120 days	17%	802	134
More than 120 days	56%	12,862	7,166
At 31 December 2018		**137,530**	**8,359**

**The average loss coefficient is presented calculated after the assessment of actual different coefficients used according to the consumer groups and different subsidiaries of the Group.*

The table below presents information on the Company's/Group's trade receivables under contracts with customers as at 31 December 2018 that are assessed on an individual basis.

	Trade receivables	Values decrease
Not past due	13,573	151
Up to 30 days	486	-
30–60 days	18	1
60–90 days	4	-
90–120 days	20	-
More than 120 days	1,076	1,076
At 31 December 2018	**15,177**	**1 228**

Movements on the account of impairment of trade receivables during 2018 and 2017 were as follows:

	Group		Company	
	2018	2017	2018	2017
Balance at 1 January	**10,156**	**11,075**	-	-
Effect of first-time adoption of IFRS 9	526	-	-	-
Restated balance at 1 January	**10,682**	**11,075**		
Impairment charge for the year	2,316	(1,145)	-	-
Write-down of doubtful receivables	(544)	(97)	-	-
Impairment/(reversal of impairment)	(2,867)	323	-	-
Balance at 31 December	**9,587**	**10,156**	-	-

All amounts in EUR thousands unless otherwise stated

Impairment of receivables was recognised in the statement of comprehensive income.

The table below presents the ageing analysis of trade receivables as at 31 December 2017 that were not identified as doubtful:

	Group	Company
	2017	2017
Not past due	99,964	-
Up to 30 days	7,049	-
30–60 days	2,177	-
60–90 days	542	-
90–120 days	745	-
More than 120 days	2,086	-
Carrying amount	**112,563**	**-**

The fair values of trade receivables as at 31 December 2018 and 2017 approximated their carrying amounts.

16 Other amounts receivable

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Value added tax	13,245	5,793	2	1,775
Unbilled accrued revenue from electricity sales (including related VAT)	5,296	8,199	-	-
Accrued amounts receivable for electricity produced	-	8,487	-	-
Accrued amounts receivable for natural gas	-	1,770	-	-
Accrued revenue from contractual works	-	1,815	-	-
Current portion of finance lease relating to energy saving services (Note 10)	377	-	-	-
Accrued interest and revenue from suretyship charges	-	277	-	302
Amount receivable on revision of Kauno Energetikos Remontas UAB shares price	-	-	-	1,056
Amount receivable on disposal of VšĮ Energetikų Mokymų Centras	-	55	36	55
Amounts receivable on disposal of property, plant and equipment	4,424	15	-	-
Management fee receivable	-	-	573	-
Other amounts receivable	2,193	1,804	20	2,134
Total	**25,535**	**28,215**	**631**	**5,322**
Less: impairment of other receivables	(99)	(415)	-	-
Carrying amount	**25,436**	**27,800**	**631**	**5,322**

The fair values of other receivables as at 31 December 2018 and 2017 approximated their carrying amounts.

17 Current loans

The Group's and the Company's current loans as at 31 December 2018 and 2017 comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Current portion of non-current loans	-	-	57,702	98,312
Current loans	-	-	126,304	71,083
Interest receivable	-	-	5,318	-
Carrying amount	**-**	**-**	**189,324**	**169,395**

As at 31 December 2018, the Company calculated 12-month expected credit losses related to non-current and current loans receivable. The calculated expected credit losses were assessed as insignificant, therefore they were not accounted for in the Company's statement of financial position as at 31 December 2018 (Note 9).

All current loans of the Company accounted for as at 31 December 2018 have been issued to the subsidiaries with a variable interest rate, which is set by adding an interest margin to the basic interest rates linked with EURIBIOR. The weighted average interest rates (%) on current loans:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Variable interest rate	-	-	0.538	0.683

18 Cash and cash equivalents

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Cash at bank	127,835	171,756	231	52,517
	127,835	**171,756**	**231**	**52,517**

Cash, cash equivalents and a bank overdraft include the following for the purposes of the cash flow statement:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Cash and cash equivalents	127,835	171,756	231	52,517
Bank overdraft	(42,260)	(10,655)	(42,260)	-
Carrying amount	**85,575**	**161,101**	**(42,029)**	**52,517**

The fair values of cash and cash equivalents as at 31 December 2018 and 2017 approximated their carrying amounts.
Under the loan agreements signed with the banks, the Group has pledged current and future cash inflows (Note 22). As at 31 December 2018, the balance of cash pledged amounted to EUR 389 thousand (31 December 2017: EUR 12,610 thousand).

All amounts in EUR thousands unless otherwise stated

19 Non-current assets held for sale

Non-current assets held for sale comprised as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Property, plant and equipment and investment property	35,589	56,359	77	10,012
Disposal group	30,117	22,942	-	-
Investments in subsidiaries	-	-	7,064	4,705
	65,706	**79,301**	**7,141**	**14,717**

Movements of non-current assets held for sale during 2018 and 2017 were as follows:

	Group		Company	
	2018	2017	2018	2017
Net book amount at 1 January	**79,301**	**878**	**14,717**	**4,782**
Disposals	(45,520)	(1,797)	-	-
Write-offs	(91)	(3)	-	-
Purchase of non-current assets for sale purposes	30	-	-	9,935
In-kind contribution for increase of share capital of Lietuvos Energijos Gamyba, AB	-	-	(8,061)	-
Result of revaluation of non-current assets	-	(4,553)		-
Change of other assets attributed to disposal group	6,503	12,668	-	-
Depreciation of property, plant and equipment accounted for in disposal group	(1,841)	-	-	-
Increase (decrease) in property, plant and equipment and investment property	(2,774)	-	-	-
Reclassified (to) from:				
Intangible assets	*10*	*15*	*(1,874)*	-
Property, plant and equipment	*17,367*	*34,986*	-	-
incl. impairment	-	*(62)*	-	-
Investment property	*12,721*	*37,107*	-	-
Investments in subsidiaries	-	-	*2,359*	-
Net book amount at 31 December	**65,706**	**79,301**	**7,141**	**14,717**

Within the line item of the disposal group the Company recognised investment of subsidiary Transporto Valdymas UAB of EUR 2,359 thousand, which is intended to be disposed by the Company.

The Company's line item of the disposal group also includes investment of subsidiary Duomenų Logistikos Centras UAB of EUR 4,705 thousand, which is intended to be disposed by the Company.

The Group's line item of the disposal group also includes assets of subsidiaries Transporto Valdymas UAB and Duomenų Logistikos Centras UAB amounting to EUR 65,706 thousand, which is intended to be disposed by the Group.

Depreciation charge for the twelve month period ended 31 December 2018 included in the Group's line item of the disposal group amounted to EUR 1,841 thousand.

Liabilities of EUR 2,986 thousand being disposed along with these assets were reported under the line item 'Liabilities related to non-current assets held for sale'.

20 Equity

As at 31 December 2018 and 2017, the Company's share capital amounted to EUR 1,212,156.294. As at 31 December 2018 and 2017, the Company's share capital was divided into 4,179,849,289 ordinary registered shares with the nominal value of EUR 0.29 each.

As at 31 December 2018 and 31 December 2017, all shares were fully paid.

21 Reserves

Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Companies in Lithuania are required to transfer 5% of net profit from distributable profit until the total reserve reaches 10% of the share capital. The legal reserve cannot be used for the payment of dividends and it is formed to cover future losses only.

As at 31 December 2018, the Group's legal reserve amounted to EUR 49,851 thousand (31 December 2017: EUR 46,512 thousand).

In 2018, the Company transferred EUR 5,295 thousand (2017: EUR 4,758 thousand) to the legal reserve. The Company's legal reserve as at 31 December 2018 was not fully formed.

Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment due to increase in value. The revaluation cannot be used to cover losses.

As at 31 December 2018, the Group's revaluation reserve amounted to EUR 162,935 thousand (31 December 2017: EUR 52,826 thousand).

This reserve was not formed by the Company as company's property, plant and equipment is carried at cost.

Other reserves

Other reserves are formed based on the decision of shareholders and requirements of IFRS and can be redistributed on the appropriation of the next year's profit. As at 31 December 2018, the Group accounted for the result of the translation of the Group's net investments (2018: EUR 16 thousand; 2017: EUR 42 thousand) in Geton Energy sp.z.o.o., a Poland-based company indirectly controlled by the Company, into the Group's presentation currency within the item of other reserves. No other reserves were formed by the Company as at 31 December 2018 and 2017.

All amounts in EUR thousands unless otherwise stated

22 Borrowings and finance lease liabilities

Borrowings

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Non-current				
Bonds issued	588,999	293,981	588,999	293,981
Bank borrowings	146,411	186,087	82,246	139,687
Current				
Current portion of non-current borrowings	61,820	119,599	57,401	95,013
Current borrowings	-	-	-	-
Bank overdraft	42,260	10,655	42,260	-
Accrued interest	5,466	3,427	5,461	2,794
Total borrowings	**844,956**	**613,749**	**776,367**	**531,475**

Non-current borrowings by maturity:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Between 1 and 2 years	61,987	66,124	32,156	57,362
Between 2 and 5 years	84,424	73,039	21,467	48,587
After 5 years	588,999	340,905	617,622	327,719
Total	**735,410**	**480,068**	**671,245**	**433,668**

All borrowings of the Group and the Company are denominated in the euros.
The loan agreements provide for financial and non-financial covenants that the individual Group entities are obliged to comply with. All Group companies complied with the covenants as at 31 December 2018 and 2017.

As at 31 December 2018, the Group's unwithdrawn balance of loans and bank overdrafts amounted to EUR 469,939 thousand (31 December 2017: EUR 382,645 thousand).
As at 31 December 2018, the Company's unwithdrawn balance of loans and bank overdrafts amounted to EUR 157,740 thousand (31 December 2017: EUR 180,000 thousand).

Under the agreement with later amendments for the loan of EUR 190 million designated for the funding of the construction of a co-generation power plant in Vilnius signed between Vilniaus Kogeneracinė Jėgainė UAB and the European Investment Bank (EIB) on 5 December 2016, Vilniaus Kogeneracinė Jėgainė UAB and the Group have to comply with the requirements related to equity and other financial indicators. Vilniaus Kogeneracinė Jėgainė UAB has assumed the following commitments:

a) The State of Lithuania, directly or indirectly, will retain control over Vilniaus Kogeneracinė Jėgainė UAB;
b) Vilniaus Kogeneracinė Jėgainė UAB financial commitments that are not secured with collateral (a pledge or guarantee) will not exceed EUR 30,000 thousand.

The Group has assumed the following commitments:

a) The Group's net debt-to-equity ratio will not exceed one;
b) The ratio of net debt to EBITDA adjusted for one-off items will not exceed 4, except the December in 2018, 2019 and 2020 when the ratio will not exceed 4.5; 5.4 and 4.5;
c) The Group's subsidiaries borrowings, secured by guarantees or other fulfilment measures, of all current and future obligation and Group's property, plant and equipment ratio will not exceed the rate of 0.16.

As at 31 December 2018 and 2017, the Group and the Company complied with the requirements defined in the loan agreement with the European Investment Bank.
On 14 July 2017, the Company issued bonds worth of EUR 300 million at the stock exchange. The Company pays 2.000% annual interest on bonds issued. Net cash inflows from the issue of bonds amount to EUR 293,834 thousand. Bonds will be redeemed on 14 July 2027. In the statement of financial position as at 31 December 2018, the Company accounted for the bond issue debt of EUR 293,981 thousand.

On 3 July 2018, the Company placed EUR 300 million worth 10 years' duration green bond issue ('the Issue'). Annual interest of 1.875% will be payable for bonds and they have been issued with the yield of 2.066%. Net cash inflows comprise 98.290% of the nominal value of the bond issue or EUR 294,345,619.
In the statements of financial position as at 31 December 2018 and 31 December 2017, the Company accounted for the bond issue debt of EUR 588,999 thousand and EUR 293,981 thousand, respectively.
In 2018, expenses related to interest on the issued bonds totalled EUR 9,471 thousand (2017: EUR 3,017 thousand). The accrued amount of coupon payable as at 31 December 2018 amounted to EUR 5,461 thousand (31 December 2017: EUR 2,794 thousand).

On 4 July 2018, the Company signed additional arrangement amending and supplementing the terms of the overdraft agreement signed with Swedbank, whereby the overdraft amount was increased from EUR 100,000 thousand to EUR 130,000 thousand. The Group's and the Company's withdrawn part of the overdraft amounted to EUR 42,260 thousand as at 31 December 2018.
As at 31 December 2018, the Company's non-current borrowings of EUR 82,247 thousand (31 December 2017: EUR 139,687 thousand) comprised debts to SEB Bankas AB and OP Bank under the loan refinancing agreement of Energijos Skirstymo Operatorius AB. The current portion of non-current borrowings relating to the loan refinancing of Energijos Skirstymo Operatorius AB amounted to EUR 57,401 thousand (31 December 2017: EUR 95,013 thousand).

In 2018, the Company's subsidiary Lietuvos Energijos Gamyba AB repaid a part of the non-current loan to SEB Bankas AB prior to maturity, which was granted on 21 February 2014. On 2 July 2017, the credit agreement for the amount of EUR 60,000 thousand was signed with SEB Bankas AB. Under this agreement the loan granted by SEB Bankas AB under the credit agreement dated 21 February 2014 was refinanced on 20 November 2018, the outstanding balance of which was EUR 27.9 million, and the pledge of a part of property, plant and equipment (the combined cycle unit, units 7 and 8 of the reserve power plant) was annulled.
The weighted average interest rates (%) on the Group's and the Company's borrowings payable with fixed and variable interest rates:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Non-current borrowings				
Fixed interest rate	2.128	2.234	2.147	2.234
Variable interest rate	1.027	0.934	0.877	0.798
Current borrowings				
Variable interest rate	0.410	0.550	0.410	-

The Group and the Company cannot identify final beneficiaries that acquired the placed issues of bonds, thus according to a separate interpretation of the State Tax Inspectorate current coupon payments are subject to the tax at a rate of 15% by the Group and the Company. During 2018, the Group and the Company paid income tax of individuals of EUR 900 on a EUR 6,000 thousand coupon paid to investors.

All amounts in EUR thousands unless otherwise stated

Finance lease liabilities

The Group's and the Company's minimum payments under finance leases are as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Minimum payments				
Within one year	5,421	162	-	-
From two to five years	5,011	214	-	-
After five years	9,477	-	-	-
Total	**19,909**	**376**	**-**	**-**
Future finance costs			-	-
Within one year	(201)	(17)	-	-
From two to five years	(129)	(27)	-	-
After five years	(25)	-	-	-
Total	**(355)**	**(44)**	**-**	**-**
Carrying amount	**19,554**	**332**	**-**	**-**

The Group's finance lease liabilities related to the development of the wind power parks amounted to EUR 19,367 thousand as at 31 December 2018. The Group pays variable interest rates according to finance lease contracts for the equipment of the wind power parks, the average of which is 1.05% as at 31 December 2018. As at 31 December 2018, the validity terms of the effective finance lease contracts for the equipment of the wind power parks expire in the period from 2021 to 2022.

Net debt reconciliation

This note sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt balances as at 31 December 2018 and 31 December 2017:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Cash and cash equivalents	(127,835)	(171,756)	(231)	(52,517)
Term deposits	(656)	-	-	-
Borrowings payable after one year	735,410	480,068	671,245	433,668
Borrowings payable within one financial year (including overdraft)	109,546	133,681	105,122	97,807
Finance lease liabilities	19,554	332	-	-
Net debt	**736,019**	**442,325**	**776,136**	**478,958**
Cash and cash equivalents	(128,491)	(171,756)	(231)	(52,517)
Borrowings – fixed interest rate	614,600	293,981	594,459	293,981
Borrowings – variable interest rate	249,910	320,100	181,908	237,494
Net debt	**736,019**	**442,325**	**776,136**	**478,958**

For the purpose of net debt calculation, borrowings comprise only debts to financial institutions and other debts relating to financing.

All amounts in EUR thousands unless otherwise stated

Reconciliation of the Group's net debt balances and cash flows from financing activities for 2018:

Group	Assets		Borrowings					
	Cash	Term deposits	Current portion of finance lease liabilities	Non-current portion of finance lease liabilities	Current borrowings	Current portion of non-current borrowings	Non-current portion of non-current borrowings	Total
Net debt at 1 January 2018	**(171,756)**	**-**	**145**	**187**	**14,082**	**119,599**	**480,068**	**442,325**
Cash changes								
Increase (decrease) in cash and cash equivalents (including overdraft)	43,921	-	-	-	31,605	-	-	75,526
Proceeds from borrowings	-	-	-	-	-	27,922	29,888	57,810
Issue of bonds	-	-	-	-	-	-	294,346	294,346
(Repayments) of borrowings	- -		-	-	-	(143,564)	(11,857)	(155,421)
Finance lease payments	- -		(544)	-	-	-	-	(544)
Interest paid	- -		(5)		(6,764)	(3,633)		(10,402)
Non-cash changes								
Accrual of interest payable	- -		5	-	8,797	2,836	805	12,442
Reclassification of interest payable from trade payables	-				-	797		797
Acquisition of subsidiaries	-	(656)	806	18,960	7		154	19,271
Expenses of issue of bonds	- -		-	-	-	-	(131)	(131)
Reclassifications between items	- -		4,813	(4,813)	-	57,862	(57,862)	-
Net debt at 31 December 2018	**(127,835)**	**(656)**	**5,220**	**14,334**	**47,727**	**61,819**	**735,410**	**736,019**

Reconciliation of the Company's net debt balances and cash flows from financing activities for 2018:

Company	Assets	Borrowings			
	Cash	Current borrowings	Current portion of non-current borrowings	Non-current portion of non-current borrowings	Total
Net debt at 1 January 2018	**(52,517)**	**2,794**	**95,013**	**433,668**	**478,958**
Cash changes					
Increase (decrease) in cash and cash equivalents (including overdraft)	52,286	42,260	-	-	94,546
Issue of bonds	-	-	-	294,346	294,346
(Repayments) of borrowings	-	-	(95,052)	-	(95,052)
Interest (paid)		*(6,131)*	*(1,615)*		*(7,746)*
Non-cash changes					
Accrual of interest payable	-	8,798	1,614	805	11,217
Expenses of issue of bonds	-	-	-	(133)	(133)
Reclassifications between items	-	-	57,441	(57,441)	-
Net debt at 31 December 2018	**(231)**	**47,721**	**57,401**	**671,245**	**776,136**

All amounts in EUR thousands unless otherwise stated

23 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Movements on the accounts of deferred income tax assets and liabilities during the reporting period were as follows:

Group	At 31 December 2016	Recognised in profit or loss	Realisation of unrecognised tax losses	Recognised in other comprehensive income	At 31 Dec 2017	Recognised in profit or loss	IFRS 15 adoption impact	Recognised in other comprehensive income	Realisation of unrecognised tax losses	At 31 Dec 2018
Deferred income tax assets										
Difference on recognition of income from new customer connection services	(16)	16	-	-	-	-	-	-	-	-
Deferred revenue	2,184	1,463	-	-	3,647	(296)	-	-	-	3,351
Accrued expenses	496	1,721	-	-	2,217	(579)	-	-	(4)	1,634
Impairment of assets	5,111	738	-	-	5,849	212	-	-	(5)	6,056
Tax losses carry forward	8,956	(202)	-	-	8,754	1,543	-	-	-	10,297
Difference of financial and tax value of assets identified on business combination	2,785	(198)	-	-	2,587	2,807	-	-	-	5,394
Other	(577)	2,366	-	-	1,789	760	-	-	-	2,549
Deferred income tax assets before write-down to net realisable value	**18,939**	**5,904**	**-**	**-**	**24,843**	**4,447**	**-**	**-**	**(9)**	**29,281**
Less: write-down to net realisable value	(8,260)	34	3,505		(4,721)	2,416	-	-	-	(2,305)
Deferred income tax assets, net	**10,679**	**5,938**	**3,505**	**-**	**20,122**	**6,863**	**-**	**-**	**(9)**	**26,976**
Deferred income tax liabilities										
Valuation of PP&E (increase/decrease in value) and differences in depreciation rates	32,080	8,197	-	192	40,469	(11,677)	-	21,732	(891)	49,633
Tax relief on acquisition of PP&E	2,176	1,980	-	-	4,156	(6,985)	-	-	-	(2,829)
Increase in value of assets	-	-	-	-	-		-	-	-	-
Accrued expenses	(166)	166	-	-	-	-	-	-	-	-
Difference on recognition of income from new customer connection services	2,749	(245)	-	-	2,504	8,695	(10,997)	-	-	202
Result of valuation of financial assets	689	(609)	-	-	80	(129)	-	-	-	(49)
Difference of financial and tax value of assets identified on business combination	2,064	(186)	-	-	1,878	(271)	-	-	-	1,607
Derivative financial instruments					-	2,632	-	-	-	2,632
Other	5,869	(5,869)	-	-	-		-	-	-	-
Deferred income tax liability, net	**45,461**	**3,434**	**-**	**192**	**49,087**	**(7,735)**	**(10,997)**	**21,732**	**(891)**	**51,196**
Deferred income tax, net	**(34,782)**	**2,504**	**3,505**	**(192)**	**(28,965)**	**14,598**	**10,997**	**(21,732)**	**882**	**(24,220)**

The Group's statement of financial position presents separately deferred tax assets (EUR 14,468 thousand) and deferred tax liabilities (EUR 41,527 thousand) related to different subsidiaries. The net balance of deferred tax is liability of EUR 27,059 thousand.

All amounts in EUR thousands unless otherwise stated

Company	At 31 December 2016	Recognised in profit or loss	Recognised in other comprehensive income	At 31 Dec 2017	Recognised in profit or loss	Recognised in other comprehensive income	At 31 Dec 2018
Deferred income tax assets							
Accrued expenses	93	19	-	112	57	-	169
Tax losses carry forward	-	437		437	471		908
Deferred income tax assets, net	**93**	**456**	**-**	**549**	**528**	**-**	**1,077**
Deferred income tax liabilities							
Result of valuation of financial assets	9	-	(9)	-	-	-	-
Deferred income tax liability, net	**9**	**-**	**(9)**	**-**	**-**	**-**	**-**
Deferred income tax, net	**84**	**456**	**9**	**549**	**528**	**-**	**1,077**

As at 31 December 2018, the Group did not recognise deferred income tax assets on accumulated tax loss from operations of EUR 15,369 thousand (31 December 2017: EUR 46,493 thousand).

24 Grants and subsidies

The balance of grants comprises grants to finance acquisition of assets, funds received from the International Fund for Support of Decommissioning of Ignalina Nuclear Power Plant, from the EU structural funds, PSO funds and property, plant and equipment and intangible assets received in return for no consideration. Movements on the account of grants in 2018 and 2017 were as follows:

Group	Asset-related grants		Grants for emission allowances	Total
	Asset-related grants and other projects of the Group	Projects for renovation, improvement of environmental and safety standards		
Balance at 31 December 2016	**43,279**	**241,143**	**507**	**284,929**
Depreciation of property, plant and equipment	(1,446)	(18,776)	-	(20,222)
Grants received	7,724	74	1,128	8,926
Emission allowances utilised	-	-	(436)	(436)
Grants reversed due to recognised impairment of PP&E and other reasons	(14)	(72,872)	-	(72,886)
Balance at 31 December 2017	**49,543**	**149,569**	**1,199**	**200,311**
Depreciation of property, plant and equipment	(1,450)	(7,820)	-	(9,270)
Grants received	25,523	-	2,555	28,078
Emission allowances utilised	-	-	(175)	(175)
Grants attributable to revaluation of property plant and equipment	(8,928)	(768)	-	(9,696)
Grants reversed due to recognised impairment of PP&E and other reasons	(1)	-	-	(1)
Grants transferred to short term liabilities	-	(373)	-	(373)
Balance at 31 December 2018	**64,687**	**140,608**	**3,579**	**208,874**

Amortisation of grants is accounted for under depreciation and amortisation in the statement of comprehensive income and reduces depreciation expenses of related property, plant and equipment. Grants reversed
are reported within revaluation/impairment of assets and reduce these expenses.

Grants reversed due to recognised impairment of property, plant, and equipment of subsidiary Energijos Skirstymo Operatorius AB amounted to EUR 8,928 thousand in 2018.

All amounts in EUR thousands unless otherwise stated

25 Deferred revenue and prepayments received

Deferred revenue

	2018		2017	
	Current portion	Non-current portion	Current portion	Non-current portion
Balance at 1 January	**5,242**	**54,509**	**5,181**	**52,214**
Impact of first-time adoption of IFRS 15 in the natural gas distribution activity	-	(10,356)		
Impact of first-time adoption of IFRS 15 in the electricity distribution activity	(877)	74,195		
Restated balance at 1 January	**4,365**	**118,348**	**5,181**	**52,214**
Received during the period	-	8,231	-	4,992
Recognised as income	(7,771)	-	(2,636)	-
Reclassifications between items	11,318	(11,318)	2,697	(2,697)
Balance at 31 December	**7,912**	**115,261**	**5,242**	**54,509**

Deferred revenue represents income from connection of new customers to natural gas system and to the electricity grid.

Income from connection of new customers to natural gas system is recognised over the average useful life of related items of property, plant and equipment.

Income from connection of customers is included in the revenue line item in profit and loss.

Prepayments received

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Current prepayments under contracts with customers	44,912	24,801	-	-
Current prepayments under other agreements:				
- Advance amounts of PSO service fees received (income to be refunded)	5,545	-	-	-
- Advance amounts received for lease of assets	1,728	1,787	-	-
- Other advances received	3,140	1,177	51	1
Total	**55,325**	**27,765**	**51**	**1**

26 Provisions

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Non-current	30,571	1,893	-	2,903
Current	2,788	2,498	806	-
Total amount of provisions	**33,359**	**4,391**	**806**	**2,903**

	Provisions for onerous contracts	Emission allowance liabilities	Provisions for employee benefits	Other provisions	Total
At 31 December 2016	**10,292**	**1,316**	**4,529**	**-**	**16,137**
Increase during the period	-	913	537	-	1,450
Utilised during the period	(10,292)	(1,316)	(1,369)	-	(12,977)
Revaluation of emission allowances utilised	-	(384)	-	-	(384)
Result of change in actuarial assumptions	-	-	187	-	187
Reclassified to liabilities related to assets held for sale	-	-	(22)	-	(22)
At 31 December 2017	**-**	**529**	**3,862**	**-**	**4,391**
Increase during the period	-	894	1,222	32,233	34,349
Utilised during the period	-	(908)	(2,270)	(743)	(3,921)
Revaluation of emission allowances utilised	-	380	-	-	380
Result of change in actuarial assumptions	-	-	54	(1,894)	(1,840)
At 31 December 2018	**-**	**895**	**2,868**	**29,596**	**33,359**

Provisions for employee benefits include a statutory retirement benefit payable to the Group's employees. The balance of provisions at the reporting date is reviewed with reference to actuarial calculations to ensure that estimation of retirement benefit liabilities is as much accurate as possible. The liabilities are recognised at discounted value using the market interest rate.

In establishing the price of gas for customers from 1 July 2017, the additional discount on the price of gas agreed between Lithuania and Gazprom for gas supplied from the beginning of 2013 to April 2014 is no longer applied as the entire amount of the discount was utilised as at 1 July 2017. In this respect, no provisions for onerous contracts were established as at 31 December 2017.

In 2018, the Group accounted for provision of EUR 28,725 thousand for one-off compensations to third parties for damages related to the establishment of statutory servitudes (which came into effect on 10 July 2004). As at 31 December 2018, the provision amounted to EUR 27,982.

As at 31December 2018 and 31 December 2017, the Company's provisions consisted of the guarantee issued to the subsidiaries for the loans granted to subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB under cashpool agreements.

All amounts in EUR thousands unless otherwise stated

27 Other non-current amounts payable and liabilities

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Advance amounts of PSO service fees received	9,387	5,494	-	-
Non-current trade payables	729	819	-	-
Amounts payable for acquired shares of LITGRID	-	33	-	33
Non-current amounts payable for acquired shares of subsidiaries	-	-	-	9,666
Other	1,158	960	378	108
Carrying amount	**11,274**	**7,306**	**378**	**9,807**

The current portion of advance amounts of PSO service fees received is attributed to prepayments received. The Company's subsidiary Lietuvos Energijos Gamyba AB will repay advance amounts of PSO service fees received, the discounted value of which was equal to EUR 9,387 thousand as at 31 December 2018.

28 Trade payables

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Amounts payable for electricity and heavy fuel oil	47,324	48,844	-	-
Amounts payable for contractual works, services	5,683	7,517	-	-
Amounts payable for gas	28,406	28,734	-	-
Other amounts payable	11,825	13,243	947	506
Carrying amount	**93,237**	**98,338**	**947**	**506**

29 Other current amounts payable and liabilities

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017*	At 31 Dec 2018	At 31 Dec 2017
Employment-related liabilities	5,048	4,857	127	729
Accrued expenses and deferred revenue for electricity and gas	-	2,130	-	-
Amounts payable for property, plant and equipment	41,293	65,189	-	-
Taxes (other than income tax)	15,795	9,494	201	-
Accrued expenses	7,847	12,496*	1,032	94
Derivative financial instruments	35	57	-	-
Put option redemption liability (Note 4)	16,660	9,996	-	-
Non-controlling interest dividends	2,874	2,687	-	-
Other amounts payable and liabilities	13,130	2,515	13	-
Carrying amount	**102,682**	**109,421**	**1,373**	**823**

** Reclassified following the coming into effect of IFRS 15 from 1 January 2018 (Note 2.1)*

__Derivative financial instruments__

As at 31 December 2018, assets and liabilities related to the Group's and the Company's agreements on derivative financial instruments were as follows:

	Group		Company	
	At 31 Dec 2018	At 31 Dec 2017	At 31 Dec 2018	At 31 Dec 2017
Other current assets				
Derivative financial instruments linked to the market prices of electricity	1,634	856	-	-
Derivative financial instruments linked to the market price of gas	412	228	-	-
Total	**2,046**	**1,084**	**-**	**-**
Other non-current amounts payable and liabilities				
Derivative financial instruments linked to the market prices of electricity	(18)	(57)	-	-
Derivative financial instruments linked to the market price of gas	(17)			
Total	**(35)**	**(57)**	**-**	**-**

On 1 January 2016, the Company's subsidiary Energijos Tiekimas UAB joined the electricity derivatives exchange NASDAQ Commodities. Energijos Tiekimas UAB is currently the only Lithuanian electricity provider, active in the stock market. Trading of derivative products can reduce electricity price fluctuation risks, as well as to carry out commercial activities, making use of fluctuations in market prices. At the NASDAQ Commodities exchange Energijos Tiekimas UAB performs the market maker functions in respect of financial instruments linked to Latvian electricity market prices (EPAD Riga).

__Measurement of fair value of derivative financial instruments__

The Group and the Company recognise derivative financial instruments at fair value. The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2018:

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Assets:				
Derivative financial instruments linked to the market prices of electricity	76	1,558	-	1,634
Derivative financial instruments linked to the market price of gas	412	-	-	412
Liabilities:				
Derivative financial instruments linked to the market prices of electricity	-	(18)	-	(18)
Derivative financial instruments linked to the market price of gas	-	(17)	-	(17)
Total	**488**	**1,523**	**-**	**2,011**

All amounts in EUR thousands unless otherwise stated

The table below presents information on assets and liabilities of derivative financial instruments by the fair value hierarchy level as at 31 December 2017:

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Assets:				
Derivative financial instruments linked to the market prices of electricity	405	451	-	856
Derivative financial instrument linked to the market price of gas	228	-	-	228
Liabilities:				
Derivative financial instruments linked to the market prices of electricity	-	(57)	-	(57)
Total	**633**	**394**	**-**	**1,027**

Derivative financial instruments linked to the market price of electricity acquired at the Nasdaq Commodities exchange are attributed to Level 1 of the fair value hierarchy. These instruments are measured according to the prices of products announced by the Nasdaq Commodities exchange.
The Group attributes to Level 2 of the fair value hierarchy derivative financial instruments linked with the Lithuanian/Latvian and Estonian/Finish electricity price areas. Derivative financial instruments acquired directly from other market participants (over-the-counter contracts) and physical transmission rights acquired are estimated based on the prices of the NASDAQ Commodities exchange by additionally adding price area differences (a potential risk) that are evaluated using the expert method.

30 Revenue from contracts with customers

	Group 2018	Group 2017*	Company 2018	Company 2017
Revenue from sale of electricity and distribution	836,503	751,480	-	-
Revenue from sale of gas and distribution	341,581	295,068	-	-
Other sales revenue	30,360	34,671*	3,188	2,972
Total	**1,208,444**	**1,081,219**	**3,188**	**2,972**

** Reclassified following the coming into effect of IFRS 15 from 1 January 2018 (Note 2.1)*

31 Other income

	Group 2018	Group 2017*	Company 2018	Company 2017
Lease income	8,440	7,840	170	136
Derivative financial instruments (commodities)	28,693	3,594*		
Interest received on finance lease	-	236	-	-
Result on disposal of investments in subsidiaries	-	352	-	24
Interest on late payments equivalent to interest	69	1,085	-	-
Gain/(loss) on disposal of non-current assets	4,527	-	-	-
Other income	4,053	6,505*	533	356
Total	**45,782**	**19,612**	**703**	**516**

** Reclassified following the coming into effect of IFRS 15 from 1 January 2018 (Note 2.1)*

The Group provides motor vehicle and real estate lease services under operating lease contracts concluded for definite period, which may be extended for additional period ranging from several hours to several years. Income from lease of motor vehicles and real estate is recognised as income in profit or loss on a proportionate basis over the entire lease term.

32 Purchases of electricity, gas for trade, and related services

	Group 2018	Group 2017	Company 2018	Company 2017
Costs of purchases of gas for trade	278,338	251,164	-	-
Purchases of electricity and related services	659,116	450,005	-	-
Purchases of subcontractual services	10,535	11,129	-	-
Total	**947,989**	**712,298**	**-**	**-**

33 Other expenses

	Group 2018	Group 2017	Company 2018	Company 2017
Taxes	6,329	6,450	246	182
Write-offs of property, plant and equipment	5,005	4,564	-	-
Customer service	4,367	4,048	-	-
Telecommunications and IT services	4,041	3,822	401	285
Transport	3,065	1,853	155	124
Utility services	2,351	3,043	770	608
Write-offs of non-current and current amounts receivable (bad debts)	2,012	1,145	-	-
Leases	1,159	1,439	193	191
Consultation services	1,538	1,126	720	309
Expenses of low-value inventories	1,179	1,274	-	-
Personnel development	1,003	797	189	108
Business trips	408	429	59	61
Business support services	-	-	318	251
Expenses related to emission allowances, their revaluation and provisions, whereof:	(8,933)	(2,296)	-	-
revaluation of emission allowances through profit or loss	8,933	(1,296)		
revaluation of emission allowances lent	-	*(616)*	-	-
provision expenses for emission allowances	-	*(384)*	-	-
Expenses (income) on impairment of other non-current assets	-	1,183	-	-
Inventory write-down/(reversal)	(718)	(98)	-	-
Provision for guarantees for the fulfilment of obligations of the subsidiaries	-	-	(2,097)	2,903
Other expenses	3,338	4,930	403	788
Carrying amount	**26,144**	**33,709**	**1,357**	**5,810**

Presented below are all services rendered by the audit firm to the Group and the Company in 2018:

	Group		Company	
	2018	2017	2018	2017
Audit of the financial statements under the agreements	186	169	11	11
Assurance and other related services	93	101	67	75
Tax consultation services	44	-	7	-
Expenses of other services	10	34	22	22
Carrying amount	**333**	**304**	**107**	**108**

34 Finance income

	Group		Company	
	2018	2017	2018	2017
Interest income	1,427	1,520	10,040	3,147
Other finance income	194	643	29	299
Total	**1,621**	**2,163**	**10,069**	**3,588**

As at 31 December 2017, the Company accounted for the reversal of deferred payment for subsidiary NT Valdos UAB equal to EUR 248 thousand, which was included in other finance income.

35 Finance costs

	Group		Company	
	2018	2017	2018	2017
Interest expenses	12,442	7,858	11,217	3,802
Other finance costs	2,457	1240	952	489
Total	**14,899**	**9,098**	**12,169**	**4,291**

36 Income tax expenses

Income tax expenses for the period comprise current year income tax and deferred income tax. Profit for 2018 is taxable at a rate of 15 per cent (2017: 15 per cent) in accordance with the Lithuanian regulatory legislation on taxation.

	Group		Company	
	2018	2017	2018	2017
Income tax expenses (benefit) for the reporting period	3,495	2,682	(7)	(2)
Deferred income tax expenses (benefit)	(14,598)	(6,009)	(528)	(456)
Income tax expenses (benefit) recognised in profit or loss	**(11,103)**	**(3,327)**	**(535)**	**(458)**

Income tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Company:

	Group		Company	
	2018	2017	2018	2017
Profit (loss) before tax	(19,045)	90,198	44,153	105,456
Income tax expenses (benefit) at tax rate of 15%	(2,857)	13,530	6,623	15,818
Expenses not deductible for tax purposes	9,088	915	3,275	2,432
Income not subject to tax	(1,135)	(3,146)	(10,427)	(18,706)
Income tax relief for the investment project	(12,692)	(8,719)	-	-
Adjustments in respect of prior years	(425)	(2,436)	(7)	(2)
Tax losses utilised	(790)		-	-
Realisation of unrecognised tax losses	(2,416)	(3,505)	-	-
Unrecognised deferred income tax on tax losses	123	34	-	-
Income tax expenses (benefit)	**(11,103)**	**(3,327)**	**(535)**	**(458)**

37 Dividends

Dividends declared by the Company in 2018 and 2017:

	2018		2017	
	EUR '000	Dividends per share	EUR '000	Dividends per share
Lietuvos Energija, UAB	78,265	0.0187	59,752	0.0143
Number of shares	4,179,849,289		4,179,849,289	

All amounts in EUR thousands unless otherwise stated

Dividends declared by the Group companies in 2018:

Date on which dividends were declared	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Dividends attributable to the Group's non-controlling interest
13/03/2018	EURAKRAS UAB	the year 2017	10.59000	1,690	1,690	-
20/03/2018	Energijos Tiekimas UAB	the year 2017	0.17401	3,000	3,000	-
26/03/2018	Lietuvos Energijos Gamyba AB	second half of 2017	0.01400	8,891	8,602	289
30/03/2018	Energijos Skirstymo Operatorius AB	second half of 2017	0.02535	22,679	21,541	1,138
04/04/2018	Lietuvos Energijos Tiekimas UAB	the year 2017	0.15837	4,571	4,571	-
05/04/2018	Verslo Aptarnavimo Centras UAB	the year 2017	0.00026	268	137	3
11/04/2018	Technologijų ir Inovacijų Centras UAB	the year 2017	0.00666	148	74	2
17/04/2018	LITGAS UAB	the year 2017	0.02654	1,194	1,194	-
27/04/2018	Duomenų Logistikos Centras	the year 2017	0.02200	306	243	62
28/09/2018	Energijos Skirstymo Operatorius AB	first half of 2018	0.01400	12,525	11,896	628
27/09/2018	Lietuvos Energijos Gamyba AB	first half of 2018	0.02300	14,904	14,430	474
				70,176	**67,378**	**2,596**

Dividends declared by the Group companies in 2017:

Date on which dividends were declared	Dividends declared by	Period for which dividends are allocated	Dividends per share, in EUR	Amount of dividends declared	Dividend income attributable to the Company	Dividends attributable to the Group's non-controlling interest
24/03/2017	Energijos Skirstymo Operatorius AB	second half of 2016	0.05786	51,763	49,166	2,597
24/03/2017	Lietuvos Energijos Gamyba AB	second half of 2016	0.02000	12,702	12,289	413
29/03/2017	Verslo Aptarnavimo Centras UAB	the year 2016	0.06690	134	68	2
03/04/2017	LITGAS UAB	the year 2016	0.06700	3,000	3,000	-
04/04/2017	Energijos Tiekimas UAB	the year 2016	0.58000	10,000	10,000	-
07/04/2017	Duomenų Logistikos Centras UAB	the year 2016	0.00500	76	60	15
07/04/2017	Technologijų ir Inovacijų Centras UAB	the year 2016	0.01280	284	143	6
05/05/2017	EURAKRAS UAB	the year 2016	2.12000	592	444	148
29/09/2017	Energijos Skirstymo Operatorius AB	first half of 2017	0.04600	41,153	39,088	2,066
29/09/2017	Lietuvos Energijos Gamyba AB	first half of 2017	0.01700	10,796	10,446	351
				130,500	**124,704**	**5,598**

38 Contingent liabilities and commitments

Guarantees issued and received by the Company

Name of the subsidiary	Beneficiary of the guarantee	Date of issue of the guarantee	Maturity	Maximum amount of the guarantee	At 31 Dec 2018	At 31 Dec 2017
Vilniaus Kogeneracinė Jėgainė UAB	European Investment Bank	30/12/2016	06/12/2033	190,000	19,796	-
Kauno Kogeneracinė Jėgainė UAB	Swedbank AB	18/10/2017	18/10/2022	61,200	5,147	-
Companies of Lietuvos Energija UAB group	Companies of Lietuvos Energija UAB group	the year 2016	30/06/2019	-	73,902	15,428
				251,200	**98,845**	**15,428**

The Group companies can lend each other their funds by virtually transferring them to the Group's corporate account (cashpool) opened at the bank Swedbank AB. The Company guarantees that funds borrowed by the Group companies at the cashpool account are timely repaid to the Group companies that have lent funds. As at 31 December 2018, the amount lent and borrowed by the Group companies at the Group's cashpool account totalled EUR 201,012 thousand, including the amount of EUR 126,304 lent by the Company (Note 17). As at 31 December 2018, the Company's guarantee amounted to EUR 98,845 thousand (31 December 2017: EUR 15,428 thousand).

As at 31 December 2017, the Company accounted for a provision of EUR 2,903 thousand related to borrowings of EUR 6,824 thousand obtained by the subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB at the Group's cashpool account. As at 31 December 2018, the provision amounted to EUR 806 thousand. The provision was established on the grounds that the cash flow forecasts of the Company's subsidiary show that a 50% probability exists that the subsidiary will not be able to repay a full amount of funds borrowed. Therefore, the Company formed a provision as it acts as a guarantor for the repayment of funds lent to the participants of the Group's cashpool account.

On 5 December 2016, the Company and the European Investment Bank (Luxembourg) signed a guarantee and indemnity agreement under which the Company secured fulfilment of all current and future obligations of subsidiary Vilniaus Kogeneracinė Jėgainė UAB in the amount of EUR 190,000 thousand under the credit agreement signed on 5 December 2016 with the European Investment Bank for the term of 17 years. The guarantee cover the repayment of all types of amounts payable related to the usage of the provided loan to the European Investment Bank. The maximum amount of the guarantee has not been established. As at 31 December 2018, amounts withdrawn by Vilniaus Kogeneracinė Jėgainė UAB from the loan provided by the European Investment Bank totalled EUR 20 million.

On 31 May 2017, the Group's subsidiary Kauno Kogeneracinė Jėgainė UAB and Swedbank AB signed the credit agreement for the amount of EUR 120,000,000 (one hundred twenty million). The loan is designated for the financing of construction works of the co-generation power plant complex in Kaunas and the financing of the following construction-related expenses of the project being implemented: financing of payments under the agreements on construction, supply of equipment, electrification, general construction works, general systems, installation of automation systems, insurance, management of the construction site, project management, as well as the financing of advance payments (credit funds cannot be used for the financing of interest and unforeseen expenditure), excl. VAT. The withdrawn amount of the loan is EUR 10 million. Monetary liabilities of Kauno Kogeneracinė Jėgainė UAB to the bank under the credit agreement are secured by the guarantees issued by the Company and Fortum OYJ in proportion to the number of shares of Kauno Kogeneracinė Jėgainė UAB held, i.e. 51% of shares is held by the Company and 49% is held by FORTUM HEAT LIETUVA UAB.

Contractual obligations

In December 2018, the Group and PAO Gazprom agreed on supply of natural gas in 2019. The agreement contains 'take-or-pay' clause under which the Group has a commitment to purchase the agreed minimum quantity of natural gas. Based on forecast consumption data, the Company plans to purchase all agreed quantity of natural gas during 2019.

Capital expenditure commitments

In 2018, capital expenditure commitments of the Group's subsidiary Energijos Skirstymo Operatorius AB assumed under the signed agreements as at the date of the financial statements but not accounted for in the financial statements amounted to EUR 45 million (31 December 2017: EUR 36 million).

Under the agreements valid in 2018 the Group's subsidiary Kauno Kogeneracinė Jėgainė UAB assumed commitments to invest up to EUR 114 million in property, plant and equipment. Investments are expected to be made over the years 2019–2020 and are related to the preparation for the construction of the power plant.

On 29 September 2016, the agreements of the Group's subsidiary Vilniaus Kogeneracinė Jėgainė UAB on construction works of the co-generation power plant were signed with the contractors that won the public tender. In 2016, commitments to invest in the power plant's waste incinerators and general technological facilities amounted to EUR 178.29 million and commitments to invest in biofuel combustion facilities and supply infrastructure amounted to EUR 150 million.

Tariff adjustments for prior period profit in excess of the return on investments permitted by the Commission

Based on its Resolution No O3E-447 of 7 October 2017 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2018*, the Commission set the price cap for the distribution service for 2018 and also stated that the level of revenue from electricity distribution activities carried out by Energijos Skirstymo Operatorius AB is reduced by the 2014-2015 return on investments in excess of the level set by the Commission, i.e. EUR 43,421.6 thousand in view of time value of money equal to EUR 1,942.8 thousand. The remaining part of the 2014-2015 return on investments in excess of the level set by the Commission, i.e. EUR 13,219.5 million, will be assessed in the upcoming years of the regulatory period, however not later than before the end of the regulatory period (before 2020).

Based on its Resolution No O3E-334 of 17 October 2018 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2019*, the Commission set the price cap for the distribution service for 2019 and, based on its Certificate No O5E-264 of 17 October 2018, the Commission stated that the projected level of revenue from electricity distribution activities for 2019 of Energijos Skirstymo Operatorius AB is reduced by the amount of EUR 13,219.5 thousand, including the impact of time value of money equal to EUR 423 thousand. This amount of the remaining part of the return on investments earned by Energijos Skirstymo Operatorius AB in 2014-2015 in excess of the level set by the Commission for the mentioned years. In establishing the price caps for 2019, the Commission established the amount of investments (i.e. the asset base) on the basis of the historical assets base rather than the assets base determined using the LRAIC (long-run average incremental cost) model approved by the Commission. In the opinion of Energijos Skirstymo Operatorius AB, the model used by the Commission does not comply with the requirements of the effective Electricity Methodology and other legislation, therefore, Energijos Skirstymo Operatorius AB made a decision to apply to Vilnius Regional Administrative Court with a request to amend the Resolution.

In 2018, Energijos Skirstymo Operatorius AB revalued its property, plant and equipment at fair value. In establishing the fair value the independent property valuer assumed that in the upcoming periods the Commission will use the LRAIC model when determining the value of the asset base.

In view of the fact that the Commission presented explanation that the LRAIC (long run average incremental costs) accounting model will be applied in the upcoming periods (there have been no changes in the regulatory environment) and the corrections made with respect to prices of the electricity distribution services for 2019 will be taken into consideration when establishing the price caps for the next regulatory period, in April 2019 the Board of Energijos Skirstymo Operatorius AB made a decision to withdraw the claim. The explanation presented by the Commission will not result in any significant negative impact on the value of assets of Energijos Skirstymo Operatorius AB and the Group.

Based on its Resolution No O3E-481 of 9 November 2017 *On adjusting the price caps for natural gas distribution services provided by Energijos Skirstymo Operatorius AB for the year 2018*, the Commission set the price cap for the natural gas distribution service to be applicable from 1 January 2018 and also stated that in the period between 2014 and 2016 Energijos Skirstymo Operatorius AB in conducting the natural gas distribution activity earned additional return on investments amounting to EUR 27,333 thousand, which exceeded the level of profit permitted by the Commission. The Commission decided to adjust the price caps for the natural gas distribution service for 2018 by 50 per cent of the 2014–2016 return on investments in excess of the level of return permitted by the Commission. Consequently, the Commission decreased the level of revenue from natural gas distribution activity for 2018 by EUR 13,667 thousand. The remaining part of the 2014-2016 return on investments in excess of the level set by the Commission will be assessed when establishing the gas distribution price for the upcoming periods.

Based on its Resolution No O3E-360 of 26 October 2018 *On establishing the price cap for the natural gas distribution service provided by public limited liability company Energijos Skirstymo Operatorius for the years 2019–2023*, the Commission set the price cap for the natural gas distribution service to be applicable from 1 January 2019 and, based on its Certificate No O3E-360 of 26 October 2018, the Commission stated that the level of revenue from natural gas distribution activity for 2019 is reduced by the amount of EUR 3,416.6 thousand, including the impact of time value of money equal to EUR 466.4 thousand. This amount represents 1/4 of the remaining return on investments earned by Energijos Skirstymo Operatorius AB in 2014-2016 in excess of the level set by the Commission. The remaining part of the 2014–2016 return on investments in excess of the level set by the Commission will be assessed when establishing the natural gas distribution price for the upcoming periods.

The overall level of electricity and gas activity revenue for 2018 was approved to be lower by EUR 16,636.1 thousand (2017: EUR 57,088.6 thousand) due to the difference between the return on investments permitted by the Commission and the Company's actual return on investments that results from the refund of prior period profit in excess of the permitted return on investments.

Based on the judgement of the Group's management, Energijos Skirstymo Operatorius AB earned excess profits in 2017 and 2018 as well and these amounts will have impact on the Group's revenue and profit for 2019 and subsequent periods.

All amounts in EUR thousands unless otherwise stated

Litigations

Legal disputes between Energijos Skirstymo Operatorius AB and the National Commission for Energy Control and Prices

On 8 July 215, Energijos Skirstymo Operatorius AB filed the claim to Vilnius Regional Administrative Court for the annulment of Resolution No O3-351 of the Commission of 4 June 2015 whereby a fine of EUR 300 thousand was imposed on Energijos Skirstymo Operatorius AB. Energijos Skirstymo Operatorius AB disagreed with the court's ruling and filed an appeal against it. The Supreme Administrative Court of Lithuania (SACL) passed the ruling on 6 March 2019 whereby the claim of Energijos Skirstymo Operatorius AB was rejected in which the company requested to annul the part of the ruling of 25 October 2017 in the administrative case of Vilnius Regional Administrative Court on a monetary sanction of EUR 300 thousand and to pass a new ruling, i.e. not to impose on Energijos Skirstymo Operatorius AB the monetary fine stipulated in paragraph 3.1 of the Commission's Resolution No O3-351 *Regarding violation of conditions for regulated activities* of 4 June 2015 or to reduce the fine to a reasonable amount, i.e. EUR 41,075.36. The SACL ruling is final and conclusive. The ruling passed by the SACL will have no impact on the Group's financial performance for 2019, because the impact of the fine was recorded in the Group's financial statements of the previous periods.

Legal dispute between Energijos Skirstymo Operatorius AB and Vilniaus Energija UAB

In its claim filed to Vilnius Regional Court on 27 March 2014 VILNIAUS ENERGIJA UAB requested to award from Energijos Skirstymo Operatorius AB compensation of damages of EUR 10,712 thousand, recognise the provisions of the agreement on the purchase and sale of electricity as null and void as of the moment of its conclusion, oblige the respondent to purchase the volume of supported electricity. The oral court's hearing at Vilnius Regional Court is scheduled on 29 May 2017. The court's hearing was postponed to 28 August 2017, because the court decided to request Energijos Skirstymo Operatorius AB provide additional evidence related to prices of electricity. On 18 September 2017, the court of first instance passed the ruling whereby the claim was rejected in full. The claimant appealed against the court ruling. The date of the court's hearing has not been set yet. The court's ruling in favour of Energijos Skirstymo Operatorius AB would allow avoiding additional expenses in the future in satisfying the claim. By the ruling of 6 November 2018, the Court of Appeal of Lithuania rejected the ruling of Vilnius Regional Court of 18 September 2017 in part and remitted the case back to the court of first instance. On 22 January 2019, the claimant filed an appeal in cassation regarding the part of the ruling of the Court of Appeal of Lithuania dated 6 November 2018 that was left unchanged and the Supreme Court of Lithuania accepted the appeal. The investigation of the case has been suspended in the court of first instance by the request of the claimant until part of the case is reviewed under the cassation procedure.

Legal disputes of Tuuleenergia OU

Based on the operation permission issued by the Varbla municipality (Estonia) in 2006 Tuuleenergia OU was permitted to install two wind turbines. In 2013, the claim was filed with Tallinn Administrative Court with the request to annul two operation permissions issued by the Varbla municipality due to the fact that the site for the installation of two wind turbines does not comply with the requirements of the location's detailed land plan and the level of noise emitted by the wind turbines is not acceptable. The claim was not satisfied by Tallinn Administrative Court and Tallinn Regional Court of the second instance in 2015. On 11 October 2016, the Supreme Court of Estonia satisfied the appeal in cassation. Based on the ruling passed the operation permission were annulled. On 28 September 2017, the Varbla municipality issued to Tuuleenergia OU temporary operation permissions that are valid until 31 May 2018.

In October 2017, the natural person filed a claim with the court against the Varbla municipality (Estonia) requesting the court to annul temporary operation permissions issued to Tuuleenergia OU. On 11 September 2018, the claimant (natural person) died. On 3 December 2018, Tuuleenergia OU file a request with the court for the termination of the case on the grounds that the descendants of the claimant have no interest in the case. The legal dispute and its impact on the financial statements as at 31 December 2018 cannot be assessed reliably.

Tax audits

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

39 Related-party transactions

As at 31 December 2018 and 2017, the parent company was the Republic of Lithuania represented by the Lithuanian Ministry of Finance. For the purposes of disclosure of related parties, the Republic of Lithuania excludes central and local government authorities. The disclosures comprise transactions and balances of these transactions with the shareholder, subsidiaries (the Company's transactions), associates and all entities controlled by or under significant influence of the state (transactions with these entities are disclosed only if they are material), and management and their close family members.

The Group's transactions with related parties during 2018 and year-end balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Amounts receivable At 31 Dec 2018	Amounts payable At 31 Dec 2018	Sales 2018	Purchases 2018	Finance income (costs) 2018
EPSO-G UAB	158,693	-	35	-	1,102
Litgrid AB	7,106	15,049	63,838	129,627	-
BALTPOOL UAB	8,265	15,962	59,654	54,324	-
TETAS UAB	1,381	4,421	1,387	91,711	-
Amber Grid AB	3,730	6,019	38,153	1,811	-
LITGRID Power Link Service UAB	36	-	60	-	-
GET Baltic	724	12	11,436	6,103	-
Associates and other related parties of the Group	279	120	380	394	-
Total	**180,214**	**41,583**	**174,943**	**283,970**	**1,102**

All amounts in EUR thousands unless otherwise stated

The Group's transactions with related parties during 2017 and year-end balances arising on these transactions as at 31 December 2017 are presented below:

Related parties	Amounts receivable At 31 Dec 2017	Amounts payable At 31 Dec 2017	Sales 2017	Purchases 2017	Finance income (costs) 2017
EPSO-G UAB	170,136	-	786	1,681	1,336
Litgrid AB	5,468	12,090	52,346	111,497	(153)
BALTPOOL UAB	14,943	13,886	87,476	76,914	-
TETAS UAB	786	4,793	1,582	17,103	-
Amber Grid AB	2,273	6,888	22,893	52,273	-
LITGRID Power Link Service, UAB	10	-	202	-	-
GET Baltic	2	2	60	1,321	-
Associates and other related parties of the Group	280	100	681	326	3
Total	**193,898**	**37,759**	**166,026**	**261,115**	**1,186**

The major sale and purchase transactions with related parties in 2018 and 2017 comprised transactions with the companies controlled by the Lithuanian Ministry of Energy: Litgrid AB and BALTPOOL UAB. The Group's purchases from these entities mainly included purchases of electricity, capacity, transmission, PSO services and gas. Sales transactions included sales of electricity, capacity and PSO services

Amount receivable from EPSO-G UAB represents unpaid amount on disposal of Litgrid AB, the outstanding balance of the loan granted and interest accrued thereon. Finance costs include interest charged during the year.

Transactions with other state-owned entities included regular business transactions and therefore they were not disclosed.

The Company's transactions with related parties during 2018 and year-end balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Amounts receivable At 31 Dec 2018	Amounts payable At 31 Dec 2018	Sales 2018	Purchases 2018	Finance income 2018	Finance costs 2018
Subsidiaries						
Energijos Skirstymo Operatorius AB	586,559	-	1,388	-	6,655	-
Lietuvos Energijos Gamyba AB	60	-	542	-	-	-
Energetikos Paslaugų ir Rangos Organizacija UAB	1,250	-	74	-	151	-
Elektroninių Mokėjimų Agentūra UAB	3	-	33	-	-	-
Energijos Tiekimas UAB	36,546	-	180	149	110	-
LITGAS UAB	10	-	102	-	11	-
Duomenų Logistikos Centras UAB	1	-	17	-	-	-
NT Valdos, UAB	13	-	93	184	186	-
Transporto Valdymas UAB	21,608	8	-	79	225	-
Technologijų ir Inovacijų Centras UAB	1,684	107	99	390	10	-
Lietuvos Dujų Tiekimas UAB	14,130	-	187	-	75	-
Verslo Aptarnavimo Centras UAB	29	109	157	593	1	-
VAE SPB UAB	-	-	3	-	-	-
Vilniaus Kogeneracinė Jėgainė UAB	29	-	98	-	23	-
EURAKRAS UAB	24,756	-	11	-	709	-
Tuuleenergia OU	21,059	-	4	-	760	-
Energijos Sprendimų Centras UAB	-	-	31	-	-	-
Kauno Kogeneracinė Jėgainė UAB	69	-	155	-	5	-
Vėjo Gūsis UAB	29	-	-	-	-	-
Vėjo Vatas UAB	2,693	-	-	-	8	-
Other related parties						
EPSO-G UAB	158,658	-	-	-	1,102	-
Total	**869,186**	**224**	**3,174**	**1,395**	**10,031**	**-**

As at 31 December 2018, the Company accounted for a provision amounting to EUR 806 thousand related to the guarantee issued to the subsidiaries for loans obtained by Energetikos Paslaugų ir Rangos Organizacija UAB under the group account (cashpool).

All amounts in EUR thousands unless otherwise stated

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

Related parties	Amounts receivable At 31 Dec 2017	Amounts payable At 31 Dec 2017	Sales 2017	Purchases 2017	Finance income 2017	Finance costs 2017
Subsidiaries						
Energijos Skirstymo Operatorius AB	356,911	5,560	1,192	-	773	218
Lietuvos Energijos Gamyba AB	1,135	4,067	445	17	-	214
EURAKRAS UAB	24,528	-	16	-	239	3
Lietuvos Dujų Tiekimas UAB	24,930	-	168	-	18	5
NT Valdos, UAB	43,191	27	141	359	197	11
Technologijų ir Inovacijų Centras UAB	1,938	47	100	274	4	-
Duomenų Logistikos Centras UAB	1	57	25	-	2	-
Energetikos Paslaugų ir Rangos Organizacija UAB	5,487	-	175	-	91	-
Tuuleenergia OU	24,198	1	25	-	703	-
Energijos Tiekimas UAB	12,937	64	166	103	31	-
LITGAS UAB	10	-	101	-	1	2
Elektroninių Mokėjimų Agentūra UAB	10	-	28	-	-	-
Verslo Aptarnavimo Centras UAB	35	40	151	308	-	-
VAE SPB UAB	1	-	4	-	-	-
Vilniaus Kogeneracinė Jėgainė UAB	3,913	-	73	-	41	2
Energijos Sprendimų Centras UAB	49	-	121	-	-	-
Kauno Kogeneracinė Jėgainė UAB	3	-	30	-	-	-
Other related parties						
EPSO-G UAB	170,132	-	-	-	1,336	-
Total	**669,409**	**9,863**	**2,961**	**1,061**	**3,436**	**455**

As at 31 December 2017, the Company accounted for a provision amounting to EUR 2,903 thousand related to the guarantee issued to the subsidiaries for loans obtained by Energetikos Paslaugų ir Rangos Organizacija UAB under the group account (cashpool).

The dividends declared in 2018 and 2017 are disclosed in Note 37.

Compensation to key management personnel:

	Group		Company	
	2018	2017	2018	2017
Wages and salaries and other short-term benefits to management personnel	3,681	3,590	815	705
Whereof: termination benefits and benefits to Board Members	402	357	118	56
Number of key management personnel	55	61	10	10

Management in the table above comprise heads of administration of all subsidiaries and their deputies.

40 Segment reporting

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

In management's opinion, the Group has four operating segments:

– Distribution of electricity and gas (carried out by Energijos Skirstymo Operatorius AB) and electricity supply carried out in the scope of ensuring public supply functions (carried out Lietuvos Energijos Tiekimas UAB, former Lietuvos Dujų Tiekimas UAB);
– Electricity generation (carried out by Lietuvos Energijos Gamyba AB, Eurakras UAB, Tuuleenergia OU, Vėjo Gūsis UAB, Vėjo Vatas UAB);
– Trade in electricity (carried out by Energijos Tiekimas UAB, Gamybos Optimizavimas UAB);
– Trade in gas (carried out by Lietuvos Energijos Tiekimas UAB, former Lietuvos Dujų Tiekimas UAB and LITGAS UAB).

The following services and entities comprise the other segments:

– support services (NT Valdos UAB, Technologijų ir Inovacijų Centras UAB, Verslo Aptarnavimo Centras UAB and others);
– non-core activities (Energetikos Paslaugų ir Rangos Organizacija UAB, Duomenų Logistikos Centras UAB);
– special purpose entities which are responsible for implementation of special projects and construction of new cogeneration power plants (Kauno Kogeneracinė Jėgainė UAB and Vilniaus Kogeneracinė Jėgainė UAB);
– service entities (Elektroninių Mokėjimų Agentūra UAB);
– as well as parent company Lietuvos Energija UAB, which does not constitute a separate operating segment, however it is disclosed separately, as its net profit exceeds 10% of profit of all profit generating segments. The Group's support service entities and special purpose entities are aggregated to a single segment as none of them individually meet recognition criteria of an operating segment.

The Group has single geographical segment – the Republic of Lithuania, electricity sales in Latvia and Estonia are not significant for the Group. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of revenue and expenses. The primary performance measure is adjusted EBIDTA, which is calculated based on data presented in the financial statements prepared in accordance with IFRS as adjusted for selected items which are not recognised under IFRS. The Group's Board does not analyse assets and liabilities of the segments.

All amounts in EUR thousands unless otherwise stated

Management's adjustments and adjusted EBITDA

Management's adjustments used in calculating adjusted EBITDA:

Segment / Management's adjustments	2018	
	2018	2017
Electricity supply and distribution and gas distribution		
Recalculation of regulated revenue of Energijos Skirstymo Operatorius AB	63,961	10,885
Recalculation of regulated revenue of Lietuvos Energijos Tiekimas UAB related to public electricity supply activity	15,846	-
Electricity generation		
Recalculation of regulated revenue of Lietuvos Energijos Gamyba, AB	-	(11,367)
Regularisation of commercial activities of Lietuvos Energijos Gamyba, AB	-	(5,438)
Trade in gas		
Lietuvos Energijos Tiekimas UAB, gas price discount provided by Gazprom	-	8,712
Recalculation of regulated revenue of LITGAS UAB	4,496	7,807
Recalculation of regulated revenue of Lietuvos Energijos Tiekimas UAB related to gas supply to household customers	4,568	1,024
Change in market value of open financial derivative instruments of Lietuvos Energijos Tiekimas UAB	(167)	-
Trade in electricity		
Change in market value of open financial derivative instruments of Energijos Tiekimas UAB	(14,702)	(1,055)
	74,002	**10,568**

Electricity supply, distribution and gas distribution segment

Adjusted EBITDA is calculated by adding management's adjustments that comprise the impact of the recalculation of regulated activity revenue of prior periods resulting from the Commission's resolutions and by deducting the current year difference arising between the return on investments permitted by the Commission and estimated by management. In management's opinion the adjusted EBITDA more accurately presents results of operations and enables to compare results between the periods as it indicates the amount that was actually earned by the Group in the reporting year by eliminating differences between the permitted return on investments set by the Commission and the actual return on investments of prior periods that may have both positive and negative impact on the current year results.

Electricity generation segment

In 2014, the Commission adopted a resolution, by which Lietuvos Energijos Gamyba AB ('LEG') was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at LEG's hydroelectric power plants were subject to restriction by deducting the respective amount from the PSO funds approved for LEG. In 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of the Commission was repealed. Despite the adoption of the court's judgement, the Commission has not passed a resolution on the compensation of the PSO funds not paid to LEG during 2016. As a result, reduction of revenue from PSO funds recognised by LEG in 2016 amounted to EUR 1,876 thousand. On the other hand, at the end of 2017 in implementing the court's judgement the Commission allocated for LEG the PSO funds of EUR 5,438 thousand for 2018 that will compensate revenue not received by LEG in 2015. This amount was recognised as revenue in the 2017 financial statements. The adjustments were intended to reflect the normalised performance results for the current year.

In 2014, the Commission completed the audit 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 this recalculation related to the previous period, revenue from capacity reserve services approved for LEG for the year 2016 was reduced by EUR 3,722 thousand. In 2017 the Commission inspected the PSO funds allocated to LEG during 2010-2015, and in 2017 introduced changes in the principles for determination of allocated PSO funds, with relevant changes in the regulatory framework. Due to these changes, in the 2017 financial statements LEG recognised revenue of EUR 11,367 thousand in relation to recalculation of PSO revenue recognised in the previous periods. The adjustments were intended to reflect LEG's normalised performance results for the current year.

Trade in gas segment

Management's adjustment comprises the gas price discount provided by Gazprom and applied to customers during 2017, which amounted to EUR 19 million (2016: EUR 40 million) (as a result of a retrospective decrease in the import price of natural gas for the period from 1 January 2013 to 30 April 2014) and the change in the related provision – EUR 10.3 million (2016: EUR 11.1 million) (by estimating losses to be incurred from the application of the mentioned discount to private and business customers in the future based on the agreements signed). In management's opinion these factors are related to the previous periods.

Adjusted EBITDA is calculated by eliminating deviations arising from the difference between the projected and actual LNG acquisition and realisation prices and quantities, and other variances that occurred during the year between expenses included in the security component and actually incurred expenses and revenue. In 2018, these variances amounted to EUR 4.5 million (2017: EUR 7.8 million). EBITDA of non-regulated activities was included as per actual data.

Adjusted EBITDA is calculated by eliminating deviations arising in the activity of gas supply to household customers due to the variance between actual and projected prices for the acquisition price of natural gas, security component and other components established in the calculation methodology used by the Commission. In 2018, these deviations amounted to EUR 4.6 million (2017: EUR 1.0 million).

Trade in electricity segment

Adjusted EBITDA is calculated by eliminating the difference between derivatives, booked in the statement of the financial position, fair value (Mark to market) and acquisition price – unrealized profit.

All amounts in EUR thousands unless otherwise stated

The table below shows the Group's information on segments for 2018.

2018	Electricity supply and distribution and gas distribution	Electricity generation	Trade in gas	Trade in electricity	Other segments		Adjustments on consolidation and elimination of intercompany transactions	Total
					Parent company	Other segments		
Revenue from external clients								
Revenue from contracts with customers	*582,664*	*121,322*	*336,068*	*162,914*	*-*	*5,476*	*-*	*1,208,444*
Other income	*53*	*4,678*	*161*	*28,702*	*688*	*11,500*	*-*	*45,782*
Inter-segment revenue	110,726	14,019	57,870	8,587	70,581	53,075	(314,858)	-
Total revenue	**693,443**	**140,019**	**394,099**	**200,203**	**71,269**	**70,051**	**(314,858)**	**1,254,226**
Expenses	*(714,919)*	*(101,875)*	*(390,616)*	*(191,769)*	*(24,444)*	*(72,617)*	*236,820*	*(1,259,420)*
Whereof:								
Depreciation and amortisation	*(56,413)*	*(22,464)*	*(89)*	*(1,029)*	*(7)*	*(6,521)*	*(937)*	*(87,460)*
Impairment expenses and write-offs of property, plant and equipment	*(54,330)*	*(501)*	*-*	*-*	*-*	*(2,594)*	*(7,960)*	*(65,385)*
Revaluation of emission allowances	*-*	*8,933*	*-*	*-*	*-*	*-*	*-*	*8,933*
Short term and long term amounts write-offs and impairments	*16*	*(358)*	*(252)*	*(617)*	*(11,198)*	*(76)*	*-*	*(12,512)*
Management's adjustments*	**79,807**	**-**	**8,897**	**(14,702)**	**-**	**-**	**-**	**74,002**
Adjusted EBITDA	**169,058**	**52,561**	**12,721**	**(4,622)**	**58,031**	**6,624**	**(69,141)**	**225,232**
Operating profit (loss)	(21,476)	38,144	3,483	8,434	46,826	(2,567)	(78,038)	(5,194)
Interest income	89	139	233	27	10,040	12	(9,113)	1,427
Interest (expenses)	(6,395)	(1,950)	(605)	(263)	(11,217)	(797)	8,784	(12,443)
Other income (expenses) of financing activities	(232)	(1,036)	34	81	(923)	(175)	(12)	(2,263)
Share of results of associates	179	124	-	-	-	-	(303)	-
Derivative financial instruments	-	-	-	-	(572)	-		(572)
Profit before income tax	**(27,835)**	**35,421**	**3,145**	**8,279**	**44,154**	**(3,527)**	**(78,682)**	**(19,045)**
Income tax	10,226	(5,830)	5,675	(1,804)	962	(1,458)	3,332	11,103
Net profit (loss)	**(17,609)**	**29,591**	**8,820**	**6,475**	**45,116**	**(4,985)**	**(75,350)**	**(7,942)**
Total assets at 31 December 2018	**1,591,642**	**756,547**	**177,226**	**133,256**	**2,090,120**	**260,255**	**(2,154,951)**	**2,854,095**

** Management's adjustments used in calculating adjusted EBITDA are related to recognition of excess profits from regulated activities (electricity supply and distribution and gas distribution segment, segments of trade in electricity and trade in gas).*

All amounts in EUR thousands unless otherwise stated

The table below shows the Group's information on segments for 2017.

2017	Electricity supply and distribution and gas distribution	Electricity generation	Trade in gas	Trade in electricity	Other segments		Adjustments on consolidation and elimination of intercompany transactions	Total
					Parent company	Other segments		
Continuing operations								
Revenue from external clients								
*Revenue from contracts with customers***	*560,287*	*110,004*	*289,717*	*104,257*	*-*	*16,954*	*-*	*1,081,219*
*Other income***	*6,098*	*1,789*	*254*	*46*	*515*	*10,910*	*-*	*19,612*
Inter-segment revenue	45,924	46,780	38,108	7,105	127,677	54,882	(320,476)	-
Total revenue	**612,309**	**158,573**	**328,079**	**111,408**	**128,192**	**82,746**	**(320,476)**	**1,100,831**
Expenses	(526,953)	(137,728)	(330,109)	(106,372)	(22,033)	(92,735)	212,232	*(1,003,698)*
Whereof:								
Depreciation and amortisation	*(50,385)*	*(27,891)*	*(64)*	*(1,060)*	*(3)*	*(7,731)*	*(223)*	*(87,357)*
Impairment expenses and write-offs of property, plant and equipment	*(4,339)*	*(32,444)*	*(129)*	*(940)*	*(12,612)*	*(11,036)*	*15,584*	*(45,916)*
Revaluation of emission allowances	*-*	*2,296*	*-*	*-*	*-*	*-*	*-*	*2,296*
Management's adjustments*	**10,885**	**(16,805)**	**17,543**	**(1,055)**	**-**	**-**	**-**	**10,568**
Adjusted EBITDA	**150,965**	**62,079**	**15,706**	**5,981**	**118,774**	**8,778**	**(123,605)**	**238,678**
Operating profit (loss)	85,356	20,845	(2,030)	5,036	106,159	(9,989)	(108,244)	97,133
Interest income	122	161	140	21	3,147	58	(2,129)	1,520
Interest (expenses)	(2,321)	(2,280)	(560)	(137)	(3,802)	(764)	2,006	(7,858)
Other income (expenses) of financing activities	1,773	(418)	64	(44)	(48)	(599)	(1,326)	(597)
Share of results of associates	(137)	101	-	-	-	-	36	-
Profit before income tax	**84,793**	**18,409**	**(2,386)**	**4,876**	**105,456**	**(11,293)**	**(109,657)**	**90,198**
Income tax	(7,241)	4,503	4,001	(356)	458	1,132	830	3,327
Net profit (loss) from continuing operations	**77,552**	**22,912**	**1,615**	**4,520**	**105,914**	**(10,161)**	**(108,827)**	**93,525**
Net profit (loss) from discontinued operations	**-**	**-**	**-**	**-**	**-**		**-**	**-**
Net profit (loss)	**77,552**	**22,912**	**1,615**	**4,520**	**105,914**	**(10,161)**	**(108,827)**	**93,525**
Total assets at 31 December 2017	**1,277,802**	**699,953**	**128,506**	**59,594**	**1,889,290**	**208,320**	**(1,758,397)**	**2,505,068**

** Management's adjustments used in calculating adjusted EBITDA are related to Gazprom gas price discount, recognition of excess profits from regulated activities (electricity supply and distribution and gas distribution segment, electricity generation segment, segments of trade in electricity and trade in gas) and regularisation of electricity generation commercial activity, which was annulled by the court's decision.*
*** Reclassified following the coming into effect of IFRS 15 from 1 January 2018 (Note 2.1)*

All amounts in EUR thousands unless otherwise stated

41 Business combinations

One of the Group's development directions is investments in renewable energy sources, therefore three companies engaged in the development of wind parks were acquired in 2018.

On 10 October 2018, the Competition Council of the Republic of Lithuania passed the decision clearing the concentration by the acquisition of 100% of shares of Vėjo Vatas UAB and 100% of shares of Vėjo Gūsis UAB by the Company and acquisition of a full control over the latter companies according to the presented announcement on concentration. On 5 November 2018, the Company entered into the share purchase and sale agreement regarding the acquisition of 100% of shares of Vėjo Vatas UAB and Vėjo Gūsis UAB and the shareholder's claim rights. The Company's investment in Vėjo Vatas UAB and Vėjo Gūsis UAB amounted to EUR 6,132 thousand and EUR 12,919 thousand, respectively. Both investments were fully paid as at 31 December 2018.

On 27 December 2018, the Company acquired a 100% shareholding in VVP Investment UAB from the group of natural and legal persons. As at 31 December 2018, ownership rights of shares were held by the Company and the total investment in VVP Investment UAB amounted to EUR 1,962 thousand. As at 31 December 2018, the paid up part of the investment amounted to EUR 1,237 thousand, diluted price premium amounted to EUR 150 thousand, suspended payment – EUR 100 thousand and a respective remaining unpaid part of the investment – EUR 475 thousand. The remaining unpaid part of the investment will be paid in 2019-2021.

The Group applied the purchase method to account for these business combinations according to the provisions of IFRS 3. Under the latter method, the acquisition cost is measured as the sum of the fair values, at the date of exchange, of assets given, liabilities incurred and equity instruments issued in exchange for control of the business being acquired.

During business combinations (Vėjo Vatas UAB, Vėjo Gūsis UAB and VVP Investment UAB) the Group established that the difference between the acquisition cost of the businesses and the fair value of the net assets acquired represents goodwill and/or one and/or several items of assets have probably been acquired.
The Group's management had not finalised the assessment of the initial accounting for business combinations as at 31 December 2018 as the period for the assessment of the business combination has not expired yet which will end when the necessary information about facts and circumstances that existed at the acquisition date will be obtained and which cannot be longer than one year after the acquisition date.
As at 31 December 2018, temporary values of assets and liabilities, the assessment of which was not completed, included as follows: fair value of net assets and value of assets and goodwill identified on business combination. During the assessment period the Group will recognise adjustments to the temporary values as if the accounting for business combination was completed at the acquisition date. Accordingly, the Group will review, if appropriate, comparative figures presented in the financial statements and also, if appropriate, will perform any changes in the impact of depreciation, amortisation or other income that were recognised in nearing the completion of the initial accounting.

On business combination, assets and liabilities of Vėjo Vatas UAB, Vėjo Gūsis UAB and VVP Investment UAB were identified with the following fair values at the date of acquisition:

	Vėjo Vatas UAB	Vėjo Gūsis UAB	VVP Investment UAB	Total
Property, plant and equipment	16,708	20,393	7	37,108
Other non-current amounts receivable	229	389	2	620
Amounts receivable within one year	471	670	48	1,189
Cash and cash equivalents	33	61	-	94
Borrowings, non-current liabilities	-	-	(157)	(157)
Finance lease, non-current liabilities	(7,562)	(7,055)	-	(14,617)
Finance lease, current liabilities	(2,437)	(2,649)		(5,086)
Current liabilities	(3,079)	(446)	(88)	(3,613)
				-
Net assets	4,398	11,432	(188)	15,642
Goodwill arising on business combination	1,734	1,487	2150	5,371
Purchase consideration paid	6,132	12,919	1962	21,013
Liability for acquisition of shares	-	-	(725)	(725)
Net cash outflow on acquisition of subsidiaries:				
Cash paid to sellers of shares	(6,132)	(12,919)	(1,237)	(20,288)
Cash paid for loans of the sellers of shares	(2,547)			(2,547)
Cash and cash equivalents at acquired companies	33	61	-	94
Net cash flow	**(8,646)**	**(12,858)**	**(1,237)**	**(22,741)**

42 Events after the reporting period

On 1 January 2019, the reorganisation of the Group companies Lietuvos Energijos Tiekimas UAB and Litgas UAB was finalised. The companies are reorganised by way of merger – Litgas UAB, which will cease its activities after the reorganisation, is merged with Lietuvos Energijos Tiekimas UAB, which continues its activities. All assets, rights and obligations of Litgas UAB will be taken over by Lietuvos Energijos Tiekimas UAB which continues its activities.

On 31 December 2018, the Company announced that in developing the green energy activity and aiming to optimise operations of the controlled companies engaged in renewable energy production it approved the establishment of a new company Lietuvos Energija Renewables UAB, which will become a transferee of shares of all already controlled and developed wind power parks. This decision was approved by the holder of the Company's shares – the Ministry of Finance of the Republic of Lithuania. From the beginning of 2019, the new company will hold five companies that operate wind power parks, which are already active or under development, in Lithuania and Estonia. The Articles of Association of Lietuvos Energija Renewables UAB were registered with the Register of Legal Entities on 14 January 2019. On 28 March 2019, the share purchase and sale agreements were signed regarding the transfer of 100% of shares of the Company's subsidiaries developing projects on renewable energy resources to Lietuvos Energija Renewables UAB. Upon the transfer of shares of the renewable energy companies within the Group, the Company's ownership interest in the companies remains unchanged.

The shares of the renewable energy companies are transferred for the carrying amount of investments in shares and the related liabilities, therefore the impact of the transfer of shares on the financial performance of the Company and the Group is neutral.

On 29 January 2019, the sitting of the shareholders was held where it was decided to approve the reorganisation of Lietuvos Energijos Tiekimas UAB and Energijos Tiekimas UAB by merging Energijos Tiekimas UAB to Lietuvos Energijos Tiekimas UAB. On 13 February 2019, the reorganisation terms of Lietuvos Energijos Tiekimas UAB and Energijos Tiekimas UAB were announced.

On 29 January 2019, the Company signed the guarantee agreement with Swedbank Lizingas UAB, based on which unfulfilled or improperly fulfilled obligations of Vėjo Gūsis UAB and Vėjo Vatas UAB assumed under finance lease contracts are secured.

On 29 January 2019, the Company signed the new credit agreement with SEB bankas AB, based on which the Company is able to borrow EUR 100 million. The repayment term in 2021.

On 30 January 2019, the new version of the Articles of Association of the Group's company Vilniaus Kogeneracinė Jėgainė UAB related to increase in share capital was registered with the Register of Legal Entities.
On 14 January 2019, a decision was passed to increase the share capital of the Group's company Vilniaus Kogeneracinė Jėgainė UAB up to EUR 52,300 thousand. The initial contribution of EUR 4,000 thousand was paid by the Company in cash on 23 January 2019. The Company also made a non-cash contribution amounting to EUR 386 thousand (business consultations relating to engineering and construction preparatory works for Vilnius co-generation power plant). The remaining unpaid part of subscribed shares needs to be paid by the Company within 12 months from the date of signing of the share subscription agreement (22 January 2019).

On 11 February 2019, the Ministry of Finance of the Republic of Lithuania transferred to the Group company Lietuvos Energijos Gamyba AB the compensation of EUR 9,276 thousand for the indemnification of potentially inflicted damage by Alstom Power Ltd during the implementation of the project of the public limited liability company Lietuvos Elektrinė (Lithuanian Power Plant) (the rights and obligations of which were taken over by the Company) in 2005–2009 entitled *Installation of low pressure Nox burners and burner's management system with installations and interlocks for heating control and protection against explosion*. This compensation was awarded to the Republic of Lithuania by the court of the Great Britain.

On 15 February 2019, the State Property Fund applied to Klaipėda Regional Court for the initiation of bankruptcy proceedings against heat production company based in Klaipėda Geoterma UAB. The Group holds 23.44% of shares of Geoterma UAB.

The preliminary agreements on the sale of real estate were signed during real estate sale auctions conducted within the Group on 28 February 2019. The total amount of future transactions is EUR 11,148 thousand plus VAT.

On 12 March 2019, the Company signed the agreement with Lietuvos Energijos Tiekimas UAB for the granting of a long-term loan of EUR 27 million, which is designated for the financing of the acquisition of the public electricity supply business from Energijos Skirstymo Operatorius AB. The repayment date of the loan is 29 March 2024. The agreement does not provide for any other additional obligations (guarantees, suretyship, pledges, etc.) to enforce obligations.

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2018-04-16

CERTIFICATION STATEMENT

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, Darius Maikštėnas, Chief Executive Officer of UAB Lietuvos energija and, Darius Kašauskas, Finance and Treasury Director, and Giedruolė Guobienė Head of Accounting services Centre of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, UAB Lietuvos energija consolidated and Company's financial statements for the financial year 2018 prepared in accordance with International Reporting Standards as adopted by the European Union give a true and fair view of assets, liabilities, financial position, profit or loss for the period and cash flows of UAB Lietuvos energija and whole Group, and that the review of activities and business development as well as the condition of UAB Lietuvos energija together with the description of the principle risks and uncertainties it faces has been described correctly in the UAB Lietuvos energija Annual report for 2018.

UAB Lietuvos energija Chief Executive Officer	Darius Maikštėnas
UAB Lietuvos energija Finance and Treasury Director	Darius Kašauskas
Verslo aptarnavimo centras UAB, Head of Accounting services Centre, acting under Order No. IS18-77 (signed 2018 08 13)	Giedruolė Guobienė