

2018-02-28 No. SD-160

CERTIFICATION STATEMENT

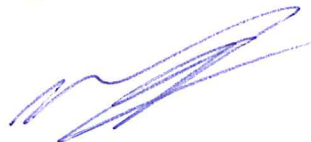
Referring to the provisions of the Article 24 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, the undersigned Lietuvos energijos gamyba, AB Eglė Čiužaitė, Chief Executive Officer, Mindaugas Kvekšas, Director of Finance and Administration, and Renata Baliūnaitė, Manager of Reporting of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, Lietuvos energijos gamyba, AB Interim Financial Information for the twelve-month period ended 31 December 2017 prepared according to International Financial Reporting Standards adopted by the European Union, give a true and fair view of Lietuvos energijos gamyba, AB assets, liabilities, financial position, profit or loss for the period and cash flows, the Interim Report for the twelve-month period includes a fair review of the activities business development as well as the condition of Lietuvos energijos gamyba, AB.

Chief Executive Officer



Eglė Čiužaitė

Director of Finance and Administration



Mindaugas Kvekšas

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



Renata Baliūnaitė

2017

LIETUVOS ENERGIJOS GAMYBA AB

COMPANY'S INTERIM FINANCIAL STATEMENTS FOR THE FORTH QUARTER OF 2017 AND 12 MONTHS OF 2017 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, INTERIM REPORT (UNAUDITED)



Group of energy
companies

www.le.lt

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

CONTENTS

| | |
|---|--------------|
| INTERIM FINANCIAL STATEMENTS | 3-50 |
| Interim statement of financial position | 4 |
| Interim statement of comprehensive income | 5-6 |
| Interim statement of changes in equity | 7 |
| Interim statement of cash flows | 8 |
| Notes to the interim financial statements | 9-50 |
| INTERIM REPORT | 51-87 |

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



Eglė Čiužaitė
Chief Executive Officer



Mindaugas Kvekšas
Director of Finance and Administration



Renata Baliūnaitė
Manager of Reporting of Verslo
Aptarnavimo Centras UAB (acting
under Order No IS17-80 of 28 August
2017)

2017

LIETUVOS ENERGIJOS GAMYBA AB

COMPANY'S INTERIM FINANCIAL STATEMENTS FOR THE FORTH QUARTER OF 2017 AND 12 MONTHS OF 2017 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



**Lietuvos
energija**

GAMYBA



**Lietuvos
energija**

Group of energy
companies

www.le.lt



Group of energy companies www.le.lt

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

(All amounts are in EUR thousands unless otherwise stated)

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

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

„Lietuvos Energijos Gamyba AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

(All amounts are in EUR thousands unless otherwise stated)

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

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

„Lietuvos Energijos Gamyba AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

(All amounts are in EUR thousands unless otherwise stated)

| | Notes | 2017 IV Q | 2016 IV Q |
|--|-------|---------------------|--------------------|
| Revenue | | | |
| Sales revenue | | 50,515 | 50,875 |
| Other operating income | | 1,660 | 713 |
| | | 52,175 | 51,588 |
| Expenses | | | |
| Purchase of electricity and related services | | (6,766) | (6,695) |
| Gas, biofuel and heavy fuel expenses | | (6,958) | (12,401) |
| PP&E impairment loss | | (31,373) | (601) |
| Depreciation and amortisation | | (6,229) | (5,139) |
| Wages and salaries and related expenses | | (2,269) | (1,971) |
| Repair and maintenance expenses | | (1,422) | (2,207) |
| Emission allowance revaluation and release (expenses)/income | | 299 | 2,664 |
| Impairment (expenses) of other non-current assets /reversal | | 412 | 632 |
| Inventory write-down allowance/reversal | | 2 | 40 |
| Other expenses | | (1,859) | (5,832) |
| Total expenses | | (56,163) | (31,510) |
| OPERATING PROFIT | | | |
| | | (3,988) | 20,078 |
| Finance income (costs): | | | |
| Finance income | | 29 | - |
| Finance (costs) | | (159) | (338) |
| | | (130) | (338) |
| Share of results of operations of associates | | (94) | 137 |
| PROFIT BEFORE INCOME TAX | | | |
| | | (4,212) | 19,877 |
| Deferred income tax benefit / (expenses) | | 5,048 | (1,909) |
| NET PROFIT (LOSS) FOR THE YEAR | | | |
| | | 836 | 17,968 |
| Other comprehensive income (loss) | | | |
| | | | - |
| Income on revaluation of emission allowances | | 1,512 | - |
| Deferred income tax benefit / (expenses) | | (227) | - |
| Total other comprehensive income (loss) | | 1,285 | - |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR | | | |
| | | 2,121 | 17,968 |
| Basic and diluted earnings (loss) per share (in EUR) | | | |
| Weighted average number of shares | | 6,35,083,615 | 635,083,615 |

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

Lietuvos Energijos Gamyba AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
INTERIM STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

(All amounts are in EUR thousands unless otherwise stated)

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

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

Lietuvos Energijos Gamyba AB, company code: 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
INTERIM STATEMENT OF CASH FLOWS
Fort the year ended 31 December 2017

(All amounts in EUR thousands unless otherwise stated)

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

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

(All amounts in EUR thousands unless otherwise stated)

1 General information

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

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

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

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

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

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

2 Accounting policies

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

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policies

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

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

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

Disclosure Initiative – Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The reconciliation of movements in outstanding balances of the Company's financial liabilities to cash flows from financing activities is presented in Note 37.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Company had no unrealised losses related to debt instruments.

The above-listed amendments and improvements had no impact on the Company.

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

Assessment as to how IFRS 9 affects the financial statements:

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

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

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

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

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

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

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

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

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

Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts – Amendments to IFRS 4 (effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach). The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. The amendments to IFRS 4

(All amounts in EUR thousands unless otherwise stated)

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

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

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

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company is currently assessing the impact of these amendments on its financial statements.

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

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence generally accompanies a shareholding of between 20% to 50% of the voting rights.

In the financial statements of the Company, results of operation of associates are accounted for using an equity method, except when the investment is classified as held-for-sale and it is recognised according to IFRS 5 *Non-current assets held for sale and discontinued operations*. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the share of the net assets of the investee, less any impairment in the value of individual investments. The Company's share of post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income.

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

Property, plant and equipment

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

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

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

(All amounts in EUR thousands unless otherwise stated)

Intangible assets

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

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

Depreciation and amortisation

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

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

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

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (without exceeding the sum of previous value impairment) as described in Note 2.4.

Emission allowances

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

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

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

A Member State is to assure that an operator of each emission unit will submit data on the unit's actual amount of greenhouse gas emissions during the current calendar year not later than by 30 April of the next year.

Intangible assets

The EU emission allowances are treated as intangible assets that were provided by the state in the form of non-monetary grant and that should be accounted for at fair value at the moment of their issuance or transfer.

After the initial recognition emission allowances are revalued at fair value using the active market prices. Increases in the carrying amount arising on the revaluation of emission allowances are credited against revaluation reserve directly to equity and decreases in excess of the previously accumulated amount in the revaluation reserve are recognised in the profit and loss account. On realisation of emission allowances, the respective positive balance of the revaluation reserve is taken directly to retained earnings.

Government grant

The EU emission allowances provided to the Company free of charge are treated as a non-monetary government grant which is recognised at fair value at the date of its receipt or issuance. Subsequently, the government grant is recognised as income in proportion to emission allowances utilised during the validity period of emission allowances or upon their disposal.

Provision for utilisation of emission allowances

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

Lending of emission allowances

Lending of emission allowances is a sale transaction during which assets is disposed and the right to receive emission allowances is acquired. The right to receive emission allowances is recognised as other non-current assets. Such assets are initially recognised at acquisition cost, and subsequently such assets are tested for impairment as described in Note 2.5.

(All amounts in EUR thousands unless otherwise stated)

2.3 Financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

Effective interest rate method

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

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

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

(All amounts in EUR thousands unless otherwise stated)

2.4 Inventories

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

2.5 Cash and cash equivalents

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

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

2.6 Financial liabilities and equity instruments issued by the Company

Recognition of instruments as debt or equity instruments

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

Equity instruments

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

Financial liabilities

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

Other financial liabilities

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

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

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

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

Derecognition of financial liabilities

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

2.7 Foreign currency

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

The exchange rates used for principal currencies were as follows:

| | <u>At 31 December 2017</u> | <u>At 31 December 2016</u> |
|-------|----------------------------|----------------------------|
| USD 1 | EUR 0.8300 | EUR 0.9567 |

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

(All amounts in EUR thousands unless otherwise stated)

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

2.8 Grants

Asset-related grants

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

Income-related grants

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

2.9 Provisions

Provisions are recognised when the Company has a legal obligation or irrevocable commitment as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects that provision amount in part or in full will be compensated, e.g. by insurance, compensation to be received is recorded as a separate asset, but only when it is virtually certain. Expenses related to provisions are recorded in the statement of comprehensive income, net of compensation receivable. If the effect of the time value of money is material, the amount of provision is discounted using the effective pre-tax discount rate set based on the interest rates for the period and taking into account specific risks associated with the provision as appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance costs.

Provisions for pension benefits

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

2.10 Employee benefits

(a) Social security contributions

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

(b) Termination benefits

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

(c) Bonus plans

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

(All amounts in EUR thousands unless otherwise stated)

2.11 Leases

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

Where the Company is a lessor

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

Finance lease – where the Company is a lessee

The Company accounts for finance leases as assets and liabilities in the balance sheet at the lower of the fair value of assets leased on the commencement of lease and the present value of minimum finance lease payments.

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

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

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

Operating lease – where the Company is a lessee

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

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

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

2.12 Segment reporting

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

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

2.13 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with a transaction will flow to the Group/Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, returns of goods and discounts. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sale of electricity

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

Revenue from electricity-related services

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

(All amounts in EUR thousands unless otherwise stated)

Tariff regulation

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

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

Tariffs for import and export of electricity are not regulated.

The Company generates income from public service obligation fees (PSO service fees). PSO service fees are the fees payable to the producers of electricity under a public service obligations scheme based on pre-determined annual quantities and prices of services set by the NCC. The tariff is established by the NCC based on the estimates of variable and fixed electricity production costs provided by the producers. Thus, the difference between accrued income and actually paid amounts during a year is recognised as non-current amounts receivable (accrued income) or amounts payable (deferred income) under the line items 'Other amounts receivable' or 'Other non-current amounts payable and liabilities'. At the end of the next year, this amount is reclassified as a current amount receivable/payable under the line items 'Other amounts receivable' or 'Advance amounts received'.

Other operating income

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

Recognition of expenses

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

2.14 Borrowing costs

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

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

2.15 Income tax

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

Income tax

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

Deferred income tax

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

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

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

Current income tax and deferred income tax

Current income tax and deferred income tax are recognised as income or expenses and included in net profit or loss for the reporting period, except for the cases when tax arises from a transaction or event that is recognised directly in equity, in which case taxes are also recorded in equity.

(All amounts in EUR thousands unless otherwise stated)

2.16 Earnings per share

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

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

2.17 Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities in business combinations. They are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2.18 Events after the end of the reporting period

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

2.19 Related parties

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

2.20 Inter-company offsetting

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

2.21 Fair value

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

3 Critical accounting estimates and uncertainties

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

Depreciation rates of property, plant and equipment

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

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

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

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

Revaluation of property, plant and equipment

In 2017 and 2016, the Company accounted for property, plant and equipment, except for the assets of Hydro Power Plant, Pumped Storage Power Plant, Elektrėnai Complex (Combined-Cycle Unit and Reserve Power Plant), at revalued amount in accordance with IAS 16 *Property, Plant and Equipment*.

In 2017 and 2016, no independent property valuation was performed in respect of the Company's assets carried at revalued amount, since, in the opinion of management, the fair value of assets did not differ significantly from the carrying amount. The values of these assets are disclosed in Note 6.

On 31 December 2013, independent property valuers Turto ir Verslo Tyrimo Centras UAB and OBER-HAUS UAB determined the market value of the Company's assets stated at revalued amount. The valuation was performed using the comparable and cost method.

Impairment of property, plant and equipment

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

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

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

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

Considering the resolutions adopted by the National Control Commission for Prices and Energy (the NCC) in relation to the establishment of prices of public service obligation (PSO) services for the year 2018, and in view of the position taken by the Ministry of Energy in relation to the scope and future demand for the PSO services rendered by the Company, the Company's management decided to distinguish two separate cash generating units of the Elektrėnai Complex (the EC): (1) the EC's Combined-Cycle Unit (the CCU) together with Biofuel and Steam Boiler Plants, including the EC's commonly shared infrastructure, which is necessary for electricity generation, and (2) the EC's Units 7 and 8. In addition, the Company's management decided to review the assumptions pertaining to the expected earnings from the EC's Units 7 and 8.

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

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

(All amounts in EUR thousands unless otherwise stated)

3 Critical accounting estimates and uncertainties (continued)

- The Biofuel and Steam Boiler Plants share the same infrastructure with other facilities of the EC (electricity connections, thermal power networks, other pipelines, pumps, chemical bar, etc.), which represents the major part of all assets operated by the EC. The steam boilers have been mounted in the same building, which is used for the services provided by CCU, and the main purpose of use of the boilers (99.3% of assets of the Steam Boiler Plant are attributed to this area) is to activate the electricity generation units of the EC from "cold" operation mode and to generate steam energy that is necessary to support the infrastructure of the EC;
- The Biofuel and Steam Boiler Plants also supply thermal power that is necessary to support the infrastructure of the Elektrėnai Complex and to activate the electricity generation units of the Elektrėnai Complex.

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

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

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

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

1. Value in use was estimated with reference to the most up-to-date budget for the year 2018 and the management's forecast covering the period 2019-2024, the projected pre-tax discounted cash flows using a pre-tax weighted average capital cost (WACC) of 4.97%. The WACC was estimated with reference to long-term borrowing cost in the market, based on the terms and conditions of the new credit agreement and capital cost;
2. Cash flow forecasts are prepared by the management as a result of financial projections based on the financial performance results, market development expectations and regulatory environment. The forecast of revenue from regulated activities also take into account the depreciation expenses of property, plant and equipment and the return on investments, which is calculated on the value of assets used in the regulated activities. When estimating return on investments, the management used the rate of return on investments set by the NCC for the year 2018, which was 4.95%. Cash flow forecasts were prepared in view of the position taken by the Ministry of Energy that Units 7 and 8 should be kept until the testing of operating mode to be carried out in 2019, and in view of the lack of an actively operating long-term strategic power reserve mechanism. For this reason, in the Company's opinion, Units 7 and 8 are not likely to generate any revenue as from 2020.

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

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

Impairment of investments in associates

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

Provisions for emission allowances

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

(All amounts in EUR thousands unless otherwise stated)

Accrual of income from PSO services

Part of funds for PSO and tertiary capacity reserve services are allocated for the maintenance of infrastructure of the Elektrėnai Complex and for the compensation of the necessary trial costs of electricity generation facilities. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes.

Allocated amount of PSO funds and the price for capacity reserve services are determined for the next calendar year by the NCC in view of the projected costs of the Company. In the Company's financial statements, income from these services is recognised on accrual basis based on actually incurred costs.

As at 31 December 2017, the Company recognised PSO funds of EUR 5,034 thousand within 'Other non-current amounts payable and liabilities' (Note 21) to be refunded in 2019 (31 December 2016: PSO funds of EUR 9,404 thousand to be refunded in 2018, without taking into account the discounting effect). The PSO funds to be refunded in 2019 arose from lower than established actual fixed and variable costs incurred in the provision of regulated services. As at 31 December 2017, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 0.92% was used, and discounting effect of EUR 51 thousand was recognised within 'Other financial income'.

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

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

Accrual of income from capacity reserve services

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

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

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

Disposal of part of business

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

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

(All amounts in EUR thousands unless otherwise stated)

4 Financial risk management

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

Financial instruments by category

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

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

Credit risk

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

4 Financial risk management (continued)

Liquidity risk

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

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

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

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

Interest rate risk

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

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

Foreign exchange risk

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

Securities price risk

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

Fair value of financial assets and liabilities

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

5 Intangible assets

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

6 Property, plant and equipment

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

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

(All amounts in EUR thousands unless otherwise stated)

6 Property, plant and equipment (continued)

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

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

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

(All amounts in EUR thousands unless otherwise stated)

6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

7 Investments

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

The Company's investments into associates comprised as follows:

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

7 Investments (continued)

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

8 Other non-current assets

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

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

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

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

9 Inventories

The Company's inventories comprised as follows:

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

The cost of the Company's inventories stated at net realisable value as at 31 December 2017 amounted to EUR 2,594 thousand (31 December 2016: EUR 3,079 thousand).

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

10 Trade receivables

The Company's trade receivables comprised as follows:

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

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

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

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

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

11 Other financial assets

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

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

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

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

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

Disposal of subsidiaries and associates

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

11 Other financial assets (continued)

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

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

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

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

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

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

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

12 Loans granted

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

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

13 Cash and cash equivalents

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

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

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

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

14 Share capital and share premium

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

15 Revaluation reserve

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

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

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

16 Legal reserve

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

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

17 Dividends per share

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

18 Borrowings

The Company's borrowings by maturity:

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

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

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

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

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

As at 31 December 2017, the fair value of the Company's borrowings was approx. EUR 50,064 thousand (31 December 2016: the fair value of the Company's borrowings was approx. EUR 127,743 thousand). The fair value was estimated using a discount rate of 2.37% (31 December 2016: 2.37%). The fair value of borrowings is attributed to Level 2 in the fair value hierarchy.

The table below presents data on the Company's borrowings by interest rate repricing intervals:

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

19 Finance lease liabilities

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

20 Grants

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

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

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

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

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

21 Other non-current amounts payable and liabilities

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

22 Current income tax and deferred income tax

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

22 Current income tax and deferred income tax (continued)

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

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

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

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

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

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

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

23 Trade payables

The Company's trade payables comprised as follows:

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

The fair values of trade payables approximated their carrying amounts.

24 Advance amounts received

The Company's advance amounts received comprised as follows:

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

(All amounts in EUR thousands unless otherwise stated)

25 Provisions for emission allowances

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

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

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

26 Other amounts payable and liabilities

The Company's other amounts payable comprised as follows:

| | At 31 December 2017 | At 31 December 2016 |
|--|------------------------|------------------------|
| Dividends payable | 777 | 1,050 |
| Other payables and current liabilities | 322 | 475 |
| Vacation reserve | 595 | 538 |
| Employment-related liabilities | 605 | 503 |
| Taxes payable | 467 | 458 |
| Accrued expenses from purchases of electricity | 111 | 1 |
| Carrying amount | 2,877 | 3,025 |

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

27 Sales revenue

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

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

(All amounts in EUR thousands unless otherwise stated)

28 Segment reporting

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

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

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

² In 2014, the NCC completed the audited of the Company's regulated activities for the period 2010-2012 and adopted a resolution to recalculate the expenses and revenue attributed to regulated activities for this period. As a result of recalculation for the previous period revenue from capacity reserve services approved for the Company for the year 2016 was reduced by EUR 3,7 million. In 2017 the NCC inspected the PSO funds allocated to the Company during 2010-2015, and in 2017 introduced changes in the principles for determination of allocated PSO funds, with relevant changes in the regulatory framework. Due to these changes, the Company recognised revenue of EUR 11.4 million in relation to recalculation of PSO revenue recognised in the previous periods. The adjustments were intended to reflect the Company's normalised performance results for the current year.

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

All assets of the Company are located in Lithuania.

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

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

29 Other operating income

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

| | At 31 December 2017 | At 31 December 2016 |
|---|------------------------|------------------------|
| Disposal of part of business (Note 3) | 799 | 19,773 |
| Sale of metal scrap | 1,217 | 1,003 |
| Gain on disposal of property, plant and equipment | 93 | 28 |
| Disciplinary measures | 67 | 45 |
| Other income | 440 | 315 |
| Total | 2,616 | 21,164 |

30 Finance income

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

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

31 Finance costs

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

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

(All amounts in EUR thousands unless otherwise stated)

32 Related-party transactions

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

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

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

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

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

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

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

Compensation to key management personnel:

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

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

33 Employee benefits and related social security contributions

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

(All amounts in EUR thousands unless otherwise stated)

34 Other expenses

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

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

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

35 Basic and diluted earnings per share (EUR)

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

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

36 Offsetting financial assets and financial liabilities

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

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

37 Net debt reconciliation

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

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

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

(All amounts in EUR thousands unless otherwise stated)

37 Net debt reconciliation (continued)

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

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

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

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

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

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

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

38 Off-balance sheet commitments and contingencies

Guarantees issued and received

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

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

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

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

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

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

(All amounts in EUR thousands unless otherwise stated)

38 Off-balance sheet commitments and contingencies (continued)

Legal disputes

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

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

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

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

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

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

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court (a revised complaint was filed on 7 November 2017) with request to declare as invalid the NCC’s Resolution No O3-274 of 28 September 2012 *On the results of survey of electricity capacity reserve market*, to repeal part 6 of the NCC’s official letter of 19 September 2017, and, as a matter of urgency, to commit the NCC to initiate a new survey of electricity capacity reserve market (or two separate surveys of type I and type II reserve markets). In the Company’s opinion, the NCC’s Resolution of 28 September 2012, based on which the Company was declared as an undertaking with significant power in electricity capacity reserve market, should be declared as no longer valid and any related obligations should not be binding upon the Company with effect from 28 September 2017. The hearing of the case was scheduled on 13 March 2018.

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

(All amounts in EUR thousands unless otherwise stated)

38 Off-balance sheet commitments and contingencies (continued)

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

Tax audits

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

Future minimum lease payments under irrevocable operating lease contracts

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

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

39 Capital management

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

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

On 27 December 2016, the Board of Lietuvos Energija UAB group approved a common dividend policy, which sets uniform principles for payment of dividends for all the group companies. Dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by a company will depend on the ratio of return on equity and net profit. According to the dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for payment of dividends, implementation of economic projects important for the State and other circumstances. Between 60% and 85% of profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period. A company is not obliged to distribute dividends when it incurs net loss. A company will not pay any dividends when its financial debts at the end of the reporting period are equal to or exceed four times EBITDA amount for the last twelve months as from the end of the reporting period.

Dividends will not be paid if the a company's equity (after the payment of dividends) becomes lower than the sum of its share capital, legal reserve, revaluation reserve and reserve for acquisition of own shares, and also if a company becomes insolvent or would become insolvent upon payment of dividends. A company will also be able not to pay dividends if its ratio of financial debts to equity becomes equal to or exceeds 1.0.

According to the Law on Companies of the Republic of Lithuania, the Company's equity must be not less than 1/2 of the amount of the authorised share capital. No other external capital requirements are applicable to the Company. As at 31 December 2017 and 2016, the Company complied with this requirement.

40 Events after the end of the reporting period

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

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

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

2017

LIETUVOS ENERGIJOS GAMYBA, AB INTERIM REPORT

FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2017



Lietuvos
energija

GAMYBA



CONTENTS

| INTERIM REPORT | |
|---|----|
| Key operating and financial indicators of Lietuvos Energijos Gamyba | 54 |
| CEO's foreword | 55 |
| Most significant events during the reporting period | 56 |
| Analysis of performance and financial indicators | 58 |
| Factors determining the financial indicators | 63 |
| Information about the Company's authorised share capital and securities | 69 |
| Corporate social responsibility | 73 |
| The Company and its management bodies | 75 |
| Material events at the Company | 85 |
| Other significant information | 87 |

Reporting period covered by the Interim Report

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

Legal basis for preparation of the Interim Report

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

Individuals responsible for information contained in the Interim Report

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

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

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

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

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

KEY OPERATING AND FINANCIAL INDICATORS OF LIETUVOS ENERGIJOS GAMYBA

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

¹ Operating expenses less costs of purchase of electricity and related services, costs of fuel used for production, depreciation and amortisation costs, impairment losses, revenues/expenses of revaluation of emission allowances and costs of write-offs of property, plant and equipment.

² Profit (loss) before tax + financial activities costs – financial activities income – dividends received + depreciation and amortisation costs + impairment losses + revenues/expenses of revaluation of emission allowances + write-offs of property, plant and equipment.

³ EBITDA / Revenues.

⁴ EBITDA result is reported after the adjustments made by management by eliminating the impact of one-off factors. These adjustments are made aiming to disclose the results of the Company's operating activities after the elimination of the impact of non-typical, one-off factors or factors that are not directly related to the current reporting period. All adjustments made by management are disclosed in the Company's interim and annual reports.

⁵ Adjusted EBITDA / Revenues.

⁶ Financial debts – Cash and cash equivalents – Short-term investments and term deposits – Share of non-current other financial assets consisting of investments in debt securities.

⁷ Net profit (loss), restated annual value // Equity at the end of the period.

⁸ Equity at the end of the period / Total assets at the end of the period.

CEO'S FOREWORD

Dear customers, shareholders, partners and employees,

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

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

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

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

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

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

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

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

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

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

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

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

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

Wishing you all the best in the year 2018!

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

MOST SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

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

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

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

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

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

At the Ordinary General Meeting of Shareholders held on 24 March 2017, a decision was made on distribution of dividends to the shareholders of the Company for 2016.

In the end of March 2017 the Company completed decommissioning project of the units 1 and 2. As the Company completed the project for expansion of heat generation facilities in Elektrėnai in 2015, the units 1 and 2 of the reserve power plant (which have been used so far for heat production to satisfy the needs of population of Elektrėnai town during the cold season) appeared to be longer necessary.

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

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

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

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

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

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

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

On 5 July 2017, the Company signed a credit agreement with AB SEB bank for a credit of EUR 60 million. This

INTERIM REPORT
For the twelve-month period ended 31 December 2017

agreement will be used to refinance the loan issued by the credit agreement of AB SEB bank of 21 February 2014.

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

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

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

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

On 27 October 2017, the Company **signed an agreement with the state enterprise “Turto bankas”** on the joint sale of shares of the private limited liability company GEOTERMA belonging to the Company by the ownership

right. The shareholding of the private limited liability company GEOTERMA controlled by the Company constitutes 23.44 per cent of the total number of shares.

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

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

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

ANALYSIS OF PERFORMANCE AND FINANCIAL INDICATORS

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

¹ Comparative indicators were not recalculated.

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

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

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

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

impairment recognised in the end of 2017 in relation to assets of units 7 and 8 of Elektrėnai Complex (EUR 31.4 million). In 2017, return on assets decreased compared to 2016 due to lower net profit.

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

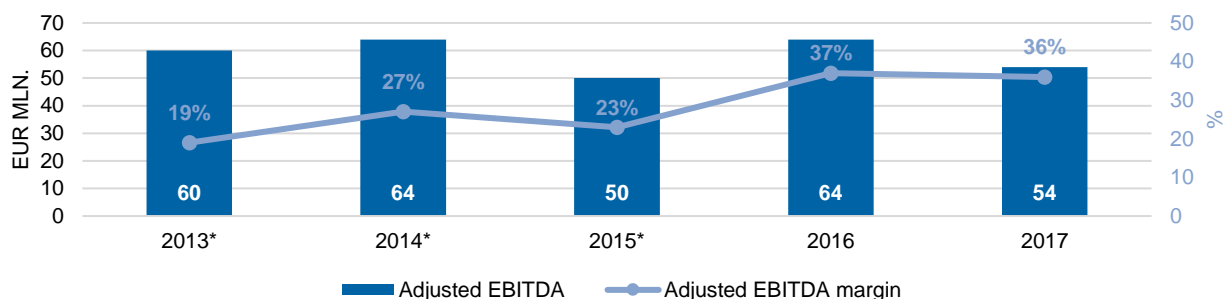
INTERIM REPORT
For the twelve-month period ended 31 December 2017

electricity production volumes at Kaunas A. Brazauskas HPP increased by 26.4% compared to 2016. Revenue generated at Kaunas A. Brazauskas HPP partly offset sales revenue losses of the Company caused by lower production volumes at Elektrėnai Complex compared to 2016.

The Company's adjusted EBITDA decreased due to the costs of dismantling works of units 5 and 6 that were started

at Elektrėnai Complex in 2017, and due to lower sales of secondary active power reserve services at Kruonis PSHP and lower EBITDA from regulated activities of Elektrėnai Complex in 2017 compared to 2016.

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



* Comparative indicators were not recalculated.

Disclosure of corrections by the management

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

¹ In 2014, the NCC adopted a decision by which it recognised that the Company was an entity that had a considerable impact in the power generation market and on the basis of which the profit from sales of energy produced in hydro power plants of the Company was contracted by reducing the amount of funds allocated for the public service obligations by a corresponding amount. On 17 October 2016, the Supreme Administrative Court of Lithuania passed a judgement which annulled this decision of NCC. Regardless of the court ruling, the NCC has not adopted a decision with regard to compensation of public service obligations' funds not paid to the Company in 2016. For this reason, reduced income of public service obligations accounted for by the Company in 2016 amounted to EUR 1.9 million. On the other hand, late 2017, executing the court ruling, the NCC allocated EUR 5.4 million of public service obligations funds to the Company in 2018 so as to compensate the Company for the funds not received in 2015. This amount was recognised as revenue in the Company's financial statements of 2017. These corrections are aimed at reflecting the Company's normalised performance results of the current year.

² In 2014, following the completion of verification of regulated activities of the Company for the years 2010-2012, the NCC adopted a decision to recalculate the expenses and income attributed to regulated activities of the aforementioned period. Due to this recalculation, income of reserve power security (ensuring) services was reduced to the Company by the amount of EUR 3.7 million in 2016. In 2017, the NCC conducted verification of the amount of funds of the public service obligations allocated to the Company in the 2010-2015 period. In addition, principles and corresponding legal regulation for the establishment of funds allocated for public service obligations were amended in 2017. Due to these changes, in 2017, the Company in its financial statements recognised income of public service obligations in the amount of EUR 11.4 million in relation to the recalculation of public service obligations' income recognised during the previous periods. These corrections are aimed at presenting normalised performance results of the Company of the current year.

Statement of financial position

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

Statement of comprehensive income

Revenue

The Company's sales revenue totalled EUR 147.2 million in 2017. Income from electricity trading, balancing power, regulation power, power reserve and public service obligation (PSO) services as well as income from sale of heat energy accounted for the largest part of sales revenue. The Company's sales revenue decreased by 3% in 2017

compared to 2016. Such decrease was mostly caused by decrease in electricity production volumes at Elektrėnai Complex due to lower electricity prices on power exchange compared to 2016.

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

Expenses

In 2017, expenses incurred by the Company totalled EUR 133.6 million. Expenses of purchasing electricity and related services as well as expenses of purchasing fuel for electricity generation accounted for the major part of the Company's

total expenses (EUR 58.5 million or 43.8% in 2017 compared to EUR 76.4 million or 61.7% in 2016). The main reason for decrease in these expenses in 2017 compared to 2016 was decrease in production volumes at Elektrėnai Complex and lower gas infrastructure charges as a result of using heavy fuel for the provision of tertiary power reserve services at one of the units of Elektrėnai Complex. The Company's depreciation and amortisation expenses amounted to EUR 25.0 million in 2017.

Operating expenses (excluding the expenses of purchases of electricity and related services, expenses of fuel for production, depreciation and amortisation expenses, expenses of revaluation of emission allowances and impairment expenses, also excluding impairment of an amount receivable reflected in expenses for 2016 in relation to the shares of Kauno Energetikos Remontas UAB and NT Valdos UAB) amounted to EUR 20.0 million in 2017, i.e. increased by EUR 1.3 million compared to 2016. Operating expenses mainly increased due to higher expenses of demolition project..

Profit

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

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

Overview of activities of the Company's power plants

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

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

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

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

Provision of system services

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

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

Statement of cash flows

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

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

Investments in non-current assets

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

and balancing power, reactive power management and system recovery services.

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

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





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

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

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

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

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

| Elektrėnai Complex Reserve power plant and combined cycle unit | Kruonis Pumped Storage Hydroelectric Plant | Kaunas Algirdas Brazauskas Hydroelectric Power Plant | Electricity trading |
|--|---|---|--|
|  <p>Capacity – 1055 MW*</p> <p>The main power plant of the Lithuanian energy system, which assures tertiary and strategic reserves to ensure safe electricity supply and reserves of the energy system.</p> <p>Units 1–4 of the reserve power plant have been dismantled (the capacity of all units is 150 MW each). Dismantling of units 5 and 6 (300 MW each) started in 2017.</p> <p>The most effective – combined cycle unit (455 MW) – provided strategic reserve, units 7 and 8 – tertiary reserve in 2017.</p> <p>In 2015, new heat production facilities (steam and biofuel boiler houses) were brought into use.</p> |  <p>Capacity – 900 MW</p> <p>Kruonis PSHP is intended for the balancing of electricity generation and consumption, as well as for the prevention of emergency incidents within the power system and elimination of consequences thereof. Kruonis PSHP is responsible for securing the larger part of the emergency reserve required for the Lithuanian power system.</p> <p>As the need for regulation increases, and on completion of the power links with Sweden and Poland, the power plant provides more system services.</p> <p>In 2017, the power plant provided secondary reserve with two units (400 MW). Other two units produced electricity for the market.</p> |  <p>Capacity – 100,8 MW</p> <p>Kaunas A. Brazauskas HPP is the largest power plant in Lithuania that uses renewable energy sources.</p> <p>Depending on natural conditions, the plant produces green energy and provides system services.</p> <p>Kaunas A. Brazauskas HPP contributes to the balancing of electricity generation and consumption, and levels out the power system. It is one of the power plants in the Lithuanian power system that can start an autonomous operation in case of the total power system failure.</p> |  <p>As from 2016, trading in electricity produced by the Company is conducted under the agreement on the wholesale electricity market by Energijos Tiekimas UAB.</p> <p>On completion of the power links with Sweden and Poland, trading becomes more active due to wider opportunities for electricity trading and system services in the interconnected systems.</p> |

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

Key performance indicators

Indicators of electricity generation and system services for 2017

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

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

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

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

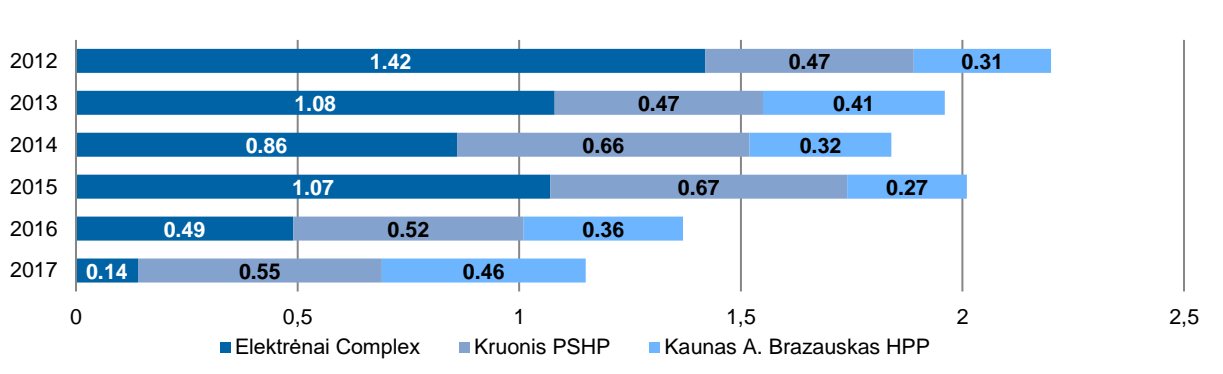
Sales of regulation power (these services are provided at Kruonis PSHP to balance electricity surplus/shortage in the energy system) increased by almost 1.4 times. In 2017 the Company sold 0.039 TWh and bought 0.022 TWh of regulation power compared to 0.028 TWh and 0.035 TWh, respectively, in 2016.

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

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

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

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



FACTORS DETERMINING THE FINANCIAL INDICATORS OF THE COMPANY

Business environment

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

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

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

- **Further trend of development of electricity generation from renewable sources may provide basis for the implementation of the Company's development projects.** This enables the Company to take part in the development process, as well as increases the need for balancing services and increases purchases/sales of regulation power from/to the producers.
- **Launching of power links with Sweden and Poland in 2016 has both positive and negative effects on the Company's performance.** As a result of interconnection of electricity transportation systems and integration of power trade markets, the electricity prices in the Baltic States, Poland and Northern Europe are expected to gradually assimilate in the future. As a result of integration of several power markets, the price charged in the larger markets will still prevail (i.e. the price charged in the smaller markets will tend to change and achieve the level of price charged in the larger markets).

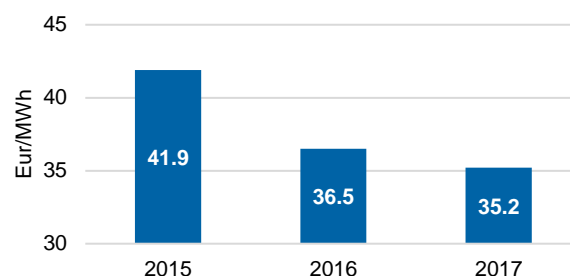
On one hand, the launching of these power links resulted in a higher demand for the power reserve services provided by the power plants of the Company. On the other hand, it reduced the differences between the peak and off-peak prices on the electricity exchange, which in turn impacts the production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

The Company's strategy

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

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

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



- **Remaining low prices of emission allowances (EA) increase competition on the side of emitting producers.** In a long run, the European Commission seeks to ensure increase in the EA prices, which in turn is expected to mitigate competition on the side of emitting producers
- **The Company's performance might be affected by uncertainties in the market of power reserves.** Along with the discussions on updating the Lithuanian energy strategy and the level of production capacity that is necessary to assure in the country, the Company aims at ensuring that Elektrėnai Complex will remain as the most useful and effective local source of strategic reserve. To achieve this objective (in agreement with other services provided at Elektrėnai Complex), the Company plans to bring into use three units of Elektrėnai Complex by 2023: combined cycle unit (455 MW) and units 7 and 8 (300 MW each) which burn heavy fuel and comply with EU pollution requirements. However, if the units will not provide system services, the Company will not be able to cover the maintenance costs and will consider the termination of the exploitation of the units.
- **The decision of the regulator (NCC) and other institution have impact on the Company's performance.** The Company disputes certain decisions in courts. For more details on litigations see material events of the Company.

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

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

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

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

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

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

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

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

| MISSION | | | |
|---|--|---|--|
| We are a reliable and advanced power generation company providing the services that are required for the energy system security. | | | |
| <p>Ensure quality services provided to clients (the TSO, suppliers, consumers, shareholders):</p> <ul style="list-style-type: none"> ensure high level of accessibility to heat and electricity production facilities controlled by the Company by focusing mainly on the planning of technical maintenance and repair works; ensure high reliability of facilities controlled by the Company, by focusing on preventive maintenance of equipment, early identification of potential technological problems, strengthening of competence of employees in operational functions, investment into renewal of worn equipment; ensure a lower negative environmental impact by monitoring and consistently reducing the level of emissions and clearing past pollution. | <p>Improve operational efficiency:</p> <ul style="list-style-type: none"> reduce the cost of production of electricity and heat, elaborate an optimal strategy for supply of fuel, reduce the technological need for energy, optimise costs, abandon the facilities that are no longer in use, improve the processes, ensure quality for project management. | <p>Diversify and develop activities:</p> <ul style="list-style-type: none"> implement competitive energy projects (development of Kruonis PSHP by constructing the fifth hydroelectric unit, continuation of the wind farm project); develop new activities relating to production by relying on infrastructure and personnel competences. | <p>Engage and empower employees:</p> <ul style="list-style-type: none"> create an organisational culture that is based on corporate values and is result-oriented, supported with the Company's focus on employees, their safety and health. |
| VISION | | | |
| Our aim is to be become a competitive international centre of power generation and services. | | | |

Prospects of power plans controlled by the Company

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

- Production at Elektrėnai Complex:** it is likely that no production quotas will be established for supported electricity in the near future at Elektrėnai Complex. Accordingly, production is expected only on commercial terms (in the event of favourable conditions in the market) as well as for the purpose of periodic short-term testing of technological equipment. Electricity produced at the

combined cycle unit is likely to be sold at peak time, as well as in the event of failure or scheduled repairs of power links with the neighbouring countries. Readiness of equipment and competence of personnel will be of special relevance for them to work effectively at the combined cycle unit in "peak producer" mode allowing multiple switch-offs and start-ups during a week. Retention of knowledge and expertise of operations personnel at Elektrėnai Complex is of utmost importance as well, as the power reserve services will be provided to the

units and special training and attestation programmes will be developed.

- **Production at Kruonis PSHP:** profitability and production volumes mostly depend on market conditions, i.e. the difference between peak and off-peak electricity prices. It is expected that 100% of generated electricity will be sold on NP electricity exchange at continuously fluctuating prices. It is also expected that with a growing electricity generation from renewable sources and launching of a power link with Poland, the electricity production volumes at Kruonis PSHP will increase. There are plans to carry out major repairs of wheels for certain hydroelectric units by 2020, which in turn will impact the production capacity and revenues. In the event of fa-

vourable conditions in the market, there are plans to implement the projects for construction of the fifth unit and/or wind farm in the territory of Kruonis PSHP.

- **Production at Kaunas A. Brazauskas HPP:** the production volumes will be mostly affected by the yield of the Nemunas river amounting on average ~0,4TWh per year. The production at Kaunas A. Brazauskas HPP is also affected by seasonality, i.e. the highest volume of electricity is produced during spring flood season and the lowest – during cold winter or hot summer seasons. It is expected that all electricity generated at Kaunas A. Brazauskas HPP will be sold on NP electricity exchange at fluctuating prices, to take full advantage of flexible electricity generation during the hours when the price reaches the highest point.

Research & development projects

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

The following investments of higher value are conducted or planned (until 2020) by the Company:

- renovation of complex distribution facilities for own needs and complex distribution transformer substations at Kruonis PSHP;
- major repairs of the second hydroelectric unit at Kruonis PSHP;
- works at the Obeniai ash site at Elektrėnai Complex;
- wind farm in the territory of Kruonis PSHP;
- installation of unit 5 at Kruonis PSHP (if market conditions appear to be favourable).

The following R&D projects were implemented in 2017:

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

In the beginning of 2015, complex measurements of wind speed, directions and other meteorological conditions allowing to assess the preliminary potential of the land plot for constructing a wind farm, were completed in the territory of Kruonis PSHP. Given positive wind measurement results, the Company initiated the preparatory works for the construction of a wind farm in the territory of Kruonis PSHP.

Under the preparatory works a study of impact of anticipated economic activity on NATURA 2000, an environmental impact evaluation and a feasibility study to evaluate wind resource and electricity production volumes has been completed.

Nine or ten wind plants are planned to be installed in the exclusive energy production infrastructure territory, where Kruonis PSHP already operates and a solar panel system has been installed for the Company's own purposes. The total power could comprise up to 35 MW. The preparatory works were finished in November 2017. The project will be continued after responsible public authorities make decisions on the further development of the wind energy sector in Lithuania.

Dismantling of units 1 and 2 of the reserve power plant

In the end of March 2017 the Company completed dismantling project of the units 1 and 2. As the Company completed the

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

Dismantling of units 5 and 6 of the reserve power plant

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

Major repairs of the second hydro unit of Kruonis PSHP

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

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

Installation of unit 5 at Kruonis PSHP

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

Operational excellence, innovative activities

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

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

New services

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

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

Most of the forecasted changes in the commercial market do not provide significant additional opportunities for commercial trading of the electricity produced in Kruonis. At the same time, the construction of the fifth unit would be the optimal solution to solve the reliability and security of the Baltic electricity system in the shortest possible time. Such a universal unit would allow for a much more flexible real-time compensation of electricity shortages or surpluses on the market, which will be especially relevant when the Lithuanian electricity network will be synchronized with the continental Europe network.

At present, a considerable part of the preparatory work of the Kruonis PSHP development project has already been carried out, and the estimated duration of its implementation is around four years. The National Energy Independence Strategy project, which was presented in June 2017, included the development of Kruonis PSHP in the list of the main energy sector's works. The project may be continued when the relevant questions about how much power reserve will be needed, when working on an isolated network, when preparing for the synchronization and after it will be answered, as well as what technical requirements will be imposed on the device ensuring such power reserve.

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

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

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

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

Risk factors and their management

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

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

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

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

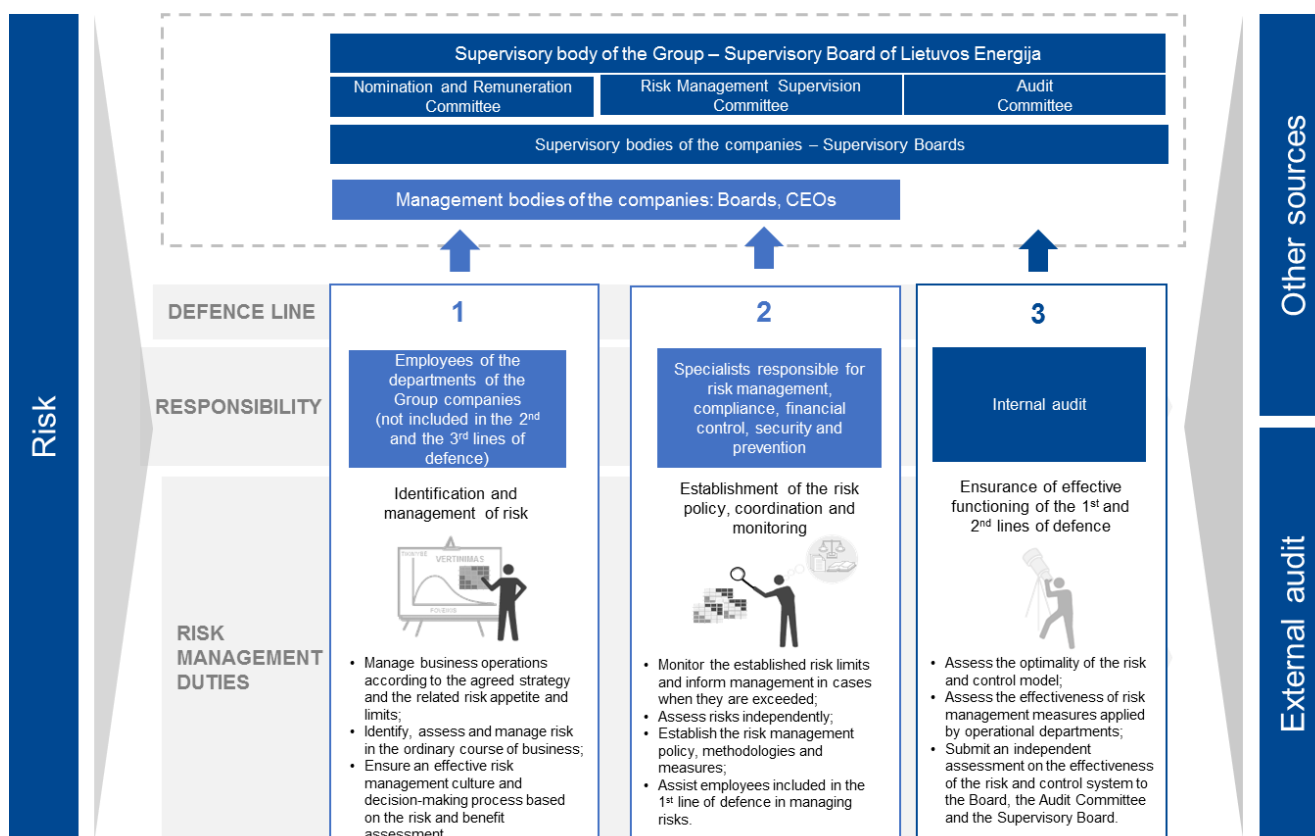
Aiming to ensure that risk management information and decisions correspond to recent developments and changes in

the Company's activities, the Company's risk level is re-assessed each year during a specified time period and risk management actions are established. In addition, the Company monitors new risk factors on a quarterly basis and defines additional actions, if needed.

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

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

Figure 6
Risk management and control model



As is the case each year, in 2017 the Company performed risk assessment for the year 2018 which included the determination of the areas where the Company's main risk management

measures and initiatives are concentrated and coordinated. The list of the main risk factors for 2018 and their management policies is presented below:

Risk factors for 2018 and their management policies

| Risk factor | Sources of risk | Main risk management policies |
|---|--|--|
| Regulation and compliance | Regulation risk at the Company is associated with a complicated planning of cash flows and a risk of reputational damage. The NCC remains the main regulatory authority making the largest impact on the prices of services provided by the Company and its revenue by establishing ceilings for them. | <ul style="list-style-type: none"> • Efforts are made to fulfil the requirements of the regulatory authority in as specific manner as possible; • To ensure compliance with new requirements, projects are organised at the Lietuvos Energija group level that engage the best specialists of the Lietuvos Energija group with regard to the issue concerned; • The compliance function is strengthened and formed; • Active participation in the process of public coordination of legal acts; • The long-term strategy of the Company provides for a consistent reduction of costs of regulated activities and diversification of activities. |
| Market changes and competitiveness | Market changes that range from fluctuations in prices of raw materials to strategic initiatives is an inherent risk of the energy sector. The major risk currently faced by the Company arises from changes occurring in the reserve services supply market. Traditional external risk sources also remain relevant, i.e. the country's macroeconomic indicators that determine the level of consumption of electricity, heat and gas, changes in prices of raw materials as well as new markets that emerged after the launch of the NordBalt and LitPolink interconnections. | <ul style="list-style-type: none"> • The long-term strategy of the Company provides for a consistent increase of operational efficiency through reduction of costs for the provision of services, diversification and expansion of activities aiming to ensure the long-term stability of the Company's activities; • Abandonment of out-of-service production facilities; • Bringing into use new production facilities (biofuel and steam boiler houses); • Modernisation of combined cycle unit on purpose to increase its competitiveness in the markets of reserve services and electricity generation. |
| Information security (cyber security) | By observing external factors, geopolitical situation the Company understands its strategic importance for the country's security and by cooperating with external establishments and by introducing internal measures it aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime. | <ul style="list-style-type: none"> • Improvement of resistance through tests/trainings/training courses for employees; • Ensuring the continuity of the Company's critical systems; • Enhancement of detection/suspension of cyber-attacks; • Cooperation with external institutions. |
| Technical faults | The Company's electricity production process involves the use of a large variety specialised equipment due to which a risk of technical faults always exists that arises from general sources of risk, such as obsolescence or hidden defects. In addition to general risk sources, risk of technical faults at the Company is increased by the infrequent use of equipment providing the reserve service. | <ul style="list-style-type: none"> • Continuous and timely performance of technical maintenance; • Renewal of equipment; • Ensuring the continuity of knowledge and retention of skills of operations personnel; • Development, renewal and testing of business continuity plans; • Implementation of the integrated asset management system of energy facilities. |
| Safety and health of employees and contractors | Due to a specific character of the Company's activities and nature of works performed there exists an inherent risk of failure to ensure safety of employees and contractors due to the use of open flame sources, flammable and explosive materials, steam, hot water in the production process, temporary and short-term working places for specific works, and complex working conditions. This risk remains a priority area for a number of years and the main causes of this risk, in addition to high-risk working environment, include the lack of awareness or experience/knowledge. | <ul style="list-style-type: none"> • Implementation of occupational safety and health management system (OHSAS 18001:2007); • Regular control and supervision of safety of employees and contractors; • Ensuring occupational safety linked with the annual objectives of the Company and management personnel. |

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

Structure of authorised share capital and securities in issue

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

ISIN code LT0000128571. Ticker - LNR1L.

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

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

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

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

Structure of authorised share capital

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

The Company's share price and turnover dynamics

Statistics on trade in the Company's shares

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

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

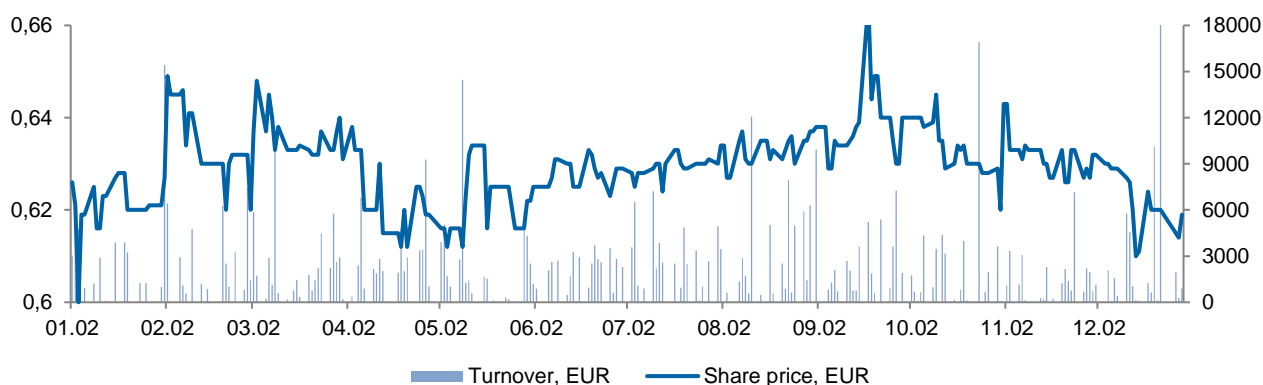


Figure 8

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

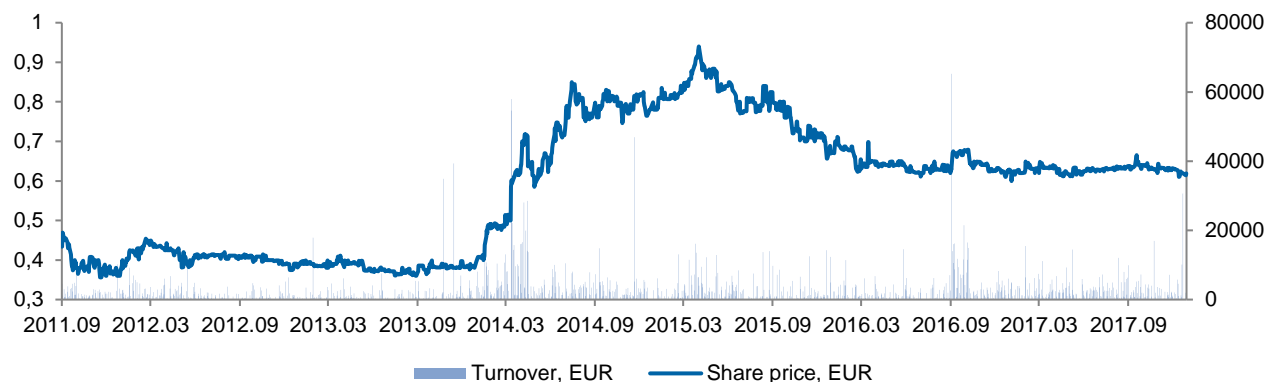
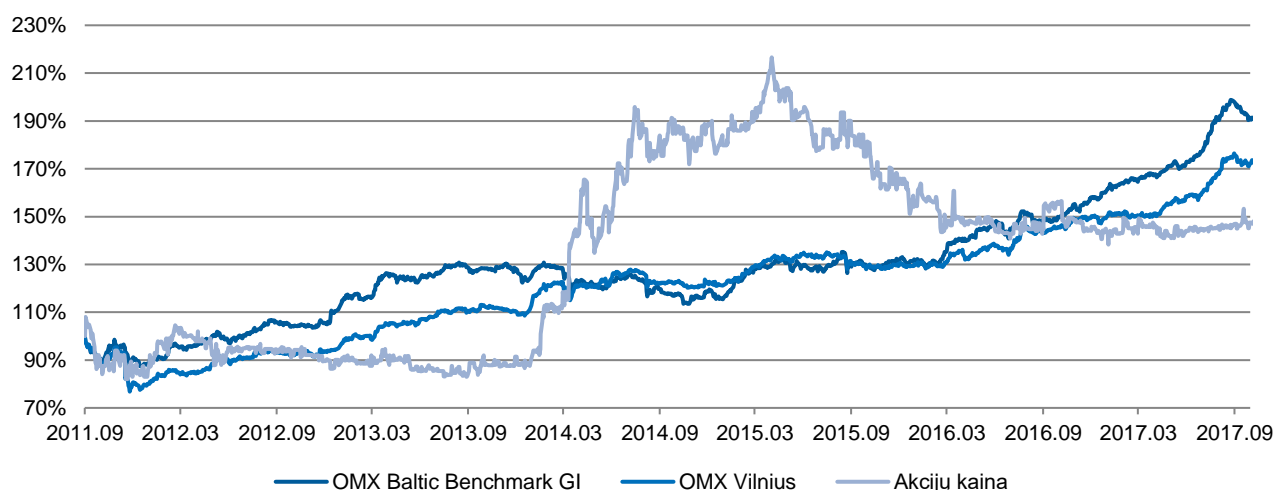


Figure 9

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



Shareholder structure

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

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

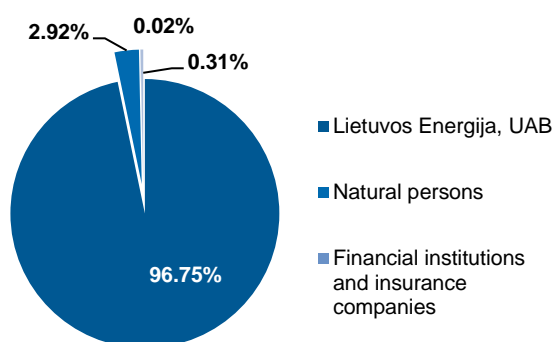
Shareholders holding more than 5% of the Company's shares (as at 31 December 2017)

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

Breakdown of shareholders by country

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

Breakdown of shareholders by category



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

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

The shareholders have the following property rights:

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

except for the case when the General Meeting of Shareholders decides to withdraw the pre-emption right for all shareholders in accordance with the procedure defined in the Lithuanian Law on Companies;

- to lend funds to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the Company borrows from its shareholder, the interest rate may not be higher than the average interest rate offered by commercial banks operating in the lender's place of residence or business, which was in effect at the time of entering into loan agreement. In such case, the Company and the shareholders are prohibited from negotiating a higher interest rate;
- to receive a part of assets of the company in liquidation;
- to transfer all shares or a part thereof to the possession of other persons;
- other property rights prescribed by law.

The shareholders have the following non-property rights:

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

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

Restrictions on voting rights

There were no restrictions on voting rights.

Restrictions on transfer of securities

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

Information on agreement with intermediary of public trading in securities

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

Dividends and dividend policy

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

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

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

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

Relationship with employees

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

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

The Company has created opportunities for people of different age and having different experience to successfully find employment and work. At the end of 2016, men accounted for 85 percent of the Company's employees and women - for 15 percent. There are more men working in the Company because of specifics of its activities - women choose technologic works and related specialties less frequently. There are

Society relationships

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

Educational activities

The Company demonstrates goodwill and invites the members of public to participate in non-repayable excursions at its objects: the combined cycle unit, Kruonis PSHP, Kaunas A.

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

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

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

no women in the Supervisory Board of the Company. However, one of the five members of the Board of the Company (top management category) is female, who is also holding the post of CEO.

Occupational health and safety at work

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

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

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

Brazauskas HPP. Thereby, the Company contributes to increasing awareness of the public, especially the younger generation, about the energy. In 2017, the above-mentioned power plants had in total over 3,000 visitors from various educational establishments, schools and other institutions, as well as delegations from abroad. Kruonis PSHP has the highest number of visitors in 2017.

Support

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

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

Environmental protection

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

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

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

Environmental management standard

The Company maintains ISO 14001:2005 certificate. Its globally recognized certificate indicates that the Company meets the requirements for the identification, monitoring, management and improvement of the main environmental protection aspects. The certificate is valid for the products and services of the Company's power plants in Elektrėnai, Kruonis and

Market activities

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

The Company does not tolerate corruption in any form, either direct or indirect. Group's policy on zero tolerance toward corruption is published on the Company's website. All employees of the Group are obliged to report any violation or suspected violation of the policy either to the Prevention Officer or via the **Trust Line, telephone number +370 640**

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

Kaunas. This means that the strict global environmental requirements are fulfilled by all the power plant operations: the electricity and thermal energy generation and the operation of the power, heat, turbine, natural gas, oil and petroleum product facilities at the Elektrėnai Complex, electricity generation and supply, operation of facilities and power reserving at the Kruonis PSHP, and the electricity generation and supply as well as operation of facilities at the Kaunas A. Brazauskas HPP. The requirements for the monitoring and protection of the air, surface water, ground water and soil specified in the Integrated Pollution Prevention and Control Permits are fulfilled.

Environment clean-up initiative

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

Waste sorting

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

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

88889 or email pasitikejimolinija@le.lt. Other parties are also encouraged to report such actual or suspected violations using the same contact details, with the anonymity guaranteed.

Transparent procurement

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

THE COMPANY AND ITS MANAGEMENT BODIES

Information about the Company and its contact details

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

The Company's main business activity

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

Information about the Company's branches and representative offices

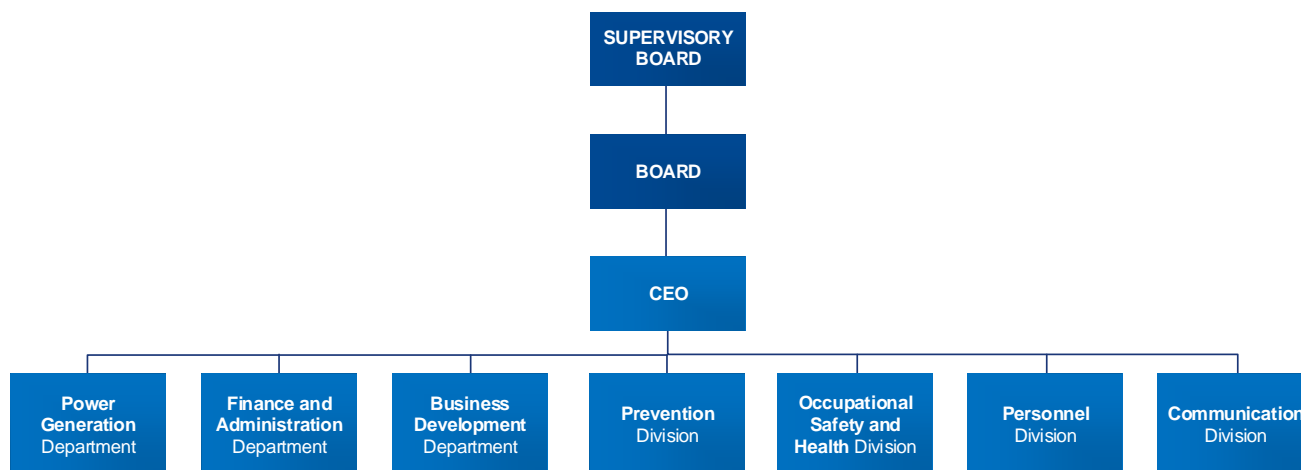
The Company has no branches or representative offices.

Divisions of the Company

The Company operates all state-owned power generation facilities:

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

Figure 10
Structure of the Company (as at 31 December 2017)



Information about ownership interest in other entities

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

Information about the Company's management bodies

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

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

The Articles of Association of the Company are available on the Company's website under section [Company Management](#).

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

General Meeting of Shareholders

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

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

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

1. The set of audited consolidated and annual financial statements of the Company and distribution of the Company's profit for 2016 was approved in the Ordinary General Meeting of Shareholders of the Company held on 24

March. The plan was to pay dividends for the six-month period ended on 31 December 2016.

2. The Extraordinary General Meeting of Shareholders of the Company held on 10 August elected Mindaugas Keizeris and Dominykas Tučkus members of the Supervisory Board for the term of office of 4 (four) years.
3. The Extraordinary General Meeting of Shareholders held on 29 September 2017 made a decision to allocate dividends for shareholders of the Company for the six-month period ended on 30 June 2017.

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

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

The Supervisory Board

As stated in the Articles of Association of the Company, the Supervisory Board is a collegial body exercising supervision over operations of the Company consisting of three members – natural persons. At least one-third of the Supervisory Board's members are independent members. The Supervisory Board is elected for the period of four years by

the General Meeting of Shareholders. The Chairman of the Supervisory Board is elected by the members of the Supervisory Board from among themselves. The Supervisory Board and its members start and terminate their activities according to the procedures established in relevant legal acts.

The Supervisory Board has the following main powers:

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

stated in the Articles of Association and in the decisions adopted during the General Meeting of Shareholders.

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

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

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

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

Members of the Supervisory Board (during the reporting period)

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

INTERIM REPORT
For the twelve-month period ended 31 December 2017

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

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

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

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

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

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

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

Board of the Company

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

The Board consisting of 5 (five) members is elected by the Supervisory Board for the term of office of four years and is recalled in line with the procedure prescribed by law and the Company's Articles of Association. The Board reports to the

Supervisory Board and General Meeting of Shareholders. The Board elects its Chairman from among its members.

The person who nominates candidates for the position of the member of the Board is required to submit to the Supervisory Board a written statement about the qualification of each nominated candidate, his/her experience in managing positions, and fitness for the position of the member of the Board. The following members may not be elected as the members of the Board: a person occupying the position of a member of the supervisory body, management body or administration in an energy company engaged in electricity or

INTERIM REPORT
For the twelve-month period ended 31 December 2017

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

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

The Board adopts decisions on:

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

In certain cases, prior to adopting a decision the Board is required to seek for comments from the Supervisory Board and obtain approval from the General Meeting of Shareholders.

In view of the opinion of the Supervisory Board, the Board elects and recalls the Chief Executive Officer, decides on his/her remuneration and other terms of employment contract, approves his/her job regulations, provides incentives and imposes penalties.

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

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

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

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

Members of the Board (during the reporting period)

| Name | Term of office | Shareholding in the Company | Participation in other companies and organisations | Ownership interest in other companies (>5%) | Payment for the activities as the member of the Board, EUR |
|---|--|-----------------------------|--|---|--|
| Eglė Čiužaitė Date of birth – 1979 Chairperson of the Board, CEO | 19/2/2016 – 17/9/2017 22/9/2017 – 22/9/2021 | – | <ul style="list-style-type: none"> - Geoterma UAB (Lypkių str. 53, Klaipėda, Lithuania, c. c. 123540818), Member of the Board. - Sponsorship Foundation of Lietuvos Energija (Žvejų str. 14, Vilnius, Lithuania, c. c. 303416124), Member of the Board (since 19 April 2016). - Technologijų ir Inovacijų Centras UAB (A. Juozapavičiaus str. 13, Vilnius, Lithuania, c. c. 303200016), Member of the Board (since 30 January 2017) | – | 17,184 |
| Adomas Birulis Date of birth – 1983 | 17/9/2013 – 6/1/2017 | – | <ul style="list-style-type: none"> - Technologijų ir Inovacijų Centras UAB (A. Juozapavičiaus str. 13, Vilnius, Lithuania, c. c. 303200016), Member of the Board until 6 January 2017. | – | 185 |

INTERIM REPORT
For the twelve-month period ended 31 December 2017

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

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

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

* For the activities as the member of the Board.

The Management

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

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

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

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

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

Information about the Committees

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

The committees of the Supervisory Board of Lietuvos Energija provide their conclusions, opinions and proposals to the Supervisory Board within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Board and at least one member is an independent member. Members of the committees are elected for the term of four years.

The following committees have been established at the Supervisory Board of Lietuvos Energija:

- **The Risk Management Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of the management and control system in the Group and (or) main risk factors and implementation of risk management or prevention measures;
- **The Audit Committee** is responsible for the submission of objective and impartial conclusions or

proposals to the Supervisory Board on the functioning of the audit and control system in the Group;

- **The Nomination and Remuneration Committee** is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the Board Members to the Supervisory Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the Committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

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

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

The Audit Committee

The main functions of the Committee are as follows:

- to supervise the financial reporting process of Lietuvos Energija and its group entities, with a special focus on the relevance and consistency of accounting methods used;
- to monitor the effectiveness of internal control and risk management systems of Lietuvos Energija and its group entities, to analyse the need for such systems and their appropriateness, and to perform the review of existing internal control management systems;
- to observe compliance of the certified auditor or audit firm with the principles of independence and objectivity, to provide recommendations thereon, as well as proposals for the selection of an audit company;
- to monitor the audit process of Lietuvos Energija and its group entities, examine the audit effectiveness and the administration's response to the audit firm's recommendations to the management;

- to monitor the effectiveness of the internal audit function at Lietuvos Energija and its group entities, to analyse the need for such function and its appropriateness, and to give recommendations on the necessity, effectiveness of the internal audit function, as well as other matters pertaining to internal audit;
- to provide proposals for internal audit plans of Lietuvos Energija and its group entities, to give recommendations for the regulations on internal audit units of Lietuvos Energija and its group entities, appointment and dismissal of the head of the structural unit performing the functions of internal audit, approval of his (her) job description, imposition of incentives and penalties;
- to monitor the compliance of activities of Lietuvos Energija and its group entities with laws and other legal acts of the Republic of Lithuania, articles of association and operational strategy;

INTERIM REPORT
For the twelve-month period ended 31 December 2017

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

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

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

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

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

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

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

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

The Risk Management Supervision Committee

The main functions of the Committee as follows:

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

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

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

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

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

The Nomination and Remuneration Committee

The main functions of the Committee are as follows:

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

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

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

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

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

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

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

The employees of the Company

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

Headcount

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

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

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

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

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

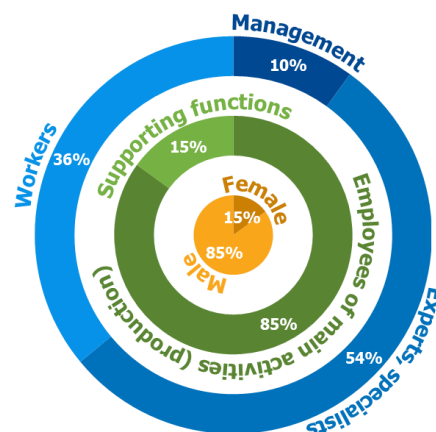
Work pay and performance management

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

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

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

Figure 11
Employees of the Company



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

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

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

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

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

Professional career, adaptation of new joiners and possibilities of internship

Turnover of employees is quite low at the Company – less than 3.5%. When there occurs a vacancy, the potential candidates are firstly selected by internal recruitment procedures. When no potential candidates are available at the Company or the group for the vacant position, the recruitment process is continued outside the Company. 30% of vacancy announcements in 2017 were won by candidates selected through internal recruitment procedures, i.e. the Company's employees. Search for employees on the basis of internal rotation principle during 2017 resulted in promotion of 21 employees (vertical career) and movement of 14 employees to similar job positions in the same or other divisions (horizontal career). As a result of improvement of career opportunities for employees and encouragement of their mobility between the Lietuvos Energija group entities, 2 employees moved to other group entities, 8 employees came to the Company.

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

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

Organisational culture, development of competences, professional training

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

developments in their respective fields, innovations and best practices in the energy sector and other businesses.

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

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

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

Collective agreement, trade unions

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

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

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

MATERIAL EVENTS AT THE COMPANY

Significant arrangements

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

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

Information on related-party transactions

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

Detrimental transactions

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

Notifications on materials events during the reporting period

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

INTERIM REPORT

For the twelve-month period ended 31 December 2017

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

Other events during the reporting period

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

Notifications on materials events after the end of the reporting period

| | |
|-------------------|---|
| 31/01/2018 | <u>Lietuvos Energijos Gamyba, AB, preliminary financial results for 12 months of 2017</u> |
|-------------------|---|

OTHER IMPORTANT INFORMATION

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

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

The employees of the company from which the Company outsources the accounting functions, make sure that the

financial statements are prepared properly and that all data are collected in a timely and accurate manner. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the financial statements are monitored and managed.

Information about audit

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

Other agreements with auditors

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