

2017-02-28 No. 6D-213

## CERTIFICATION STATEMENT

Referring to the provisions of the Article 24 of the Law on Securities of the Republic of Lithuania, we, the undersigned Eglė Čiužaitė, Chief Executive Officer, Mindaugas Kvekšas, Director of Finance and Administration Department, and Jelena Mordienė Head of Reporting Division of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, Lietuvos Energijos Gamyba, AB unaudited interim financial statements for the twelve-month period ended 31 December 2016 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 development and performance of the business.

Chief Executive Officer



Eglė Čiužaitė

Director of Finance and Administration Department



Mindaugas Kvekšas

Verslo aptarnavimo centras UAB,  
Head of Reporting Division,  
acting under Order No. IS17-20 (signed 2017-02-22)



Jelena Mordienė

2016

# LIETUVOS ENERGIJOS GAMYBA AB

COMPANY'S INTERIM FINANCIAL STATEMENTS FOR THE FORTH QUARTER OF 2016 AND 12 MONTHS OF 2016 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, INTERIM REPORT (UNAUDITED)



GAMYBA



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

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The interim financial statements of Lietuvos Energijos Gamyba AB were approved on 28 February 2017 by the CEO, the Director of Finance and Administration Department, and the Head of the Reporting Division of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-20 of 22 February 2017):



**Eglė Čiužaitė**  
Chief Executive Officer



**Mindaugas Kvekšas**  
Director of Finance and Administration  
Department



**Jelena Mordienė**  
Head of Reporting Division of Verslo  
Aptarnavimo Centras UAB (acting  
under Order No IS17-20 of 22  
February 2017)

2016

# LIETUVOS ENERGIJOS GAMYBA AB

COMPANY'S INTERIM FINANCIAL STATEMENTS FOR THE FORTH QUARTER OF 2016 AND 12 MONTHS OF 2016 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



Lietuvos  
energija

GAMYBA



Lietuvos  
energija

Lietuvos Energijos Gamyba AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania  
**INTERIM STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2016**

(All amounts in EUR thousands unless otherwise stated)

	Notes	Company	
		At 31 December 2016	At 31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	5	12,157	16,819
Property, plant and equipment	6	645,054	673,900
Investments in associates	7	1,511	1,374
Other non-current assets	8	2,620	3,288
Other financial assets	11	7,178	8,435
<b>Total non-current assets</b>		<b>668,520</b>	<b>703,816</b>
<b>Current assets</b>			
Inventories	9	5,844	6,997
Prepayments		3,454	9,651
Trade receivables	10	16,331	20,059
Other financial assets	11	8,116	22,888
Prepaid income tax		22	3,887
Loans granted	12	18,098	-
Cash and cash equivalents	13	99,045	66,176
<b>Total current assets</b>		<b>150,910</b>	<b>129,658</b>
<b>TOTAL ASSETS</b>		<b>819,430</b>	<b>833,474</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	184,174	184,174
Share premium	14	85,660	85,660
Legal reserve	16	10,872	10,872
Revaluation reserve	15	1,033	1,063
Retained earnings		73,827	61,131
<b>Total equity</b>		<b>355,566</b>	<b>342,900</b>
<b>Non-current liabilities</b>			
Borrowings	18	111,251	128,462
Finance lease liabilities	19	310	448
Grants	20	269,758	280,343
Other non-current amounts payable and liabilities	21	10,480	8,418
Deferred income tax liabilities	22	24,731	18,162
<b>Total non-current liabilities</b>		<b>416,530</b>	<b>435,833</b>
<b>Current liabilities</b>			
Borrowings	18	21,208	17,212
Finance lease liabilities	19	138	138
Trade payables	23	19,904	13,827
Advance amounts received	24	1,284	14,671
Provisions for emission allowances	25	1,316	3,735
Other amounts payable and liabilities	26	3,484	5,158
<b>Total current liabilities</b>		<b>47,334</b>	<b>54,741</b>
<b>Total liabilities</b>		<b>463,864</b>	<b>490,574</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>819,430</b>	<b>833,474</b>

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 2016

(All amounts in EUR thousands unless otherwise stated)

	Notes	Company	
		2016	2015
<b>Revenue</b>			
Sales revenue	27	151,758	203,097
Other operating income	29	21,164	11,298
		<b>172,922</b>	<b>214,395</b>
<b>Operating expenses</b>			
Purchase of electricity and related services		(26,439)	(45,320)
Gas, biofuel and heavy fuel expenses		(49,956)	(88,596)
PP&E impairment loss		(568)	(30,127)
Depreciation and amortisation	5,6,20	(20,553)	(22,443)
Wages and salaries and related expenses	33	(7,466)	(8,451)
Repair and maintenance expenses		(5,433)	(6,653)
Emission allowance revaluation and release (expenses)/income		(2,670)	370
Impairment (expenses) of other non-current assets /reversal	8	(668)	343
Reversal of inventory write-down allowance	9	3	86
Other expenses	34	(10,142)	(7,843)
<b>Total operating expenses</b>		<b>(123,892)</b>	<b>(208,634)</b>
<b>OPERATING PROFIT</b>		<b>49,030</b>	<b>5,761</b>
Finance income (costs):			
Other finance income	30	656	510
Other finance (costs)	31	(1,493)	(2,382)
		<b>(837)</b>	<b>(1,872)</b>
Share of result of operations of associates and joint ventures	7	137	-
<b>PROFIT BEFORE INCOME TAX</b>		<b>48,330</b>	<b>3,889</b>
Current income tax (expenses)	22	(1,786)	(89)
Deferred income tax benefit/(expenses)	22	(6,569)	(4,031)
		<b>(8,355)</b>	<b>(4,120)</b>
<b>NET PROFIT (LOSS) FOR THE YEAR</b>		<b>39,975</b>	<b>(231)</b>
<b>Other comprehensive income (loss)</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>39,975</b>	<b>(231)</b>
<b>Basic and diluted earnings (loss) per share (in EUR)</b>	35	<b>0,063</b>	<b>(0,000)</b>
<b>Weighted average number of shares</b>		<b>635,083,615</b>	<b>635,083,615</b>

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 2016

(All amounts in EUR thousands unless otherwise stated)

	Notes	Company	
		2016 IV Q	2015 IV Q
<b>Revenue</b>			
Sales revenue		50,875	35,042
Other operating income		713	3,106
Gain (loss) on change in derivatives fair value		-	(2,085)
		<b>51,588</b>	<b>36,063</b>
<b>Operating expenses</b>			
Purchase of electricity and related services		(6,695)	(13,036)
Gas, biofuel and heavy fuel expenses		(12,401)	(9,616)
PP&E impairment loss		(602)	(30,264)
Depreciation and amortisation		(5,139)	(5,642)
Wages and salaries and related expenses		(1,971)	(2,261)
Repair and maintenance expenses		(2,156)	1,528
Emission allowance revaluation and release (expenses)/income		2,664	50
Impairment (expenses) of other non-current assets /reversal		632	36
Reversal of inventory write-down allowance		40	27
Other expenses		(5,882)	(1,675)
<b>Total operating expenses</b>		<b>(31,510)</b>	<b>(60,853)</b>
<b>OPERATING PROFIT (LOSS)</b>		<b>20,078</b>	<b>(24,790)</b>
Finance income (costs):			
Other finance income		-	173
Other finance (costs)		(338)	(565)
		<b>(338)</b>	<b>(392)</b>
Share of result of operations of associates		137	-
<b>PROFIT (LOSS) BEFORE INCOME TAX</b>		<b>19,877</b>	<b>(25,182)</b>
Current income tax (expenses)		(206)	-
Deferred income tax benefit/(expenses)		(1,703)	(1,508)
		<b>(1,909)</b>	<b>(1,508)</b>
<b>NET PROFIT (LOSS) FOR THE YEAR</b>		<b>17,968</b>	<b>(26,690)</b>
<b>Other comprehensive income (loss)</b>		-	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>17,968</b>	<b>(26,690)</b>
<b>Basic and diluted earnings (loss) per share (in EUR)</b>		<b>0.028</b>	<b>(0.042)</b>
<b>Weighted average number of shares</b>		<b>635,083,615</b>	<b>635,083,615</b>

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  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2016

(All amounts in EUR thousands unless otherwise stated)

Company	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings (loss)	Total equity
<b>Balance at 1 January 2015</b>		<b>183,933</b>	<b>85,660</b>	<b>1,097</b>	<b>10,872</b>	<b>85,716</b>	<b>367,278</b>
Total other comprehensive income (loss)		-	-	-	-	-	-
Net (loss) for the year		-	-	-	-	(231)	(231)
<b>Total comprehensive income (loss) for the year</b>		-	-	-	-	<b>(231)</b>	<b>(231)</b>
Depreciation of revaluation reserve	15	-	-	(34)	-	34	-
Result of conversion of nominal value of shares into EUR	14	241	-	-	-	-	241
Payment of dividends	17	-	-	-	-	(24,388)	(24,388)
<b>Balance at 31 December 2015</b>		<b>184,174</b>	<b>85,660</b>	<b>1,063</b>	<b>10,872</b>	<b>61,131</b>	<b>342,900</b>
<b>Balance at 1 January 2016</b>		<b>184,174</b>	<b>85,660</b>	<b>1,063</b>	<b>10,872</b>	<b>61,131</b>	<b>342,900</b>
Total other comprehensive income (loss)		-	-	-	-	-	-
Net profit for the year		-	-	-	-	39,975	39,975
<b>Total comprehensive income (loss) for the year</b>		-	-	-	-	<b>39,975</b>	<b>39,975</b>
Depreciation of revaluation reserve	15	-	-	(30)	-	30	-
Payment of dividends	17	-	-	-	-	(27,309)	(27,309)
<b>Balance at 31 December 2016</b>		<b>184,174</b>	<b>85,660</b>	<b>1,033</b>	<b>10,872</b>	<b>73,827</b>	<b>355,566</b>

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**  
**For the year ended 31 December 2016**

(All amounts in EUR thousands unless otherwise stated)

	Notes	Company	
		2016	2015
Net profit (loss) for the year		39,975	(231)
<b>Reversal of non-monetary items of expenses (income) and other adjustments</b>			
Depreciation and amortisation expense	5,6	31,616	33,709
Loss on impairment of property, plant and equipment (reversal of impairment)		568	30,127
Inventory write-down (reversal)	9	(3)	(86)
(Gain) loss on disposal of investments in subsidiaries and associates	7	-	(4,567)
Expenses (income) on revaluation of emission allowances	5	3,346	(370)
Other impairment/(reversal of impairment)		-	(1,889)
Share of (profit) of associates and joint ventures	7	(137)	-
Income tax expense	22	1,786	89
Change in deferred income tax liability	22	6,569	4,031
(Depreciation) of grants		(11,061)	(11,266)
Increase (decrease) in provisions		(9)	3,888
(Gain) loss on disposal/write-off of non-current assets (other than financial assets)		(26)	-
Elimination of results of financing and investing activities:			
- Interest (income)	30	(204)	(193)
- Interest expense	31	1,479	1,984
- Other finance costs (income)		(40)	81
- (Gain) on disposal of part of business		(19,773)	-
<b>Changes in working capital</b>			
(Increase) decrease in trade receivables and other amounts receivable		5,300	10,726
(Increase) decrease in inventories and prepayments		7,338	(5,746)
Increase (decrease) in amounts payable and advance amounts received		(6,211)	(33,094)
Income tax (paid)		-	(1,829)
<b>Net cash generated from operating activities</b>		<b>60,513</b>	<b>25,364</b>
<b>Cash flows from investing activities</b>			
(Acquisition) of property, plant and equipment and intangible assets		(3,988)	(12,850)
Disposal of property, plant and equipment and intangible assets		32	-
Disposal of subsidiaries		-	5,642
Disposal of investments in associates		21,207	14,800
Disposal of part of business		15,100	-
Loans granted		(18,098)	-
Dividends received		42	-
Grants received	20	-	833
Interest received		204	172
<b>Net cash (used in) generated from investing activities</b>		<b>14,499</b>	<b>8,597</b>
<b>Cash flows from financing activities</b>			
Repayments of borrowings		(13,215)	(17,211)
Finance lease payments		(138)	(111)
Interest (paid)		(1,479)	(1,964)
Dividends (paid)		(27,311)	(24,249)
<b>Net cash (used in) generated from financing activities</b>		<b>(42,143)</b>	<b>(43,535)</b>
<b>Net (decrease) increase in cash flows</b>		<b>32,869</b>	<b>(9,574)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	13	<b>66,176</b>	<b>75,750</b>
<b>Cash and cash equivalents at the end of the year</b>	13	<b>99,045</b>	<b>66,176</b>

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**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

(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 2016 and 2015, the Company had not acquired its own shares.

During 2016 and 2015, 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 2016 and 2015, the Company had no subsidiaries. On 31 March 2015 the Company sold the ordinary registered shares of its subsidiaries Kauno Energetikos Remontas UAB and Energijos Tiekimas UAB. As a result of the transaction, the Company lost control over the subsidiaries Geton Energy SIA, Geton Energy OU and Gotlitas UAB.

As at 31 December 2016 and 2015, the Company's investments in associates comprised as follows:

Company name	Office address	Company's ownership interest at 31 December 2016	Company's ownership interest at 31 December 2015	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, since the Company had no subsidiaries as at 31 December 2016. For the purpose of these financial statements, the Company's investments in associates have been reported under the equity method (Note 7). The Company did not prepare the consolidated financial statements for the year 2016, since the results of subsidiaries were not material for the group, nor they exceed the established materiality criteria in accordance with Article 7(2) of the Lithuanian Law on Consolidated Accounts of Entities.

As at 31 December 2016, the Company had 399 (31 December 2015: 429) employees.

## 2 Accounting policies

Presented below are the principal accounting policies adopted in the preparation of the Company's financial statements for the year 2016:

### 2.1 Basis of preparation

The financial statements of the Company for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

(All amounts in EUR thousands unless otherwise stated)

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 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 2016:

*Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (effective for annual periods beginning on or after 1 February 2015).* The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

*Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 February 2015).* The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

*Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (effective for annual periods beginning on or after 1 January 2016).* This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

*Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (effective for annual periods beginning on or after 1 January 2016).* In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

*Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2016).* The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

*Equity Method in Separate Financial Statements - Amendments to IAS 27 (effective for annual periods beginning on or after 1 January 2016).* The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Company adopted these amendments and accounted for investments in associates under the equity method in its financial statements for the year ended 31 December 2016. The Company adopted amendment to IAS 27 on a prospective basis, since the recorded result was not material for the financial statements. The results of equity method are disclosed in more detail in Note 7.

*Annual Improvements to IFRSs 2014 (effective for annual periods beginning on or after 1 January 2016).* The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

(All amounts in EUR thousands unless otherwise stated)

*Disclosure Initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016).* The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

*Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (effective for annual periods beginning on or after 1 January 2016).* The standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

The above-listed amendments and improvements (except for amendments to IAS 27) had no impact on the Company.

a) *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 2017 or later and that have not been adopted when preparing these financial statements:

*IFRS 9, Financial Instruments: Classification and Measurement (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.

*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.

*IFRS 14, Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016; not yet endorsed by the EU).* IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

*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 endorsed 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.

*IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019; not yet endorsed by the EU).* 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

(All amounts in EUR thousands unless otherwise stated)

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.

*Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU).* 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.

*Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU).* The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

*Revenue from Contracts with Customers - Amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU).* 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.

*Share-based Payments - 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.

*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; not yet adopted by the EU).* The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches. (1) The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued ('overlay approach'). In addition, the amended standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard - IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility.

*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.

*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.

*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 is currently assessing the impact of the new standards 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.

(All amounts in EUR thousands unless otherwise stated)

## 2.3 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 or joint ventures 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.

## 2.4 Property, plant and equipment and intangible assets

### 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.

### 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.

(All amounts in EUR thousands unless otherwise stated)

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)
<b>Buildings</b>	20 - 75
<b>Structures and equipment</b>	
- electricity and communication devices	20 - 25
- electricity equipment	15 - 35
- other equipment	5 - 20
<b>Structures and equipment of Hydro Power Plant and Pumped Storage Plant</b>	
- hydro technical waterway structures and equipment	75
- pressure pipelines	50
- hydro technical turbines	25 - 40
- other equipment	8 - 15
<b>Structures and equipment of Reserve Power Plant</b>	
- constructions and infrastructure	10 - 70
- thermal and electricity equipment	10 - 60
- measuring devices and equipment	5 - 30
- other equipment and tools	8 - 15
<b>Structures and equipment of Combined Cycle Unit:</b>	
- structures and constructions	20 - 50
- electricity lines	20 - 40
- electricity generation equipment	20 - 50
<b>Motor vehicles</b>	4 - 10
<b>Other property, plant and equipment:</b>	5 - 40
- computer hardware and communication equipment	3 - 10
- inventory, tools	4 - 10
<b>Intangible assets</b>	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 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.

## 2.5 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.

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.

(All amounts in EUR thousands unless otherwise stated)

## 2.6 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.

## 2.7 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 accounts receivable and available-for-sale financial assets, and they are classified into two categories: available-for-sale financial assets, 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

Such financial instruments are primarily held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are classified as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as gains less losses from derivative instruments.



(All amounts in EUR thousands unless otherwise stated)

#### Available-for-sale financial assets

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

Unrealised gains and losses, arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains or losses. When such financial assets are derecognised, the cumulative revaluation result previously recognised in equity is recognised in profit or loss in the statement of comprehensive income. However, interest calculated on such financial assets at the actual interest rate is recognised as income of the reporting period.

#### 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 could be required to repay.

## 2.8 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.

## 2.9 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.

(All amounts in EUR thousands unless otherwise stated)

## 2.10 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.

## 2.11 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.

On 1 January 2015, Lithuania joined the euro zone. The Company converted the comparative figures from LTL to EUR using an official exchange rate of EUR 1 to LTL 3.4528. Conversion of the share capital is disclosed in more detail in Note. The exchange rates used for principal currencies were as follows:

	<u>At 31 December 2016</u>	<u>At 31 December 2015</u>
RUB 100	-	EUR 1.2539
SEK 10	-	EUR 1.0884
USD 1	EUR 0.9567	EUR 0.9152

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.

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.

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## 2.12 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.

## 2.13 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.

## 2.14 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.

## 2.15 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

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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.

## 2.16 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 2016 and 2015, 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.

## 2.17 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. The Company does not recognise revenue and expenses from electricity trading in the power exchange with respect to those transaction in which it acts as an agent.

#### Revenue from electricity-related services

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

#### 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'.

(All amounts in EUR thousands unless otherwise stated)

#### 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.

### 2.18 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.

### 2.19 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 2016 and 2015.

#### 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.

### 2.20 Earnings per share

Basic earnings per share are calculated by dividing the 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 2016 and 2015, the weighted average number of shares, based on which the earnings per share are calculated, was 635,083,615. As at 31 December 2016 and 2015 and during the periods then ended, the Company had no dilutive options, therefore, its basic and diluted earnings per share are the same.

### 2.21 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.

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## 2.22 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.

## 2.23 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.

## 2.24 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.

## 2.25 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.

## 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.

### Tax audits

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

### 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 2016 and 2015, the Company reviewed the depreciation rates used for property, plant and equipment. As a result, the effective depreciation rates were recognised as appropriate and were not adjusted. Useful lives were revised for individual items of assets.

### Revaluation of property, plant and equipment

In 2016 and 2015, 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 2016 and 2015, 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 which comprise of Reserve Power Plant and, Combined-Cycle Unit, the new Biofuel and Steam Boiler Plants.

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As at 31 December 2016, impairment of EUR 568 thousand was recognised in respect of individual items of assets, whereof impairment of EUR 613 thousand was recognised for heavy fuel tank heater, reversal of impairment of EUR 41 thousand was recognised for the stack, and reversal of impairment of EUR 4 thousand was recognised for the circulating water pump.

As at 31 December 2015, the Company's management tested for impairment the property, plant and equipment of Kruonis Pumped Storage Power Plant and Kaunas Algirdas Brazauskas Hydro Power Plant and did not identify any impairment indications.

In view of the Company's management decision on dismantling units 5 and 6 of the Reserve Power Plant at the end of 2015, the Company recognised impairment loss of EUR 36,700 thousand equal to the net book amount of units 5 and 6 of the Reserve Power Plant.

As at 31 December 2015, impairment test was carried out for the rest of property, plant and equipment of the Reserve Power Plant, Combined-Cycle Unit and the new Biofuel and Steam Boiler Plants (hereinafter collectively "the Elektrėnai Complex"), and it was determined that the recoverable amount of PP&E of the Elektrėnai Complex exceeded the carrying amount of EUR 542 million, hence no impairment was recognised.

The Elektrėnai Complex is treated as a single cash generating unit based on the following:

- The transmission system operator treats each power plant as a single generating unit irrespective of the number of individual units that constitute the power plant;
- All units of the Reserve Power Plant and Combined-Cycle Unit can be used for both, electricity generation and provision of capacity reserve services. The situation of which unit at a specific moment is used for electricity generation or launching of capacity reserve depends on the system's needs, the technical condition of the units (e.g. scheduled repair works, disruptions in operations of units), potential disruptions in supply of natural gas, etc.;
- Production of electricity and thermal power and provision of capacity reserve services at the Elektrėnai Complex are considered to be regulated activities;
- The new Biofuel and Steam Boiler Plants share the same infrastructure with other facilities of the Elektrėnai Complex (electricity connections, heat networks, other pipelines, pumps, chemical bar, etc.), which accounts for the major part of all assets operated by the Elektrėnai Complex. Steam boilers have been mounted in the same building as the old units of the Elektrėnai Complex, and the main purpose of use of the boilers (99.3% of assets of the Steam Boiler Plant are attributed to this area) is to activate the electricity generation units of the Elektrėnai Complex from "cold" operation mode and to generate steam energy that is necessary to support the infrastructure of the Elektrėnai Complex;
- The new Biofuel and Steam Boiler Plants also supply thermal power that is necessary to support the infrastructure of the Elektrėnai Complex and activate the electricity generation units of the Elektrėnai Complex;
- When establishing the prices for the regulated services, the NCC takes into account all variable and fixed costs of the Reserve Power Plant and Combined-Cycle Unit, allocates and compensates a part of these costs against capacity reserve revenue and the remaining part against the PSO funds. The electricity buy-up price is established for electricity produced at the Elektrėnai Complex. The Biofuel and Steam Boiler Plants provide the same services as the electricity generation units of the Elektrėnai Complex. Part of fixed and variable costs and assets of these Plants is allocated to PSO and tertiary capacity reserve services provided by electricity generation units of the Elektrėnai Complex. The price of PSO and tertiary capacity reserve services is determined for the whole Elektrėnai Complex collectively rather than for individual facilities.

The recoverable amount of cash generating units was estimated with reference to the value in use calculations. These calculations take into account the pre-tax cash flow forecasts based on the financial budgets approved by the management for the period of five years. Continuous cash flow is estimated using the discounted cash flow in the fifth year.

The management estimated the projected operating profit in view of historical data, forecasts of market position and the legal acts in effect.

Key assumptions used in performing the impairment test as at 31 December 2015 were as follows:

1. Value in use was estimated with reference to the most up-to-date budget for the year 2016, the financial plan covering the period 2017-2020, the projected pre-tax discounted cash flows using a pre-tax weighted average capital cost (WACC) of 6.26%. The WACC was estimated with reference to long-term borrowing cost in the market and the effective average Euro Interbank Offered Rate (EURIBOR);
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 projections of income from regulated activities also take into account the depreciation expenses of property, plant and equipment and return on investments, which is calculated on the value of assets used in the regulated activities. When estimating return on investments, the management used the rate of return on investments set by the Commission for the year 2016, which was 5.35%.

As a result of the analysis, the Company's management determined that it was not necessary to recognise any impairment losses as of 31 December 2015, except for the impairment losses for units 5 and 6 of the Reserve Power Plant. Had the discount rate increased by 0.5 p.p. in 2015, the value in use of the Elektrėnai Complex would exceed the carrying amount.

#### Impairment of investments in associates

As at 31 December 2016, impairment of investment in associate Geoterma UAB was not reversed because Geoterma UAB operated at a loss in 2016 and the value of its net assets was negative as at 31 December 2016 (Note 7).

#### Disposal of subsidiaries and associates

On 31 March 2015, Lietuvos Energija UAB acquired 15,244,112 ordinary registered shares of Kauno Energetikos Remontas UAB from the Company for the total amount of EUR 4,778 thousand. The Agreement on Sale of Shares contained a clause that the sales price of Kauno Energetikos Remontas UAB depends on the result of implementation of the Biofuel Boiler Plant Project, i.e. if loss on implementation of the Biofuel Boiler Plant Project increased/decreased by more than EUR 50 thousand, the sales price of the shares would be adjusted accordingly in view of such change. The sales price can be revised until 31 December 2016. As at 31 December 2015, in view of the fact that loss on implementation of the Biofuel Boiler Plant Project increased, the Company's management estimated that the sales price of the shares of Kauno

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Energetikos Remontas UAB should be reduced by EUR 436 thousand. As at 31 December 2016, loss on implementation of the Biofuel Boiler Plant Project was estimated and the sales price was reduced by additional amount of EUR 619 thousand, and as at 31 December 2015, the changes in the sales price were accounted for within 'Other expenses' in the Company's statement of comprehensive income.

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 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. The Company accounted for the sale price premium within 'Other financial assets' (Note 11) in its statement of financial position based on management's estimate, the financial covenants set forth in the Agreement on Sale of Shares achieved, i.e. discounted non-current amount receivable of EUR 3,864 thousand. The result of disposal in 2015 comprised gain on disposal of shares and fair value adjustment expenses of the sale price premium.

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 fair value adjustment of sale price premium. Impairment was recognised within 'Other expenses' in the statement of comprehensive income.

Write-down of inventory to net realisable value

Write-down of inventory to the net realisable value was determined based on the management's estimates on inventory obsolescence and estimated possible selling prices. This determination requires significant judgement. Judgement is exercised based on historical and future usage of spare parts and materials as well as estimated possible selling price and other factors.

Provisions for emission allowances

The Company estimates the provisions for emission allowances/emission reduction units based on actual quantity of emission during the reporting period multiplied by the market price of one emission allowance/emission reduction unit. The actual quantity of emission is approved by the responsible regulatory state authority within 4 months after the year-end. 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 2016 and emission quantities which will be approved in 2017.

Accrual of income from PSO and capacity reserve 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 2016, the Company recognised PSO funds of EUR 9,404 thousand within 'Other non-current amounts payable and liabilities' (Note 21) to be refunded in 2018 (31 December 2015: PSO funds of EUR 7,018 thousand to be refunded in 2017). PSO funds of EUR 177 thousand to be refunded in 2017 arose from lower than established actual fixed and variable costs incurred in the provision of regulated services. As at 31 December 2016, 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 1.02% was used, and discounting effect of EUR 185 thousand was recognised within 'Other financial income'.

Accrual of income from capacity reserve services

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 receivable amount of capacity reserve income of EUR 247 thousand as at 31 December 2016 under the line item 'Other non-current financial assets' (Note 11), to be compensated during 2018, and receivable amount of capacity reserve income of EUR 318 thousand under the line item 'Other current amounts receivable' to be compensated during 2017. Accordingly, amount of EUR 533 thousand receivable during 2017 and amount of EUR 697 thousand repayable during 2016 were recognised as at 31 December 2015.

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

In 2014, following the completion of the scheduled audit of the Company's regulated activity for the period 2010–2012, the NCC made a decision to restate the expenses and income attributed to the regulated activities. As a result of restatement, PSO funds allocated to the Company for 2015 were reduced by EUR 6.14 million, and income from capacity reserve services allocated for the period 2015–2016 was reduced by EUR 7.44 million. On 20 December 2016, the Lithuanian Supreme Administrative Court ("the LSAC") rejected the Company's appeal and left unchanged the decision of Vilnius Regional Administrative Court of 21 September 2015, whereby it rejected the Company's request to repeal the NCC's Resolution No O3-818 of 30 September 2014 *Regarding the scheduled audit of Lietuvos Energijos Gamyba AB*.

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 was reduced by additional amount of EUR 2.51 million (2015: was 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 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. Following this decision, as at 31 December 2016 the Company estimates PSO funds deferred income without adjustments to profits from non-regulated (commercial) activities and reversed not recognised revenue in this respect in 2015 amounting to EUR 0.64 million. However as long



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as there is no mechanism of compensation in respect of PSO funds not paid to the Company on the basis of the NCC's Resolution, revenue from PSO service fees remain reduced by the amount that was not actually paid during 2015–2016, e.i. EUR 7,95 million.

Due to the NCC's Resolutions that are being disputed by the Company, income from capacity reserve services of EUR 3.72 million and income from PSO funds of EUR 1.88 million were not recognised in the Company's statement of comprehensive income for the period ended 31 December 2016. Accordingly, the Company's contingent assets related to these Resolutions totalled EUR 7.95 million as at 31 December 2016. Due to the NCC's Resolutions that are being disputed by the Company, income from capacity reserve services of EUR 3.71 million and income from PSO funds of EUR 12.22 million were not recognised in the Company's statement of comprehensive income for the period ended 31 December 2015. Accordingly, the Company's contingent assets related to these Resolutions totalled EUR 15.93 million as at 31 December 2015.

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 sale price consists of the base price of EUR 13.1 million to be paid in cash by Energijos Tiekimas UAB to the Company in equal instalments by 31 March 2017, and the sales price premium of EUR 8 million (i.e. additional EUR 2 million per year) payable on achievement of target electricity sale results 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 (i.e. the sale price premium) was estimated by discounting the sale price premium during the period until 31 March 2019 using the discount rate of 0.53%. The present value of sale price premium for the period ended 31 December 2016 amounted to EUR 4,673 thousand. Gain on disposal of part of business amounting to EUR 19.8 million was accounted for within 'Other operating income' in the Company's statement of comprehensive income (Note 29). 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 (Note 11). More details about disposal of part of business are provided in Note 39.

## 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 2016	At 31 December 2015
Trade receivables	16,331	20,059
Other receivables	2,374	1,407
Loans granted	18,098	-
Cash and cash equivalents	99,045	66,176
Other non-current amounts receivable	638	996
<b>Loans and receivables</b>	<b>136,486</b>	<b>88,638</b>
<b>Available-for-sale financial assets</b>	<b>6,540</b>	<b>28,230</b>
<b>Total</b>	<b>143,026</b>	<b>116,868</b>

Financial liabilities	At 31 December 2016	At 31 December 2015
Borrowings	132,459	145,674
Finance lease liabilities	448	586
Other non-current amounts payable	813	904
Trade payables	19,904	13,827
Other amounts payable and liabilities	1,985	1,245
<b>Financial liabilities measured at amortised cost</b>	<b>155,609</b>	<b>162,236</b>
<b>Total</b>	<b>155,609</b>	<b>162,236</b>

### Credit risk

As at 31 December 2016 and 2015, exposure to credit risk arose from the following items:

Financial assets	At 31 December 2016	At 31 December 2015
Financial assets	148,768	117,558
<b>Total</b>	<b>148,768</b>	<b>117,558</b>

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The Company's exposure to credit risk arising from amounts receivable is limited because the major buyers are reliable customers. As of 31 December 2016 and 2015, 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 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.

#### **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 2016, the Company's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 3.19 and 3.06, respectively (31 December 2015: 2.37 and 2.24, 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.

<b>Company</b>	<b>Within the first year</b>	<b>Within the second year</b>	<b>Within the third-fifth year</b>	<b>After five years</b>
<b>At 31 December 2016</b>				
Borrowings	22,747	18,535	54,339	43,318
Finance lease liabilities	148	148	184	-
Trade and other amounts payable	21,889	90	271	452
<b>At 31 December 2015</b>				
Borrowings	18,687	18,503	54,399	60,661
Finance lease liabilities	148	148	332	-
Trade and other amounts payable	15,072	90	271	543

#### **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 2016. 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 2016 would have been EUR 344 thousand (2015: EUR 379 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:

(All amounts in EUR thousands unless otherwise stated)

- 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 loan or on the current rates available for loan with the same maturity profile. As at 31 December 2016, the Company had non-current borrowings from Nordea and SEB banks bearing variable interest rates (Note 18). The fair value of a non-current borrowing bearing variable interest rate approximates its carrying amount, provided that the margin on such loan corresponds to margins currently prevailing in the market.
- Non-current amounts receivable and payable fair value is estimated based on market interest rates, which is for applied for the same period debts. As at 31 December 2016 Company's non-current amounts receivable and payables discount rate was the same as market interest rate.

## 5 Intangible assets

The Company's intangible assets as at 31 December 2016 and 2015 comprised as follows:

	Computer software	Emission allowances	Other assets	Total
<b>At 31 December 2014</b>				
Cost	949	10,532	120	11,601
Accumulated amortisation	(623)	-	(111)	(734)
<b>Net book amount at 31 December 2014</b>	<b>326</b>	<b>10,532</b>	<b>9</b>	<b>10,867</b>
<b>Year ended 31 December 2014</b>				
Opening net book amount	326	10,532	9	10,867
Additions	132	-	8	140
Grant received	-	2,139	-	2,139
Emission allowances utilised (Note 25)	-	(2,992)	-	(2,992)
Revaluation income of emission allowances	-	2,144	-	2,144
Return of emission allowances lent	-	4,615	-	4,615
Reclassification from property, plant and equipment (Note 6)	51	-	-	51
Amortisation	(140)	-	(5)	(145)
<b>Net book amount at 31 December 2015</b>	<b>369</b>	<b>16,438</b>	<b>12</b>	<b>16,819</b>
<b>At 31 December 2015</b>				
Cost	1,132	16,438	128	17,698
Accumulated amortisation	(763)	-	(116)	(879)
<b>Net book amount at 31 December 2015</b>	<b>369</b>	<b>16,438</b>	<b>12</b>	<b>16,819</b>
<b>Year ended 31 December 2015</b>				
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 costs of emission allowances	-	3,346	-	3,346
Reclassification from property, plant and equipment (Note 6)	125	-	-	125
Amortisation	(173)	-	(7)	(180)
<b>Net book amount at 31 December 2016</b>	<b>326</b>	<b>11,826</b>	<b>5</b>	<b>12,157</b>
<b>At 31 December 2016</b>				
Cost	1,262	11,826	128	13,216
Accumulated amortisation	(936)	-	(123)	(1,059)
<b>Net book amount at 31 December 2016</b>	<b>326</b>	<b>11,826</b>	<b>5</b>	<b>12,157</b>

In 2016 and 2015, the Company did not capitalise any emission allowances.

The fair value of emission allowances is determined using the prices quoted in an active market, therefore, it is attributable to Level 1 in the fair value hierarchy. At the end of each reporting period, the value of emission allowances is estimated with reference to the market prices prevailing at the year-end, and the difference is included in operating expenses.

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## 6 Property, plant and equipment

The Company's property, plant and equipment as at 31 December 2016 and 2015 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
<b>At 31 December 2014</b>											
Cost or revalued amount	1,880	657	2,966	204,417	535,816	385,956	138	39	103	23,045	1,155,017
Accumulated depreciation	-	(14)	(97)	(71,405)	(308,882)	(32,932)	(65)	(15)	(13)	-	(413,423)
Accumulated impairment	-	-	-	-	(11,461)	-	-	-	-	(223)	(11,684)
<b>Net book amount at 31 December 2014</b>	<b>1,880</b>	<b>643</b>	<b>2,869</b>	<b>133,012</b>	<b>215,473</b>	<b>353,024</b>	<b>73</b>	<b>24</b>	<b>90</b>	<b>22,822</b>	<b>729,910</b>
<b>Year ended 31 December 2014</b>											
Opening net book amount	1,880	643	2,869	133,012	215,473	353,024	73	24	90	22,822	729,910
Additions	-	-	-	18	1,045	-	-	-	6	12,919	13,988
Reclassification to intangible assets	-	-	-	-	-	-	-	-	-	(51)	(51)
Reversal of impairment	-	-	-	-	148	-	-	-	-	-	148
Impairment	-	-	-	-	(36,734)	-	-	-	-	-	(36,734)
Reclassifications between groups	-	-	-	722	30,528	1,811	-	-	-	(33,061)	-
Reclassifications from/to inventories	-	-	-	28	(3)	178	-	-	-	-	203
Depreciation	-	(14)	(119)	(7,954)	(10,775)	(14,651)	(25)	(11)	(15)	-	(33,564)
<b>Net book amount at 31 December 2015</b>	<b>1,880</b>	<b>629</b>	<b>2,750</b>	<b>125,826</b>	<b>199,682</b>	<b>340,362</b>	<b>48</b>	<b>13</b>	<b>81</b>	<b>2,629</b>	<b>673,900</b>
<b>At 31 December 2015</b>											
Cost or revalued amount	1,880	657	2,966	205,122	496,997	387,943	138	46	166	2,852	1,098,767
Accumulated depreciation	-	(28)	(216)	(79,296)	(259,748)	(47,581)	(90)	(33)	(85)	-	(387,077)
Accumulated impairment	-	-	-	-	(37,567)	-	-	-	-	(223)	(37,790)
<b>Net book amount at 31 December 2015</b>	<b>1,880</b>	<b>629</b>	<b>2,750</b>	<b>125,826</b>	<b>199,682</b>	<b>340,362</b>	<b>48</b>	<b>13</b>	<b>81</b>	<b>2,629</b>	<b>673,900</b>

(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
<b>Year ended 31 December 2015</b>											
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)
<b>Net book amount at 31 December 2016</b>	<b>1,880</b>	<b>615</b>	<b>2,628</b>	<b>119,248</b>	<b>192,465</b>	<b>325,610</b>	<b>32</b>	<b>3</b>	<b>70</b>	<b>2,503</b>	<b>645,054</b>
<b>At 31 December 2016</b>											
Cost or revalued amount	1,880	657	2,964	206,510	498,459	387,941	138	46	172	2,726	1,101,493
Accumulated depreciation	-	(42)	(336)	(87,262)	(267,860)	(62,330)	(106)	(43)	(102)	-	(418,081)
Accumulated impairment	-	-	-	-	(38,135)	-	-	-	-	(223)	(38,358)
<b>Net book amount at 31 December 2016</b>	<b>1,880</b>	<b>615</b>	<b>2,628</b>	<b>119,248</b>	<b>192,464</b>	<b>325,611</b>	<b>32</b>	<b>3</b>	<b>70</b>	<b>2,503</b>	<b>645,054</b>

As at 31 December 2016, the Company had no commitments to acquire or construct property, plant and equipment.

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 2016 and 2015:

	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
<b>Net book amount</b>											
<b>at 31 December 2016</b>	<b>1,699</b>	<b>161</b>	<b>2,280</b>	<b>119,248</b>	<b>192,464</b>	<b>325,611</b>	<b>29</b>	<b>3</b>	<b>74</b>	<b>2,503</b>	<b>644,072</b>
<b>Net book amount</b>											
<b>at 31 December 2015</b>	<b>1,699</b>	<b>165</b>	<b>2,408</b>	<b>125,826</b>	<b>199,682</b>	<b>340,362</b>	<b>44</b>	<b>13</b>	<b>94</b>	<b>2,629</b>	<b>672,922</b>

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## 6 Property, plant and equipment (continued)

As at 31 December 2016, 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	-	2,628	-	2,628
Buildings	-	615	-	615
Motor vehicles	-	32	-	32
Computer hardware, communication and other office equipment, other PP&E	-	73	-	73
<b>Fair value at 31 December 2016</b>	-	<b>5,228</b>	-	<b>5,228</b>

In December 2015, 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	-	2,750	-	2,750
Buildings	-	629	-	629
Motor vehicles	-	48	-	48
Computer hardware, communication and other office equipment, other PP&E	-	94	-	94
<b>Fair value at 31 December 2015</b>	-	<b>5,401</b>	-	<b>5,401</b>

As of 31 December 2016, the Company's property, plant and equipment amounting to EUR 331,151 thousand was pledged to the banks as collateral (31 December 2015: EUR 345,297 thousand).

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 2016 and 2015 were as follows:

Category of PP&E	At 31 December 2016	At 31 December 2015
Motor vehicles	589	661
<b>Total</b>	<b>589</b>	<b>661</b>

(All amounts in EUR thousands unless otherwise stated)

## 7 Investments

As at 31 December 2016 and 2015, the Company had no subsidiaries.

Movements of the Company's investments in subsidiaries during 2016 and 2015:

	Company	
	2016	2015
<b>Carrying amount at 1 January</b>	-	<b>6,094</b>
Disposal of subsidiaries	-	(6,094)
<b>Carrying amount at 31 December</b>	<b>-</b>	<b>-</b>

On 31 March 2015, Lietuvos Energija UAB acquired from the Company 15,244,112 ordinary registered shares of Kauno Energetikos Remontas UAB for the amount of EUR 4,778 thousand, and 750,000 ordinary registered shares of Energijos Tiekimas UAB for the amount of EUR 6,883 thousand. The Company incurred loss of EUR 1,099 thousand on disposal of Kauno Energetikos Remontas UAB, which was accounted for within 'Other expenses' in the Company's statement of comprehensive income. The Company earned gain of EUR 6,666 thousand on disposal of Energijos Tiekimas UAB, which was accounted for within 'Other operating income' in the Company's statement of comprehensive income (Note 30). The Agreement on Sale of Shares of Kauno Energetikos Remontas UAB contained a clause that the sales price of Kauno Energetikos Remontas UAB depends on the result of implementation of the Biofuel Boiler Plant Project, i.e. if loss on implementation of the Biofuel Boiler Plant Project increased/decreased by more than EUR 50 thousand, the sales price of the shares would be adjusted accordingly in view of such change. The sales price can be revised until 31 December 2016. As at 31 December 2015, in view of the fact that the loss on implementation of Biofuel Boiler Plant Project increased, the Company's management estimated that the sales price of the shares of Kauno Energetikos Remontas UAB should be reduced by EUR 436 thousand. As at 31 December 2016, a loss was estimated on the implementation of the Biofuel Boiler Plant Project and the sale price of the shares was reduced by additional amount of EUR 619 thousand. As at 31 December 2016 and 2015, the change in the sales price was accounted for within 'Other expenses' in the Company's statement of comprehensive income.

The Company's investments into associates:

At 31 December 2016	Cost	Participation (ownership interest,%)	Impairment	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
<b>Total</b>	<b>3,516</b>		<b>(2,142)</b>	<b>137</b>	<b>1,511</b>

At 31 December 2015	Cost	Participation (ownership interest,%)	Impairment	Carrying amount
Geoterma UAB	2,142	23.44	(2,142)	-
Technologijų ir Inovacijų Centras UAB	1,287	20.00	-	1,287
Verslo Aptarnavimo Centras UAB	87	15.00	-	87
<b>Total</b>	<b>3,516</b>		<b>(2,142)</b>	<b>1,374</b>

In its stand-alone financial statements as at 31 December 2016, the Company accounted for investments into associates using the equity method, whereas until 31 December 2015, investments into associates were accounted for at cost less impairment. The change in accounting policies was adopted prospectively in view of the fact that the result of associates was immaterial for the Company's financial statements: the Company's share of profit of Technologijų ir Inovacijų Centras UAB amounted to EUR 39 thousand and the Company's share of loss of Verslo Administravimo Centras UAB amounted to EUR 17 thousand as at 31 December 2015. As at 31 December 2016, equity of Geoterma UAB was negative, and as Company has no commitments to cover it, accordingly, its part was not accounted for. The guarantee issued by the Company to Geoterma UAB is described in more detail in Note 37.

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Movements of the Company's investments in associates and joint venture during the period ended 31 December 2016 and 2015:

	<b>Company</b>	
	<b>2016</b>	<b>2015</b>
<b>Carrying amount at 1 January</b>	<b>1,374</b>	<b>39,233</b>
Disposal/liquidation of associates	-	(37,859)
Share of financial result of associates and joint ventures – profit (loss)	137	-
<b>Carrying amount at 31 December</b>	<b>1,511</b>	<b>1,374</b>

On 27 April 2015, the Company and its parent company Lietuvos Energija UAB signed an Agreement on Sale of Shares of NT Valdos UAB under which the Company sold 1,232,897 ordinary shares of NT Valdos UAB representing 41.74% of share capital of NT Valdos UAB. The sale price of shares was equal to EUR 29,987 thousand. The Company recognised loss on disposal of shares amounting to EUR 564 thousand within 'Other expenses' in the Company's statement of comprehensive income (result on disposal of shares consisted of EUR 227 thousand gain on disposal of shares and EUR 791 thousand expenses of fair value adjustment to sale price premium). The Group's share in result of operations of NT Valdos UAB amounted to EUR 830 thousand as at 27 April 2015. The Group recognised EUR 266 thousand gain on disposal of shares of NT Valdos UAB within 'Other operating income' in the Group's statement of comprehensive income (Note 30). The Agreement on Sale of Shares contained a clause that the Company would be paid a sale price premium by 31 March 2019 if NT Valdos UAB met the financial covenants set in the Agreement. The Company accounted for the sale price premium within 'Other financial assets' (Note 11) 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. The result of disposal comprised gain on disposal of shares and fair value adjustment expenses of the sale price premium.

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 fair value adjustment of sale price premium. Impairment was recognised within 'Other expenses' in the statement of comprehensive income.



(All amounts in EUR thousands unless otherwise stated)

## 7 Investments (continued)

Summarised statement of financial position of associates as at 31 December 2016 (unaudited) and 2015:

Summarised statement of financial position	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2016	2015	2016	2015	2016	2015
<b>Current assets and liabilities</b>						
Cash and cash equivalents	298	862	527	379	39	5
Other current assets	2,682	3,535	1,916	688	181	314
<b>Total current assets</b>	<b>2,980</b>	<b>4,397</b>	<b>2,443</b>	<b>1,067</b>	<b>220</b>	<b>319</b>
Borrowings	-	-	-	-	(110)	(110)
Other current liabilities	(3,221)	(2,934)	(1,788)	(637)	(3,178)	(2,654)
<b>Total current financial liabilities</b>	<b>(3,221)</b>	<b>(2,934)</b>	<b>(1,788)</b>	<b>(637)</b>	<b>(3,288)</b>	<b>(2,764)</b>
<b>Non-current assets and liabilities</b>						
Non-current assets	7,180	5,262	72	35	5,822	6,632
Grants and subsidies	-	-	-	-	(3,708)	(4,137)
Financial liabilities	-	-	-	-	-	(79)
Other non-current liabilities	(47)	(39)	-	-	(394)	(863)
<b>Total non-current assets</b>	<b>7,133</b>	<b>5,223</b>	<b>72</b>	<b>35</b>	<b>1,720</b>	<b>1,553</b>
<b>Net assets</b>	<b>6,892</b>	<b>6,686</b>	<b>727</b>	<b>465</b>	<b>(1,348)</b>	<b>(892)</b>

Summarised statement of comprehensive income of associates as at 31 December 2016 (unaudited) and 2015:

Summarised statement of comprehensive income	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2016	2015	2016	2015	2016	2015
<b>Revenue</b>	14,499	14,363	9,724	3,826	1,228	1,252
Depreciation and amortisation	(2,326)	(2,328)	(561)	(280)	(381)	(366)
Interest income	-	-	-	-	-	-
Interest expenses	(6)	(10)	(3)	-	(40)	(54)
<b>Profit (loss) before tax</b>	<b>311</b>	<b>531</b>	<b>314</b>	<b>53</b>	<b>(466)</b>	<b>(423)</b>
Income tax income/(expenses)	95	(74)	(52)	12	10	10
<b>Net profit (loss)</b>	<b>406</b>	<b>457</b>	<b>262</b>	<b>65</b>	<b>(456)</b>	<b>(413)</b>
<b>Other comprehensive income</b>	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>406</b>	<b>457</b>	<b>262</b>	<b>65</b>	<b>(456)</b>	<b>(413)</b>
Dividends received from associate	40	-	-	-	-	-

Summarised financial information of associates and joint venture as at 31 December 2016 (unaudited) and 2015:

Summarised financial information	Technologijų ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2016	2015	2016	2015	2016	2015
<b>Net assets at 1 January</b>	<b>6,686</b>	<b>5,731</b>	<b>465</b>	<b>367</b>	<b>(892)</b>	<b>(432)</b>
Formation/ dissolution of share capital/reserves	(200)	498	-	33	-	(47)
Profit (loss) for the period	406	457	262	65	(456)	(413)
Other comprehensive income	-	-	-	-	-	-
<b>Net assets at 31 December</b>	<b>6,892</b>	<b>6,686</b>	<b>727</b>	<b>465</b>	<b>(1,348)</b>	<b>(892)</b>
Ownership interest, %	20%	20%	15%	15%	23,44%	23,44%
Investment in associate	1,378	1,334	108	70	(316)	(209)
<b>Carrying amount</b>	<b>1,378</b>	<b>1,334</b>	<b>108</b>	<b>70</b>	-	-

(All amounts in EUR thousands unless otherwise stated)

## 8 Other non-current assets

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

	Company	
	At 31 December 2016	At 31 December 2015
Right to receive emission allowances in the future	9,702	9,702
Emission allowances returned	(4,615)	(4,615)
Less: impairment	<u>(2,467)</u>	<u>(1,799)</u>
<b>Carrying amount at 31 December</b>	<b><u>2,620</u></b>	<b><u>3,288</u></b>

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 2016.

As at 31 December 2016 and 2015, 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:

	Company	
	At 31 December 2016	At 31 December 2015
Heavy fuel oil	5,025	5,519
Spare parts and other inventories	2,464	2,531
Biofuel	128	722
Goods for resale	<u>298</u>	<u>299</u>
<b>Total</b>	<b><u>7,915</u></b>	<b><u>9,071</u></b>
Less: write-down to net realisable value	<u>(2,071)</u>	<u>(2,074)</u>
<b>Carrying amount</b>	<b><u>5,844</u></b>	<b><u>6,997</u></b>

The cost of the Company's inventories stated at net realisable value as at 31 December 2016 amounted to EUR 3,079 thousand (31 December 2015: EUR 3,327 thousand).

Movements in inventory write-down during the periods ended 31 December 2016 and 2015 are shown in the table below:

	Company	
	2016	2015
<b>Inventory write-down at 1 January</b>	2,074	2,160
Write-down of inventories during the reporting period	100	90
Reversal of inventory write-down	<u>(103)</u>	<u>(176)</u>
<b>Inventory write-down at 31 December</b>	<b><u>2,071</u></b>	<b><u>2,074</u></b>

The inventory write-down expenses and reversal of inventory write-down were included in operating expenses in the statement of comprehensive income. In 2016 and 2015, the Company made additional write-downs to net realisable value for obsolete and slow-moving spare parts stored at the warehouse. In 2016 and 2015, 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 2016 and 2015, 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:

	Company	
	At 31 December 2016	At 31 December 2015
Receivables for sales of electricity	15,112	18,544
Receivables for sales of thermal energy	1,569	1,689
Other trade receivables	-	2
<b>Total</b>	<b>16,681</b>	<b>20,235</b>
Less: allowance for doubtful receivables	(350)	(176)
<b>Carrying amount</b>	<b>16,331</b>	<b>20,059</b>

As at 31 December 2016 and 2015, 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 2016 and 2015 were as follows:

	Company	
	At 31 December 2016	At 31 December 2015
<b>Carrying amount at 1 January</b>	<b>176</b>	<b>1,238</b>
Reversal of allowance for doubtful trade receivables	-	(1,849)
Recognised as doubtful receivables during the reporting period	174	787
<b>Carrying amount at 31 December</b>	<b>350</b>	<b>176</b>

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:

	Company	
	At 31 December 2016	At 31 December 2015
Not past due	15,463	19,027
Past due up to 30 days	27	207
Past due from 30 to 60 days	211	70
Past due from 60 to 90 days	-	73
Past due over 90 days	630	682
<b>Carrying amount</b>	<b>16,331</b>	<b>20,059</b>

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

	Company	
	At 31 December 2016	At 31 December 2015
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	350	176
<b>Carrying amount</b>	<b>350</b>	<b>176</b>

As at 31 December 2016 and 2015, 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:

	Company	
	At 31 December 2016	At 31 December 2015
Receivables for disposal of shares and part of business (Note 3)	6,540	7,439
Receivable PSO service fees (Note 3)	-	533
Receivables for emission allowances lent	157	214
Receivables for apartments	116	130
Accrued income related to capacity reserve services (Note 3)	246	-
Other receivables	841	1,014
<b>Total</b>	<b>7,900</b>	<b>9,330</b>
Less: allowance for doubtful receivables	(722)	(895)
<b>Carrying amount at 31 December</b>	<b>7,178</b>	<b>8,435</b>

As at 31 December 2016, 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 2016 and 2015, 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:

	Company	
	At 31 December 2016	At 31 December 2015
Other receivables	2,594	1,619
Receivables for sale of shares	-	20,791
Receivables for IT and telecommunications services	1	1
VAT receivable from the state budget	5,052	-
Receivable excise on heavy fuel	690	690
<b>Total</b>	<b>8,337</b>	<b>23,101</b>
Less: allowance for doubtful receivables	(221)	(213)
<b>Carrying amount at 31 December</b>	<b>8,116</b>	<b>22,888</b>

Movements in allowance for doubtful other non-current amounts receivable during the periods ended 31 December 2016 and 2015 were as follows:

	Company	
	2016	2015
<b>Carrying amount at 1 January</b>	895	1,011
Reversal of allowance	(173)	(116)
<b>Carrying amount at 31 December</b>	<b>722</b>	<b>895</b>

Movements in allowance for doubtful other current amounts receivable during the periods ended 31 December 2016 and 2015 were as follows:

	Company	
	2016	2015
<b>Carrying amount at 1 January</b>	213	596
Reversal of allowance	(2)	(20)
Write-off of doubtful amounts receivable	-	(388)
Recognised as doubtful receivables during the reporting period	10	25
<b>Carrying amount at 31 December</b>	<b>221</b>	<b>213</b>

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

(All amounts in EUR thousands unless otherwise stated)

## 11 Other financial assets (continued)

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

	Company	
	2016	2015
Not past due	7,178	8,411
Past due up to 30 days	-	-
Past due from 30 to 60 days	-	-
Past due 60 to 90 days	-	-
Past due over 90 days	-	24
<b>Carrying amount</b>	<b><u>7,178</u></b>	<b><u>8,435</u></b>

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

	Company	
	2016	2015
Not past due	8,086	22,862
Past due up to 30 days	9	1
Past due from 30 to 60 days	1	1
Past due 60 to 90 days	2	-
Past due over 90 days	18	24
<b>Carrying amount</b>	<b><u>8,116</u></b>	<b><u>22,888</u></b>

As at 31 December 2016 and 2015, 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 2016 and 2015 is as follows:

	Company	
	2016	2015
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	722	895
<b>Carrying amount</b>	<b><u>722</u></b>	<b><u>895</u></b>

The ageing analysis of the Company's other current amounts receivable impaired as at 31 December 2016 and 2015 is as follows:

	Company	
	2016	2015
Not past due	-	-
Past due up to 30 days	-	-
Past due from 30 to 60 days	-	-
Past due 60 to 90 days	-	1
Past due over 90 days	221	212
<b>Carrying amount</b>	<b><u>221</u></b>	<b><u>213</u></b>

(All amounts in EUR thousands unless otherwise stated)

## 12 Loans granted

	Company	
	2016	2015
Loans granted to related companies (cashpool)	18,098	-
<b>Carrying amount</b>	<b>18,098</b>	<b>-</b>

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.

## 13 Cash and cash equivalents

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

	Company	
	At 31 December 2016	At 31 December 2015
Cash at bank and in hand	99,045	66,176
<b>Carrying amount</b>	<b>99,045</b>	<b>66,176</b>

The fair value of the Company's cash approximates its carrying amount.

Based on the loan agreement signed with Nordea Bank AB Lithuania Branch, the Company pledged current cash balances and future inflows to bank accounts opened with this bank. As at 31 December 2016, the balance of pledged cash with Nordea Bank AB Lithuania Branch amounted to EUR 34 thousand (31 December 2015: EUR 44 thousand).

## 14 Share capital and share premium

As at 31 December 2016, 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.

Pursuant to the Lithuanian Law on Adoption of Euro in the Republic of Lithuania and the Procedure for the Denomination of the Nominal Value of Share Capital into Euro of Lietuvos Centrinis Vertybinių Popierių Depozitoriumas AB (Central Securities Depository of Lithuania), on 1 January 2015 the share capital of the Company was converted into euros. As at 31 December 2015, the Company's share capital amounted to EUR 184,174,248.35. The result of denomination of the nominal value of shares amounted to EUR 241 thousand, which was accounted for within 'Other finance costs' in comprehensive income (Note 31) in 2015. All the shares have been fully paid. The total number of shareholders as at 31 December 2016 was 5,931 (2015: 6,109).

On 8 February 2016, redemption of shares of the former LIETUVOS ELEKTRINĖ AB was announced, which was completed on 9 May 2016. As a result of redemption of shares, Lietuvos Energija UAB owned 614,453,755 shares of the Company as at 31 December 2016.

The shareholders' structure of the Company as at 31 December 2016 and 2015:

Shareholders	Share capital At 31 December 2016		Share capital At 31 December 2015	
	(EUR)	%	(EUR)	%
Lietuvos Energija UAB	178,191,588.95	96.75	177,049,499.35	96.13
Other shareholders	5,982,659.40	3.25	7,124,749.00	3.87
<b>Total</b>	<b>184,174,248.35</b>	<b>100.00</b>	<b>184,174,248.35</b>	<b>100.00</b>

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

	Share capital		Share capital	
	(shares)	(shares)	(EUR)	(EUR)
	2016	2015	2016	2015
Number of shares at the beginning of the period	635,083,615	635,083,615	85,660,132	85,660,132
<b>Number of shares at the end of the period</b>	<b>635,083,615</b>	<b>635,083,615</b>	<b>85,660,132</b>	<b>85,660,132</b>

(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 2016 and 2015 were as follows:

Group	Revaluation reserve	Deferred income tax	Net of deferred income tax
<b>Balance at 31 December 2014</b>	<b>1,290</b>	<b>(193)</b>	<b>1,097</b>
Depreciation of revaluation reserve	(40)	6	(34)
<b>Balance at 31 December 2015</b>	<b>1,250</b>	<b>(187)</b>	<b>1,063</b>
<b>Balance at 31 December 2015</b>	<b>1,250</b>	<b>(187)</b>	<b>1,063</b>
Depreciation of revaluation reserve	(35)	5	(30)
<b>Balance at 31 December 2016</b>	<b>1,215</b>	<b>(182)</b>	<b>1,033</b>

## 16 Legal reserve

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

As at 31 December 2016, the Company's legal reserve amounted to EUR 10,872 thousand (31 December 2015: 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 will depend 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.

During the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 26 September 2016, a decision was made to pay out dividends of EUR 0.043 per share for the six-month period ended 30 June 2016.

	2016
Dividends (EUR'000)	27,309
Weighted average number of shares (units)	635,083,615
<b>Dividends per share (LTL)</b>	<b>0.043</b>

During the Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 24 September 2015, a decision was made to pay out dividends of EUR 0.0042 per share for the six-month period ended 30 June 2015.

During the Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 27 April 2015, a decision was made to pay out dividends of EUR 0.0342 per share from retained earnings.

	2015
Dividends (EUR'000)	24,388
Weighted average number of shares (units)	635,083,615
<b>Dividends per share (LTL)</b>	<b>0.0384</b>

(All amounts in EUR thousands unless otherwise stated)

## 18 Borrowings

The Company's borrowings grouped by maturity:

	Company At 31 December 2016	Company At 31 December 2015
<b>Non-current borrowings</b>		
Loan from Nordea Bank AB Lithuania branch, EUR, to be repaid by 31 March 2027	11,340	12,565
Loan from SEB Bankas AB, in EUR, to be repaid by 23 February 2024	99,911	115,897
<b>Total non-current borrowings</b>	<b>111,251</b>	<b>128,462</b>
<b>Current borrowings and current portion of non-current borrowings</b>		
Loan from Nordea Bank AB Lithuania branch, 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	15,986
<b>Total current borrowings and current portion of non-current borrowings</b>	<b>21,208</b>	<b>17,212</b>

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 (listed in the table above) and the European Bank for Reconstruction and Development. The loan is to be repaid by 23 February 2024.

On 26 June 2013, the Company concluded a loan agreement with Nordea Bank AB Lithuania Branch for the amount of EUR 25,000 thousand. The loan is to be repaid by 31 March 2027. As of 31 December 2016, the balance amounted to EUR 12,566 thousand (31 December 2015: EUR 13,791 thousand).

As at 31 December 2016 and 2015, the Company had no balances of borrowings that were not withdrawn. The average interest rate payable on the Company's borrowings was 1.25% in 2016 (2015: 1.25%).

To secure the repayment of borrowings, in 2016 and 2015 the Company pledged its property, plant and equipment, cash balances and future inflows to bank accounts (Notes 6,13).

As at 31 December 2016, the fair value of the Company's borrowings was approx. EUR 127,743 thousand (31 December 2015: the fair value of borrowings was approx. EUR 137,590 thousand). The fair value was estimated using a discount rate of 2.37% (31 December 2015: 2.46%). 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:

	Company At 31 December 2016	Company At 31 December 2015
Every 1 to 3 months	119,893	131,883
Every 3 to 6 months	12,566	13,791
<b>Total borrowings</b>	<b>132,459</b>	<b>145,674</b>

## 19 Finance lease liabilities

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

Company	At 31 December 2016		At 31 December 2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Finance lease payments:				
No later than 1 year	148	138	148	138
Later than 1 year an no later than 5 years	332	310	480	448
<b>Minimum finance lease payments</b>	<b>480</b>	<b>448</b>	<b>628</b>	<b>586</b>
Less: future finance charges	(32)	-	(42)	-
<b>Present value of minimum finance lease payments</b>	<b>448</b>	<b>448</b>	<b>586</b>	<b>586</b>

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

D The balance of grants includes grants received to finance the acquisition of assets. Movements on grants account during 2016 and 2015 were as follows:

Company	Assets-related grants			Total
	Fuel combustion equipment and other assets	Project for renovation, improvement of environmental and safety standards	Grants for emission allowances	
<b>Balance at 1 January 2015</b>	<b>27,814</b>	<b>269,390</b>	-	<b>297,204</b>
Depreciation of property, plant and equipment	(603)	(10,663)	-	(11,266)
Grants received	833	-	2,139	2,972
Reversal of grants on recognition of impairment of PP&E	-	(6,459)	-	(6,459)
Utilisation of grant for emission allowances	-	-	(2,108)	(2,108)
<b>Balance at 31 December 2015</b>	<b>28,044</b>	<b>252,268</b>	<b>31</b>	<b>280,343</b>
<b>Balance at 1 January 2016</b>	<b>28,044</b>	<b>252,268</b>	<b>31</b>	<b>280,343</b>
Depreciation of property, plant and equipment	(636)	(10,425)	-	(11,061)
Grants received	-	-	1,733	1,733
Reversal of grants on recognition of impairment of PP&E	-	-	-	-
Utilisation of grant for emission allowances	-	-	(1,257)	(1,257)
<b>Balance at 31 December 2016</b>	<b>27,408</b>	<b>241,843</b>	<b>507</b>	<b>269,758</b>

In 2016, assets-related grants decreased by EUR 11,061 thousand, i.e. by the amount of depreciation of property, plant and equipment (2015: EUR 11,266 thousand). Depreciation expenses of property, plant and equipment were reduced by this amount in the statement of comprehensive income.

In 2016, the Company received emission allowances on a gratuitous basis in amount of EUR 1,733 thousand (31 December 2015: EUR 2,139 thousand (Note 2.6)).

In 2015, a grant of EUR 111 thousand was received for the construction of the chemical water treatment facilities for water supply at the Lithuanian Reserve Power Plant and a grant of EUR 722 thousand was received from the construction of heat production facility at the Lithuanian Power Plant.

As described in Note 3, the Company made a decision on dismantling units 5 and 6 of the Reserve Power Plant. As at 31 December 2015, the Company recognised impairment loss of EUR 36,700 thousand, and accordingly, recognised reversal of related grant in amount of EUR 6,459 thousand (Note 20).

## 21 Other non-current amounts payable and liabilities

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

	Company	
	At 31 December 2016	At 31 December 2015
Advance amounts of PSO service fees received (deferred income) (Note 3)	9,219	7,018
Non-current payables for material valuables	813	904
Provisions for pension benefits and indemnification for damages	448	496
<b>Total</b>	<b>10,480</b>	<b>8,418</b>

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 2 monthly salaries upon retirement.

Current portion of advance amounts of PSO service fees received is included in advance amounts received (Note 24). As described in Note 3, in 2018 the Company expects to refund EUR 9,404 thousand from advance amounts of PSO service fees (the discounted value of which represents EUR 9,219 thousand), and in 2017 the Company expects to refund EUR 177 thousand from advance amounts of PSO service fees (Note 24).

The fair values of trade payables 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 2016 and 2015 comprised as follows:

	Company	
	At 31 December 2016	At 31 December 2015
<b>Income tax expense components</b>		
Current income tax	1,786	50
Adjustment to previous year income tax	-	39
Deferred income tax (income)/expense	6,569	4,031
<b>Income tax expense (income) for the reporting period</b>	<b>8,355</b>	<b>4,120</b>

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	Differences in value of emission allowances	Total
At 31 December 2014	40,007	-	147	5,324	33	1,851	47,362
Recognised in the statement of comprehensive income	(1,990)	984	(11)	(1,630)	-	(444)	(3,091)
At 31 December 2015	<b>38,017</b>	<b>984</b>	<b>136</b>	<b>3,694</b>	<b>33</b>	<b>1,407</b>	<b>44,271</b>
At 31 December 2015	<b>38,017</b>	<b>984</b>	<b>136</b>	<b>3,694</b>	<b>33</b>	<b>1,407</b>	<b>44,271</b>
Recognised in the statement of comprehensive income	(2,056)	(984)	(14)	(2,311)	-	192	(5,173)
At 31 December 2016	<b>35,961</b>	<b>-</b>	<b>122</b>	<b>1,383</b>	<b>33</b>	<b>1,599</b>	<b>39,098</b>

Deferred income tax liabilities	PP&E revaluation/deemed cost (increase in value)	Differences in depreciation rates	Tax relief on acquisition of PP&E	Other	Total
At 31 December 2014	(49,425)	(8,966)	(3,102)	-	(61,493)
Recognised in the statement of comprehensive income	3,051	(4,177)	186	-	(940)
At 31 December 2015	<b>(46,374)</b>	<b>(13,143)</b>	<b>(2,916)</b>	<b>-</b>	<b>(62,433)</b>
At 31 December 2015	<b>(46,374)</b>	<b>(13,143)</b>	<b>(2,916)</b>	<b>-</b>	<b>(62,433)</b>
Recognised in the statement of comprehensive income	2,715	(4,231)	120	-	(1,396)
At 31 December 2016	<b>(43,659)</b>	<b>(17,374)</b>	<b>(2,796)</b>	<b>-</b>	<b>(63,829)</b>
Net deferred income tax at 31 December 2014		<b>(14,131)</b>			
Net deferred income tax at 31 December 2015		<b>(18,162)</b>			
Net deferred income tax at 31 December 2016		<b>(24,731)</b>			

Lietuvos Energijos Gamyba AB, company code: 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

(All amounts in EUR thousands unless otherwise stated)

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 2016 and 2015 comprised as follows:

	Company	
	At 31 December 2016	At 31 December 2015
Deferred income tax assets	-	-
Deferred income tax liabilities	24,731	18,162
<b>Net deferred income tax liability</b>	<b>24,731</b>	<b>18,162</b>

When calculating deferred income tax as at 31 December 2016 and 2015, income tax rate of 15% was used.

The Company's deferred income tax to be realised within 12 months amounted to EUR 3,500 thousand as at 31 December 2016 (31 December 2015: EUR 2,310 thousand).

As at 31 December 2016, 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:

	Company	
	At 31 December 2016	At 31 December 2015
<b>Profit before income tax</b>	48,330	3,889
Income tax at a tax rate of 15% (2014: 15%)	7,250	583
Adjustment to previous year income tax	-	39
Tax effects of non-taxable income and non-deductible expenses	1,105	3,498
<b>Income tax</b>	<b>8,355</b>	<b>4,120</b>

## 23 Trade payables

The Company's trade payables comprised as follows:

	Company	
	At 31 December 2016	At 31 December 2015
Payables for electricity and related services	13,937	10,569
Payables for contractual works, other services	1,154	2,295
Payables for gas and heavy fuel oil	4,628	776
Payables for material valuables	185	187
<b>Total</b>	<b>19,904</b>	<b>13,827</b>

The fair values of trade payables approximated their carrying amounts.

## 24 Advance amounts received

The Company's advance amounts received comprised as follows:

	Company	
	At 31 December 2016	At 31 December 2015
Advance amounts of PSO service fees received (deferred income)	177	14,633
Other advance amounts received	1,107	38
<b>Total</b>	<b>1,284</b>	<b>14,671</b>

(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 2016 and 2015 were as follows:

	Company
<b>Balance at 31 December 2014</b>	<b>2,839</b>
Emission allowances utilised (Note 5)	(2,992)
Provisions for emissions	3,888
<b>Balance at 31 December 2015</b>	<b>3,735</b>
<b>Balance at 31 December 2015</b>	<b>3,735</b>
Emission allowances utilised (Note 5)	(2,999)
Provisions for emissions	580
<b>Balance at 31 December 2016</b>	<b>1,316</b>

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:

	Company	
	At 31 December 2016	At 31 December 2015
VAT payable to the state budget	-	2,242
Dividends payable	1,050	1,053
Other payables and current liabilities	934	79
Vacation reserve	538	552
Employment-related liabilities	503	612
Taxes payable	458	507
Accrued expenses from purchases of electricity	1	113
<b>Carrying amount</b>	<b>3,484</b>	<b>5,158</b>

The fair values of other accounts 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:

	Company	
	At 31 December 2016	At 31 December 2015
Revenue from sale of electricity	106,495	189,084
<i>Whereof: PSO revenue</i>	36,275	58,704
Revenue from capacity reserve services	41,200	10,481
Revenue from sale of thermal energy	4,063	3,532
<b>Total</b>	<b>151,758</b>	<b>203,097</b>

## 28 Segment reporting

In 2016, 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. Operating profit (loss) is a profitability measure analysed by the Board. The reports analysed by the Board are in line with the financial statements prepared in accordance with IFRSs, except for the format of presentation. Changes were made in segment reporting in view of how the Board analysed the Company's operations.

As at 31 December 2016 and 2015, the Company's management analysed 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, and other activities. Administrative expenses are allocated between the regulated activities and the commercial activities based on operating expenses.

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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
<b>Total revenue of segments</b>	<b>102,967</b>	<b>69,955</b>	<b>172,922</b>
<b>Total expenses of segments</b>	<b>(86,699)</b>	<b>(37,193)</b>	<b>(123,892)</b>
Whereof: depreciation and amortisation expenses of non-current assets	(15,435)	(5,118)	(20,553)
Whereof: impairment of non-current assets	(567)	(2)	(569)
<b>Operating profit (loss)</b>	<b>16,268</b>	<b>32,762</b>	<b>49,030</b>
<b>Finance income</b>	-		656
<b>Finance (costs)</b>			(1,493)
<b>Share of results of operations of associates and joint ventures</b>			137
<b>Profit before income tax</b>			<b>48,330</b>
<b>Income tax</b>			<b>(8,355)</b>
<b>Net profit (loss)</b>			<b>39,975</b>

Information on the Company's segments for the year ended 31 December 2015 is presented in the table below:

2015	Regulated activities	Commercial activities	Total
<b>Total revenue of segments</b>	<b>121,498</b>	<b>92,897</b>	<b>214,395</b>
<b>Total expenses of segments</b>	<b>(150,057)</b>	<b>(58,577)</b>	<b>(208,634)</b>
Whereof: depreciation and amortisation expenses of non-current assets	(16,173)	(6,270)	(22,443)
Whereof: impairment of non-current assets	(30,127)	-	(30,127)
<b>Operating profit (loss)</b>	<b>(28,559)</b>	<b>34,320</b>	<b>5,761</b>
<b>Finance income</b>			510
<b>Finance (costs)</b>			(2,382)
<b>Profit (loss) before income tax</b>			<b>3,889</b>
<b>Income tax</b>			<b>(4,120)</b>
<b>Net profit (loss)</b>			<b>(231)</b>

As at 31 December 2016 and 2015, 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:

	Company	
	2016	2015
Baltpool UAB	25,146	48,886
Litgrid AB	41,932	
Lesto AB*	-	131,553
<b>Total</b>	<b>67,078</b>	<b>180,439</b>

\*On 1 January 2016, LESTO AB and Lietuvos Dujos AB were reorganised by way of merger, whereby Energijos Skirstymo Operatorius AB started its activities following the reorganisation.

(All amounts in EUR thousands unless otherwise stated)

## 29 Other operating income

As at 31 December 2016 and 2015, the Company's other operating income comprised as follows:

	Company	
	At 31 December 2016	At 31 December 2015
Disposal of subsidiary and associate (Note 3)	-	6,666
Disposal of part of business (Note 3)	19,773	-
Sale of metal scrap	1,003	1,457
Gain on disposal of property, plant and equipment	28	2
Disciplinary measures	45	2,750
Other income	315	423
<b>Total</b>	<b>21,164</b>	<b>11,298</b>

## 30 Other finance income

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

	Company	
	At 31 December 2016	At 31 December 2015
Dividends	40	-
Other income	405	200
Interest income	204	193
Foreign exchange positive effect	7	117
<b>Total finance income</b>	<b>656</b>	<b>510</b>

## 31 Other finance costs

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

	Company	
	At 31 December 2016	At 31 December 2015
Interest expenses	(1,479)	(1,984)
Result of denomination of the nominal value of shares (Note 14)	-	(241)
Foreign exchange negative effect and other expenses	(2)	(149)
Other finance costs	(12)	(8)
<b>Total finance costs</b>	<b>(1,493)</b>	<b>(2,382)</b>

## 32 Related-party transactions

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

Related party	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Finance of the Republic of Lithuania (including subsidiaries of Lietuvos Energija UAB)	2,051	9,581	20,055	19,891
Company's associates	116	11	840	20
LITGRID AB, group	691	4,330	2,862	109,042
Lietuvos Energija UAB	1,099	17,202	4,611	352
<b>Total</b>	<b>3,957</b>	<b>31,124</b>	<b>28,368</b>	<b>129,305</b>

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2 The Company's transactions with related parties during the year ended 31 December 2015 and the balances arising on these transactions as at 31 December 2015 are presented below:

Related party	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Purchases	Sales
Entities controlled by the Ministry of Finance of the Republic of Lithuania (including subsidiaries of Lietuvos Energija UAB)	975	11,564	85,177	185,263
The Company's associates	127	3	1,075	21
The Company's subsidiaries	-	-	9	18,013
LITGRID AB, group	655	7,973	7,598	94,036
Lietuvos Dujos AB*	4	-	25	-
Lietuvos Energija UAB	-	28,254	350	48,845
<b>Total</b>	<b>1,761</b>	<b>47,794</b>	<b>94,234</b>	<b>346,178</b>

In 2016 and 2015, the Company fulfilled the functions of the designated person, 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 and sales of electricity generated at the wind power plants in 2016 and 2015 cover the total amount of transactions.

In the above tables of transactions with related parties for 2015, the Company's sales to Lesto AB (which is indirectly controlled by the Lithuanian Ministry of Finance and which is Energijos Skirstymo Operatorius since 1 January 2016) and to Energijos Tiekimas UAB cover the total amount of sale transactions, whereas the Company's statement of comprehensive income reflects only revenue earned from intermediation services, because the Company renders intermediation services under the service provision agreements signed with Lesto AB (2015) and Energijos Tiekimas UAB (2015).

The major sale transactions during the years ended 31 December 2016 and 2015 comprised transactions with Litgrid AB and Baltpool UAB. Transactions with entities other than those controlled by the Ministry of Finance of the Republic of Lithuania comprised transactions in the ordinary course of business, and accordingly, there 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 37. 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

	2016	2015
Employment-related payments	195	294
Termination benefits	-	-
Other significant payments to key management personnel	49	58

In 2016 and 2015, key management personnel included the chief executive officer and the directors of departments (including the acting directors of departments).

(All amounts in EUR thousands unless otherwise stated)

### 33 Employee benefits and related social security contributions

	2016	2015
Wages and salaries	5,649	6,288
Termination benefits	23	167
Social security contributions	1,755	1,999
Change in accrued vacation reserve	29	(3)
Change in social security contributions on accrued vacation reserve	10	-
<b>Total</b>	<b>7,466</b>	<b>8,451</b>

### 34 Other expenses

	2016	2015
Expenses of disposal of shares and part of business	4,392	2,099
Operation taxes	1,817	2,007
Expenses of security	786	842
Business support and management services	517	1,128
Insurance	338	609
Rent	179	225
Sponsorship, charity	123	303
Audit	34	38
(Increase) decrease in value of amounts receivable	9	(1,560)
Other	1,947	2,152
<b>Total</b>	<b>10,142</b>	<b>7,843</b>

### 35 Basic and diluted earnings per share (EUR)

Basic and diluted earnings per share in 2015 and 2014 were as follows:

	2016	2015
Net (loss)/profit for the year attributable to the owners	39,975	(231)
Weighted average number of shares (units)	635,083,615	635,083,615
<b>Basic and diluted earnings/(loss) per share (in EUR)</b>	<b>0.063</b>	<b>(0.000)</b>



(All amounts in EUR thousands unless otherwise stated)

## 36 Offsetting financial assets and financial liabilities

As at 31 December 2015, 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 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 2016, the guarantee amount was equal to EUR 30 thousand (31 December 2015: 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 of 31 December 2016, the guarantee amount was equal to EUR 2,900 thousand (31 December 2015: EUR 5,000 thousand).

The Company had issued a guarantee for Kauno Energetikos Remontas UAB to Nordea Bank AB Lithuania Branch to secure an irrevocable and unconditional payment of EUR 1,883 thousand upon first written demand. Based on credit agreement No KS 12/12/01 signed between the Bank and Kauno Energetikos Remontas UAB on 4 December 2012, the Company issued a guarantee to the Bank for proper fulfilment of obligations by Kauno Energetikos Remontas UAB. The bank agreement expires on 1 December 2017. 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 2016, the guarantee amount was equal to EUR 1,767 thousand.

On 3 December 2014, the Company signed a guarantee agreement with Swedbank 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. As at 31 December 2016, the guarantee amount totalled to EUR 110 thousand (31 December 2015: EUR 236 thousand). The guarantee will expire on 31 March 2017.

On 6 October 2016, Nordea Bank AB Lithuania Branch signed an agreement on issuance of bank guarantee to the Company in amount of EUR 1.1 million and 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 2016 was equal to EUR 1.1 million.

As at 31 December 2016, no other guarantees were received by the Company from other entities.

### Legal disputes

Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court with request to repeal Resolution No O3-757 of the NCC of 7 August 2014 *On survey results of electricity generation market*. By this Resolution, the NCC declared the Company as an undertaking having significant power in the market of electricity generation services and inter alia, with effect from 1 January 2015 placed obligations on the Company in relation to the application of the prices and disclosure of information on the regulated activity expenses. During the public consultation procedure, the Company provided comments on the Draft Resolution and stated that the survey of electricity generation market was conducted using inappropriate assumptions. As a result, in the Company's opinion, the NCC's Resolution, whereby the Company was declared as an undertaking having significant power in the market of electricity generation services and related obligations should not be applicable to the Company. On 17 October 2016, the Lithuanian Supreme Administrative Court adopted a decision to accept the Company's appeal and to repeal the disputed provisions of the NCC's Resolution. No further remedy exists against the Court's decision and the Company shall not further be regarded as an undertaking having significant power in the market of electricity generation.

Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court with request to repeal the NCC's Resolution No O3-818 of 30 September 2014 *On scheduled audit of Lietuvos Energijos Gamyba AB*. By this Resolution, the NCC approved the Scheduled Audit Report No E3-2 of 19 September 2014 and decided to reduce the Company's income receivable from supported electricity generated at Lithuanian Power Plant (which is controlled by the Company) by EUR 6.14 million, and to reduce the Company's income receivable from capacity reserve services by EUR 7.44 million. The Resolution states that these decisions of the NCC should be implemented during the accounting years 2015-2016. Based on the above-mentioned Resolution, the Company's income from PSO service fees receivable in 2015 was reduced by EUR 6.14 million, and income receivable from capacity reserve services was reduced by EUR 3.72 million. Based on the above-mentioned Resolution, income from capacity reserve services were reduced in 2016 by the same amount as in 2015, i.e. by EUR 3.72 million, whereas income from PSO service fees was not reduced. Based on management's decision, reduction in income was accounted for in the Company's financial statements (Note 3). The Company finds that this Resolution of the NCC has no grounds and contradicts its previous decisions on the same issues. In addition, during the audit the NCC failed to support its decision by applicable legal acts. Taking this into consideration, the Resolution is to be considered as unsubstantiated and unlawful. On 20 December 2016, the Lithuanian Supreme Administrative Court adopted a decision to reject the Company's appeal and remained in force the decision of Vilnius Regional Administrative Court. The Court did not investigate the legitimacy of the scheduled audit report from an economic perspective and only checked compliance with the established rules of proceedings. The case was closed and no further remedy exists against the Court's decision. The Company intends to refer to the court with request to renew the proceedings.

(All amounts in EUR thousands unless otherwise stated)

Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-852 of 17 October 2014 *On determining cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2015 and on the NCC's Resolution No O3-866 of 30 October 2014 On determining buy-up prices for the year 2015 for electricity produced at Lithuanian Power Plant of LIETUVOS ENERGIJOS GAMYBA UAB*. By these Resolutions, the NCC implements its Resolution of 30 September 2014 *On 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.

Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-939 of 19 December 2014 *Regarding amendment to the NCC's Resolution No O3-866 of 30 October 2014 On determining buy-up prices for the year 2015 for electricity produced at Lithuanian Power Plant of LIETUVOS ENERGIJOS GAMYBA UAB*.

Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-941 of 19 December 2014 *Regarding amendment to the NCC's Resolution No O3-840 of 17 October 2014 On Determining funds from PSO service fees and prices for the year 2015*. Alongside the paragraphs of the Resolution requested to be repealed, the NCC, based on its Resolution of 7 August 2014 *On survey results of electricity generation market*, reduced the budget of PSO funds allocated to the Company for the year 2015. In the Company's opinion, this Resolution has no grounds and contravenes the legal acts with superior legal power. PSO funds receivable by the Company in 2015 were reduced by EUR 5.44 million based on Resolution of 7 August 2014 *On survey results of electricity generation market*. Management decided to account for the above-mentioned reduction of income in the Company's financial statements (Note 3). On 5 December 2016, Vilnius Regional Administrative Court accepted the Company's appeal and repealed the disputed provisions of the Resolution. The Company intends to refer to the NCC with request to implement the Court's decision.

Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-875 of 30 October 2014 *On recalculation of 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 in compliance 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 violation. In the Company's opinion, the Resolution has no grounds. The NCC's estimates of return on investments are inaccurate and contravene the legal acts. In addition, Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-934 of 11 December 2014 *On unilateral establishment of 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 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 made a decision that was not favourable to 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. The sitting of the Court is expected to be held on 15 February 2017.

Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court in respect of the NCC's Resolution No O3-562 of 22 October 2015 *On determining cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2016 and on the NCC's Resolution No O3-579 of 30 October 2015 On determining PSO funds and price for the year 2016*. The Company finds the Resolutions of the NCC as having no grounds and unlawful as they relate to and intended to implement other Resolutions of the NCC that had already been appealed against by the Company. The hearing of the case was suspended.

Lietuvos Energijos Gamyba AB appealed to Vilnius Regional Administrative Court with request to repeal paragraph 1 the NCC's Resolution No O3-391 of 29 November 2016 *On determining cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2017*. In the Company's opinion, application of proportionate cost allocation approach in respect of assuring secondary capacity reserve services is ungrounded.

#### **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.

## **38 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 2016, 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.

(All amounts in EUR thousands unless otherwise stated)

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

According to the Law on Companies of the Republic of Lithuania, the Company's equity must be not less than ½ of the amount of the authorised share capital. No other external capital requirements are applicable to the Company. As at 31 December 2016 and 2015, the Company complied with this requirement.

### 39 Disposal of part of business

In February 2015, the Company's parent company Lietuvos Energija UAB initiated a project for separating the electricity wholesale business of Lietuvos Energijos Gamyba AB and combining it with the retail business as a result of implementation of the programme for singling out the value of the group of companies and improving the operational efficiency and quality of services offered to its clients.

By implementing the project under the agreement on sale-purchase of part of business (dated 12 October 2015), on 1 January 2016 the Company disposed the electricity wholesale business to Energijos Tiekimas UAB, which covered trade in derivative financial instruments not related to physical electricity trading, and provision of balancing services. When determining the sale price, an independent valuation of the electricity wholesale business was carried out.

Based on the agreement, the sale price of part of business will be received in equal cash payments until 31 March 2017, and on the outstanding balance of the sale price Energijos Tiekimas UAB will have to pay variable interest linked to six-month EURIBOR plus 0.75% credit risk margin.

Based on the agreement, Energijos Tiekimas UAB is obliged to pay to the Company additional amount of up to EUR 8,000 thousand until 31 March 2019, depending on the results of operation of the acquired business of balancing services in the upcoming periods. The management estimated the expected additional proceeds from disposal of part of business and accounted for sale price premium of EUR 6,434 thousand as at 1 January 2016 within amounts receivable.

In view of the fact that Lietuvos Energija UAB was selected as a successful tenderer for the provision of balancing services, additional proceeds from disposal of part of business were re-estimated as at 31 December 2016, and additional sale price premium of EUR 239 thousand was accounted for within amounts receivable.

As at 31 December 2016, the Company was paid a full sale price of part of business of EUR 13,100 thousand and part of sale price premium of EUR 2,000 thousand. The sale price of part of business and net cash flows on disposal of part of business were as follows:

	<b>Disposed part of business</b>
Sale price of part of business, settled in cash payments	13,100
Sale price premium	6,673
<b>Total sale price</b>	<b>19,773</b>
Net cash and cash equivalents of the disposed part of business	-
<b>Net cash flow</b>	<b>19,773</b>
Deferred payment	(4,673)
<b>Disposal of part of business – investing activities</b>	<b>15,100</b>

Disposal of part of business did not result in disposal of any assets and liabilities related to the disposed part of business of the Company.

### 40 Events after the end of the reporting period

#### Appeal in respect of the NCC's Resolution

On 9 January 2017, Vilnius Regional Administrative Court accepted the appeal of Lietuvos Energijos Gamyba AB, whereby it requested to repeal paragraph 1 of the NCC's Resolution No. O3-391 of 29 November 2016 *On determining cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2017*. Based on paragraph 1 of the Resolution, application of a proportionate cost allocation approach to electricity costs of Kruonis PSHP that are attributed to secondary capacity reserve services for the year 2017 is ungrounded and does not take into account the technical characteristics of the plant, since when assuring secondary emergency active capacity reserve services, two units of Kruonis PSHP are used (with total capacity of 450 MW), whereas the Company's costs are compensated only in respect of 400 MW capacity. In the Company's opinion, the above-mentioned paragraph 1 of the NCC's Resolution is ungrounded.

There were no other significant events between 31 December 2016 and the date of approval of the financial statements.

\*\*\*\*\*

2016

# LIETUVOS ENERGIJOS GAMYBA AB INTERIM REPORT

FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2016



Lietuvos  
energija

GAMYBA



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### **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 Preparation and Submission of Periodic and Additional Information approved under Resolution No 03-48 of the Board of the Bank of Lithuania of 28 February 2013 (as amended by Resolution No 03-22 of 11 February 2016), and Lithuanian Government Resolution No 258 of 7 March 2012 *On approval of the guidelines for ensuring transparency of operations of state-owned entities and appointment of a coordinating body.*

### **Individuals responsible for information contained in the Interim Report**

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

## KEY OPERATING AND FINANCIAL INDICATORS OF LIETUVOS ENERGIJOS GAMYBA

		2016	2015	Change	
				+/-	%
<b>KEY OPERATING INDICATORS</b>					
Electricity generation volume	<i>TWh</i>	1.37	2.01	-0.64	-31.7
<b>KEY FINANCIAL INDICATORS</b>					
Revenues	<i>EUR'000</i>	172,922	214,395	-41,473	-19.3
Costs of purchase of electricity, fuel and related services	<i>EUR'000</i>	76,395	133,916	-57,521	-43.0
Operating expenses <sup>1</sup>	<i>EUR'000</i>	23,093	25,640	-2,547	-9.9
EBITDA <sup>2</sup>	<i>EUR'000</i>	58,054	50,272	7,781	15.5
EBITDA margin <sup>3</sup>	%	33.6	23.4	10.2 p.p.	
Net profit (loss)	<i>EUR'000</i>	39,975	-231	40,206	
		At 31 December 2016	At 31 December 2015	Change	
				+/-	%
Total assets	<i>EUR'000</i>	819,430	833,474	-14,044	-1.7
Equity	<i>EUR'000</i>	355,566	342,900	12,666	3.7
Financial debts	<i>EUR'000</i>	132,907	146,260	-13,353	-9.1
Net financial debts <sup>4</sup>	<i>EUR'000</i>	33,862	80,084	-46,222	-57.7
Return on equity (ROE) <sup>5</sup>	%	11.2	-0.1	11.3 p.p.	
Equity level <sup>6</sup>	%	43.4	41.1	2.3 p. p.	
Net financial debts / 12-month EBITDA	%	58.3	159.3	-101.8 p.p.	
Net financial debts / Equity	%	9.5	23.4	-13.8 p.p.	

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> EBITDA / Revenues.

<sup>4</sup> 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.

<sup>5</sup> Net profit (loss), restated annual value // Equity at the end of the period.

<sup>6</sup> Equity at the end of the period / Total assets at the end of the period.

## MESSAGE FROM THE CHAIRWOMAN OF THE BOARD

Dear customers, partners, employees, shareholders,

The year 2016 was a challenging one for Lietuvos Energijos Gamyba. Nevertheless, we managed to successfully respond to them and today we can reap both better corporate results and a higher level of employee engagement. We continuously change and improve so that the Company operates more efficiently in the future and give shareholders a change to earn better returns and create value for employees.

Following the launch of new electricity connections with Sweden and Poland and the elimination of quotas for electricity generation, all power plants operated by the Company had to adapt to the new market conditions. Changes in business environment and increased competition affected our results. The cancellation of the supported electricity production quota halved the output of the Elektrėnai complex units (0.491 TWh) when compared to the year 2015 (0.491 TWh), which was the main reason for the loss of revenue of the Company in 2016. In terms of the earnings, compared to the year 2015, the results reduced by quarter, namely, to Eur 151.8 million. As a result of decreased production, variable costs incurred by the Company were significantly reduced (-43 per cent) as well. In addition, due to efficient organisation and performance of repair works and constant improvement of business processes, the Company managed to significantly reduce operating costs as well. This, in turn, grants direct benefits to electricity consumers because it contributes to the electricity rate reduction.

The professionalism of the Company's employees and their ability to adapt in a flexible way to a rapidly changing market situation helped to use the most efficient device Combined Cycle Gas Turbine unit (CCGT) in the Elektrėnai complex when it was particularly necessary to contribute to the stabilisation of electricity prices on the wholesale market. In 2016, the CCGT was switched on as many as 58 times (in comparison, throughout 2015 it was switched on only 20 times). Produced competitive electricity by CCGT was sold on the market and over the year it has allowed to earn nearly EUR 6 million gross profit which will be given to the PSO tariff reduction for consumers.

As the market situation changed, hydroelectric power plants managed by the Company operated more efficiently and flexibly. In 2016, Kaunas Algirdas Brazauskas' Hydroelectric Power Plant produced 30 per cent (0.363 TWh) more electricity than in 2015. Production at Kruonis PSHP decreased slightly more than by 20 per cent (to 0.517 TWh); however, this power plant played a particularly important role in ensuring the safety of electricity supply when the operation of the "NordBalt" link was unstable. When the link was disconnected, particularly in the first half of 2016, Kruonis PSHP was the first to provide help: the emergency reserve of this power plant was activated 57 times in 2016 (20 times in 2015).

The increased scope of the secondary reserve service in 2016 improved the EBITDA result of the Company's regulated activity, while the EBITDA indicator of commercial activities of the hydroelectric power plants, despite increased competition, was similar to 2015. However, the change in the Company's EBITDA in 2016 in comparison with 2015 (Eur 58.1 million and Eur 50.3 million, accordingly) was substantially affected by evaluation of the decisions of the regulator in financial statements. Net profit of the Company amounted to almost Eur 40 million in 2016 and was higher than in 2015 due to stronger effect of EBITDA and one-off factors.

More information on corporate financial results of 2016 and factors which affected them is provided and discussed later in this report which also notes that the year 2016 became a benchmark for the implementation of updated operational strategy of the Company.

Sticking to the guidelines set out in the strategy, we will seek to ensure the continuity of the Company's activities, to return to shareholders and to retain jobs of employees. We, therefore, plan to significantly expand our service portfolio by 2020. We plan that in four years every employee of the Company will devote at least 15 per cent of their working time for new services. We will pursue to have main operating expenses for electricity and heat production and provision of system services reduced by at least 15 percent by 2020.

We have already made the first steps in offering new services in 2016 – business was offered territories next to the power plan as well as services of weighing heavy vehicles and biofuel and other laboratory tests. In the future, we plan to considerably expand the range of services.

Our key goals include low employee turnover, assurance of occupational safety and health, and implementation of the LEAN management system principles-based Operational Excellence programme.

The main requirement for the implementation of all the actions provided for in the strategy and development of new activities is engaged employees generating ideas and focused on the achievement of goals. I have no doubt that an even deeper fostering of fundamental values of the company, such as responsibility, cooperation and pursuit for the achievement of goals, will help successfully implement our vision of becoming a competitive international energy generation and service centre.

**Eglė Čiužaitė**  
Chairwoman of the Board and CEO  
of Lietuvos Energijos Gamyba



## MOST SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

**Units 5 and 6 of the reserve power plant in Elektrėnai Complex have been decommissioned since the beginning of 2016.** Dismantling of units 5 and 6 is planned to be started upon completion of dismantling of units 1 and 2 (in the beginning of 2017). Units 5 and 6 (300 MW each) of the Lithuanian Power Plant were brought into use back in 1967–1968, and currently they are subject to preservation. Decommissioning of the units was caused by their poor technical condition, low potential of use in the future and high maintenance costs.

**Ownership of the disposed part of the Company's electricity wholesale commercial business has been transferred to Energijos Tiekimas UAB since 1 January 2016.** The disposed part of business includes trade in derivative financial instruments not related to physical generation of electricity and provision of the balancing services. After disposal of this part of business, the Company will continue receiving income from sale of electricity generated at the power plants controlled by it, as well as income from the provision of system services. More details are provided in [the notification on material event](#).

**Based on the Lithuanian Government Resolution, redemption of the shares of the former LIETUVOS ELEKTRINĖ AB was initiated with effect from 9 February 2016.** In the course of redemption, the shares were equated to the shares of the Company. The shareholders willing to sell their shares were able to submit their applications until 9 May 2016. Lietuvos Energija UAB, which redeemed the shares, had settled accounts with most of the shareholders who sold their shares by 23 May 2016. Notification on completion of redemption of shares was published on 24 May. More details are provided further in this report and on the [Company's website](#).

**On 19 February 2016, the Company's Supervisory Board:**

- removed Juozas Bartlingas from the office of the CEO and the chairman of the Board of the Company in view of notice of resignation received from him;
- removed Vidmantas Saliotis from the office of the Company's member of the Board;
- appointed Eglė Čiužaitė to the Company's Board, who was elected on the same day by the Board as the Company's CEO.

More details are provided further in section [The Company and its management bodies](#).

**On 25 February 2016, a new version of the Company's collective agreement was approved** to be effective for the term of two years. More details are provided further in section [The Company and its management bodies](#).

**In summer 2016, five years have passed since the start of operations of the Company.** Since August 2011, when the Company accounted for the major part of national power generation facilities in Elektrėnai, Kruonis PSHP and Kaunas HPP, the results achieved enabled the customers to save millions of euros of PSO funds, as well as assure a solid rate of return for the shareholders.

In October 2012, the Company completed its one of the largest investment projects in Lithuania during the whole period of independence – construction and bringing into use of an effective combined cycle unit (CCU). A gas-fired electricity generation facility with capacity of 455 MW contributed to significant improvement of generation effectiveness and

reduced the need for funds from the budget of PSO fees collected from all customers. Only during the first two years of operation of this new facility, the Company managed to save EUR 49 million, which would have been required additionally, had the old ineffective facility been used for the production of electricity.

Recently, the Company has made decisions on decommissioning of obsolete and ineffective production facilities. As a result, the need for the maintenance and support of such facilities has decreased significantly. Moreover, as the production of heat was moved from the old facility to a biofuel boiler house constructed in Elektrėnai in 2015, the Company was able to offer more competitive heat production prices for Elektrėnai town and the surrounding businesses.

All these changes have led to situation where the production costs per supported electricity kWh produced in Elektrėnai together with PSO funds intended to cover such costs tend to decrease on a year-by-year basis. For instance, the PSO funds intended to cover variable production costs in 2012 amounted to 6.3 EUR ct/kWh compared to 3.5 EUR ct/kWh in 2015.

At the end of 2012, the process of management of hydro power plants controlled by the Company was centralised. Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas HPP) uses modern equipment and it is managed in a stable manner from Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP). Reliable operation of these power plants is very important for ensuring national energy security and smooth supply of electricity in the country,

During all five years, the Company focused on improvement of organisation of its activities. The purchase, accounting, employment relation administration functions were moved to Verslo Aptarnavimo Centras UAB, which is part of Lietuvos Energija group. The Company's commercial electricity wholesale business was transferred to Energijos Tiekimas. As a result of singling out its activities as a production company, today the Company may focus more on the projects and processes that help ensure production with minimum costs and at minimal possible price to customers. The main objectives of the Company relate to successful implementation of projects for territory cleaning works and use of Operational Excellence (LEAN) tools.

**On 20 September 2016, the Company published its updated business strategy**, which stipulates that 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%. For more details see section [Factors determining the financial indicators](#).

**On 17 October 2016, the court repealed the NCC's Resolution, which was declared as distorting the market.** The Lithuanian Administrative Court repealed the the Resolution of the National Commission for Energy Control and Prices (the NCC) of 7 August 2014 *Regarding the results of research of electricity generation market* as ungrounded and distorting the market. The Company did not receive EUR 8.0 million in revenues during 2015–2016 due this Resolution of the NCC.

**Based on the Government Resolution of 23 November 2016, the strategic power reserve will be assured in 2017 by the combined cycle unit.** In 2017, the Company will provide the services described in paragraph 7.4 of the

Description of provision of PSO services in the electricity sector.

This will help to make sure that the facility will be always ready to produce electricity as and when it is most needed in the market. For more details see section [Material events at the Company](#).

On 28 December 2016, the results of negotiations on assuring the provision of tertiary active power reserve services in 2017 were announced: the Company is to assure the tertiary power reserve services. The tertiary power reserve services for the whole capacity of 484 MW is to be provided via units 7 and 8 by the reserve power plant controlled by the Company, which offers an optimal price. The provision of tertiary power reserve services was tested on 6 January 2017. For the purpose of the testing, unit 7 of the reserve power plant controlled by the Company was activated. The testing was effected, and the ordered quantity of 224 MW of the reserve service was achieved. More details are provided on the [Company's website](#).

#### **The Company launched services to business customers**

Since November 2016 weighing of heavy vehicles, biofuel and other laboratory testing services were launched at Elektrėnai Complex to be offered to external customers. In future, there are plans to expand significantly the range of services offered.

#### **The Lithuanian Supreme Administrative Court rejected the Company's appeal in relation to inspection of the Company's activities for the period 2010–2012**

On 20 December 2016, the Court concluded that the NCC's Resolution, under which the NCC refused to recognise part of regulated expenses incurred by the Company, was adopted without prejudice to the procedures prescribed by laws. Meanwhile, the Court did not conclude as to the grounds supporting the NCC's Resolution from an economic perspective and as to possible errors in assessing actual data.

#### **The Board of Lietuvos Energija approved a common dividend payment policy for all group entities**

Dividend payment policy was published on 28 December 2016. Based on the newly approved policy, all group entities will plan their dividend payments in view of return on equity ratio and net profit. More details are provided on the [Company's website](#).

## ANALYSIS OF PERFORMANCE AND FINANCIAL INDICATORS

		2016	2015	2014 <sup>3</sup>	2013 <sup>3</sup>	2012 <sup>3</sup>
<b>FINANCIAL INDICATORS</b>						
Sales revenue	EUR'000	151,758	203,097	231,084	312,671	339,636
Other operating income	EUR'000	21,164	11,298	2,116	2,193	1,128
EBITDA <sup>1</sup>	EUR'000	58,054	50,272	64,023	60,199	42,351
Operating profit	EUR'000	49,030	5,761	39,366	30,641	15,283
Net profit (loss)	EUR'000	39,975	-231	33,407	27,327	9,970
Profit before tax	EUR'000	48,330	3,889	37,987	25,218	12,769
Cash flows from operations	EUR'000	60,513	25,364	86,572	127,934	49,406
Liabilities to financial institutions	EUR'000	132,907	146,260	162,886	160,852	191,320
<b>RATIOS</b>						
Liabilities / equity		1.30	1.43	1.49	1.36	1.56
Financial liabilities / equity		0.37	0.43	0.44	0.40	0.51
Financial liabilities / assets		0.16	0.18	0.18	0.17	0.20
<b>LOAN COVERAGE RATIO</b>						
Loan coverage ratio (EBITDA / (interest costs + loans repaid in the reporting period)) <sup>2</sup>		3.95	2.62	4.56	2.55	2.29
<b>PROFITABILITY RATIOS</b>						
Operating profit margin	%	28.35	2.69	16.88	9.73	4.48
Profit before tax margin	%	27.95	1.81	16.29	8.01	3.75
Net profit margin	%	23.12	-0.11	14.33	8.68	2.93
Return on equity	%	11.24	-0.07	9.10	6.87	2.63
Return on assets	%	4.88	-0.03	3.65	2.91	1.03
Earnings per share	EUR	0.063	0.000	0.053	0.043	0.016
P/E (share price / earnings)		9.95	-1,844.77	14.83	9.16	24.27

<sup>1</sup> Earnings before tax + interest costs – interest income – dividend received + depreciation & amortisation + non-current & current asset impairment losses + result on disposal of part of business.

<sup>2</sup> Re-financed loans were not included in the calculation of the ratio.

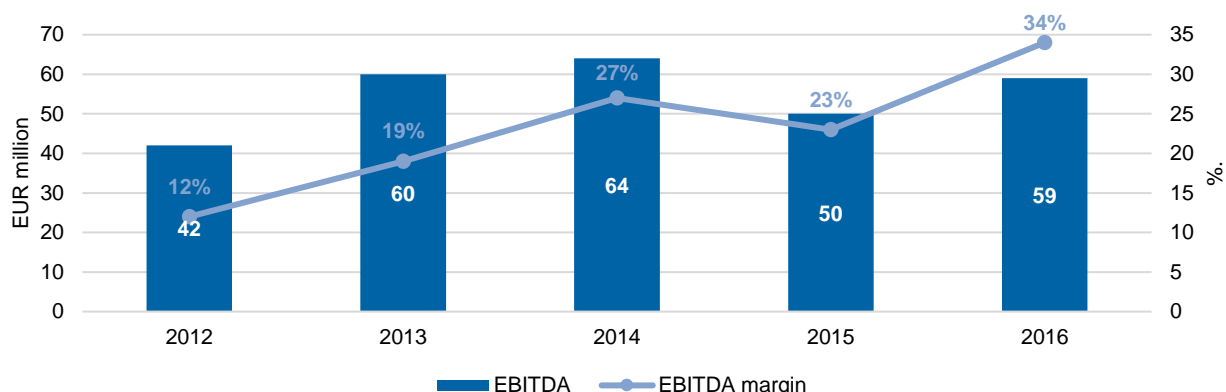
<sup>3</sup> Comparative indicators were not recalculated.

The Company's profitability ratios (including Return on equity and return on assets ratios) for 2016 are higher compared to the respective ratios in 2012–2015. The below given figure on EBITDA dynamics during 2012–2016 (see Fig. 1) shows that the Company's EBITDA margin in 2016 reached the highest point over the last five years.

Increase in volume of secondary reserve power services in 2016 contributed to improvement of the Company's EBITDA result from regulated activities, whereas in the commercial activities EBITDA was kept by the hydroelectric plants at a similar level as in 2015 despite a more intense competition. The change in EBITDA in 2016 compared to 2015 was mostly

driven by the NCC's decisions relating to audit of the Company's activities for the period 2010–2012 and its declaration as having significant power in the electricity generation market. Due to these decisions, part of regulated revenue was not recognised in the Company's financial statements for 2015, thereby resulting in negative effect on EBITDA in amount of EUR 15.9 million compared to negative effect in amount of EUR 5.6 million in 2016. On 17 October 2016, the Lithuanian Supreme Administrative Court repealed the NCC's Resolution, under which the Company was declared as having significant power in the electricity generation market and based on which the Company's commercial revenue was subject to regulation.

Figure 1  
The Company's EBITDA and EBITDA margin dynamics during 2012–2016



### Statement of financial position

The Company's liabilities to financial institutions amounted to EUR 132.9 million as at 31 December 2016. They included liabilities under long-term loan agreements.

### Statement of comprehensive income

#### Revenue

The Company's sales revenue totalled EUR 151.8 million in 2016. Income from electricity trading, balancing power, regulation power, power reserve and PSO services as well as income from sale of heat energy account for the largest part of sales revenue. The Company's sales revenue decreased in 2016 by 25% compared to 2015. Such decrease was mostly caused by lower amount of production in Elektrėnai Complex because of the cancellation of the production quotas for supported electricity with effect from the beginning of 2016.

The Company's regulated revenue for 2016, i.e. electricity and heat energy generation at Elektrėnai Complex and power reserve services provided at Elektrėnai Complex and Kruonis PSHP accounted for about 60% of the Company's total revenue (2015: 57%).

#### Expenses

In 2016 expenses incurred by the Company totalled EUR 123.9 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 76.4 million or 61.7% in 2016 compared to EUR 133.9 million or 64.2% in 2015). The main reason for decrease in these expenses in 2016 compared to 2015 was lower amount of production in Elektrėnai Complex. The Company's depreciation and amortisation expenses amounted to EUR 20.6 million in 2016.

Operating expenses (excluding the costs of purchase of electricity and related services, costs of fuel used for production, depreciation and amortisation expenses, expenses of revaluation of emission allowances and impairment expenses) amounted to EUR 23.1 million in 2016, i.e. decreased by EUR 2.5 million compared to 2015. In 2015, the Company sold its shareholding in subsidiary Kauno

Energetikos Remontas UAB, and the resulting loss on disposal was reflected in expenses for the year 2015. Whereas, amounts receivable on disposal of shares of Kauno Energetikos Remontas UAB and impairment expenses of the shares of NT Valdos UAB were reflected in expenses for the year 2016.

Decrease in expenses in 2016 was driven by lower repair expenses and changes in work organisation, as well as by lower expenses for business support (purchases, accounting) services.

#### Profit

In 2016 the Company's EBITDA was EUR 7.8 million higher compared to 2015. In 2016 the Company's EBITDA margin reached 33.6% (2015: 23.4%).

In 2016 the Company's profit before tax totalled EUR 48.3 million, and net profit totalled EUR 40 million. In 2015 the Company incurred net loss of 0.2 million.

The Company's net profit increased in 2016 due to higher EBITDA and effects of one-off items: disposal of part of business in the beginning of 2016 (recognised result before tax amounted to EUR 19.8 million) and impairment of assets recognised in 2015 in relation to the decision on decommissioning of units 5 and 6, thereby resulting in decrease in net profit by EUR 30 million in 2015.

### Statement of cash flows

In 2016 the Company's net cash flows from operating activities amounted to EUR 60.5 million compared to EUR 25.4 million in 2015.

In 2016 the Company's cash flows financing activities were negative similarly as in 2015 and amounted to EUR 42.1 million compared to EUR 43.5 million in 2015.

### Investments in non-current assets

In 2016 the Company's investments in property, plant and equipment non-current intangible assets totalled EUR 3.3 million compared to EUR 14.1 million in 2015.

**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 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 transmission system operator LITGRID AB (the TSO)

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

<b>Elektrėnai Complex</b> Reserve power plant and combined cycle unit	<b>Kruonis Pumped Storage Hydroelectric Plant</b>	<b>Kaunas Algirdas Brazauskas Hydroelectric Power Plant</b>	<b>Electricity trading</b>
 <p><b>Capacity – 1055 MW*</b></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 3 and 4 of the reserve power plant have been dismantled; as from 2015, units 1 and 2 are being dismantled as well (the capacity of all units is 150 MW each). Units 5 and 6 (300 MW each) have been decommissioned, and their dismantling was started in 2017.</p> <p>In future, most of electricity is expected to be produced at the most effective combined cycle unit (455 MW). Units 7 and 8 are in reserve. The capacity of these units is 300 MW each. In 2015, new heat production facilities (steam and biofuel boiler houses) were brought into use.</p> <p><small>* The above-mentioned power plant capacity applies from 1 January 2016, i.e. upon decommissioning of units 5 and 6.</small></p>	 <p><b>Capacity – 900 MW</b></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 will provide more system services.</p> <p>If the market conditions appear to be favourable, the Company plans to implement a project aimed at the development of Kruonis PSHP.</p>	 <p><b>Capacity – 100,8 MW</b></p> <p>Kaunas HPP is the largest power plant in Lithuania that uses renewable energy sources.</p> <p>Kaunas 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>Depending on natural conditions, the plant is going to maximise its production of green energy and to provide system services.</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 will become more active due to wider opportunities for electricity trading and system services in the interconnected systems.</p>

## Key performance indicators

### Electricity generation indicators for 2016

The Company has permits for indefinite term to engage in electricity generation activities. In total 1.37 TWh of electricity produced at the power plants controlled by the Company was sold in 2016. Compared to 2015, the total amount of electricity produced at all power plants controlled by the Company decreased by 31.7% (compared to 2.01 TWh). Such decline was driven by lower amount of electricity produced at Elektrėnai Complex in 2016 and slightly lower sales of electricity produced at Kruonis PSHP compared to 2015. Cancellation of the production quotas for supported electricity with effect from the beginning of 2016 and launching of new power links with Sweden and Poland also had a significant effect on the performance of these power plants. However, there was a growth tendency in the amount of electricity produced at Kaunas HPP (See Figure 3).

In 2016 0.49 TWh of electricity produced at **Elektrėnai Complex** was sold compared to 1.07 TWh of electricity produced in Elektrėnai in 2015. Such difference was caused by electricity production quota still applicable in Elektrėnai in 2015, which was supported from the PSO budget. To ensure the safety of electricity supply, the operations of the units of Elektrėnai Complex were focused on the warm season in 2015, thereby ensuring almost uninterrupted operations of the combined cycle unit throughout the entire period from the middle of April till October. With effect from 2016, electricity production quotas were cancelled, and PSO and tertiary power reserve services were provided at Elektrėnai Complex during 2016. The combined cycle unit was actively operating during the peak consumption of electricity, i.e. when the electricity price reached the highest point, thereby enabling to make competitive offers for electricity production at this unit in the neighbouring countries. In almost most cases, the unit would be started in the morning and switched off in the evening. During 2016, the combined cycle unit was connected to the grid in total 58 times (compared to only 14 times in 2015). Despite high frequency of connections, the combined cycle unit operated smoothly and during 2016 the

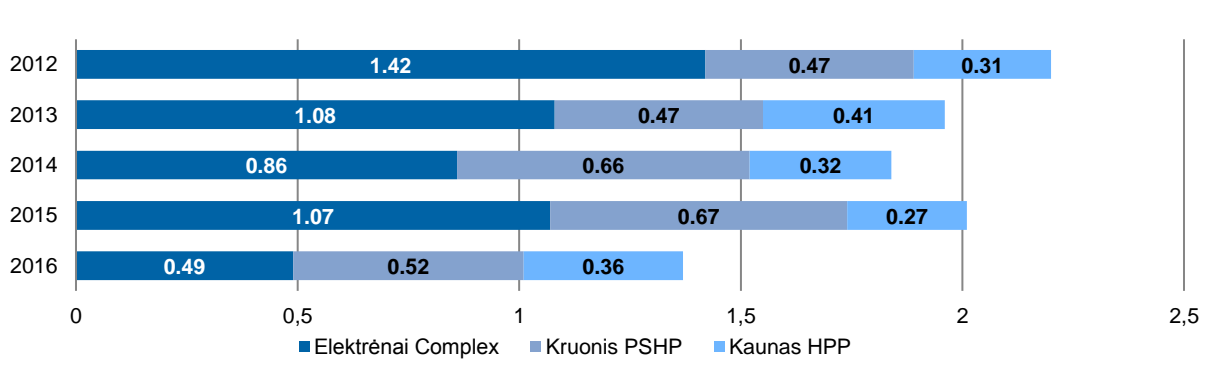
Company managed to cut significantly its electricity production costs. The costs at Elektrėnai Complex were reduced by almost 10%, which brings benefits directly to electricity consumers by contributing to reduction of the electricity tariff. Competitive electricity produced at the combined cycle unit was sold in the market and contributed to earning gross profit of almost EUR 6 million during a year, which will further be used to reduce the PSO tariff for electricity consumers.

There were also changes in performance of **Kruonis PSHP** in 2016 compared to 2015. During 2016, especially in the first half of the year, this power plant served as a first aid provider to power system multiple times. During 2016, the emergency reserve of Kruonis PSHP was activated for 57 times compared to 20 times during 2015. The TSO activates the emergency reserve (to be provided through two assemblies of the power plant) when it becomes necessary to compensate for a sudden decrease in electricity supply to Lithuania. Most of activation instances of the emergency reserve were related to unexpected disconnections of NordBalt power interconnection with Sweden, which was operating in a trial mode. Accordingly, part of total amount of electricity (approx. 0.05 TWh) produced at this power plant in 2016 comprised the emergency reserve, whereas the remaining major part of it (0.52 TWh) was sold by the Company in the market. In 2015, 0.67 TWh of electricity produced at this power plant was sold, which is 28.8% more compared to 2016.

Comparison of data for 2016 and 2015 shows that the production of electricity at **Kaunas HPP** increased. In total 0.36 TWh of electricity was produced at this power plant and sold in 2016, which is 32.4% more compared to 0.27 TWh in 2015. Such increase in electricity production was driven by higher water levels in the Nemunas river.

Figure 3

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



### Provision of system services

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

Company include power reserve, trade in regulation power and balancing power, reactive power management and system recovery services. Power reserve services are intended to ensure reliable operation of the electricity system in the (emergency) events

of unexpected drop in production of electricity or unexpected increase in electricity consumption. The producers provide secondary and tertiary power reserve maintenance services. The secondary active power reserve is the power of installations or hydroelectric units maintained by the producer, which are activated within 15 minutes. The tertiary active power reserve is the power of power-generating sources maintained by the producer, which is activated within 12 hours. The power plants controlled by the Company provide tertiary and secondary active power reserve services. The secondary power reserve is ensured at Kruonis PSHP, whereas the tertiary power reserve is ensured at Elektrėnai Complex. In 2016, the Company sold approx. 3.51 TWh of secondary power reserve and 4.44 TWh of tertiary power reserve compared to 1.75 TWh and 2.37 TWh, respectively, in 2015.

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. In 2016, the Company sold 0.028 TWh and bought 0.035

TWh of regulation power compared to 0.01 TWh and 0.022 TWh, respectively, in 2015.

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 HPP.

## FACTORS DETERMINING THE FINANCIAL INDICATORS OF THE COMPANY

### Business environment

In 2016 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:

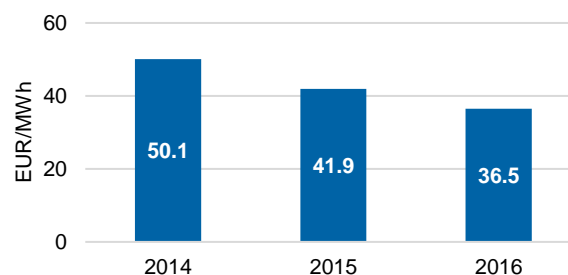
- **Cancellation of production quota for supported electricity with effect from 2016 resulted in reduction of production volumes at Elektrėnai Complex.** No production quota was applied in 2017, as well.
- **Launching of the liquefied natural gas terminal in 2015 contributed to significant reduction of natural gas prices in the market.** This resulted in improved competitiveness of the combined cycle unit in 2016, which was now able to make competitive production offers in the market.
- **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). As a result of completion of power links with Sweden and Poland, the electricity price in the Baltic states decreased in 2016 and currently it is higher than that of Sweden, but lower than that of Poland (in 2016 average annual electricity price in Sweden SE4 area was 29.5 EUR/MWh compared to 36.5 EUR/MWh in Lithuania and 37.3 EUR/MWh in Poland).

### 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

Such trend is expected to remain in the near future, provided there occur no radical changes.

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



On one hand, the launching of these power links in 2016 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.

- **Remaining low prices of emission allowances (EA) increase competition on the side of emitting producers.** Negative effect of the EA revaluation on the Company's net result amounted to EUR 3.3 million in 2016. 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. Assessment of further maintenance and investments necessary beyond the year 2023 is expected to be carried out in 2020.
- **Litigations with the NCC have impact on the Company's performance.** The Company has disputed certain decisions, under which revenue from supported electricity generation has been reduced. For more details on litigations see section Material events at the Company.

and the indicators for measuring the implementation of the Strategy.



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

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

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

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

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

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

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

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

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

<b>MISSION</b>			
We are a reliable and advanced power generation company providing the services that are required for the energy system security.			
<p><b>Ensure quality services provided to clients (the TSO, suppliers, consumers, shareholders):</b></p> <ul style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>ensure a lower negative environmental impact by monitoring and consistently reducing the level of emissions and clearing past pollution.</li> </ul>	<p><b>Improve operational efficiency:</b></p> <ul style="list-style-type: none"> <li>reduce the cost of production of electricity and heat,</li> <li>elaborate an optimal strategy for supply of fuel,</li> <li>reduce the technological need for energy,</li> <li>optimise costs,</li> <li>abandon the facilities that are no longer in use,</li> <li>improve the processes,</li> <li>ensure quality for project management.</li> </ul>	<p><b>Diversify and develop activities:</b></p> <ul style="list-style-type: none"> <li>implement competitive energy projects (development of Kruonis PSHP by constructing the fifth hydroelectric unit, continuation of the wind farm project);</li> <li>develop new activities relating to production by relying on infrastructure and personnel competences.</li> </ul>	<p><b>Engage and empower employees:</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>
<b>VISION</b>			
Our aim is to be become a competitive international centre of power generation and services.			

**Prospects of power plans controlled by the Company**

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

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

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

- **Production at Kruonis PSHP:** profitability and production volumes mostly depend on market conditions, i.e. the difference between peak and off-peak electricity prices. It is expected that 100% of generated electricity will be sold on NP electricity exchange at continuously fluctuating prices. It is also expected that with a growing electricity

generation from renewable sources and launching of a power link with Poland, the electricity production volumes at Kruonis PSHP will increase. There are plans to carry out major repairs of wheels for certain hydroelectric units by 2020, which in turn will impact the production capacity and revenues. In the event of favourable conditions in the market, there are plans to implement the projects for construction of the fifth unit and/or wind farm in the territory of Kruonis PSHP.

- **Production at Kaunas 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 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 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;
- installation of unit 5 at Kruonis PSHP (if market conditions appear to be favourable).

The following R&D projects were implemented during January-December 2016:

### 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. A study of impact of Kruonis wind farm on NATURA 2000 territories, a feasibility study to evaluate wind resource and electricity production volumes, and a programme for evaluating environmental impact have been prepared; a programme for monitoring bats and birds in the territory of the wind farm has been completed; and the procedures of approval of the report on evaluation of environmental impact are in progress.

### Programme for management of fuel facilities

Since the Company has reduced to minimum the use fuel oil in its activities, the capacity of fuel facilities available in Elektrėnai Complex no longer meets the actual needs of the Company.

Accordingly, stage I of the programme for management of fuel facilities was initiated at the end of 2015. This stage covered as follows: initiation of tenders for sale/rent of part of currently available fuel oil reserves; preparatory work for liquidation of part of reserves; preparatory work for optimisation of fuel facility network; dismantling of heaters of storage tank and overhead structure for fuel oil; and other preparatory work for implementation of the programme.

### Dismantling of units 1 and 2 of the reserve power plant

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. By the end of December 2016, 87% of all dismantling works of the units had been accomplished. The works are expected to be completed in 1Q 2017.

### Dismantling of units 5 and 6 of the reserve power plant

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. In January 2017, the project for dismantling of these units was initiated. The dismantling of these units is planned to be accomplished in January 2021.

### **Syderiai underground gas storage project**

All tests for the assessment of suitability of Syderiai geological structure and possibilities to store natural gas in it were completed in 2014. Accordingly in 2015, based on the Resolution of the Lithuanian Government, it was planned to obtain EU financial support from the CEF funds for the implementation of the project. Since the project was not included in the list of CEF priority projects for 2015–2017, further alternatives and prospects of implementing the project are being considered.

### **Project for constructing the fifth hydroelectric unit at Kruonis**

## **Operational excellence, innovative activities**

Seeking to implement one of its 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 330 proposals for performance improvement. Experts and managers evaluate the proposed ideas in terms of their payback and in respect of such aspects as safety at work,

## **Key risks and uncertainties faced by the Company**

As the Company carries out its activities, it is exposed to the following key risks and it takes the following measures to manage them:

### **Risk of external regulation**

External regulation risk is associated with unfavourable changes in regulatory environment and the decisions made by the regulatory authorities.

The Company strives to maintain a constructive relationship with the regulatory authorities and participate actively in the legislative process. The long-term strategy of the Company provides for a consistent reduction of costs of regulated activities.

### **Risk of market changes and competition**

In view of the expected market changes, it is sought to maintain competitiveness of the Company by abandoning out-of-service production facilities, bringing into use new facilities (biofuel and steam boiler houses), and modernising the old ones. Much attention is given to review and improvement of operation processes in both direct and supporting activities.

### **Risk of technical faults**

In order to ensure reliable and fault-free operation of the power plants, the Company continuously and timely performs technical maintenance of equipment, makes investments into renewal of equipment, and ensures the continuity of knowledge and retention of skills of its operations personnel. Business continuity plans are drawn up, updated, and constantly tested in order to ensure uninterrupted operation of the Company. An integrated asset management system of energy facilities is being implemented at all power plants.

To assess the qualitative changes in the market conditions upon completion of the power links with Sweden and Poland, as well as their impact on the financial indicators of the project, a review of the feasibility study of the project was initiated for the purpose of updating the actual data of the financial model of the project. For the purpose of fulfilling the preparatory work, the environmental impact assessment screening procedure was completed as the Environmental Protection Agency concluded that the project would have no significant environmental impact.

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.

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 tools, the Company eliminates wastages no longer creating any value, arranges and standardises premises and work places, solves problems in a more effective and fast manner, and improves the processes and their individual steps in view of the Company's priorities.

### **Risk of occupational safety and health**

The production process involves the use of open flame sources, flammable and explosive materials, steam, hot water, temporary and short-term working places for specific works, and complex working conditions – all this puts both employees and contractors at the risk of occupational safety and health.

The Company pays great attention to the prevention of accidents: an OHSAS 18001:2007 certificate is updated and maintained to secure occupational safety and health, the working places and work organisation quality are checked regularly, employees are provided with personal safety measures. Employees are briefed in line with the approved instructions on occupational safety and health and in view of the functions assigned to the respective job positions.

### **Risk of information security**

Overtaken or damaged technological networks and equipment and cyber-attacks may increase the likelihood of information security breaches, thereby leading to interception/ disclosure of sensitive information important for the Company.

The Company implements information security requirements established for companies of strategic or major importance for national security within the scope of competence of the Minister of Energy: risks in the production systems are assessed, data back-ups are made, monitoring of the equipment, network, and systems is carried out, systems operate in a technological network which cannot be accessed from outside, and regular "manual" vulnerability tests are performed. A physical separation of the networks is in process, and protection measures intended to secure the network perimeter and terminal equipment are applied.

## INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

### Structure of authorised share capital and securities in issue

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

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

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").

ISIN code LT0000128571.

Ticker - LNR1L.

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

### 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	
Last trading session price, EUR	0.394	0.780	0.671	0.626	
Maximum price, EUR	0.411	0.854	0.940	0.713	
Minimum price, EUR	0.360	0.395	0.650	0.610	
Average price, EUR	0.382	0.639	0.805	0.654	
Turnover, shares	801,754	1,545,602	642,148	929,940	
Turnover, EUR MLN	0.31	0.99	0.52	0.61	
Capitalisation, EUR MLN	Company	250.22	495.37	426.14	397.56
	Baltic Main List	4,449.63	4,438.23	4,885.76	5,043.31

Figure 6  
*The Company's share price and turnover dynamics during the reporting period*

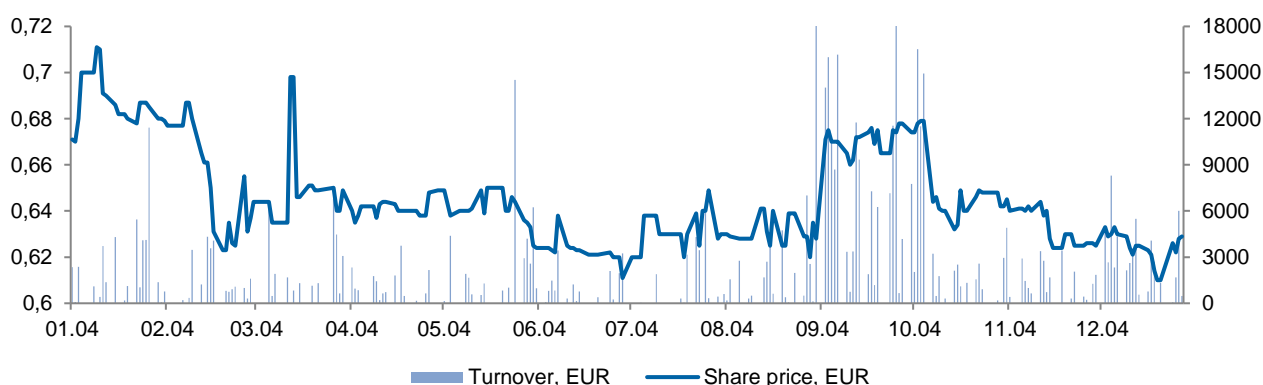


Figure 7

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

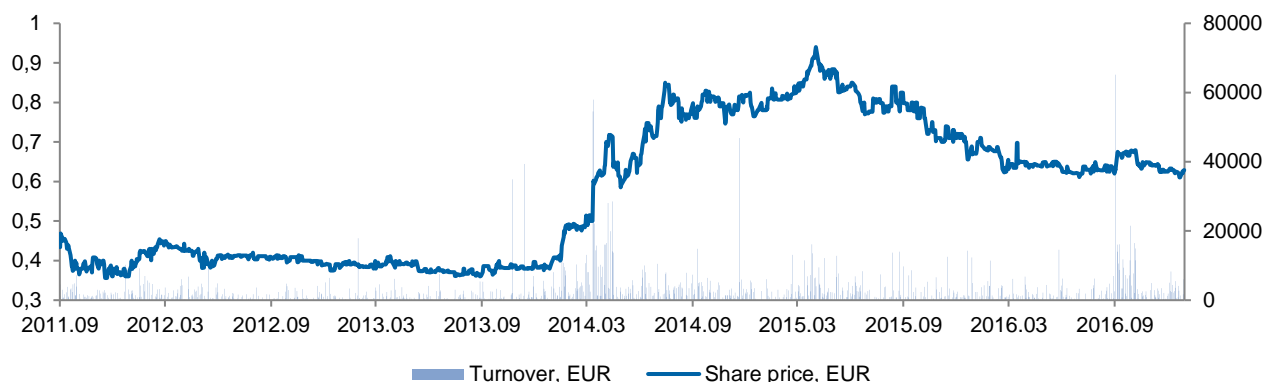
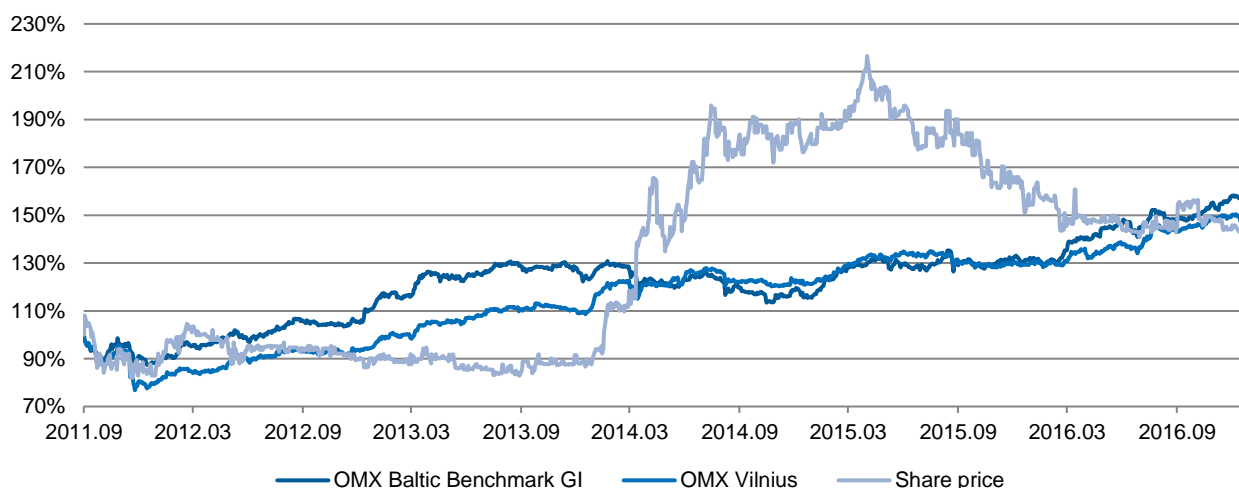


Figure 8

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 2015, the Company had in total 6,109 shareholders.

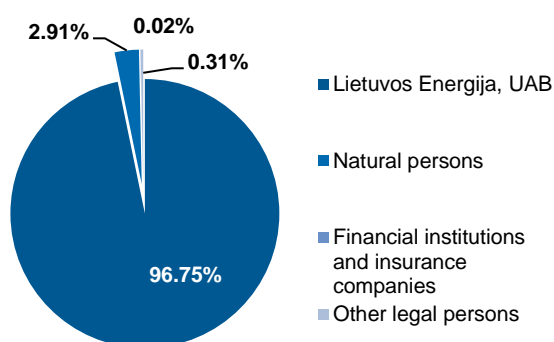
### Shareholders holding more than 5% of the Company's shares (as at 31 December 2016)

Name	Class of shares	Number of shares	% of authorised share capital	% of shares with voting rights
<b>Lietuvos Energija UAB</b> 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
<b>TOTAL</b>	Ordinary registered shares	635,083,615	100	100

### Breakdown of shareholders by country

Country	Number of shareholders, %
Lithuania	96.9
Russia	0.8
Belarus	0.6
Estonia	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

### 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, which was concluded on 9 December 2013 with Swedbank AB, expired on 8 February 2016.

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;
- in cases prescribed by law and according to the procedure defined in law, to demand that other shareholders sell their shares to them or that other shareholders buy the shares from them on mandatory basis;
- 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.

### **Dividends and dividend policy**

At the Ordinary General Meeting of Shareholders held on **29 March 2016**, a decision was made to approve the proposed profit (loss) appropriation for the year 2015. No payment of dividends was expected for the six-month period ended 31 December 2015.

It is reminded that during the Extraordinary General Meeting of Shareholders held on 24 September 2015, a decision was made on distribution of dividends to the shareholders of the Company for the period shorter than the financial year. Dividends of EUR 0.0042 per share of the Company (in total, EUR 2.67 million) were distributed for the six-month period ended 30 June 2015. The Company's net profit from continuing operations for January-June 2015 amounted to EUR 19.26 million, and the ratio of dividends paid / net profit for this period was 0.14.

Dividends were received by individuals who were the shareholders of the Company at the end of the tenth working day after the date of decision made by the General Meeting of Shareholders on payment of dividends, i.e. at the end of the working day of 8 October 2015.

During the Extraordinary General Meeting of Shareholders held on **26 September 2016**, a decision was made on distribution of dividends to the shareholders of the Company for the period shorter than the financial year. Dividends of EUR 0.043 per share of the Company (in total, EUR 27.3 million) were distributed for the six-month period ended 30 June 2016.

Dividends were received by individuals who were the shareholders of the Company at the end of the tenth working day after the date of decision made by the General Meeting of Shareholders on payment of dividends, i.e. at the end of the working day of 10 October 2016.

In 2016, a common dividend policy was approved for the whole Lietuvos Energija group, which also applies to the Company and can be found on the Company's website under section [For investors](#).

## 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 and the public, environment protection and operation in the market.

### Relationship with employees

#### Improvement of engagement of employees

The Company conducts annual employee engagement surveys, which help identify the areas that are important for further improvement of engagement of employees. As a result of all measures taken by the Company, employee engagement index improved significantly in 2016 and reached 59%.

In 2016, a group of the Company's ambassadors from various divisions of the Company continued their active participation. Their main goal is to contribute to the improvement of engagement of employees by organising various events and meetings. The Company's ambassadors made a significant contribution to co-ordination of election of the best employees. The Company's ambassadors updated the whole process of election of the best employees, by involving all employees of the Company as well as the representatives of the trade unions. This process enabled the Company to notice and reward the performance of the best employees, as well as their contribution to the Company's final performance result. The best employees may be distinguished not only by their professional

### Relationship with the public

#### Promoting community spirit

To strengthen ties with the community of Elektrėnai region where its core operations are based, the Company organises a series of public events under the title 'Lietuvos Energijos Gamyba Presents'. A meeting with a well-known Swedish publicist, director and translator Jon Ohman was held in March 2016, and a professional sports journalism team from Lithuanian National Radio and Television shared their experience about the highest level sports events in June 2016. In September 2016, the Company invited prof. Alfredas Bumblauskas from the 'National Expedition: Crossing Lithuania by the River Neman' to visit Elektrėnai town and share his experience to a large audience. In November 2016, ethnologist Gražina Kadžytė presented a traditional Lithuanian calendar from a new perspective to the community of the town. In total, as many as 17 meetings from this cycle were held. The Company organises them in cooperation with Elektrėnai library. The aim is to gather in one place the communities from the town and from the entire

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 2016 will be prepared and published separately.

contribution, but also by their exemplary behaviour which is in line with the values.

The Company carries out proactive communication with its employees. Traditional meetings of the Company's management and Board members with the representatives of its divisions are held on a quarterly basis.

#### Assessment of performance of employees

On the occasion of Energy Specialists' Day celebrated in April 2016, the best energy specialists received honourable mention awards. The awards were granted to five employees of the Company. They received honourable mentioned awards from the Prime Minister of the Republic of Lithuania and the Minister of Energy, also a badge of honour of Energy Specialists of Lithuania, honourable mention award from the Committee of Lithuania of the World Energy Council, and the award of the most valuable employee of Lietuvos Energija group.

For more details about the Company's employees and relationship with them see further in this report.

country, as well as the Company's employees, to offer them unique meetings with well-known, interesting and ingenious individuals.

As the Company consistently contributes to cherishing natural environment on a yearly basis, in May 2016 it helped the foresters of Kaišiadoriai to plant 2 ha of forest, and cleaned up the territories of its operation in Elektrėnai, Kruonis and Kaunas.

#### Educational activities

The Company demonstrates goodwill and invites the members of public to participate in free-of-charge excursions at its objects: the combined cycle unit, Kruonis PSHP, Kaunas HPP. Thereby, the Company contributes to increasing awareness of the public, especially the younger generation, about the energy. During 2016, the above-mentioned power plants had in total over 2,200 visitors from various educational establishments, schools and other



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institutions, as well as delegations from abroad. Kruonis PSHP has the highest number of visitors during 2016.

During April-May 2016, the Company cooperated with Kaunas Faculty of Vilnius Academy of Art and invited the

### Environmental protection

The Company is committed to protecting environment in its operations, using sparingly the natural resources, introducing modern, effective and environmentally friendly technology in its production processes, following the requirements of the laws regulating environmental protection, and implementing preventive measures aimed at mitigating adverse environmental impact in a professional manner.

The most important environmental protection issues include safe operation of facilities, ecologically safe use of hazardous substances, waste management, and ensuring that fluctuations in water levels in the Kaunas Lagoon and the Nemunas river downstream Kaunas HPP are within the permissible limits, etc. The Company is in compliance with all environmental requirements.

The Company's divisions have implemented the Environment Protection Management System in line with LST EN ISO 14001:2005 standard requirements. The Company also complies with the requirements stipulated in the integrated pollution prevention and control permits.

A modern waste sorting yard at Elektrėnai Complex enables to sort 18 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.

### Operation in the market

Seeking to comply with the anti-corruption principle of the Global Compact, the Company makes all its tax payments as transparent as possible. The Company ensures transparency of its public procurement procedures and requires transparency and integrity from its current and potential suppliers. The Company conducts trading on electricity exchange in a transparent manner and does not take part in any transactions that involve bribing or untransparent behaviour. The Company submits its comments and suggestions to the responsible authorities in relation to new or revised relevant legal acts, and assesses their transparency.

The Company and its employees follow a policy of zero tolerance towards corruption. The Company does not tolerate any forms of corruption, be they direct or indirect.

students from higher grades to participate in a drawing contest 'Me and Kaunas Reservoir in my life: recreation, health, emery'. Almost 30 students presented their art works by various means of art.

Hazardous and non-hazardous waste resulting from operations of the Company's divisions are sorted and transferred to waste management companies for further handling.

### Preventive measures of environmental protection

The Company's divisions follow the requirements laid down in the integrated pollution prevention and control permits (IPPCP) in respect of monitoring of air, surface water, underground water, soil pollution and protection measures. Research conducted in 2016 revealed that the maximum permissible limits of (air and water) pollution laid down in the IPPCP issued to Elektrėnai Complex, Kruonis PSHP and Kaunas HPP were not exceeded.

The Company conducts periodic calculations of emissions from stationary and mobile sources, as well as keeps regular records of chemical substances and preparations, resulting and managed waste, water consumption and wastewater.

In 2016, procurement of services and contract work was started under an updated plan of the project for the works at the Obeniai site in the territory of Elektrėnai Complex. It is expected that the territory of the Obeniai site will be recultivated in the next couple of years to ensure its compliance with the requirements of the environmental laws.

More details about the policy on zero tolerance towards corruption are provided on the Company's website.

All employees of Lietuvos Energija group are required to report any instances of actual or suspected violation of the policy on zero tolerance towards corruption to the Prevention Officer or call the **Trust Line at +370 640 88889** or **send email at [pasitikejimolinija@le.lt](mailto:pasitikejimolinija@le.lt)**. Any other parties are encouraged to report any instances of actual or suspected violation of the policy on zero tolerance towards the corruption using the same contact details. Anonymity is guaranteed.

## THE COMPANY AND ITS MANAGEMENT BODIES

### Information about the Company and its contact details

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

### 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

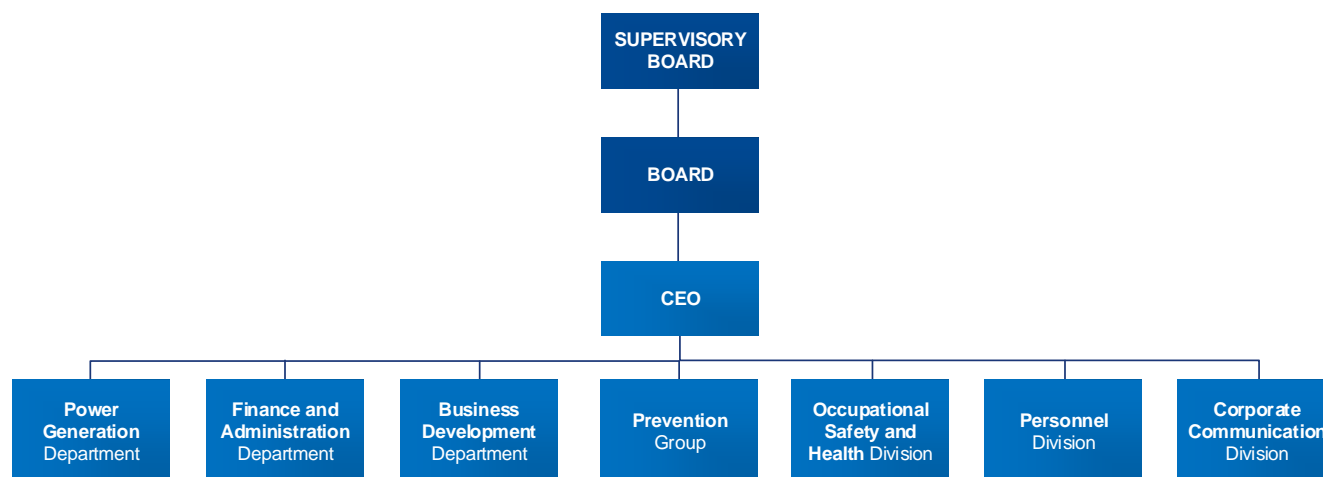
The Company has no branches or representative offices.

### 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 HPP).

Figure 9  
*Structure of the Company (as at 31 December 2016)*



### Information about ownership interest in other entities

As at 31 December 2016, 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 2016, 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](#).

## The 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 the Company's Shareholders were held during 2016:

1. The Ordinary General Meeting of Shareholders held on 29 March 2016 approved the set of audited consolidated and the Company's financial statements for 2015 and distribution of the Company's profit for 2015. Payment of dividends for the six-month period ended 31 December 2015 was not planned.
2. The Extraordinary General Meeting of Shareholders held on 26 July 2016 adopted the decision to appoint

PricewaterhouseCoopers UAB as the auditor of the Company's financial statements for 2016–2018, and to establish a fee for the audit of the Company's financial statements for 2016–2018 not in excess of EUR 102,450.00 (VAT excl.).

3. The Extraordinary General Meeting of Shareholders held on 26 September 2016 adopted the decision to distribute dividends of EUR 0.043 per share to the Company's shareholders for the six-month period ended 30 June 2016.

All General Meetings of Shareholders convened by the Company in 2016 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 the Company's shareholders during the above-mentioned and previous General Meetings of Shareholders is available on the Company's website under 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.

### 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 (if over 5%)
<b>Mindaugas Keizeris</b> Chairman	20 November 2014–5 August 2017	-	- Lietuvos Energija UAB, Member of the Board, Director for Strategy and Development. - Energetikos Paslaugų ir Rangos Organizacija UAB, Chairman of the Board. - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board. - Vilniaus Kogeneracinė Jėgainė UAB, Chairman of the Board. - Sponsorship Foundation of Lietuvos Energija UAB, Member of the Board.	-

<b>Dominykas Tučkus</b> Member	21 December 2015 – 5 August 2017			<ul style="list-style-type: none"> <li>- Lietuvos Energija UAB, Member of the Board, Director for Production and Services.</li> <li>- LITGAS UAB, Chairman of the Board.</li> <li>- Lietuvos Dujų Tiekimas UAB, Member of the Board.</li> <li>- Energijos Tiekimas UAB, Chairman of the Board</li> <li>- Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board.</li> <li>- Eurakras UAB, Chairman of the Board</li> <li>- Tuulueenergija OU, Member of the Board</li> <li>- Energijos Sprendimų Centras UAB, Member of the Board.</li> </ul>
<b>Pranas Vilkas</b> Independent member	5 August 2013 – 5 August 2017	–	–	–

The Supervisory Board of the Company was formed on 5 August 2013. During the reporting period there were no changes in the structure of the Company's Supervisory Board.

Overall 8 meetings of the Supervisory Board were held in 2016. All of them were attended by all three members.

The expected end of term of office of the current Supervisory Board of the Company is 5 August 2017.

More details about the members of the Company's Supervisory Board are available on the Company's website under section Company Management.

### 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 2016, EUR	Other payments in 2016, EUR	Total in 2016, EUR
All members of the Supervisory Board, total	–	3,385	3,385
Per member of the Supervisory Board, average*	–	3,385	3,385

\* Independent member of the Supervisory Board.

### The Board

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

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

The person who nominates candidates for the position of the member of the Board is required to submit to the Supervisory Board a written statement about the qualification of each nominated candidate, his/her experience in managing positions, and fitness for the position of the member of the Board. The following members may not be elected as the members of the Board: a person occupying the position of a member of the supervisory body, management body or administration in an energy company engaged in electricity or gas transmission operations; a member of the Supervisory Board of the Company; and any person who is not entitled to occupy such position on other grounds established in legal acts.

If the Board is recalled, the Board resigns or ceases to perform its duties for any other reason prior to expiry of its term of office,

the new Board will be elected for the new term of office. When individual members are elected, such members may be elected only for the period until the end of term of office of the current Board.

### The Board adopts decisions on:

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

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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.

**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 (if over 5%)
<b>Eglė Čiužaitė</b> Chairperson of the Board, CEO	19 February 2016 – 17 September 2017	–	- Geoterma UAB, Member of the Board. - Sponsorship Foundation of Lietuvos Energija UAB, Member of the Board (since 19 April 2016). - Technologijų ir Inovacijų Centras UAB, Member of the Board (until 7 April 2016).**	–
<b>Adomas Birulis</b> Member of the Board, Director of Business Development Department	17 September 2013 – 6 January 2017	–	- Technologijų ir Inovacijų Centras UAB, Member of the Board until 6 January 2017.	–
<b>Darius Kucinas</b> Member of the Board, Director of Production Department	17 September 2013 – 17 September 2017	–	–	–
<b>Mindaugas Kvekšas</b> Member of the Board, Acting Director of Finance and Administration Department	31 December 2015 – 17 September 2017	–	- Verslo Aptarnavimo Centras UAB, Member of the Board	–
<b>Juozas Bartilingas</b> Chairman of the Board, CEO	17 September 2013 – 19 February 2016	–	- Lithuanian Electricity Association, Member of the Board (until 15 March 2016). - Sponsorship Foundation of Lietuvos Energija UAB, Member of the Board (until 19 April 2016)	–
<b>Vidmantas Saliėtis</b> Member of the Board, Director of Wholesale Department	17 September 2013 – 19 February 2016	–	- Nord Pool Spot electricity exchange – Member of Client Advisory Council - Union of the Electricity Industry EURELECTRIC – Member of Market Committee. - Energijos Tiekimas UAB, CEO	–

\* After the end of the reporting period, at the meeting of the Supervisory Board held on 6 January 2017, the decision was made to elect Mindaugas Gražys to the position of the Company's Board as from this date until the end of term of the current Board. He is the Director of Business Development Department at the Company.

\*\* Ms. Eglė Čiužaitė was elected to the board of Technologijų ir inovacijų centras UAB, since 30 January 2017.

The Board of the Company was formed on 17 August 2013. During the reporting period, on 19 February 2016 Juozas Bartilingas submitted his resignation from the position of the member of the Board (Chairman) and the Chief Executive Officer. On the same day, the Supervisory Board approved the resignation and appointed Eglė Čiužaitė to the Board of the Company. On the same day, Vidmantas Saliėtis (the CEO of Energijos Tiekimas UAB since November 2015) was recalled from the Board of the Company. On 23 December 2016

Adomas Birulis submitted his resignation from the position of the member of the Board with effect from 6 January 2017. Overall, 36 meetings of the Board were held in 2016. All of the meetings were attended by all members of the Board.

The expected end of term of office of the current Board of the Company is 17 September 2017. More details about the members of the Company's Board are available on the Company's website under section [Company Management](#).

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

	Remuneration in 2016, EUR	Other payments* in 2016, EUR	Total in 2016, EUR
All members of the Board, total	194,610	48,706	243,316
Per member of the Board, average	48,653	12,177	60,829
Members of the Board not employed with the Company**	–	1,438	1,438

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

\*\* This is the payment for the activities of the Board member V. Saliėtis who was the member of the Board until 19 February 2016, but who did not hold any other position during the reporting period.

## 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 2016, EUR	Other payments in 2016, EUR	Total in 2016, EUR
To the CEO:			
Juozas Bartlingas	8,080	2,397	10,477
Eglė Čiužaitė	58,219	15,030	73,249
<b>Total</b>	<b>66,299</b>	<b>17,427</b>	<b>83,726</b>
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.

## Information about the Committees

The Company has no Committees. Lietuvos Energija UAB group has the Audit Committee, the Risk Management Supervision Committee and the Nomination and Remuneration Committee.

### The Audit Committee

On 27 August 2013, the Supervisory Board of Lietuvos Energija UAB formed the Audit Committee, which was assigned to investigate and give recommendations to the Supervisory Board on matters pertaining to the Committee's scope of competence, as well as on matters referred by the Supervisory Board to the Audit Committee. The scope of activities of the Audit Committee covers Lietuvos Energija UAB and its directly and indirectly controlled subsidiaries, including Lietuvos Energijos Gamyba AB and other legal persons with different legal status, over which Lietuvos Energija UAB may have significant influence.

The main functions of the Audit Committee are as follows:

- supervise the financial reporting process of Lietuvos Energija UAB and its group entities;
- supervise effectiveness of internal control and risk management systems of Lietuvos Energija UAB and its group entities, also analyse and review the need for such systems and their appropriateness;

- observe compliance of the certified auditor or audit firm with the principles of independence and objectivity, and provide recommendations thereon;
- monitor the audit process of Lietuvos Energija UAB and its group entities, assess the audit effectiveness and the administration's response to the audit firm's recommendations to the management;
- monitor effectiveness of internal audit function at Lietuvos Energija UAB and its group entities, analyse the need for such function and its appropriateness, and give recommendations on necessity, effectiveness of the internal audit function, as well as other matters pertaining to internal audit.

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

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

Committee member	Shareholding in the Company	Term of office	Name of employer, job position
<b>Rasa Noreikienė</b> Chairperson	–	August 2013 – August 2017	Lithuanian Ministry of Economy, Vice-Minister*
<b>Aušra Vičkačkienė</b> Member	–	August 2013 – August 2017	Lithuanian Ministry of Finance, State Asset Management Department, Director
<b>Danielius Merkinas</b> Independent member	–	August 2013 – August 2017	Nordnet UAB, Commerce Director
<b>Gintaras Adžgauskas</b> Member	–	August 2013 – August 2017	World Energy Council, Lithuania Committee, Director
<b>Irena Petruškevičienė</b> Independent member	–	October 2014 – October 2018	European Commission Audit Committee, member - UN World Food Programme

\* Rasa Noreikienė took this position until December 2016.

There were no changes in the structure of the Audit Committee during the reporting period.

### The Risk Management Supervision Committee

The main functions of the Committee as follows:

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

### Members of the Risk Management Supervision Committee (as at 31 December 2016)

Committee member	Shareholding in the Company	Term of office	Name of employer, job position
<b>Antanas Danys</b> Chairman	–	August 2013 – August 2017	Paskolų Klubas (Neo Finance UAB), Chairman of the Board Grinvest (Singapore), Director.
<b>Tomas Garasimavičius</b> Member	–	August 2013 – August 2017	Energy Advisor to the Prime Minister of the Republic of Lithuania
<b>Raimundas Petrauskas</b> Independent member	–	August 2013 – August 2017	Schmitz Cargobull Baltic UAB, CEO
<b>Donatas Kaubrys</b> Independent member	–	August 2013 – August 2017	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.

There were no changes in the structure of the Risk Management Supervision Committee during the reporting period.

### The Nomination and Remuneration Committee

The main functions of the Committee are as follows:

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

**Members of the Nomination and Remuneration Committee (as at 31 December 20)**

Committee member	Shareholding in the Company	Term of office	Name of employer, job position
<b>Virginijus Lepeška</b> Independent member, Chairman of the Committee	–	August 2013 – August 2017	Organizacijų Vystymo Centras UAB, Chairman of the Board
<b>Tomas Garasimavičius</b> Member	–	August 2013 – August 2017.	Energy Advisor to the Prime Minister of the Republic of Lithuania
<b>Agnė Bagočiūtė</b> Member	–	June 2016 – August 2017	Lithuanian Ministry of Finance, Finance Vice-Minister*

\* Agnė Bagočiūtė took this position until December 2016.

There were some changes in the structure of the Nomination and Remuneration Committee during the reporting period. Its former Chairman Aloyzas Vitkauskas resigned (with effect from June 2016), and Agnė Bagočiūtė was appointed as a member of the Committee, whereas Virginijus Lepeška was appointed as the Chairman of the Committee.

**The Company's employees**

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.

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.

**Headcount, change**

As at 31 December 2016, the Company had 399 employees (including those on child care leave), whereof 62% were specialists and middle-level managers, 37% were workers, and 1% were top level managers. In the beginning of 2016, the Company had 414 employees. The main reasons for change in the Company's headcount were as follows: as a result of centralisation of the legal function at Lietuvos Energija group at the end of 2016, the employees from the Legal Department moved to Lietuvos Energija or Verslo Aptarnavimo Centras UAB, and a number of employees retired or left the Company for other reasons.

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.

Men account for 85% and women account for 15% of the Company's employees. Almost 51% of the Company's employees have higher education, 38% have vocational education, and 11% have secondary education. 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 56% of all employees of the Company. About 16% of the Company's employees are aged between 25 and 34 years.

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.

**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

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.

**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	5,525



Top level management	3	3,554
Middle-level management	31	2,050
Experts, specialists	218	1,347
Workers	146	871
<b>Total</b>	<b>399</b>	<b>1,251</b>

\* Compared to data on average work pay published in the previous interim reports in 2016, an increase in average work pay can be observed in all categories of employees. Such increase was driven by payment of annual variable part during April-June. 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 on a voluntary basis is quite low at the Company – less than 1%. 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. Almost half of vacancy announcements in 2016 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 2016 resulted in promotion of 18 employees (vertical career) and movement of 19 employees to similar job positions in other divisions (horizontal career). As a result of improvement of career opportunities for employees and encouragement of their mobility between the group entities, 8 employees moved to other group entities.

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. In order to introduce the new joiners to the group's corporate culture and values, the sessions of value dialogues are held during the days of new joiners. During these sessions, various work-related situations are discussed, which reflect the group's values and behaviours required at work.

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 February and March 2016, the Company attended the Career Days events organised by Kaunas University of Technology, Vilnius Gediminas Technical University and Kaunas University of Applied Engineering Sciences. During 2016, 8 students from different universities in Lithuania had internship at the Company: 1 from Kaunas University of Technology, 2 from Vilnius Gediminas Technical University, 1 from A. Stulginskis University, 1 from Vilnius University, 1 from Lithuanian University of Educational Sciences, and 2 from Elektrėnai Vocational Training Centre.

**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 2016, 218 employees of the Company attended technical and professional training and 158 employees attended internal training courses. During 2016, the trainings were attended by in total 268 unique employees (i.e. when the same employee attends several trainings, such employee is counted as one). The Company focused its efforts on the development of leadership and operational excellence (use of LEAN system tools) competences of the specialists. In 2016, the Company initiated 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 270 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.

## 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 2016.

### 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 material events during the reporting period

### Lietuvos Energija UAB was obliged to redeem the shares of the former LIETUVOS ELEKTRINĖ AB

On 12 January 2016 the Company was notified by Lietuvos Energija UAB (holding 96.13% of shares in the Company) about the Lithuanian Finance Minister's Order No 1K-6 of 6 January 2016 *Regarding the implementation of the provisions of Lithuanian Government Resolution No 1126 of 26 October 2015 On the redemption of shares* (hereinafter "the Order"). The Order obligates Lietuvos Energija UAB to implement the Lithuanian Government Resolution No 1126 of 26 October 2015 *On the redemption of shares* (hereinafter "the Resolution").

In addition, the Company was notified by Lietuvos Energija UAB about the decision made by its Board on 11 January 2016 in view of the Resolution and the Order to redeem the shares held by minority shareholders of LIETUVOS ELEKTRINĖ AB (which ceased to exist upon reorganisation of LIETUVOS ENERGIJA AB and LIETUVOS ELEKTRINĖ AB on 5 August 2011) on the terms and conditions set out in the Resolution and the Order.

Link to the notification on material event: [Concerning redemption of shares under the judgement of Supreme Court of Lithuania](#)

### Redemption of the shares of the former LIETUVOS ELEKTRINĖ AB was initiated

On 8 February 2016 the Company received a notification from its major shareholder Lietuvos Energija UAB on the initiated redemption of the shares of the former LIETUVOS ELEKTRINĖ AB.

Redemption of the shares shall be effected in accordance with (i) the ruling of the Supreme Court of Lithuania of 19 November 2014 adopted in Civil Case No. 3K-3-370/2014 (hereinafter – the Court's Ruling), and (ii) Resolution No. 1126 of the Government of the Republic of Lithuania of 26 October 2015 (hereinafter – the Resolution).

More details are provided on [the Company's website](#).

Link to the notification on material event: [Regarding the beginning of redemption of shares under the ruling of Supreme Court of Lithuania](#)

### Preliminary indicators were reported by the Company

On 15 February 2016, the Company reported its preliminary pre-audited financial indicators for January-December 2015.

Link to the notification on material event: [Preliminary pre-audited results of Lietuvos Energijos Gamyba AB for twelve months of 2015](#)

### Juozas Bartlingas, the CEO of Lietuvos Energijos Gamyba AB was replaced with Eglė Čiužaitė, and Vidmantas Salietis was recalled from the post as a member of the Board

During the meeting held on 19 February 2016, the Supervisory Board made the following decisions:

- Considering the fact that Juozas Bartlingas provided the Company and its parent company Lietuvos Energija UAB with a notice of resignation as a member (chairman) of the Board of the Company and as the CEO of the Company, the decision was made to recall Juozas Bartlingas, the chairman of the Board and the CEO of the Company, from his post as a member (the chairman) of the Board of the Company as of the date of the decision.
- The decision was made to recall Vidmantas Salietis from his post as a member of the Board of the Company as of the date of the decision. Mr Salietis shall be recalled from the Board upon the implementation of the project for transferring the Company's commercial electricity wholesale activity to Energijos Tiekimas UAB and fulfilment of the related changes in the structure of the Company.
- In view of the opinion of the Supervisory Board of the parent company Lietuvos Energija UAB, the decision was made to appoint Eglė Čiužaitė to the Board of the

Company from the date of the decision till the end of the term of office of the current Board.

During the meeting that took place on the same day, the Board of the Company made a decision to elect Ms Čiužaitė to the post of the chairwoman of the Board and the CEO of the Company. Ms Čiužaitė will start her duties as the Chairperson of the Board from the date of making the decision, and her term of office as the CEO will begin on 22 February 2016.

Link to the notification on material event: [Regarding the decisions made by the Supervisory Board and the Board of Lietuvos Energijos Gamyba AB](#)

### **Ordinary General Meeting of Shareholders was convened**

Upon the initiative and decision of the Board of 7 March 2016, the Ordinary General Meeting of Shareholders of the Company was convened on 29 March 2016.

Link to the notification on material event: [Regarding the agenda and proposed draft resolutions of Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB](#)

### **Approval was submitted by the Supervisory Board**

On 9 March 2016 the Supervisory Board of the Company made a decision to approve the Company's Consolidated Annual Report for the year 2015, the consolidated and Company's set of financial statements for the year 2015, which were audited by PricewaterhouseCoopers UAB, the Company's auditor, and the proposed appropriation of profit (loss) of the Company for the year 2015. The Supervisory Board also decided to present such approval to the General Meeting of Shareholders of the Company to be held on 29 March 2016.

Link to the notification on material event: [Regarding the decisions of the Supervisory Board of Lietuvos Energijos Gamyba AB](#)

### **General Meeting of Shareholders was held**

During the Ordinary Meeting of Shareholders of the Company held on 29 March 2016, the audited consolidated and Company's financial statements for the year 2015 and the proposed profit (loss) appropriation for the year 2015 were approved. No dividends were declared for payment for the six-month period ended 31 December 2015.

Link to the notification on material event: [Regarding the decisions adopted at the Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 29 March 2016.](#)

### **Preliminary results were reported by the Company**

On 16 May 2016 the Company reported its preliminary pre-audited financial indicators for January-March 2016.

Link to the notification on material event: [Preliminary pre-audited results of Lietuvos Energijos Gamyba AB for 1Q 2016.](#)

### **Redemption of the shares of LIETUVOS ELEKTRINĖ AB was completed**

On 24 May 2016, the Company published a notification on the following material event: Lietuvos Energija UAB informed about the report received from SEB Bank AB, which represented Lietuvos Energija in the process of redemption of shares of LIETUVOS ELEKTRINĖ AB as per the ruling of the Supreme Court of Lithuania, whereby SEB Bank AB reported that 1,144 share purchase and sale agreements were registered as at 23 May 2016. Based on these agreements, in total 3,866,497 (three million, eight hundred and sixty-six thousand, four hundred and ninety-seven) shares of the Company were transferred to Lietuvos Energija. Part of the remaining share purchase and sale agreements came in force later on.

Link to the notification on material event: [Regarding shares acquired by Lietuvos Energija UAB during the redemption of shares of LIETUVOS ELEKTRINĖ AB.](#)

### **Extraordinary General Meeting of Shareholders was convened**

Upon the initiate and decision of the Board of 4 July 2016, the Extraordinary General Meeting of Shareholders of the Company was convened on 26 July 2016 in relation to election of an auditor and establishment of an audit fee.

On 12 July 2016, a letter was received from the shareholder Lietuvos Energija UAB, whereby the Company was informed about the recommendation provided by the Audit Committee of the Supervisory Board of Lietuvos Energija UAB in relation to the proposed audit company. The decision was made to elect PricewaterhouseCoopers UAB as the audit company for the audit of the financial statements of Lietuvos Energijos Gamyba AB for 2016 – 2018 and to pay no more than EUR 102,450.00 EUR (VAT excl.) for audit of financial statements for 2016 – 2018.

Link to the notification on material event: [Regarding the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB and Regarding the supplemented draft resolution of the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB.](#)

### **Audit company was elected**

During the Extraordinary General Meeting of Shareholders of the Company held on 26 July 2016, the decision was made to elect PricewaterhouseCoopers UAB as the audit company for the audit of the financial statements of Lietuvos Energijos Gamyba AB for 2016 – 2018 and to pay no more than EUR 102,450.00 EUR (VAT excl.) for audit of financial statements for 2016 – 2018.

Link to the notification on material event: [On 26 July 2016 the Extraordinary Meeting of Shareholders of Lietuvos Energijos Gamyba AB adopted a decision on the election of the audit company.](#)

### **Preliminary indicators were reported by the Company**

On 16 August 2016 the Company reported its preliminary pre-audited financial indicators for January-June 2016.

Link to the notification on material event: [Preliminary pre-audited results of Lietuvos Energijos Gamyba AB for January-June 2016.](#)

#### **Extraordinary General Meeting of Shareholders was convened**

Based on the decision adopted by the Board of the Company on 1 September 2016 and in view of the request received from Lietuvos Energija UAB, the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB was convened on 26 August 2016.

Link to the notification on material event: [Regarding the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB.](#)

#### **Approval was submitted by the Supervisory Board**

On 9 September 2016, the Supervisory Board of the Company made a decision to approve the Company's interim report for the six-month period ended 30 June 2016, the set of interim financial statements for the six-month period ended 30 June 2016, which was audited by audit company PricewaterhouseCoopers UAB, and the draft resolution on proposed payment of dividends for the period shorter than the financial year. The Supervisory Board also decided to present such approval to the Ordinary General Meeting of Shareholders of the Company to be held on 26 September 2016.

Link to the notification on material event: [Regarding the resolutions of the Supervisory Board of Lietuvos Energijos Gamyba AB.](#)

#### **At the General Meeting of Shareholders, dividends were distributed for the period shorter than the financial year**

At the Extraordinary General Meeting of Shareholders of the Company held on 26 September 2016, dividends were declared for payment to the shareholders in amount of EUR 0.043 per share for the six-month period ended 30 June 2016.

Link to the notification on material event: [Regarding decisions adopted at the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB on 26 September 2016.](#)

#### **The Company's appeal was accepted**

On 17 October 2016, the Supreme Administrative Court of Lithuania announced its decision regarding the administrative case, which was investigated by way of appeal to the court on 7 September 2016 in relation to overruling of the judgement made by Vilnius Regional Administrative Court on 30 April 2015 and adoption of a new judgement.

Link to the notification on material event: [On adopted resolution of the court.](#)

#### **Preliminary indicators were reported by the Company**

On 15 November 2016, the Company reported its preliminary pre-audited financial indicators for January-September 2016.

Link to the notification on material event: [Preliminary pre-audited results of Lietuvos Energijos Gamyba AB for January-September 2016.](#)

#### **Court resolution was adopted**

On 5 December 2016, Vilnius Regional Administrative Court satisfied the Company's appeal and repealed paragraphs 2, 4 and 5 of Resolution No O3-941 of 19 December 2014 of the NCC *Regarding the amendment to Resolution No O3-840 of 17 October 2014 of the NCC On the establishment of the PSO funds and PSO service fees for 2015.*

Link to the notification on material event: [On adopted Resolution of the Court](#)

#### **The Company's appeal was rejected**

On 20 December 2016, the Supreme Administrative Court of Lithuania rejected the Company's appeal and left the decision adopted by Vilnius Regional Administrative Court on 21 September 2015 unchanged, under which Vilnius Regional Administrative Court rejected the Company's appeal regarding the annulment of Resolution No. O3-818 of 30 September 2014 of the NCC *On scheduled audit of Lietuvos Energijos Gamyba AB.*

Link to the notification on material event: [On adopted Resolution of the Court.](#)

#### **Resignation of the Company's Board member was announced**

On 23 December 2016, the Company received a notification on resignation of Mr Adomas Birulis from the position of the member of the Company's Board.

Link to the notification on material event: [Regarding resignation from the Board of Lietuvos Energijos Gamyba AB.](#)

#### **Common dividend policy was announced for Lietuvos Energija UAB group**

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.

Link to the notification on material event: [Regarding approved dividend policy for Lietuvos Energija UAB group companies.](#)

#### **Tertiary power reserve services to be provided by the Company in 2017**

On 28 December 2016, the transmission system operator LITGRID AB announced about the completion of negotiations on assuring the provision of tertiary active power reserve services in 2017, which also involved the Company. It was announced that these services would be provided by the Company-owned Lithuanian Power Plant via units 7 and 8.

Link to the notification on material event: [Lietuvos Energijos Gamyba AB will provide the service for tertiary power reserve in 2017.](#)

## Other events during the reporting period

### Notification on the Company's annual information

On 29 March 2016 the General Meeting of Shareholders approved the Company's consolidated annual report and the set of consolidated and the Company's financial statements for the year 2015, which were audited by the Company's auditor PricewaterhouseCoopers UAB.

[Use this link](#) for more details.

### Notification on the Company's social responsibility report

The Company elaborated its Social Responsibility Report for 2015. The Report contains an overview of the Company's strategic directions, measures and progress achieved in the field of corporate social responsibility during 2015. The

Company is a member of the *Global Compact* initiative by the United Nations, and submits an annual progress report in accordance with ten principles of the Global Compact.

[Use this link](#) for more details.

### Updated business strategy

On 20 September 2016, the Company published its updated business strategy, which stipulates that 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%.

For more details see [Lietuvos Energijos Gamyba AB has updated its business strategy](#).

## Notifications on materials events after the end of the reporting period

### Election of the Board member

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.

Link to the notification on material event: [Member of the Board of Lietuvos Energijos Gamyba AB has been elected](#).

### Resolution adopted by the Court

On 9 January 2017, Vilnius Regional Administrative Court accepted the Company's appeal with request to repeal paragraph 1 of Resolution No 03-391 of the NCC of 29 November 2016 *Regarding the setting of price caps for services of assuring reserve power for Lietuvos Energijos Gamyba AB*.

Link to the notification on material event: [On adopted Resolution of the Court](#).

### Preliminary indicators reported by the Company

On 31 January 2017, the Company reported its preliminary pre-audited financial indicators for the year ended 31 December 2016.

Link to the notification on material event: [Preliminary pre-audited results of Lietuvos Energijos Gamyba AB for the year ended 31 December 2016: improvement in operational efficiency offset decrease in revenues and enabled to improve profitability](#)

## **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 February 2016, the Company entered into agreement regarding expert assessment in the process of procurement with the auditor of its financial statements and reports on regulated activities for the year 2016.