



ANNUAL REPORT 2016 | 2017

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

for the year ended 31 December 2016, prepared according to International Financial Reporting Standards as adopted by the European Union, presented together with the independent auditor's report

Contents

Consolidated annual report of the Company and the Group

CEO Foreword	5
About the Group and the Company	6
Major events	11
Analysis of the Group's financial and operating results	12
Review of the Company's and the Group's activities	36
Corporate responsibility	45
Corporate governance	50
Basic information about the Company and the Group	63
NASDAQ Structured table for disclosure	73
Independent auditor's report	108
Consolidated and company's financial statements	112



Key financial indicators of the Lietuvos Energija group

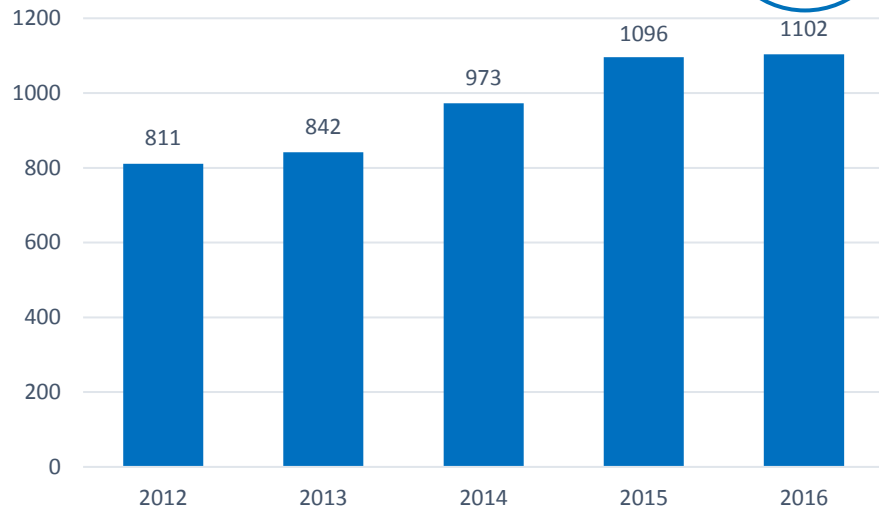
Financial data cover the period from January to December 2016		2016	2015	Δ, EUR million	Δ, %
Revenue	EUR million	1,101.6	1,095.8	5.8	0.5%
Purchase of electricity, gas, fuel and related services	EUR million	727.4	774.0	-46.6	-6.0%
Operating expenses	EUR million	136.2	151.9	-15.7	-10.3%
EBITDA (1)	EUR million	254.6	215.8	38.8	18.0%
EBITDA margin	%	23.1%	19.7%		
Net profit	EUR million	118.4	55.3	63.1	114.1%
Net profit margin	%	10.7%	5.0%		
Net profit (comparable) (2)	EUR million	134.6	124.5	10.1	8.1%
Net profit (comparable) margin	%	12.2%	11.4%		
Dividends paid to the Company's shareholder (on accrual basis) (3)	EUR million	100.7	86.0	14.7	17.1%
		At 31 Dec 2016	At 31 Dec 2015	Δ, EUR million	Δ, %
Total assets	EUR million	2,432.2	2,339.2	93.0	4.0%
Equity	EUR million	1,319.5	1,304.5	15.0	1.1%
Borrowings	EUR million	494.4	420.7	73.7	17.5%
Net debt	EUR million	315.8	251.8	64.0	25.4%
Return on equity (ROE)	%	10.3%	9.5%		
Equity ratio	%	54.3%	55.8%		
Net debt / 12-month EBITDA	times	1.24	1.17		
Net debt / Equity	%	23.9%	19.3%		
Assets turnover ratio	times	0.453	0.468		
Current liquidity	times	1.046	1.049		
Return on capital employed (ROCE)	%	8.3%	3.8%		
Working capital	EUR million	145.4	160.4	-10.5	-6.5%
Working capital / Revenue	%	13.2%	14.6%		

Note: Financial data is presented in million euros. The definitions of financial indicators are presented in page 24. (1) a 5.3 million EUR adjustment in respect of assets revaluation and transfer of expenses from prior periods was made in the 2015 annual report, which was annulled after a more detailed calculations made in 2016; (2) in the 2015 annual report the adjustment of LITGAS net profit for excess profit was not made, the amount presented in the table shows the value after this adjustment. (3) Dividends for 2016 comprise dividends actually paid for the first half of 2016, i.e. EUR 40.9 million and dividends proposed to be paid for the second half of 2016, i.e. EUR 59.8 million.



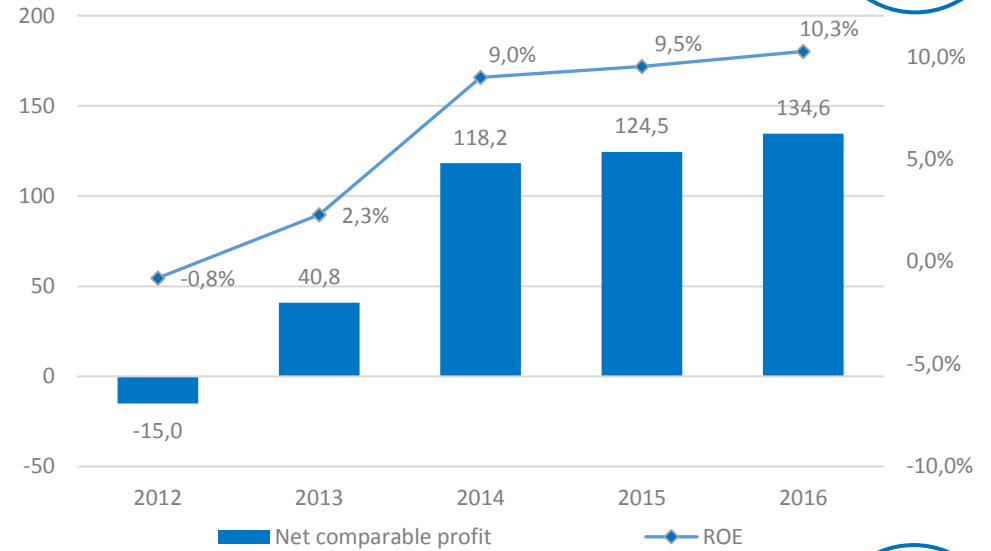
Revenue of the Lietuvos Energija group for 2016 remained at a similar level and amounted to **EUR 1.1 billion**.

↑36%*



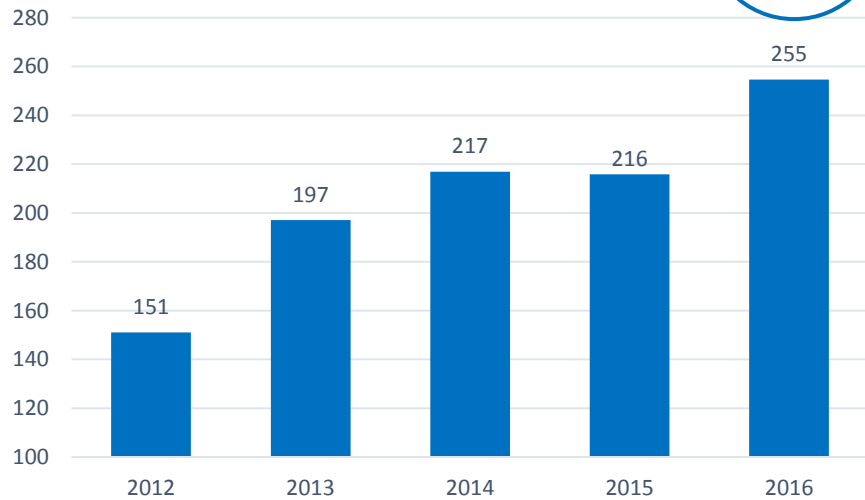
Net comparable profitability of the Lietuvos Energija group increased by 8.1% up to **EUR 134.6 million** and exceeded the return on equity requirements set for state-owned companies (5.7%). Return on equity **exceeded 10%** in 2016.

10.3%



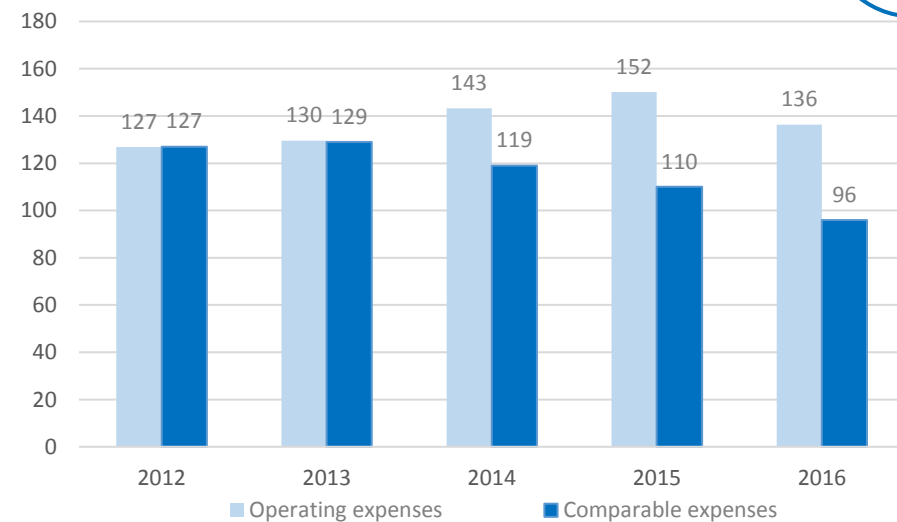
EBITDA of the Lietuvos Energija group rose by EUR 38.8 million as a result of improved supply of electricity and gas, better results of the trading activity and lower operating costs of the Group.

↑169%*



Operating expenses of the Lietuvos Energija group declined by EUR 15.7 million mainly due to the merger and improved operational efficiency of LESTO AB and Lietuvos Dujos AB.

↓24%*



*Change compared to data for 2012.

Comparable expenses – operating expenses not related to new businesses from 2013. Financial data is presented in million euros.



CEO Foreword



The experience of Lietuvos Energija proves that a clearly defined strategy and its consistent implementation lead to the achievement of sustainable results and delivery of a higher added value to our customers and the shareholder – the State of Lithuania. With a strong, professional and motivated team the achievement of these objectives is much faster. The set objectives achieved is the result of efforts, responsible actions and cooperation of people working at Lietuvos Energija. Therefore, I extend my gratitude to each employee for a significant contribution into a successful performance of the Group.

Financial performance of Lietuvos Energija continues to improve for a fourth year in a row: EBITDA of Lietuvos Energija for this period increased by nearly 70%, revenue rose by 36%, expenses declined by 24% and dividends exceeding EUR 180 million were paid the state budget. At the same time the price of electricity for Lithuanian residents declined by an average of 20%, the price of natural gas was 30% lower. Higher operational efficiency allowed shortening the duration of connection to electricity and gas networks by a quarter.

The year 2016 is important to Lietuvos Energija not only for the record-high financial results. During the last year strategically important steps were taken in strengthening electricity generation capacities. The parks of wind turbines in Lithuania and Estonia were acquired, a preparatory stage for the construction of co-generation power plants in Vilnius and Kaunas was completed. These power plants will ensure effective waste management in two major cities of Lithuania and at the same time will reduce the price of heating for residents. In the last year a new company became part of the Group – Energijos Sprendimų Centras (ESC) offering sustainable energy solutions. We also commenced the incorporation of a venture capital fund which will select and finance the most promising start-up ideas in the energy field.

We can also be pleased that we have already achieved more than 60% of the objective to double the value of the Group by 2020. Thus in 2017 we will aim to provide our customers with even better service, offer smart solutions, shorten the time of connection to the networks. We will continue enhancing generation capacities through the implementation of co-generation power plants, will be looking for expansion opportunities in the renewable energy field and promoting innovations. We plan to issue bonds worth of up to EUR 200 million in 2017. Funds received will be allocated for investments in the green energy projects. The enhancement of the operational efficiency, retention of employee engagement and promotion of the innovations focused working environment will remain the priorities to be pursued within the companies. We, therefore, will continue aiming for excellence in our performance, will launch a digital transformation programme to help us work better, faster and easier than we used to work.

Over slightly more than three years Lietuvos Energija managed to substantially reorganise the governance structure of the energy companies – today it is assessed as the most effective, transparent governance model meeting the best foreign practices. In 2016, for a third year in a row Lietuvos Energija was recognised as the best managed state capital entity. This evaluation encourages us to continue aiming for the achievement of set objectives. This also proves that state-owned companies can contribute to the growth of economic prosperity of the State and its residents.



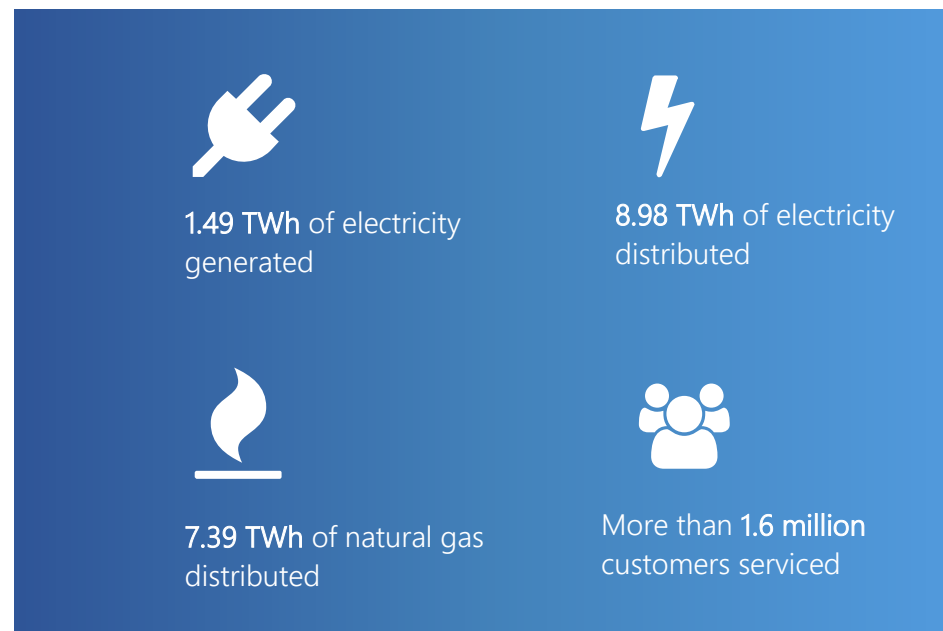
THE COMPANY AND THE GROUP

About the Group and the Company

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

The Lietuvos Energija group with nearly 5,000 employees manages and operates the key energy generation capacities of Lithuania that ensure the security of energy supply, a distribution network covering the entire territory of the country, and provides services to almost 1.6 million of consumers across Lithuania, offers electricity supply services to consumers abroad, operates gas distribution pipelines in the length of 8.5 thousand km, supplies gas to 570 thousand consumers, implements development projects of strategic value and pursues the objective set forth in the National Energy Strategy. During 2016, 1.49 TWh of electricity were generated, 8.98 TWh of electricity were distributed to consumers and 7.39 TWh (691 million m³) of natural gas were distributed via gas distribution pipelines.

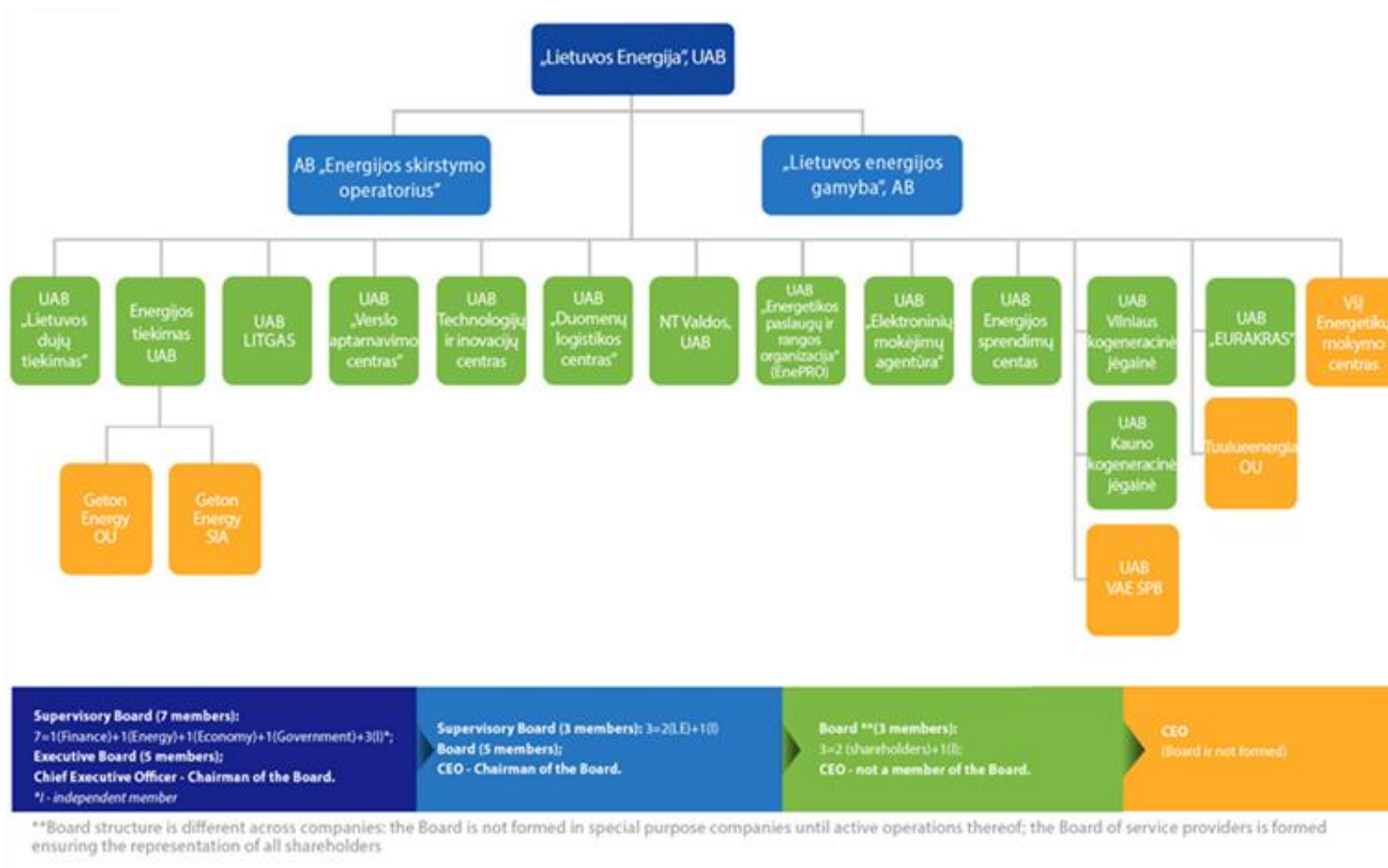
The controlling company of the Group, Lietuvos Energija, UAB (hereinafter "Lietuvos Energija" or "the Company") is responsible for transparent management and coordination of activities of the entire Group, improvement of the efficiency in order to ensure the competitive servicing of consumers, and for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



Structure of the Group

At the reporting date, the Lietuvos Energija group consisted of 21 companies: the parent company and 20 directly and indirectly controlled companies and establishments. The main business activities of the Group are the generation of electricity and heat, transmission trading, distribution and supply, trade in natural gas and its distribution. Activities of the Group's companies servicing these main types of business activities

comprise ITT, real estate, transport, repair and construction of energy facilities, professional development of employees, public procurement, accounting, administration of employment relationships and other services. The detailed list of the Group companies is presented on page 61 of this document. The organisational chart of the Group effective from 31 December 2016 is presented below.



The Group's strategy



The main goal of the strategy of the Lietuvos Energija group is to **double the value of the Group and to become the highest-value energy company in the Baltic countries by 2020**. This value is perceived as a sustainable balance of three components: return on assets, improvement of competitiveness and responsibility towards employees, society and environment.

The Group's return on assets is increased through the development – by diversifying activities, indulging in new and economically feasible projects and activities, acquiring enterprises, ensuring the efficiency of daily operations and achieving the goals set by the shareholder. The Group will reinforce the country's competitiveness by ensuring a stable supply of electricity and natural gas, offering new products and promoting rational use of electricity and natural gas. The Group assumes responsibility towards society and its employees, proactively implements environmental requirements and ensures the continuity and improvement of skills

The main strategic directions of the Group

Ensuring quality services to consumers. The care is taken to achieve better servicing of consumers, develop electronic (time-saving) and new services responding to the needs of consumers, increase consumer choices and guarantee the reliability of generation, distribution and supply of electricity and of distribution and supply of natural gas.

Diversifying the operations. The diversification includes implementation of investment projects in the sectors of electricity, heat and natural gas. The projects increase the

competitiveness of the Group and the national economy at large as well as the country's energy independence, optimisation of the production and trading portfolio, development of new activities by extending the value chain of the Lietuvos Energija group. These goals will be achieved using the available resources and infrastructure, investing in the creation of new infrastructure and effective governance, as well as through acquisitions.

Enhancing the efficiency of operations. The efficiency is pursued in the main activities of the Group, as well as in the provision of support functions, management of assets and other resources across all Group companies. In order to achieve higher efficiency, the management and control system of the Group companies is integrated by setting the common principles of business management, division, coordination and control of responsibilities. Efficiency improvement measures covering all Group companies or identical or very similar activities at the individual company level are also continued. Active sharing of best practices between companies is promoted and sought.

Building new organisational culture. A modern, effective and dynamic organisation is being created operating on the basis of common values, developing in a consistent and targeted manner the required competences and successors for key employees, and offering internal environment which encourages the involvement of employees.



Major events in 2016

Q1

On 21 January 2016, Lietuvos Energija acquired two wind power parks with the total installed capacity of 42.3 megawatts.

On 5 February 2016, Lietuvos Dujų Tiekimas signed the agreement regarding the supply of liquefied natural gas (LNG) with Statoil, under which more than a half of the gas demand (approx. 300 million cubic metres) will be satisfied this year.

On 18 February 2016, Energijos Sprendimų Centras UAB was established, which will be developing projects on energy efficiency improvement and renewable energy resources.

Q2

On 31 May 2016, Lietuvos Energija announced about the establishment of the Energy Innovation Fund, the first of such kind in the Baltic countries, which will provide financing to start-up ideas in the energy sector.

On 17 June 2016, the European Strategic Investment Fund, which was established based on the initiative of the European Commission to promote the EU economy, announced that it will allocate EUR 190 million for the construction of Vilnius co-generation power plant. Financing under the so-called Jean-Claude Juncker Plan will ensure the most favourable borrowing conditions and interest rates available in the market.

Q3

On 15 September 2016, LITGAS, Lietuvos Dujų Tiekimas and Statoil signed the agreement under which these companies will cooperate in offering wholesale LNG supply services at the Klaipėda LNG Terminal.

On 28 September 2016, Lietuvos Dujų Tiekimas signed the agreement with Koch Supply & Trading regarding the supply of LNG in 2017.

On 29 September 2016, the agreements on construction works of Vilnius co-generation power plant were signed.

Q4

On 31 October 2016, ESO was granted the right to distribute natural gas in the Druskininkai municipality, the prices of natural gas to residents of Druskininkai were announced that were lower from 20% to 60% compared to the prices of the previous supplier.

On 17 November 2016, the Sponsorship Fund of Lietuvos Energija selected five Lithuanian universities whose Master's degree students will be eligible for named scholarships.

On 1 December 2016, ESO completed the construction of the gas distribution pipeline in the length of 5.8 km in Tauragė. Tauragė is the 42nd municipality in Lithuania having access to gas networks.

On 5 December 2016, the agreement for the loan of EUR 190 million designated for the funding of the construction works of a co-generation power plant in Vilnius was signed with the European Investment Bank (EIB).





ANALYSIS OF THE GROUP'S
FINANCIAL AND
OPERATIONAL RESULTS

Analysis of the Group's financial and operating results

Key operating indicators		2016	2015	Δ, +/-	Δ, %
Electricity					
Generated electricity	TWh	1.49	2.01	-0.51	-25.56%
Generated electricity using renewable energy sources	TWh	0.49	0.27	0.22	81.48%
Distributed electricity via medium and low voltage networks	TWh	8.98	8.53	0.45	5.23%
Public and guaranteed supply	TWh	3.15	3.12	0.03	0.84%
Distributed to customers of independent suppliers	TWh	5.83	5.41	0.42	7.77%
Sales in retail market	TWh	1.64	1.37	0.27	19.71%
Number of newly connected customers	units	29,355	28,504	851	2.99%
Duration of connection of new customers (average)	calendar days	63.57	78.45	-14.88	-18.97%
Quality indicators of electricity supply					
SAIDI, min. (without <i>force majeure</i>)	min.	72.03	66.03	6.00	9.09%
SAIFI, units (without <i>force majeure</i>)	units	0.914	0.8414	0.07	8.63%
Technological costs in the distribution network	%	6.49%	6.76%		-3.86%
Gas					
Distributed volume of gas	TWh	7.39	6.83	0.57	8.32%
Volume of gas sold	TWh	11.80	14.49	-2.70	-18.59%
Volume of gas purchased	TWh	12.27	14.56	-2.29	-15.73%
Volume of LNG purchased	TWh	7.55	4.81	2.74	56.92%
Volume of natural gas purchased	TWh	4.72	9.75	-5.03	-51.60%
Number of newly connected customers	units	5,375	4,078	1,297	31.80%
Duration of connection of new customers (average)	calendar days	159.7	216.0	-56.3	-26.06%
Quality indicators of gas supply					
SAIDI, min. (without <i>force majeure</i>)	min.	0.5290	1.0337	-0.50	-48.82%
SAIFI, units (without <i>force majeure</i>)	units	0.00596	0.00708	-0.0011	-15.86%
Technological costs in the distribution network	%	2.25%	2.48%		-18.20%

The main reasons that caused rise in the volume of electricity distributed were a lower average temperature in January compared to 2015 (-3.6° compared to the climate normal) and the growth of the country's gross domestic product. The distribution of electricity to independent consumers increased and totalled 5.83 TWh (a 7.77% or 0.42 TWh increase compared to the previous year), whereas the volumes of public and guaranteed supply remained at the similar level, i.e. 3.15 TWh (a 0.84% increase).



In 2016, electricity generation volumes at Kaunas Algirdas Brazauskas Hydro Power Plant increased by +32.36%. Such increase was mainly caused by a higher level of water in the Nemunas river. Electricity generation volumes at Kruonis Pumped Storage Power Plant decreased during 2016, i.e. 0.517 TWh of electricity was produced which is less than in 2015 (0.665 TWh). The volume of electricity generated at wind power parks operating in Estonia and Lithuania totalled 0.123 TWh.

After the removal of quotas of electricity generation electricity generation capacities of the combined-cycle gas turbine of the Elektrėnai complex were started only after the occurrence of a high electricity price due to disconnections of the NordBalt interconnection and other reasons. Although the combined-cycle gas turbine block was launched more often (58 times) than in 2015 (14 times), electricity generation volumes at the combined-cycle block decreased by 54.7% from 1.032 TWh to 0.468 TWh, because of the turning on and off of generation capacities during consumption peak time, i.e. when the electricity price was at the highest level and a competitive generation proposal could be offered in the neighbouring countries.

A portion of electricity generated from renewable energy sources nearly doubled in 2016 and made up 33% of the total volume of electricity generated (2015: 13%).

In 2016, technological costs in the electricity distribution network declined by 6.49% (6.76% in 2015). In 2016, SAIDI ratio, without the causes of *force majeure* circumstances, improved and was 72.03 minutes and SAIFI ratio was 0.91 time in 2016. SAIDI and SAIFI ratios decreased due to significant weather changes during the first half of 2016 that caused a large number of breakdowns compared to the previous year.

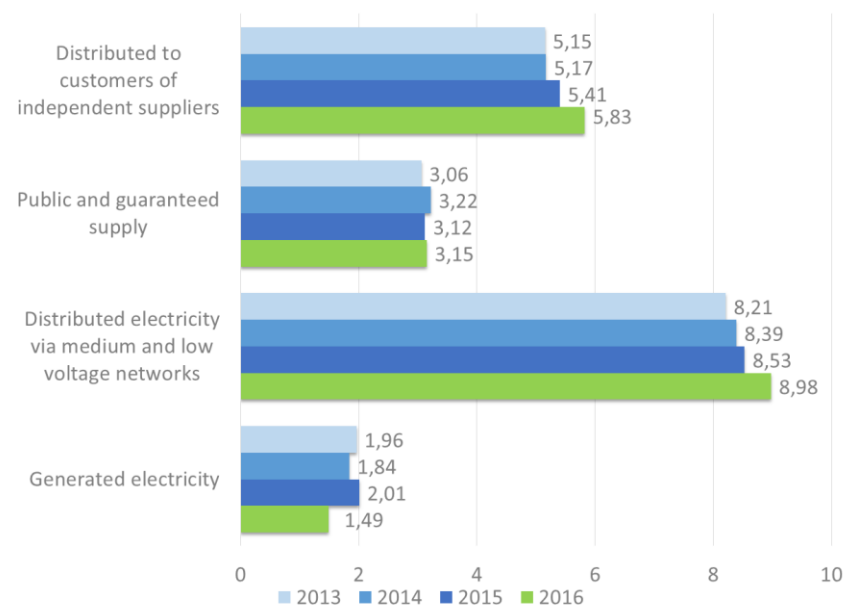
The volume of natural gas distributed by the Group companies increased by 8.3% or 0.57 TWh compared to 2015 mainly as a result of a higher gas consumption by heat and electric power generation plants because of colder weather during the heating season. The volume of gas sold by the Group companies decreased by 18.6% in 2016 (a 2.70 TWh decrease from 2015). As a result of changes in the regulatory environment and re-negotiation of LNG supply conditions with Statoil (the annual gas volume was decreased from 540 to 35 million cubic metres per year on average) sales of Litgas UAB to heat producers decreased. Decline in the volume of gas sold by Lietuvos Dujų Tiekimas UAB was mainly caused by the termination of the VIAP sponsored electricity generation at co-generation power plants after the launch of NordBalt and LitPolLink interconnections. This decline was partly compensated by higher sales to household customers.

In 2016, the gas purchase portfolio was diversified causing an increase in liquefied natural gas purchases by nearly two times compared to 2015 and represented 61.6% of the total gas purchase portfolio (2015: 33.1%).

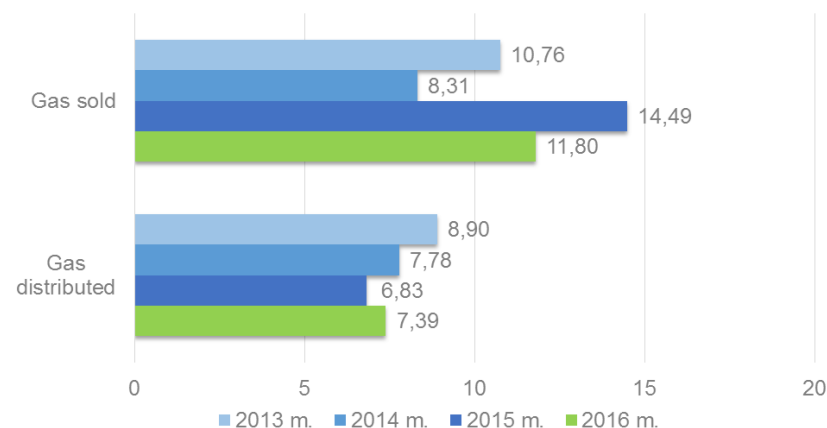
Gas distribution SAIDI ratio, without the causes of *force majeure* circumstances, dropped during 2016 and was 0.53 minute (1.03 minutes in 2015) and SAIFI ratio was approximately 0.006 unit (approx. 0.007 unit in 2015).

The average time periods for connection of customers in 2016 decreased compared to 2015. The time for connecting electricity and gas consumers shortened by 14 and 56 days, respectively.

Electricity generation, distribution and sale, TWh



Volume of gas sold and distributed, TWh



Key financial indicators

Financial data is presented in million euros unless otherwise stated

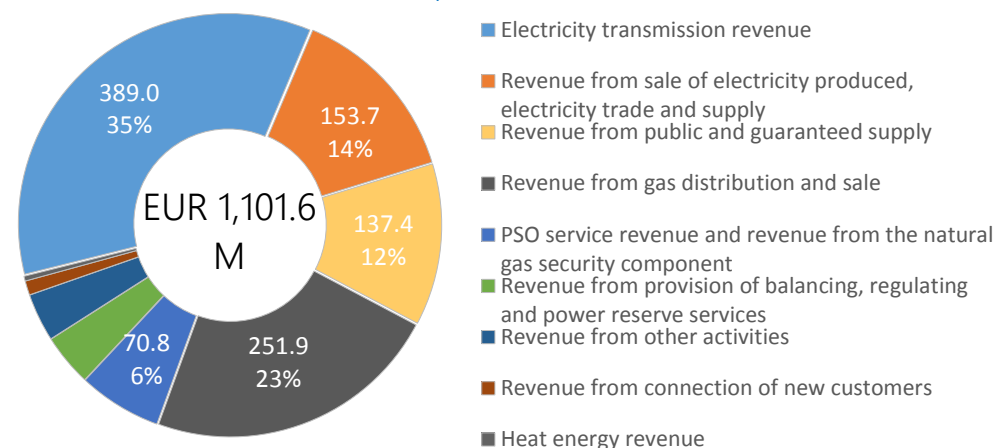
Revenue

During 12 months of 2016, revenue of the Lietuvos Energija group increased by 0.5% or EUR 5.8 million compared to the same period of 2015 and reached EUR 1,101.6 million. The main reasons causing revenue changes were as follows:

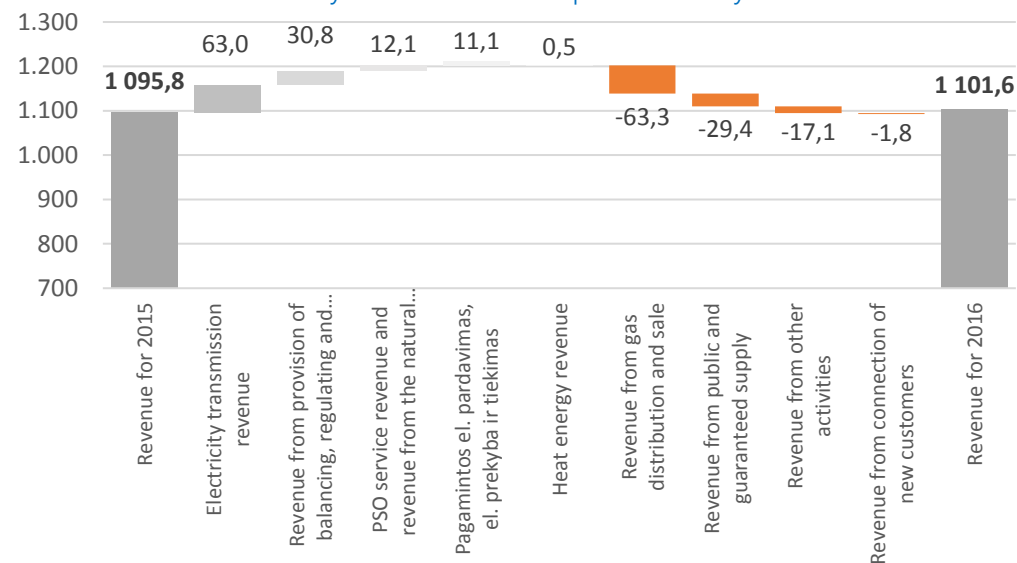
1. Compared to revenue for 2015, in 2016 revenue from electricity transmission activity increased by EUR 63 million up to EUR 389 million (this revenue growth is mainly related to other transmission revenue which is collected by Energijos Skirstymo Operatorius AB acting as a public supplier and transferred to other participants of the electricity market).
2. Compared to revenue for 2015, in 2016 lower sales and lower gas prices, as well as changes in the regulatory model caused decline in revenue from gas distribution and sale by EUR 63.3 million down to EUR 251.9 million.
3. In 2016, revenue from balancing and capacity reserve services increased by 30.8 million compared to 2015 due to higher volumes of secondary and tertiary capacity reserve ordered by the Group company Lietuvos Energijos Gamyba AB and higher revenue from the synchronous compensators¹. In 2016, the secondary capacity reserve was supplied at a capacity of 400 MW per hour (in 2015 at a capacity of 200 MW per hour). In 2016, the tertiary capacity reserve was supplied at a capacity of 505 MW per hour (in 2015 at a capacity of 270 MW per hour).
4. In 2016, lower tariffs of public and guaranteed supply of electricity compared to 2015 resulted in decline in revenue from public and guaranteed supply of electricity by EUR 29.4 million.
5. The Group's statement of comprehensive income includes revenue of EUR 8.3 million received from wind power parks in Estonia and Lithuania acquired in 2016.

After the increase in revenue from electricity transmission activity it represented 35% of the Group's total revenue (2015: 30%). Due to decline in revenue from gas distribution and sale the portion of this revenue declined from 29% in 2015 to 23% in 2016 in the overall revenue structure of the Group.

The Group's revenue structure in 2016



Dynamics of the Group's revenue by sector



¹ a service provided to regulate reactive power and frequency in the Lithuanian electricity system.



Operating and purchase expenses

The Group's operating expenses decreased by 10.3% (EUR -15.7 million) compared to 2015 and amounted to EUR 136.2 million in 2016. Decline in expenses was caused by the following factors:

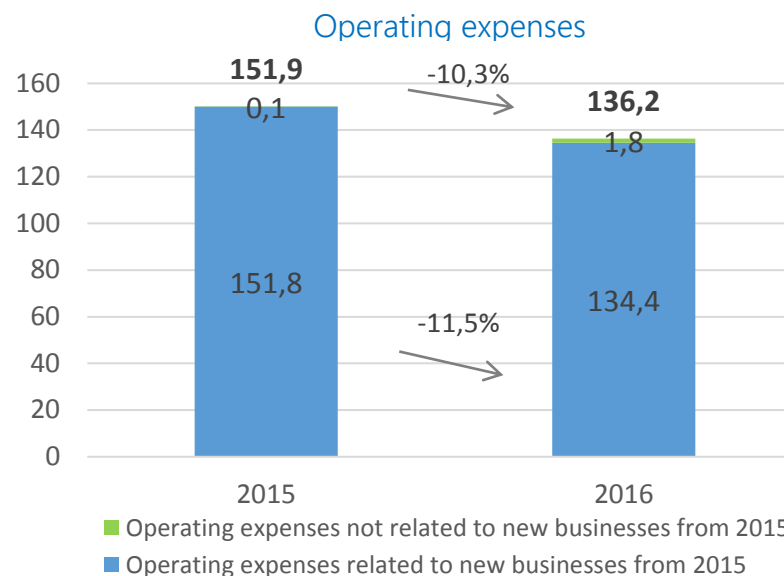
- The merger of LESTO AB and Lietuvos Dujos AB and operational efficiency of these companies;
- The Group's operating expenses related to remuneration decreased by EUR 8 million compared to 2015. This decline was mainly caused by a lower number of employees (5,379 employees at the Group as at 31 December 2015 and 4,861 employees at 31 December 2016).
- Operating comparable expenses decreased due to a EUR 4.1 million lower expenses for the repair and maintenance of the electricity network and electricity generation equipment;
- A EUR 1.2 million lower transport expenses;
- A EUR 1.2 million lower other expenses.

During 2016, operating expenses amounting to EUR 1.8 million were attributed to new projects, whereof 52% comprised operating expenses related to the wind power parks in Lithuania and Estonia acquired in Q1 of 2016.

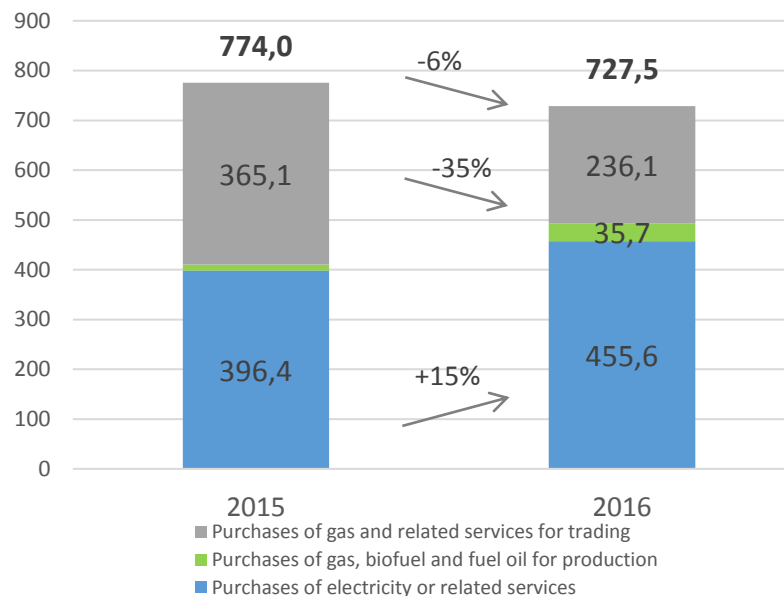
During the reporting period, expenses of the Group for the purchase of electricity, gas, fuel and related services decreased by 6% or EUR 46.6 million compared to 2015.

Purchase expenses of electricity or related services amounted to EUR 455.6 million and increased by 14.9% compared to 2015. This increase was mainly caused by a EUR 39.6 million higher other purchase expenses of electricity or related services which were affected by higher volumes of electricity transmissions.

Purchase expenses of gas and related services decreased by 35.3% due to a diversified supply and gas acquired under favourable conditions from the LNG Terminal (13 carriers arrived in Lithuania in 2016, 5 carriers transporting LNG in 2015), and lower volume of gas sold. As a result of changes in the regulatory environment a part of expenses for gas is accounted for as purchases of gas and fuel oil for generation, the majority of which comprises an additional component for natural gas supply security which is included in the natural gas transmission price.



Purchase expenses of electricity, gas, fuel and other services



EBITDA and net profit

In 2016, the Group's EBITDA amounted to EUR 254.6 million, which is 18% or EUR 38.8 million more than EBITDA of 2015, which was equal to EUR 215.8 million.

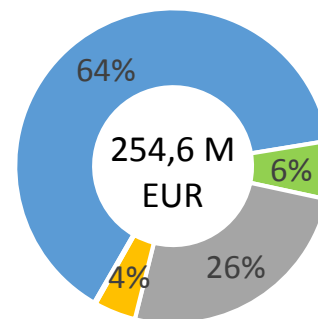
One of the factors affecting the Group's EBITDA is the excess profit of liquefied natural gas trading activity – re-collection of the regulated activity revenue by which the Group's results of operations in the upcoming periods will be reduced.

The growth of the Group's EBITDA was determined by a positive change (+EUR 14.4 million) in the results of the activity of electricity and gas distribution and supply in 2016. This growth was partly influenced by lower operating expenses of subsidiary Energijos Skirstymo Operatorius AB and the deviation of actual revenue from regulated revenue, by which the company's results of operations in the upcoming periods will be reduced.

In 2016, EBITD of electricity generation activity increased by EUR 7.8 million compared 2015. This was mainly determined by the resolutions of the National Control Commission for Prices and Energy (the Commission) regarding the audit of Lietuvos Energijos Gamyba AB activities in 2010-2012 and the company's recognition as an operator with significant market power in the electricity generation services. As a result of these resolutions a part of revenue from regulated activities was not recognised in the financial statements for 2015 and this had a negative impact of EUR 15.9 million on EBITDA ratio. While in 2016, the same resolutions had a positive impact of EUR 5.6 million on the financial statements. On 17 October 2016, the Lithuanian Supreme Administrative Court annulled the Commission's resolution under which the company was recognised as an operator with significant market power in the electricity generation services and the company's revenue from commercial activities were regulated.

In 2016, the results of the electricity trading activity improved by EUR 8.5 million due to higher volumes of retail and wholesale electricity trading. The wind power parks operating in Lithuania and Estonia acquired in Q1 of 2016 contributed EUR 7.3 million to the growth of the Lietuvos Energija EBITDA.

In 2016, gas trading EBITDA increased by EUR 2.4 million compared to 2015 due to increase in EBITDA of the Group company Lietuvos Dujų Tiekimas UAB by EUR 4.7 million. EBITDA of another gas trading company of the Group Ligas UAB declined by EUR 2.3 million in 2016.



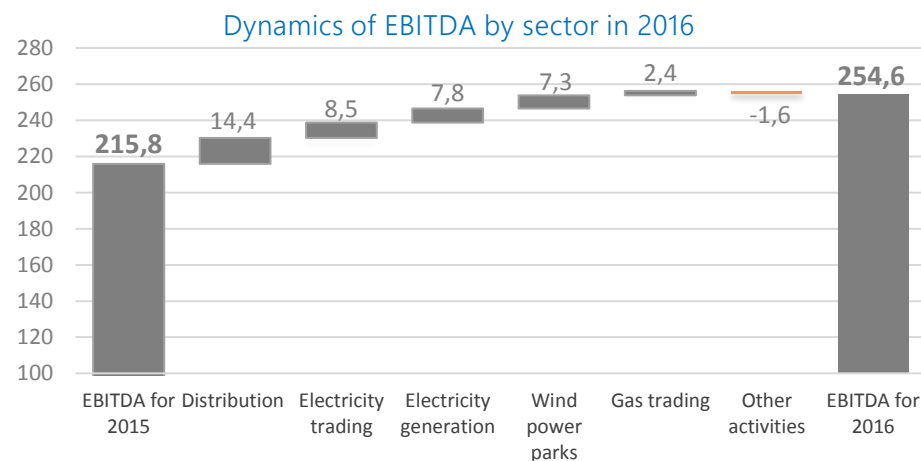
Group's EBITDA sources, %

- Distribution
- Trade in gas
- Electricity generation
- Electricity trading
- Other activities

	2016	2015	Δ, +/-
Operating profit	147.4	65.1	82.3
Depreciation and amortisation expenses	78.5	74.2	4.3
Impairment expenses	2.7	28.6	-25.9
Expenses of revaluation of emission allowances	3.3	-2.4	5.7
Change in market value of open financial derivative instruments	-2.0	0.0	-2.0
Write-offs of property, plant and equipment, inventories and amounts receivable	5.7	4.3	1.4
Management's adjustments			
Gas price discount provided by Gazprom (1)	28.9	50.0	-21.1
Excess profits of LITGAS (2)	-9.9	-4.0	-5.9
EBITDA	254.6	215.8	38.8

(1) expenses, which, in management's view, are related to the prior periods, are eliminated.

(2) elimination of deviation of the designated supplier's actual revenue from the designated supplier's regulated revenue, by which the company's future financial results will be reduced.



In 2016, the Lietuvos Energija group earned EUR 118.4 million in net profit, which is EUR 63.1 million more than net profit of 2015 (EUR 55.3 million). The major impact on the results of operations in 2016 compared to 2015 was made by the following factors:

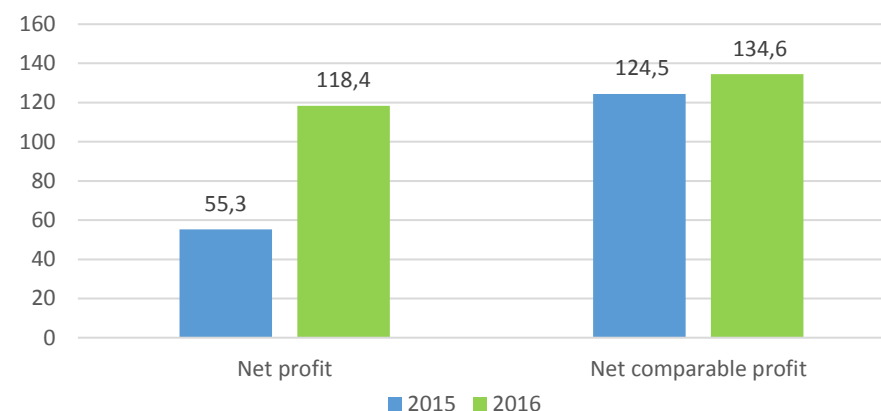
- A EUR 18.8 million lower net loss of subsidiary Lietuvos Dujų Tiekimas UAB (a loss of EUR 35.0 million in 2015 and a loss of EUR 16.2 million in 2016).
- Decline in the Group's operating expenses by EUR 15.7 million.
- Impairment of assets recognised by subsidiary Lietuvos Energijos Gamyba AB (EUR 30.1 million) related to the decision to discontinue the operation of units 5 and 6 of the Reserve Power Plant.
- Increase in emission allowance revaluation expenses by EUR 5.7 million (EUR +2.4 million in 2015 and EUR -3.3 million in 2016).

Comparable net profit of 2016 (EUR 134.6 million) was 8.2% or EUR 10.1 million larger than comparable net profit of 2015 (EUR 124.5 million). The major impact on the results of operations in 2016 compared to 2015 was made by the following factors:

- Decline in the Group's operating expenses by EUR 15.7 million.
- Increase in emission allowance revaluation expenses by EUR 5.7 million (EUR +2.4 million in 2015 and EUR -3.3 million in 2016).

In 2016, the equity of the Lietuvos Energija group increased by 1.2% or EUR 15.1 million and amounted to EUR 1,319.5 million as at 31 December 2016 (31 December 2015: EUR 1,304.5 million). The Group's equity rose due to a higher net profit for the reporting year compared to the amount of dividends paid to the ultimate shareholder in 2016 (EUR 97.2 million). The Group's equity ratio did not change significantly during 2016 and was equal to 54.3% as at 31 December 2016 (31 December 2015: 55.8%).

Group's net and net comparable profit



Net profit adjustments	2016	2015	Δ, +/-
Net profit for the reporting period	118.4	55.3	63.1
Gas price discount provided by Gazprom	24.6	42.5	-17.9
Impairment of assets (1)	0.0	30.1	-30.1
Excess profits of LITGAS (2)	-8.4	-3.4	-5.0
Comparable net profit	134.6	124.5	10.1

(1) In view of Lietuvos Energijos Gamyba AB's management decision made in 2015 on the dismantling of units 5 and 6 of the Reserve Power Plant, impairment was recognised for these assets.

(2) elimination of deviation of the designated supplier's actual revenue from the designated supplier's regulated revenue, by which the company's future financial results will be reduced. In the annual report for 2015 the net profit of LITGAS was not adjusted for excess profit. The table above shows the value after this adjustment.

Investments

In 2016, the Group's investments amounted to EUR 240.5 million, which is 53.5% more as compared to 2015. Without taking into consideration the acquisition of the wind power parks, investments increased by 13.5% or EUR 21.2 million compared to 2015 (EUR 156.7 million). The majority of investments was allocated for the maintenance of the electricity distribution network (35.2%), substantial investments (26.1%) that were funded using own and borrowed capital were made in acquiring the wind power parks in Lithuania and Estonia. Investments in the development of the electricity distribution network made up 16.4% of the total investments for 2016.

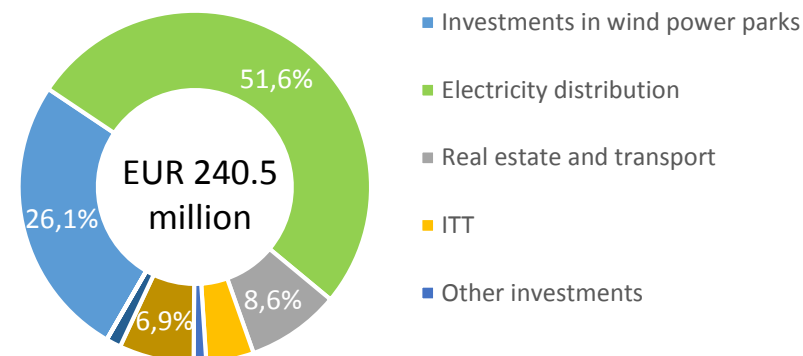
Investments allocated for the maintenance of the electricity distribution network increased by EUR 14.1 million in 2016. Investments allocated by ESO for the renovation of the electricity distribution network amounted to EUR 84.7 million in 2016, which is 20% more than in 2015. Investments in real estate increased by EUR 6.1 million due to the lease right to the land plot acquired by the Group company Kauno Kogeneracinė Jėgainė UAB as an in-kind contribution. The value of the lease right is equal to EUR 4 million. Investments also increased because of reconstruction works carried out at buildings held by the Group companies. In 2016, investments ITT (IT, telecommunication and management systems) increased by EUR 5.6 million due to a EUR 2 million investment of the Group company Technologijų ir Inovacijų Centras UAB in the data transmission network and other less significant investments made by the Group companies. Investments in transport increased by EUR 5.2 million as a result of a regular renovation of the Group's fleet of motor vehicles and the acquisition of fire fighting vehicles by the Group company NT Valdos UAB that were leased to the state fire fighting and rescue services. In 2016, no investments were made in the heat generation capacities.

On 3 February 2015, LESTO announced the investment plan for 2015-2025. ESO that continues the activities of LESTO plans to carry out a major modernisation of the distribution network over the next ten years. In order to ensure the provision of reliable, safe and smart services, the company plans to invest EUR 1.7 billion in the modernisation and renovation of the network by 2025.

In 2016, the Group's assets increased by 4% or EUR 93 million and amounted to EUR 2,432.2 million as at 31 December 2016 (31 December 2015: EUR 2,339.2 million). The change in the Group's assets was mainly affected by the acquisition of the wind power parks in Lithuania and Estonia and therefore property, plant, and equipment rose by EUR 60 million and the total amount of non-current assets grew up by EUR 112 million or 6.2%.

At the Lietuvos Energija group investments are made according to the investment plans and respective decisions of individual companies of the Group. The general principles are also defined regarding investments in separate projects or the creation of new services encompassing financial assessment criteria and risks of investments that are required to be assessed when determining the financial recoverability of the investment project. The entire implementation cycle of the investment project covers standard project stages from its initiation and planning to execution, monitoring and closing. Investments in the development and maintenance of the electricity networks and construction and reconstruction of gas systems are made according to the procedures approved by ESO, i.e. Procedure of the planning of investments in electricity networks and implementation of investments projects and Procedure of the planning of investments in the natural gas distribution system and implementation of investments projects.

The Group's investments structure in 2016, %



Dynamics of the Group's investments by sector	2016	2015	Δ, +/-	Δ, %
Maintenance of electricity distribution network	84.7	70.6	14.1	20.0%
Investments in wind power parks ⁽¹⁾	62.7	0.0	62.7	-
Development of electricity distribution network	39.5	42.9	-3.4	-8.0%
Construction and reconstruction of gas systems	16.5	13.3	3.2	24.0%
Transport	13.4	8.1	5.2	64.3%
ITT	10.5	4.9	5.6	114.2%
Real estate	7.3	1.1	6.1	540.2%
Electricity generation capacities	3.3	6.1	-2.8	-46.4%
Other investments	2.8	1.6	1.2	72.3%
Investments in heat generation capacities	0.0	8.0	-8.0	-99.8%
Total	240.5	156.7	83.9	53.5%

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

Borrowings

The Group's net debt increased by EUR 64 million compared to the amount of net debt in 2015 and amounted to EUR 315.8 million as at 31 December 2016. The Group's net debt increased mainly due to increase in borrowings intended for the financing of the investments of the companies of the Group.

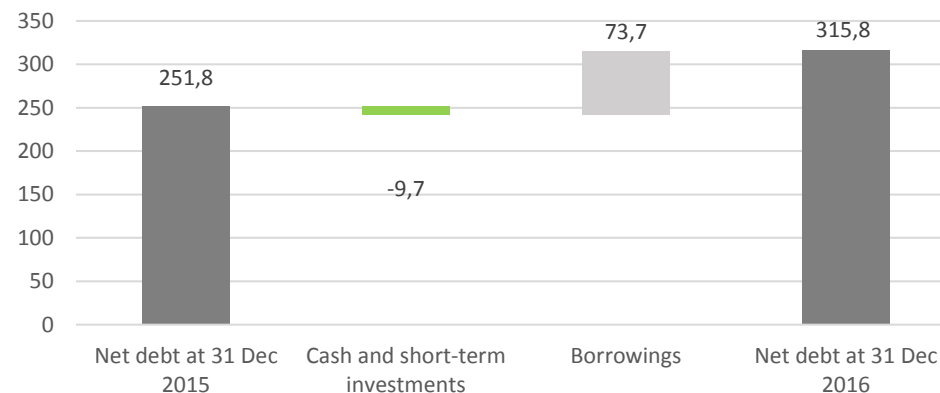
During 2016, the Group's borrowings increased by 17.5% or EUR 73.7 million and amounted to EUR 494.4 million as at 31 December 2016 compared to EUR 420.7 million as at 31 December 2015. Increase in borrowings was basically caused by new borrowings of EUR 66.9 million upon the acquisition of wind power parks and borrowings of 32.4 million obtained by NT Valdós UAB for the optimisation of the company's share capital structure. Whereas the Group company Energijos Skirstymo Operatorius AB reduced its borrowings by EUR 27.9 million during the reporting period. The Group's cash balances and short-term investments amounted to EUR 178.6 million as at 31 December 2016, which is a EUR 9.7 million or 5.7% increase compared to the year end of 2015 (EUR 168.9 million).

As a result of the increase in the Group's net debt, the Group's net debt to the Group's last 12-month EBITDA ratio increased from 1.17 times at the 2015 year-end to 1.24 times at the 2016 year-end.

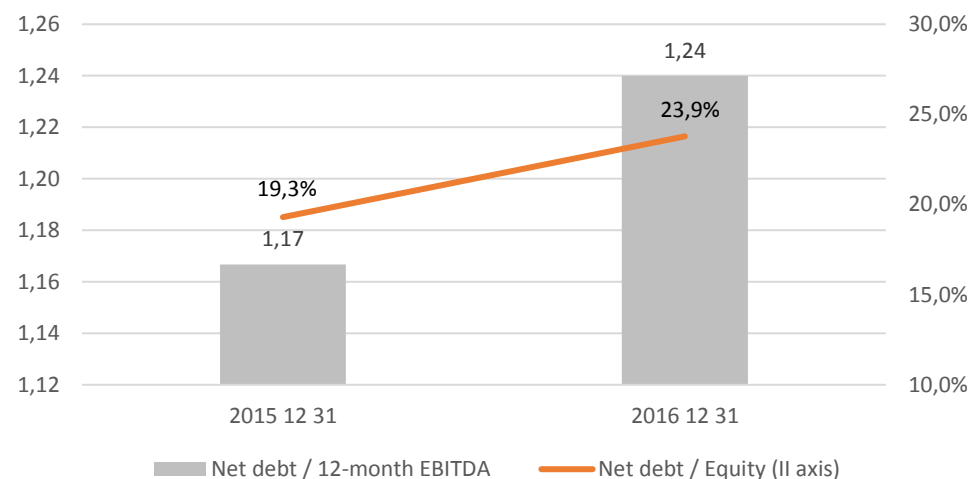
The Group's net debt to the Group's equity ratio increased from 19.3% at the 2015 year-end to 23.9% at the 2016 year-end. The level of the Group's net debt for 2016 remains to be rather low with respect to profit earned and the capital structure.

A low level of the Group's borrowings and a high level of equity, profitability of operating activity indicate a solid and stable financial position of the Group, as well as the Group's financial capacities to implement investments required to ensure the provision of the current services, to implement and finance the acquisition and development of new wind power parks, construction of co-generation power plants, other projects and safeguard a sustainable development of the Group.

The Group's borrowings, net



The Group's net debt ratios



Key financial indicators of the Lietuvos Energija group for 2012–2016

Financial data		2016	2015	2014	2013	2012
Revenue	EUR million	1,101.6	1,095.8	972.7	842.2	810.6
Purchase of electricity, gas, fuel and related services	EUR million	727.4	774.0	612.4	517.0	532.9
Operating expenses	EUR million	136.2	151.9	143.3	129.5	126.9
EBITDA	EUR million	254.6	215.8	216.9	197.1	151.0
EBITDA margin	%	23.1%	19.7%	22.3%	23.4%	18.6%
Net profit	EUR million	118.4	55.3	-280.0	40.8	-227.0
Net profit margin	%	10.7%	5.0%	-28.8%	4.8%	-28.0%
Net profit (comparable)	EUR million	134.6	124.5	118.2	40.8	-15.0
Net profit (comparable) margin	%	12.2%	11.4%	12.2%	4.8%	-1.9%
Dividends paid* to shareholders (on accrual basis)	EUR million	100.7	86.0	52.7	0.0	79.6
		At 31 Dec 2016	At 31 Dec 2015	At 31 Dec 2014	At 31 Dec 2013	At 31 Dec 2012
Total assets	EUR million	2,432.2	2,339.2	2,369.2	2,783.0	2,840.6
Equity	EUR million	1,319.5	1,304.5	1,308.9	1,781.7	1,778.3
Borrowings	EUR million	494.4	420.7	391.6	341.8	363.8
Net debt	EUR million	315.8	251.8	175.9	128.0	241.0
Return on equity (ROE)	%	10.3%	9.5%	9.0%	2.3%	-0.8%
Equity ratio	%	54.3%	55.8%	55.2%	64.0%	62.6%
Net debt / 12-month EBITDA	times	1.24	1.17	0.81	0.65	1.60
Net debt / Equity	%	23.9%	19.3%	13.4%	7.2%	13.6%
Assets turnover ratio	times	0.453	0.468	0.411	0.303	0.285
Current liquidity	times	1.046	1.049	1.073	1.264	1.131
Return on capital employed (ROCE)	%	8.3%	3.8%	-20.4%	2.1%	-0.6%
Working capital	EUR million	145.4	160.4	171.2	176.9	123.6
Working capital / Revenue	times	13.2%	14.6%	17.6%	21.0%	15.3%

* Dividends for 2016 comprise dividends actually paid for the first half of 2016, i.e. EUR 40.9 million and dividends proposed to be paid for the second half of 2016, i.e. EUR 59.8 million.



Key financial indicators of the Lietuvos Energija group for 2012–2016 (continued)

Operating indicators		2016	2015	2014	2013	2012
Electricity						
Generated electricity	TWh	1.49	2.01	1.84	1.96	2.20
Generated electricity using renewable energy sources	TWh	0.49	0.27	0.32	0.41	0.31
Distributed electricity via medium and low voltage networks	TWh	8.98	8.53	8.39	8.21	8.11
Public and guaranteed supply	TWh	3.15	3.12	3.22	3.06	3.61
Distributed to customers of independent suppliers	TWh	5.83	5.41	5.17	5.15	4.50
Sales in retail market	TWh	1.64	1.37	1.27	-	-
Number of newly connected customers	units	29,355	28,504	26,433	20,649	18,130
Duration of connection of new customers (average)	calendar days	63.57	78.45	-	-	-
Quality indicators of electricity supply						
SAIDI, min. (without <i>force majeure</i>)	min.	72.03	66.03	71.56	72.51	76.50
SAIFI, units (without <i>force majeure</i>)	units	0.914	0.8414	0.90465	0.9683	1.0575
Technological costs in the distribution network	%	6.49%	6.76%	7.31%	7.42%	7.76%
Gas						
Distributed volume of gas	TWh	7.39	6.83	7.77	8.90	10.21
Volume of gas sold	TWh	11.80	14.49	8.31	10.76	-
Volume of gas purchased	TWh	12.27	14.56	-	-	-
Volume of LNG purchased	TWh	7.55	4.81	-	-	-
Volume of natural gas purchased	TWh	4.72	9.75	-	-	-
Number of newly connected customers	units	5,375	4,078	3,592	3,037	2,236
Duration of connection of new customers (average)	calendar days	159.7	216.0	205.0	250.0	221.4
Quality indicators of gas supply						
SAIDI, min. (without <i>force majeure</i>)	min.	0.5290	1.0337	2.1724	1.5283	1.4399
SAIFI, units (without <i>force majeure</i>)	units	0.00596	0.00708	0.00862	0.00448	0.00919
Technological costs in the distribution network	%	2.25%	2.48%	2.42%	2.19%	2.30%

Definitions

Working capital	Current assets – current liabilities (excluding current portion of financial obligations)
EA	Emission allowances
Current liquidity	Current assets at the end of the period / current liabilities at the end of the period
EBITDA	Profit (loss) before tax + finance costs - finance income - dividends received + depreciation and amortisation expenses + impairment + write-offs of property, plant and equipment, inventories and amounts receivable +/- change in market value of open financial derivative instruments (including EA) + effect of the discount for the gas price to consumers - excess profit from LNG activity + loss from the construction of the biofuel boiler house.
EBITDA margin	EBITDA / Revenue
Net debt	Borrowings - cash and cash equivalents - short-term investments and term deposits - a portion of non-current other financial assets representing investments in debt securities
Net profit margin	Net profit / Revenue
Net profit (comparable) margin	Net profit (comparable) / Revenue
Customers of independent suppliers	Electricity distribution to corporate customers
Return on equity (ROE)	Net comparable profit (loss) of a respective reporting period restated at annual value / average amount of equity during the reporting period
Equity ratio	Equity at the end of the period / total assets at the end of the period
Assets turnover ratio	Revenue / total assets at the end of the period
Return on capital employed (ROCE)	Operating profit / (average amount of equity during the reporting period + average amount of borrowings during the reporting period)
SAIDI	Average duration of unplanned interruptions in electricity or gas transmission
SAIFI	Average number of unplanned long interruptions per customer
Operating expenses	Operating expenses, excluding purchase expenses of electricity and related services, gas and fuel oil for production, depreciation and amortisation, impairment expenses (non-current assets, construction in progress, amounts receivable, etc.), expenses of revaluation of property, plant and equipment, write-offs of non-current assets, inventories and amounts receivable and EA revaluation expenses.
Public and guaranteed supply	Electricity distribution to household customers

The image features a blue background with a subtle grid pattern. A white rectangular box is centered on the page, containing the text "RESULTS OF OPERATIONS OF THE GROUP'S COMPANIES" in white, uppercase letters.

RESULTS OF OPERATIONS
OF THE GROUP'S
COMPANIES

Energijos Skirstymo Operatorius AB

Energijos Skirstymo Operatorius AB (ESO) started its operations on 1 January 2016 after the merger of LESTO AB and Lietuvos Dujos AB. The main functions of ESO include electricity supply and distribution, natural gas distribution, guaranteed electricity and gas supply, connection to electricity and gas networks, ensurance of safe and reliable operation of electricity and gas distribution networks, their operation, maintenance, management and development. At the end of 2016, ESO operated electricity distribution networks with the length of around 122 thousand km, whereof 78.7% comprise electricity overhead lines and 21.3% – electricity cables. The company also operates gas distribution pipelines with the length of 8.4 thousand km.

Key financial results

Purchase expenses of electricity and related services amounted to EUR 384.6 million during 2016 and increased by 2.9% compared to 2015. These expenses grew mostly as a result of higher electricity transmission volumes and higher natural gas distribution volumes. In 2016, purchase expenses of electricity, natural gas or related services, depreciation and amortisation expenses amounted to EUR 434.2 million or 80% of the total amount of expenses incurred by ESO. In 2016, operating expenses decreased by 11.5% compared to 2015 and amounted to EUR 98.6 million. The largest decline was observed in respect of repair, technical maintenance and employment-related expenses.

Investments allocated by ESO for the electricity and gas distribution networks amounted to EUR 149.2 million in 2016, which is 13.4% more than in 2015. Investments in the modernisation and development of the electricity network amounted to EUR 84.7 million and EUR 39.5 million, respectively. The electricity distribution network with the length of 2,824 km was renovated in 2016. The longest section of the electricity distribution network (614 km) was renovated in Klaipėda region, which represents 22% of the overall electricity distribution network renovated. In 2016, ESO investments in the construction and reconstruction of gas systems increased by 24% compared to 2015 and amounted to EUR 16.5 million.

Based on Resolution of 14 October 2016 *On the recalculation of price caps for distribution services of Energijos Skirstymo Operatorius AB via medium and low voltage networks for 2017*, the National Control Commission for Prices and Energy (the Commission) established the price cap for the distribution service for 2017 on the basis of Certificate of 13 October 2016 in which it stated that in the period from 2014 to 2015 the company earned additional investment return of EUR 84.96 million exceeding the level of profit permitted by the Commission. The Commission resolved to adjust the price caps for the distribution services for 2017 by one third of the 2014–2015 investment return presented which exceeds the level of profit permitted by the Commission. Consequently, the Commission decreased the level of revenue from distribution activities for 2017 by EUR 28.32 million. The remaining part of the the 2014–2015 investment return exceeding the level of profit permitted by the Commission was decided to be assessed when making adjustments to the company's price caps for electricity distribution services in the upcoming year of the regulatory period, however not later than before the end of the regulatory period. Based on management's estimates the company earned excess profit in 2016 as well, the exact amount and impact of which on the future tariffs will be known in later periods.

Financial indicators



in EUR million unless otherwise stated	2016	2015 *	Δ, +/-
Revenue	650.1	637.9	12.2
Operating expenses (OPEX)	98.6	111.3	-12.7
EBITDA	163.3	148.9	14.4
Net profit	92.5	85.5	7.0
Assets	1,113.2	1,078.7	34.5
Equity	623.2	573.8	49.4
Borrowings	219.1	247.0	-27.9
Net debt	208.4	220.0	-11.6
EBITDA margin, %	25.1%	23.3%	
Net debt / Equity, %	33.4%	38.3%	
Net debt / EBITDA	1.28	1.48	
Return on equity, %	15.5%	15.1%	
Equity / Assets, %	56.0%	53.2%	

*Comparative figures for the year ended 31 December 2015 have been prepared by combining the data of the financial statements of LESTO AB and Lietuvos Dujos AB and having eliminated intercompany transactions and balances thereon.



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

Key financial results

In 2016, the company's revenue decreased by 19% compared to 2015. The main reason for decrease in revenue was a lower production volume in Elektrėnai Complex due to the annulment of quotas of the sponsored electricity generation from the beginning of 2016. In 2016, the company's operating expenses amounted to EUR 123.9 million. Expenses attributable to purchase of electricity, related services and fuel for electricity generation represented the major portion of the company's expenses (EUR 76.4 million or 61.7%). In 2015, these expenses amounted to EUR 133.9 million and made up 64.2% of total expenses. The main reason for decrease in these expenses compared to 2015 was a lower production volume in Elektrėnai Complex. In 2016, the Company's depreciation and amortisation expenses amounted to EUR 20.6 million.

In 2016, change in EBITDA compared to 2015 was mainly affected by the Commission's resolutions related to the audit of the company's activities in 2010-2012 and the company's recognition as an operator with significant market power in the electricity generation services. As a result of these resolutions a part of revenue from regulated activities was not recognised in the company's financial statements for 2015 and this had a negative impact of EUR 15.9 million on EBITDA ratio. While in 2016, the same resolutions had a positive impact of EUR 5.6 million on the financial statements. On 17 October 2016, the Lithuanian Supreme Administrative Court annulled the Commission's resolution under which the company's revenue from commercial activities were regulated.

The Company's investments in property, plant and equipment and intangible assets amounted to EUR 3.3 million in 2016 (2015: EUR 14.1 million).

Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	172.9	214.4	-41.5
Operating expenses (OPEX)	23.1	25.6	-2.5
EBITDA	58.1	50.3	7.8
Net profit	40.0	-0.2	40.2
Assets	819.4	833.5	-14.1
Equity	355.6	342.9	12.7
Borrowings	132.9	146.3	-13.4
Net debt	33.9	80.1	-46.2
EBITDA margin, %	33.6%	23.4%	
Net debt / Equity, %	9.5%	23.4%	
Net debt / EBITDA	0.58	1.46	
Return on equity, %	11.2%	-0.1%	
Equity / Assets, %	43.4%	41.1%	

Eurakras UAB

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

Key financial results

The company's sales revenue for 2016 amounted to EUR 5 million and operating expenses – EUR 0.7 million. Net profit for 2016 reached EUR 1.5 million.

In 2016, the company generated 71,260 MWh of electricity.

Tuuleenergia OU

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

Key financial results

The company's sales revenue for 2016 amounted to EUR 3.3 million and operating expenses – EUR 0.2 million. Net profit for 2016 reached EUR 0.8 million. The main reason for increase in net profit compared to 2015 was decline in interest expenses by EUR 0.34 million.

In 2016, the company generated 51,702 MWh of electricity.



Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	5.0	0.4	4.6
Operating expenses (OPEX)	0.7	0.1	0.6
EBITDA	4.3	0.4	3.9
Net profit	1.5	0.0	1.5
Assets	35.8	33.4	2.4
Equity	9.6	8.1	1.5
Borrowings	24.9	23.5	1.4
Net debt	22.6	22.9	-0.3
EBITDA margin, %	86.2%	85.6%	
Net debt / EBITDA	5.26	60.52	
Return on equity, %	16.8%	-0.3%	
Equity / Assets, %	26.9%	24.4%	



Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	3.3	3.1	0.2
Operating expenses (OPEX)	0.2	0.4	-0.2
EBITDA	3.0	2.5	0.5
Net profit	0.8	0.4	0.4
Assets	30.9	31.9	-1.0
Equity	0.5	-3.3	3.8
Borrowings	18.6	20.1	-1.5
Net debt	18.1	19.9	-1.8
EBITDA margin, %	89.2%	81.0%	
Net debt / EBITDA	6.11	7.84	
Return on equity, %	159.4%	-13.1%	
Equity / Assets, %	1.6%	-10.3%	

Vilniaus Kogeneracinė Jėgainė UAB

During the performance of preparatory works for the implementation of the co-generation power plants projects Lietuvos Energija established a special purpose company Vilniaus Kogeneracinė Jėgainė UAB for the project's implementation in Vilnius. The company's establishment is stipulated by Resolution of the Government of the Republic of Lithuania dated 28 May 2014 on the recognition of the projects as economic projects of the state significance. In 2016, the agreements on construction works of the co-generation power plant were signed with the contractors that won the public tender. The power plant's waste incinerators and general technological facilities will be constructed by the international consortium consisting of German, Polish and Lithuanian companies. Biofuel combustion facilities and supply infrastructure will be constructed by Polish company Rafako.

Key financial indicators

Operating expenses amounted to EUR 463 thousand, whereof EUR 141 thousand represented remuneration and related expenses, expenses consulting services amounted to EUR 117 thousand, business support services – EUR 39 thousand, telecommunication and IT expenses – EUR 35 thousand, other expenses (lease, transport, utilities, personnel development) – EUR 131 thousand.

Kauno Kogeneracinė Jėgainė UAB

During the performance of preparatory works for the implementation of the co-generation power plants projects Lietuvos Energija established a special purpose company Kauno Kogeneracinė Jėgainė UAB for the project's implementation in Kaunas. Under Resolution of the Government of the Republic of Lithuania dated 28 May 2014 the investments of the municipalities and/or companies under their control and/or private partners were expected to be attracted for the formation of the company's capital. Having analysed the proposals received from partners Lietuvos Energija, UAB decided to implement the project together with the partner FORTUM HEAT LIETUVA UAB. The shareholder agreement between Lietuvos Energija, UAB, FORTUM HEAT LIETUVA UAB and the company on the acquisition of shares of Kauno Kogeneracinė Jėgainė UAB was signed on 15 October 2015.

In 2016, the Company started the implementation of the project; no revenue was earned. Operating expenses amounted to EUR 157 thousand, whereof remuneration and related expenses amounted to EUR 79 thousand, public procurement organisation expenses – EUR 30 thousand and other expenses (lease, representation expenses, accounting, employment relations administration and other expenses) – EUR 48 thousand.

VAE SPB UAB

VAE SPB was incorporated on 23 May 2012. The core line of business of VAE SPB UAB is the development of the nuclear power plant project in Lithuania. The company took over previously carried out preparatory works, projects and programmes related to nuclear energy. At the present time the company's activity level is minimal as no political decision has been taken regarding further actions related to the Visaginas nuclear power plant project.

Key financial indicators

In 2016, the company's operating expenses were decreased 5 times compared to 2015 and amounted to EUR 216 thousand.

As at 31 December 2016, VAE SPB had 10 (31 December 2015: 11) employees with 2.2 positions in total (31 December 2015: 3.5 positions in total) under employment contracts.



The core line of business of Lietuvos Dujų Tiekimas (LDT) is the supply, purchase (import) and sale of natural gas to consumers. The company was established on 2 September 2014. The company is wholly-owned by Lietuvos Energija. On 10 October 2014, the National Control Commission for Prices and Energy issued to Lietuvos Dujų Tiekimas the natural gas supply licence. On 15 October 2014, LDT and Lietuvos Dujos signed the purchase and sale of a part of the business agreement, under which LDT acquired from Lietuvos Dujos the business of natural gas supply along with all attributed assets, rights and obligations. In December 2014, the total amount of the consideration for the acquired assets from Lietuvos Dujos was received. The activity of natural gas supply was unbundled from Lietuvos Dujos in the implementation of the requirements of the Third Energy Package of the EU and the related legal acts. LDT commenced its activities on 2 November 2014 and currently supplies natural gas to energy, industrial and business companies and household customers. The total number of the company's customers reaches more than 560 thousand.

Key financial indicators

In 2016, Lietuvos Dujų Tiekimas supplied to consumers 8,020 thousand MWh of natural gas, including gas supplied under transactions for the rebalancing of the natural gas supply schedule (492 thousand MWh). The volume of natural gas supplied to corporate and households customers was equal to 6,142 thousand MWh and 1,879 thousand MWh, respectively. The total volume of gas supplied declined by 17.7% compared to 2015.

In 2016, the company's revenue decreased by 16.1% compared to 2015 and amounted to EUR 195.4 million. Reduction in revenue was caused by lower sales and a lower sale price of gas.

In 2016, the company's net loss amounted to EUR 16.2 million. Negative results of the company's operations were determined by a share of the import price reduction transferred to household and corporate customers due to a retrospective reduction of the natural gas import price for the period from 1 January 2013 to 30 April 2014.

Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	195.4	227.0	-31.6
Operating expenses (OPEX)	4.1	4.7	-0.6
EBITDA	-14.5	-37.1	22.6
EBITDA adjusted*	14.5	9.8	4.7
Net profit	-16.2	-35.0	18.8
Net profit adjusted	8.4	7.4	1.0
Assets	52.9	96.8	-43.9
Equity	13.6	22.3	-8.7
Borrowings	0.0	0.0	0.0
Net debt	-19.9	-35.8	15.9
EBITDA margin adjusted, %	7.4%	4.3%	
Net debt / Equity, %	-146.0%	-160.3%	
Net debt / EBITDA adjusted	-1.38	-3.65	

*Adjusted EBITDA and net profit were calculated having eliminated a discount applied to customers (due to a retrospective reduction of the natural gas import price for the period from 1 January 2013 to 30 April 2014) and having assessed the effect of provisions (having assessed losses that will arise due to the application of the mentioned discount in the upcoming periods for household and corporate customers under the signed agreements).

LITGAS is the enterprise of strategic importance to national security which was established in December 2012. LITGAS is engaged in liquefied natural gas (hereinafter "LNG") trading activity and natural gas supply through the LNG Terminal in Klaipėda. Based on order of 10 February 2014 of the Minister of Energy the company was assigned with the functions of the designated supplier committed to ensure uninterrupted operation of the LNG Terminal in Lithuania. From the beginning of 2015, based on the agreement concluded with a supplier of liquefied natural gas, LITGAS supplied to the LNG Terminal a minimum quantity of natural gas, i.e. 540 million cubic meters, which is necessary for the ensurance of uninterrupted operation of the LNG Terminal. The gasification of liquefied natural gas and its supply to LITGAS customers through the natural gas transmission system of Lithuania was started.

Key financial indicators

In 2016, the company continued its operations as a designated supplier, however, compared to 2015, the regulatory model has changed and the company generated revenue as a designated supplier not only from the energy producers, but from all the users of natural gas transmission system via the LNG security component. Revenue decreased in 2016 compared to 2015 due to changes in regulatory framework and re-negotiated agreement with Statoil ASA, as a result of which LNG volume acquired and realised by the company during a year has decreased, thereby leading to a smaller number of commercial natural gas sale transactions. In 2016, the volume of LNG sold was equal to 3,810 thousand MWh (2015: 7,401 thousand MWh).

The company's net profit increased due to the re-collection of the tariff compared to 2015, the majority of which arose in January-April 2016. This re-collection is included by the Commission in the tariff for 2017 and will reduce it by a respective amount that will mean reduction of the company's revenue and profit for 2017 by a re-collected amount. Major operating expenses incurred in 2016 are related to wages and salaries and related taxes, consulting and other expenses. In should be noted that expenses incurred between the first and the ninth months of 2016 were assessed by the Commission and included in the gas supply price of the designated supplier for 2017. Expenses related to the regulated activity incurred between the tenth and the twelfth months of 2016 will be assessed by the Commission at the end of 2017 and included in the gas supply price of the designated supplier for 2018.

Financial indicators



in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	101.8	209.3	-107.5
Operating expenses (OPEX)	0.9	1.1	-0.2
EBITDA	11.6	8.1	3.5
EBITDA adjusted*	1.7	4.1	-2.4
Net profit	8.9	4.9	4.0
Net profit adjusted	0.4	1.5	-1.1
Assets	48.4	46.4	2.0
Equity	24.7	17.1	7.6
Borrowings	0.0	20.0	-20.0
Net debt	-9.8	16.6	-26.4
EBITDA margin adjusted, %	1.7%	1.9%	
Net debt / Equity, %	-39.7%	97.1%	
Net debt / EBITDA adjusted	-5.61	4.12	
Return on equity, %	1.9%	8.7%	
Equity / Assets, %	51.1%	36.9%	

*Calculation of adjusted EBITDA of regulated activities for 2015 included elimination of deviation of designated supplier's expenses from the designated supplier's revenue, which resulted from the difference between the projected and actual LNG acquisition and realisation prices and from the difference in quantities. As from 2016, the principle of calculation of adjusted EBITDA has been changed to include elimination of not only the deviation arising from the difference between the projected and actual LNG acquisition and realisation prices and quantities, but also other variances that occurred during a year between expenses included in the security component and actually incurred expenses and revenue. EBITDA of non-regulated activities was included as per actual data. Adjusted EBITDA for 2015 calculated in line with the approach effective in 2016 would amount to EUR 3.6 million.

Energijos Tiekimas is the independent Lithuanian capital electricity supplier. The company's core line of business is independent supply of electricity, including supply, scheduling, forecasting, balancing, purchasing, sales, balancing energy, trade intermediation, import, export of electricity. The company owns a company operating in Estonia (Geton Energy OU) and in Latvia (Geton Energy SIA) that are engaged in power supply. Energijos Tiekimas has the highest number of customers (over 6 thousand) among independent electricity suppliers in Lithuania. The company is also the sole supplier of Green Lithuanian Energy – a certified electricity produced in Lithuania from renewable sources. At the end of 2016, more than 200 customers purchased Green Lithuanian Energy (nearly twice as much as in 2015).

Key financial results

After the market of corporate consumers became fully open in Lithuania, small and medium enterprises remained the priority segment of Energijos Tiekimas. The customer base moderately increased throughout the year and reached 6.7 thousand at the end of 2016, i.e. increased by 5.6% as compared to the end of 2015.

On 12 October 2015, the agreement on the sale and purchase of a part of the business was signed between Lietuvos Energijos Gamyba AB and Energijos Tiekimas. Under this agreement a part of the wholesale electricity trade activities, which covers trade in derivative financial instruments and provision of the balancing services not related to physical electricity trading, was transferred to Energijos Tiekimas on 1 January 2016.

On 1 January 2016, the company joined the electricity financial derivatives' exchange NASDAQ Commodities. At the present moment the company is a single Lithuanian electricity supplier that actively participates at this exchange. The trading in financial instruments enables to reduce the risk of fluctuations in the electricity price, engage in trading activities by exploiting fluctuations of market prices. In 2016, at the NASDAQ Commodities exchange the company entered into financial derivatives' transactions worth of more than 8.7 TWh.

In 2016, the quantity of electricity supplied by the company increased up to 1.64 TWh (by 20%). The Company's sales revenue for 2016 amounted to EUR 84.5 million (2015: EUR 72.3 million), and net profit was five nearly times higher – net profit reached EUR 10.1 million (2015: EUR 2.1 million). This mainly resulted from active sales in the retail market, favourable electricity supply prices in the market, effective management of risks, the impact of the additional services business acquired from Lietuvos Energijos Gamyba AB in 2016 and an optimal management of operating expenses (OPEX).

Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	84.5	72.3	12.2
Operating expenses (OPEX)	2.1	1.0	1.1
EBITDA	10.9	2.4	8.5
Net profit	10.1	2.1	8.0
Assets	47.1	21.7	25.3
Equity	30.9	13.6	17.3
Borrowings	0.0	0.0	0.0
Net debt	-10.8	-13.7	2.8
EBITDA margin, %	12.9%	3.3%	
Net debt / Equity	-35.0%	-100.8%	
Net debt / EBITDA	-1.0	-5.67	
Return on equity, %	45.4%	15.2%	
Equity / Assets, %	65.6%	62.4%	

Elektroninių Mokėjimų Agentūra UAB

Elektroninių Mokėjimų Agentūra (EMA) is a financial intermediary between the companies of the Lietuvos Energija group, ESO, Lietuvos Dujų Tiekimas, Energijos Tiekimas, and other providers of utility services. EMA processes periodical payments of customers for utility and other services. The company started its operations in 2016 and was issued the licence of a payment institution by the Bank of Lithuania which entitles the company to make money transfers. At the present moment EMA provides services through the website manogile.lt.

Key financial indicators

The company's revenue for 2016 amounted to EUR 105 thousand. In 2016, the company's operating expenses amounted to EUR 343 thousand, of which EUR 144 thousand represented remuneration expenses. The company's activities were loss-making in 2016 as it was the year when its activities were started. It is expected that the company will reach positive results of operations in the upcoming periods.



Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	0.1	0.0	0.1
Operating expenses (OPEX)	0.3	0.0	0.3
EBITDA	-0.2	0.0	-0.2
Net profit	-0.2	0.0	-0.2
Assets	0.6	0.5	0.1
Equity	0.6	0.5	0.1
Borrowings	0.0	0.0	0.0
Net debt	-0.3	0.0	-0.3
EBITDA margin, %	-200.0%		
Return on equity, %	-38.4%		
Equity / Assets, %	88.1%	100%	

Energijos Sprendimų Centras UAB

The principle activity of Energijos Sprendimų Centras includes the development of projects on energy efficiency improvement and renewable energy resources in Lithuania and abroad. The company specialises in the field of funding of energy efficiency measures. The activities of the company also cover street lightning modernisation, development of infrastructure of charging stations for electric cars and installation of solar power plants. The main customers of ESC are the major industrial, trading and services companies, public sector entities and real estate operators.

Key financial results

During its first year of operation the company generated revenue of EUR 30 thousand. In 2016, the company's operating expenses amounted to EUR 223 thousand, of which EUR 148 thousand represented remuneration expenses. The company's activities were loss-making in 2016 as it was the year when its activities were started. It is expected that the company will reach positive results of operations in the upcoming periods.



Financial indicators

in EUR million unless otherwise stated	2016
Revenue	0.0
Operating expenses (OPEX)*	0.2
EBITDA	-0.2
Net profit	-0.2
Assets	0.4
Equity	0.2
Borrowings	0.2
Net debt	0.1
EBITDA margin, %	-676.7%
Return on equity, %	-104.7%
Equity / Assets, %	41.5%



NT Valdoss UAB

NT Valdoss UAB is engaged in the long-term and short-term lease of administrative, production and warehousing premises as well as long-term and short-term lease of territories and long-term and short-term lease of cars and special purpose motor vehicles and equipment, management of vehicle feet, accommodation and conference organisation services. As at 31 December 2016, NT Valdoss held real estate with an area of approx. 220 thousand square metres, which was registered with the state enterprise the Centre of Registers. As at 31 December 2015, real estate held by the company covered the area of approx. 298 thousand square metres.

Key financial results

In 2016, the company's revenue increased by EUR 4.3 million (25%) compared to 2015. EBITDA increased by EUR 2.6 million mainly as a result of rise in EBITDA of the real estate activity by EUR 2.2 million, which was affected by a more effective real estate management, disposal of ineffective property and improvement of customer service processes. Net profit for 2016 increased by EUR 3.2 million compared to 2015. In 2016, operating expenses increased by EUR 1.7 million (14.5%) compared to 2015.

Duomenų Logistikos Centras UAB

Duomenų Logistikos Centras UAB (known as Technologijų ir Inovacijų Centras UAB until 4 November 2013) is one of the largest operators of data transmission networks and data centres in the Baltic countries. The company provides data transmission services to companies and communication operators, manages data centres in which major companies, banks, telecommunication operators, cloud computing services providers store their equipment.

Key financial results

In 2016, the company's turnover amounted to EUR 4.4 million (2015: EUR 4.9 million). Decrease in operating income was mainly caused by the granting of discounts to one of the major customers. Irrespective of decrease in income EBITDA for 2016 amounted to EUR 1 million and increased by EUR 37 thousand compared to 2015. The growth of EBITDA resulted from lower costs (one of the main reasons for the reduction of costs was the renegotiated core cable agreement leading to significantly lower expenses of the data transfer activity).



Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	21.7	17.4	4.3
Operating expenses (OPEX)	13.4	11.7	1.7
EBITDA	8.3	5.7	2.6
Net profit	3.5	0.3	3.2
Assets	129.2	110.6	18.6
Equity	90.8	88.2	2.6
Borrowings	32.4	1.5	30.9
Net debt	24.4	1.4	23.0
EBITDA margin, %	38.3%	32.8%	
Return on equity, %	3.9%	0.3%	
Equity / Assets, %	70.3%	79.7%	



Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	4.4	4.9	-0.5
Operating expenses (OPEX)	3.4	3.9	-0.5
EBITDA	1.0	1.0	0.0
Net profit	0.2	-0.2	0.4
Assets	6.2	8.4	-2.2
Equity	4.5	4.4	0.1
Borrowings	0.8	3.2	-2.4
Net debt	0.5	1.7	-1.2
EBITDA margin, %	22.6%	20.4%	
Return on equity, %	4.5%	-4.5%	
Equity / Assets, %	72.9%	52.4%	



Energetikos Paslaugų ir Rangos Organizacija UAB

Energetikos Paslaugų ir Rangos Organizacija UAB started its activities from 1 January 2016 after the merger of Elektros Tinklo Paslaugos UAB and Kauno Energetikos Remontas UAB. The company's principal activities include the provision of contracted works and services to the energy sector companies. The company mainly provides electricity equipment maintenance, operation, repair and construction services to the electricity distribution and transmission network companies Energijos Skirstymo Operatorius AB and Litgrid AB. The company installs boilers, technological pipelines and provides other installation services to companies operating in the thermal energy sector. The company is engaged in manufacturing activities covering manufacturing of stacks, metal construction structures, pressure vessels for foreign markets. The company provides electro-technical, installation and project management services to the Estonian energy sector companies.

Key financial results

During the reporting year the company's revenue declined by 49% or by EUR 29.4 million compared to 2015 and the company incurred a net loss of EUR 7.2 million as a result of lower scopes of works and loss-making orders (including those concluded in the previous periods). The merger of the preexisting companies disclosed an ineffective performance of separate activities, i.e. measures were taken to increase efficiency and transparency, necessary actions were implemented and are continued in distinguishing the central activities. In 2016, operating expenses decreased by 24% (EUR 5.2 million) compared to the previous reporting period. After having implemented the necessary actions, stable and positive financial results are expected to be achieved.

Public Institution Training Centre for Energy Specialists

The main activities of the public institution Republican Centre of Training for Energy Specialists include adult professional training, qualification development, certification, seminars and conferences. The company provides trainings for workers, engineers, managers and executives working in the fields of electricity and heat sector management, occupational safety and health, welding and hoisting equipment work organisation and gas sector. The company provides regular trainings to and certifies foremen responsible for the maintenance of potentially dangerous equipment and heads of special works.

Key financial indicators

The institution's expenses totalled EUR 1.1 million, the majority of which (60.9%) represented employment-related expenses. The activities of the institution were stable during 2016. EBITDA remained at a similar level as in the previous year.

ENE
PRO

Financial indicators

in EUR million unless otherwise stated	2016	2015 *	Δ, +/-
Revenue	30.6	60.0	-29.4
Operating expenses (OPEX)*	16.8	22.0	-5.2
EBITDA	-5.7	-0.1	-5.6
Net profit	-7.2	-1.2	-6.0
Assets	22.7	28.4	-5.7
Equity	1.7	8.9	-7.2
Borrowings	1.8	2.8	-1.0
Net debt	-2.4	2.0	-4.4
EBITDA margin, %	-18.6%	-0.2%	
Return on equity, %	-136.8%	-13.3%	
Equity / Assets, %	7.3%	31.3%	

*Comparative figures for the year ended 31 December 2015 have been prepared by combining the data of the financial statements of Elektros Tinklo Paslaugos UAB and Kauno Energetikos Remontas UAB and having eliminated intercompany transactions and balances thereon.



ENERGETIKŲ MOKYMO CENTRAS

Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	1.2	1.2	0.0
Operating expenses (OPEX)	1.1	1.2	-0.1
EBITDA	0.1	0.1	0.0
Net profit	0.1	0.0	0.1
Assets	0.2	0.2	0.0
Equity	-0.1	-0.2	0.1
Borrowings	0.0	0.0	0.0
Net debt	0.0	0.0	0.0
EBITDA margin, %	5.5%	8.3%	
Return on equity, %	39.0%	22.7%	
Equity / Assets, %	-69.0%	-93.5%	



Technologijų ir Inovacijų Centras UAB

Technologijų ir Inovacijų Centras UAB provides IT and telecommunication services to the electricity sector companies. Technologijų ir Inovacijų Centras UAB was registered on 4 December 2013. On 31 December 2013, Technologijų ir Inovacijų Centras acquired from Duomenų Logistikos Centras the set of assets related to non-commercial activity (IT maintenance and design services) of Duomenų Logistikos Centras. With effect from 1 January 2014, Technologijų ir Inovacijų Centras commenced its activity, i.e. maintenance and service of the IT sector of electricity companies of the group. The company's activities are focused solely on the maintenance and servicing of IT sector of the Lietuvos Energija group.

Key financial indicators

Technologijų ir Inovacijų Centras UAB earned profit of EUR 0.4 million. In 2016, the company's operating expenses increased by EUR 0.3 million compared to 2015 and amounted to EUR 10.2 million, of which EUR 4.8 million represented remuneration expenses. Rise in operating expenses was determined by a larger number of expansion and development projects being implemented.

Verslo Aptarnavimo Centras UAB

Verslo Aptarnavimo Centras was registered on 30 July 2014. The company's activities are focused on the servicing of the Lietuvos Energija group of companies. Verslo Aptarnavimo Centras commenced the provision of public procurement services from 1 October 2014 and the provision of accounting services was started from 1 December 2014. The provision of employment relationship administration and legal services was started in 2015. In 2016, the company started the provision of customer service, training organisation and recruitment services. The company's personnel is formed of competitive specialists of the mentioned activity areas, the majority of whom used to work at the Lietuvos Energija group of companies.

Key financial indicators

Verslo Aptarnavimo Centras earned profit of EUR 0.3 million. In 2016, the company's profitability was higher as a result of investments made in the previous year for the improvement of efficiency. In 2016, the company's operating expenses amounted to EUR 9.4 million, of which EUR 7.3 million represented remuneration expenses. In 2016, comparable operating expenses (excluding operating expenses related to activities started from 2016) amounted to EUR 4.5 million and were EUR 0.7 million higher compared to 2015. The main reason for increase in these expenses was increase in the number of employees providing employment relationship administration and legal services.



Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	14.5	14.4	0.1
Operating expenses (OPEX)	10.2	9.9	0.3
EBITDA	2.6	2.9	-0.3
Net profit	0.4	0.5	-0.1
Assets	10.2	9.7	0.5
Equity	6.9	6.7	0.2
Borrowings	0.0	0.0	0.0
Net debt	-0.3	-0.9	0.6
EBITDA margin, %	18.2%	20.1%	
Return on equity, %	5.9%	6.8%	
Equity / Assets, %	67.8%	69.2%	



Financial indicators

in EUR million unless otherwise stated	2016	2015	Δ, +/-
Revenue	9.7	3.8	5.9
Operating expenses (OPEX)	9.4	3.8	5.6
EBITDA	0.3	0.1	0.2
Net profit	0.3	0.1	0.2
Assets	2.5	1.1	1.4
Equity	0.7	0.5	0.2
Borrowings	0.0	0.0	0.0
Net debt	-0.5	-0.4	-0.1
EBITDA margin, %	3.3%	1.4%	
Return on equity, %	44.0%	20.0%	
Equity / Assets, %	28.9%	42.2%	



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

Review of the Company's and the Group's activities

The review of the activities of the Lietuvos Energija group covers the period from 1 January 2016 to the date of the preparation of the report.

Updated concept of operations

After the completion of the most important project at the Group in 2015, i.e. the programme focused on identifying central activities of the Group, the structure of the Lietuvos Energija group was updated in 2016. The central activities of the Group were distributed among the companies in a way that would ensure more efficient operations of the Group, creation of the highest value and provision of additional benefits to customers (similar activities were merged, the customer service was centralised). By 2020, the total estimated benefit of the implemented changes for customers and shareholders will amount to EUR 64 million. The new structure of the Group became effective from 1 January 2016 when the joint companies started their activities.

The largest benefits of the changes are expected for the customers - the updated operational concept increased the level of customer service quality. Customers were offered a simple and convenient 'single window' servicing arrangement, the servicing and the processes were standardised, new services were provided, the procedures of connection to the engineering networks and other procedures were accelerated. The Group's operational efficiency is also improving, costs are being reduced.

The programme aimed at identifying central components of the value chain was divided into 4 main fields of activity: production, supply/trading, network and customer service, at the same time conducting the project for the operations of contracting companies.

Focus on customer, quality and efficiency by ESO

Energijos Skirstymo Operatorius (ESO), a company established on the basis of LESTO and Lietuvos Dujos, operates from 1 January 2016. It provides the services of electricity supply and distribution, and natural gas distribution to more than 1.6 million customers.

ESO joined the best competences of both companies – synergy of these two companies leads to improvement of the Group's efficiency as a result of lower operating expenses, and as many as possible benefits to electricity and natural gas users. Following the merger of LESTO and Lietuvos Dujos into ESO in 2016, operating expenses decreased by 11.5% or nearly EUR 12.7 million.

ESO has 5 regional divisions located in the cities of Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys. Divisions established in the regional centres coordinate the work of the dispatch centres located in the surrounding districts, plan repair, development and modernisation works of electricity and gas distribution networks. On 11 January 2016, the symbolic stroke of the bell marked the beginning of trade in ESO shares at Nasdaq Vilnius stock exchange. The ESO logo also appeared in Times Square in New York on the occasion of share trading.

Joint service under the trade name *Gilė*

Starting from the beginning of 2016, customers of ESO and Lietuvos Dujų Tiekimas are serviced in a joint service centre *Gilė* which is managed by the Group company Verslo Aptarnavimo Centras. Electronic services are provided at the self-service website www.manogile.lt. The smart phone application was also presented. The joint customer service arrangement accumulated the best practices and through the 'single window' facility enables the companies to provide the key services in the ways most convenient to the customers – online, by telephone or at a customer service centre.

In August 2016, major changes introduced at the website www.manogile.lt enable to pay for all utility services by making a single payment as well as make payments for certain personal expenses. Payments to nearly 1,500 new service providers are collected. From August until the end of the year the number of customers who added the agreements with other service providers increased almost three times, i.e. from 7.8 thousand to 21 thousand. At the end of 2016, the website www.manogile.lt had 400,000 registered users. At the end of the year, the website's registered users had more than 665 thousand agreements with electricity, gas and other utility services providers on their accounts.

The concentration of customer servicing specialists in a single company of the Group – Verslo Aptarnavimo Centras – allows reducing operational costs, increasing flexibility and enables creating additional benefits for customers. Verslo Aptarnavimo Centras also started the administration of payments, provision of accounting services and management of amounts owed.

In 2016, the *Gilė* customer service centres operated in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Alytus, Marijampolė, Utena and Visaginas. They were mainly established in the premises of the former customer service centres of LESTO and Lietuvos Dujų Tiekimas. The centres provide the possibility to learn how to use the *Gilė* application and the self-service portal www.manogile.lt.



Concentration of electricity trading and clarification of production activities

Electricity production activity has been concentrated with the company Lietuvos Energijos Gamyba, while wholesale electricity trading activity has been separated and transferred to the company Energijos Teikimas. This ensures greater flexibility in the market, possibilities to offer new products in view of customers' needs.

Lietuvos Energijos Gamyba sold the wholesale electricity trading activity to Energijos Teikimas on 12 October 2015 and the right of ownership to a part of the business was transferred on 1 January 2016. The transferred part of the business covered trade in derivative financial instruments and provision of the balancing service not related to physical electricity trading. Following the transfer Lietuvos Energijos Gamyba continues to receive income from sale of electricity in the market which was produced at the power plants under its control and from the provision of system services.

EnePRO – a new player in the electricity contracting market

From 1 January 2016, Elektros Tinklo Paslaugos (ETP) and Kauno Energetikos Remontas (KER), two energy services companies controlled by the Lietuvos Energija group, were reorganised by way of merger and a single company was established named Energetikos Paslaugų ir Rangos Organizacija (EnePRO).

EnePRO was established for the purpose of concentrating competences and experience of the two companies and creating a single strong energy services and contracting company which will provide the services of construction, reconstruction, repair and maintenance of electricity equipment and other services.

EnePRO operates in a highly competitive market, therefore it aims to regularly increase its operational efficiency that allows maintaining competitive advantages. Following the merger of Elektros Tinklo Paslaugos and Kauno Energetikos Remontas into a single company, the major problems were identified and in the last quarter of 2016 decisions were taken to resolve them by reorganising the company. The aim is to discontinue loss-making activities and focus on the areas that create the highest added value: improved project management, effective implementation of the agreements on the network's repairs, attraction of new customers, possibilities to optimise the size of the company and higher flexibility in achieving better financial performance.

Diversification of activities

Diversification of activities of the Group companies is one of the main preconditions for increasing the value of the Group. By 2020, the Group plans to invest around EUR 1 billion in the following areas: the heat sector by constructing new co-generation power plants,

supply and trade in natural gas utilising the potential of the LNG Terminal as well as renewable energy sources.

Energy innovations to be promoted by a venture capital fund

On 31 May 2016, Lietuvos Energija initiated the establishment of a venture capital fund. The new fund will finance startup ideas in the energy field. Up to EUR 1 million is planned to be invested into the selected best projects every year.

This is the first energy Innovation Fund in the Baltic countries that will contribute to the growth of investments into starting projects. Venture capital investments in Lithuania achieved EUR 2 per capita in Lithuania during 2014, whereas such investments in Europe amount to EUR 11, the USA – EUR 148, and Israel – 413 EUR/year on average. The majority of large European energy companies already run or make investment into similar funds.

Activities of the Innovation Fund will start from the idea screening stage where 300-500 ideas are expected to be received. For the incubation stage, 50-60 ideas will be selected the authors of which will be provided with premises for operation, as well as consultation by experts. Later, during the acceleration stage, 10-15 best projects will be granted financing, for example, up to EUR 30 thousand, whereas for projects, selected into the last – investment stage – up to EUR 500 thousand may be invested.

A financing partner for the Lietuvos Energija Innovation Fund I being established will be selected through the announced selection procedure. The founder and the manager of the fund and of the related acceleration and (or) incubation stage programme will be selected, which will also act as a promoter of the acceleration and (or) incubation stage programme. A financing partner will ensure the operation of the fund by acting together with representatives of Lietuvos Energija. The procedures for the selection of a financing partner for the Lietuvos Energija Innovation Fund I are currently underway - the winner will be announced after the signing of all documents necessary for the establishment of the Lietuvos Energija Innovation Fund I.

Co-generation power plant projects in Vilnius and Kaunas

The Lietuvos Energija group implements the projects on the construction of modern waste and biofuel-fired high-efficiency co-generation power plants in Vilnius and Kaunas. New power plants will produce heat and electricity and ensure lower heat production prices for consumers of these cities as well as additional production of local electricity at a competitive price and will solve waste management problems. By Resolution of the Government of the Republic of Lithuania of 28 May 2014 the projects were recognised as projects of state significance. Following the completion of economic projects of the state significance the price of heat produced at the new power plants would be 20% lower compared to the current alternatives.



Lietuvos Energija is implementing the project in Vilnius independently, however, an opportunity for partners to be invited to take part in other phases of the project implementation is established. The Environmental Protection Agency has recognised the planned operations of Vilnius co-generation power plant as permissible.

On 29 September, Vilniaus Kogeneracinė Jėgainė signed the agreements on the construction works of the waste and biofuel-fired co-generation power plant with the contractors that won the public tender. The new power plant's waste incinerators and general technological facilities for EUR 178.29 million will be constructed by the international consortium consisting of German company Steinmuller Babcock Environment, Polish construction group Budimex and Lithuanian company Kauno Dujotiekio Statyba. Biofuel combustion facilities and supply infrastructure for nearly EUR 150 million will be constructed by Polish company Rafako.

On 5 December 2016, the European Investment Bank (EIB) and the state-owned group of energy companies Lietuvos Energija signed the agreement for the loan of EUR 190 million designated for the funding of the construction of a new co-generation power plant in Vilnius. The implementation of this project will solve the issue of waste storage at landfills, prices of energy for the city's residents will be reduced, energy security will be increased, a clean production of energy from renewable and local energy sources will be ensured. The EIB loan for this project will be allocated from the European Strategic Investment Fund (ESIF) also referred to as the European Commission President Jean-Claude Juncker Plan.

On 14 December 2016, Vilniaus Kogeneracinė Jėgainė finalised a half-year long international public tender during which the ranking for the selection of the FIDIC (International Federation of Consulting Engineers) engineer's services stipulated in the contract was established. The signing of this engineering services provision agreement will complete the formation of the team responsible for the supervision of construction works of the co-generation power plant in Vilnius and finalise preparatory works for the construction.

The new co-generation power plant in Vilnius will produce nearly a half of heat energy supplied to the district heating sector and the volume of electricity to be generated would meet the demand of 230 thousand or 80% of households in Vilnius. The electric and thermal capacity of the power plant will be equal to 90 MW and 230 MW, respectively. The price of thermal energy produced by the new power plant is estimated to be 20% lower compared to available alternatives. Waste transported from Vilnius, Utena and probably other regions is expected to be used for the production of heat and electricity. It is projected that up to 160 tons of waste remaining after sorting will be combusted at the power plant during the year.

In Kaunas, Lietuvos Energija is developing a co-generation power plant project with a partner Fortum Heat Lietuva UAB. According to the shareholders agreement, Lietuvos Energija owns 51% of shares of the joint venture Kauno Kogeneracinė Jėgainė, thus ensuring the State control over the project.

On 31 March 2016, the partners signed the statement on the completion of the transaction. The Board of Kauno Kogeneracinė Jėgainė was formed composed of three members: one member was delegated by each shareholder and one member is an independent. The Board of Kauno Kogeneracinė Jėgainė UAB consists of Mr Nerijus Rasburskis (Director of Co-generation Power Plant Project Service of Lietuvos Energija), Mr Vitalijus Žuta (the CEO of Fortum Heat Lietuva UAB) and Mr Andrius Vilkauskas (the independent member of the Board). Mr Ramūnas Paškauskas holds the position of the CEO.

In 2016, Kauno Kogeneracinė Jėgainė performed the public tenders for the following main components of the future waste power plant: the waste-fired boiler, the gas turbine and the generator, the equipment for the purification of smokes and the cranes for the fuel bunker. At the same time, the public tender for engineering, acquisition and start-up – consulting services for alignment works management is being conducted. The procurement documents are publicly announced in the Lithuanian Central Public Procurement Information System and are also available at TED (Tenders Electronic Daily), an official publication dedicated to European public procurement.

On 13 June 2016, Kaunas Region Administration issued the permit to Kauno Kogeneracinė Jėgainė for the construction of a power plant at address: Veterinarų st. 19, Kaunas region municipality, Karmėlava district, Biruliškiai village.

The new high-efficiency co-generation power plant burning waste as fuel planned to be constructed in Kaunas is expected to have electric and thermal capacity of 24 MW and 70 MW, respectively. Such capacities will enable to more rationally use 200 thousand tons of waste accumulating in the region and produce around 500 GWh of heat and 170 GWh of electricity. The total investment in the project will amount to EUR 147 million.

At the beginning of October 2016, the Lithuanian Government recognised the co-generation power plant in Kaunas as a waste management object of state significance. The latter decision of the Government will create more favourable conditions for a smooth implementation of the project and attraction of funds necessary for the construction of the power plant.

First LNG congestion transactions and gas supply agreements for 2017

Liquefied natural gas (LNG) made up nearly two thirds (61.6%) of natural gas imported in Lithuania in 2016.



Natural gas trading company LITGAS, Lietuvos Dujų Tiekimas and Norwegian company Statoil signed an agreement on cooperation in rendering the services of a reliable and flexible wholesale LNG supplier at the LNG terminal in Klaipėda, thereby contributing to the development of small-scale LNG market across the Baltic region. Taking into consideration the latest tendencies in the small-scale LNG supply market across the Baltic sea region, the company identified a need for a wholesale supply centre which would accelerate the development of the small-scale LNG sector. The LNG terminal in Klaipėda is strategically located for fuelling of vessels with LNG. It is situated in the centre of the region – it can be reached in a day from the central part of the Baltic sea and it takes three days to reach Klaipėda from the outermost coasts of the sea.

Under this agreement at the beginning of 2017, i.e. on 2 January, the first LNG congestion was conducted from Klaipėda LNG terminal to Skangas small-scale LNG carrier Coral Energy. The second LNG congestion was conducted at the end of January.

In Autumn of 2016, Lietuvos Dujų Tiekimas concluded the agreement on the natural gas supply for 2017 with Koch Supply & Trading, a company of Koch Industries corporation, one of the largest US privately held companies.

LNG acquired from Koch Supply & Trading will account for more a third of the projected gas demand of Lietuvos Dujų Tiekimas customers for 2017, i.e. around 2 TWh of natural gas.

The regulated energy producers acquiring the minimum quantity of gas required for the operation of the terminal from LITGAS and their customers, i.e. individuals, will also benefit from this transaction conducted by Lietuvos Dujų Tiekimas. A higher load of the LNG terminal in the warm season will help agreeing the schedule of supply to the regulated energy producers based on their needs, reduce technological and designated supply activity costs by around EUR 0.7 million.

At the end of the year Lietuvos Dujų Tiekimas reached an agreement with Gazprom on the natural gas supply for 2017.

ESCO projects implemented by a new company

In February 2016, a new company Energijos Sprendimų Centras UAB (ESC) was established, which is engaged in the development of projects on energy efficiency improvement and renewable energy resources in Lithuania and abroad. The operations of the new company are based on the ESCO (Energy Service Company) model which defines the company providing energy efficiency improvement services as the entity investing in energy efficiency measures and covering the investments made using future energy savings during the validity term of the agreement. The company's operations will

allow achieving the highest impact of energy efficiency and at the same time avoid incurring large initial investments by the owners of buildings or equipment.

Under the ESCO model ESC modernised around 360 lamps consuming the largest quantity of electricity in Širvintos region municipality by replacing them with modern LED type lamps. As a result, the volume of electricity consumed for the street lightning in Širvintos decreased by even 44.7 thousand kWh during April–September of 2016 and the municipality saved nearly EUR 4.5 thousand. Modern lamps installed in Širvintos region municipality have a control function which allows to further reduce energy consumption – lamps use 50% less power between midnight and 5 a.m. Modernisation works were carried out by the group company Energijos Paslaugų ir Rangos Organizacija (EnePRO) under the subcontracting agreement.

It is estimated that the modernisation of old-type lamps currently used for street lightning and their replacement with modern LED type lamps will allow the major Lithuanian cities saving around 60% of electricity consumed. With the use of the ESCO model and without any initial investments the modernisation of the street lightning would result in annual reduction of expenses for electricity by around EUR 563.5 thousand in Klaipėda, by EUR 827.4 thousand in Kaunas and even EUR 1.23 million in Vilnius. Such savings have been calculated according to the 2015 data on electricity consumed for street lightning as provided by the municipalities of the major cities.

Development of the wind power energy sector

After the acquisition of two companies operating the wind power parks in Lithuania and Estonia in January 2016, Lietuvos Energija continues to explore opportunities for investments in the wind energy sector.

On 15 June 2016, Lietuvos Energija announced the tender for the acquisition of the project to ensure the infrastructure necessary for the installation and operation of the wind power park. The tender announced is aimed at the acquisition of projects at a stage in which the infrastructure necessary for the installation of the wind power park has been developed or is under development: land plots on which the installation and operation of the wind power park is permitted in respect of environmental impact, public health assessment and territory planning. This would allow to shorten the duration of the project's implementation compared to its implementation from the very beginning; a part of risks and procedures would be eliminated.

Currently the Group holds the wind power parks with the installed capacity of 42.3 MW that are operated by the Group companies Eurakras UAB and Tuuluenergija OU. These wind power parks can produce around 136 thousand MWh of electricity per year, which is the quantity that meets the annual electricity demand of Klaipėda city residents.



In August of this year the wind power park in Rotuliai, Jurbarkas region, was officially launched. Aiming to promote green energy production the Lietuvos Energija grupė intends to expand its activities in this segment by new acquisitions of already operating wind power parks and by making its own investments in the construction of wind power parks.

Assessment of wind energy potential in Kruonis Pumped Storage Hydroelectric Plant

At the beginning of 2015, the complex measurements of wind speed, directions and other meteorological conditions were completed in the territory of Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP) that allowed assessing the initial potential of the land plot for the installation of the wind power park. Based on favourable wind measurement results the Company initiated the preparatory works for the installation of the wind power park in the territory of Kruonis PSHP. The study on the impact of Kruonis wind power park on NATURA 2000 territories, the feasibility study on the assessment of wind resources and potential power production volumes and the environmental impact assessment programme have already been prepared; the programme for the monitoring of birds and bats in the territory has been completed; the procedures for the approval of the environmental impact assessment report are being carried out.

Enhancement of operational efficiency

Higher efficiency of activities of the Group ensures the balance between higher profit and return for shareholders and lower tariffs for consumers. The strategy of Lietuvos Energija for 2014–2020 provides that higher operational efficiency will be achieved by applying the most advanced management practices in corporate governance, planning and monitoring of activities, finance, procurement, risk management and internal audit areas.

The Group currently has an installed and developed uniform management and control system, it has an approved management and control system policy, risk management policy and methodology, integrated planning and monitoring system policy, innovation management policy, project management policy and procedure, a process management standard, portfolio formation and monitoring procedure currently being drawn up, etc. The uniform management and control system facilitate progress towards higher efficiency and synergy in the activities of the Group companies and the implementation of goals set.

Centralisation and improvement of efficiency of processes

With a view to improving the processes that support the principal activities of the Group and reducing their expenses, the Lietuvos Energija group companies concentrated the part of functions supporting the principal activity in a separate company, i.e. Verslo Aptarnavimo Centras UAB. The company is engaged in the provision of the services of the organisation and performance of public procurements, accounting and labour relations administration. It manages the customer service network and the self-service website. The legal and other functions are also being centralised. The centralisation of processes leads to their standardisation, higher transparency and efficiency, more operative management and implementation. The model of concentration of the supporting processes is in line with the best international practices.

Following the centralisation of real estate management and its concentration with the company NT Valdos, aiming to enhance efficiency and focus on principal activities, the Group launches the sale of real estate which is not of strategic importance to the power sector. In 2016, the Lietuvos Energija group company NT Valdos performed four public auctions during which 29 real estate objects not used in activities were sold. The overall results of all four actions conducted in 2016 show that the total value of objects sold is more than EUR 7.6 million and profit earned amounts to EUR 1.1 million.

On 5 January 2016, Lietuvos Energija also announced the procurement for the overdraft with the two-year maturity. The tender was won by SEB Bankas. The credit agreement was concluded with this bank on 7 March 2016.

This short-term lending facility is available to all companies of the Group, therefore there is no need for acquiring such services separately. The centralised treasury management will allow reducing the Group's overdraft limit by half compared to the limit obtained by the companies individually. This will lead to lower interest expenses incurred by the Group and higher treasury management effectiveness. On 1 February 2016, the Board of Lietuvos Energija approved the project to enhance the Group's treasury activities – the management of a part of treasury functions is carried out at the Group level.

Single integrated business management system is planned

On 14 August 2015, Lietuvos Energija announced about its plans to transfer to a single integrated business management system, thus seeking to increase its operating efficiency, flexibility and to create better possibilities for expansion.

The estimated duration of the project of an exceptional scope is three years. The implementer will also have to provide support services for three years after the deployment of the system. The selection procedure of potential implementers of the integrated business management system is currently underway.



The companies controlled by Lietuvos Energija currently use more than 70 separate information systems with the average useful life of more than 15 years. A third of these systems have no longer been supported and maintained in such a way restricting the operations and failing to ensure an appropriate level of security and efficiency. The new information system will cover the areas of accounting and finance, procurement, personnel and project management, bookkeeping and customer service and technological assets management. Customers of the Lietuvos Energija group will benefit from this new system – the development of more flexible service plans will be enabled, customer service quality at the centres and through the internet will be improved. The new system will allow providing and analysing real-time information, increasing reliability and speed, expanding configuration possibilities, reducing the amount of non-automated work, eliminating possible inconsistencies between different systems.

Operation of old units in Elektrėnai was discontinued, the fuel sector is being reorganised

After the completion of the project on the development of thermal energy generation capacities in Elektrėnai by Lietuvos Renergijos Gamyba in 2015, the use of units 1 and 2 of the power plant for the thermal energy generation was no longer appropriate, therefore a decision was made to dismantle these old and inefficient 150 MW capacity units of the Reserve Power Plant that were constructed in 1962-1965. The price of electricity produced by these units is not competitive in the market, thus the termination of their operation will enable to decrease the need for PSO services as well as a final electricity tariff to consumers. The thermal insulation of the units, boilers' brickwork have already been dismantled and utilised, facilities and devices of the units are being dismantled by disposing a part of them as a scrap metal and selling still proper for use equipment in the market. 87% of dismantling works of these units was performed by the end of December 2016. Works are expected to be completed in the first quarter of 2017.

On 8 December 2015, the Board of Lietuvos Energijos Gamyba made a decision to terminate the operation of two more units (units 5 and 6) of the Reserve Power Plant in Elektrėnai from 2016. Dismantling works of these units are expected to start at the beginning of 2017 after the completion of the dismantling of units 1 and 2. The dismantling of units 5 and 6 of the power plant with their capacity reaching 300 MW was stipulated in the company's long-term strategy announced in the middle of 2014. The units are dismantled due to a poor technical condition, low potential of capacity utilisation in future and high maintenance costs. These units that started to produce electricity back in 1967-1968 were not operating for several years and have been preserved.

As a result of the decline of the use of fuel oil to a minimum level in the activities of Lietuvos Energijos Gamyba and the consequential disappearance of the need to store the national fuel oil reserve, the scope of the fuel sector in Elektrėnai Complex no longer meets the actual demand of the Company. Therefore, stage I of the fuel sector reorganisation programme was initiated at the end of 2015. During the implementation of this programme the following works were initiated: the tenders for the sale or lease of a part of the current fuel oil reservoirs, preparatory works for the liquidation of a part of the reservoirs, the optimisation of the electricity network of the fuel sector, dismantling of tanks' warmers and overhead fuel oil supply line I and other preparatory works for the implementation of the programme.

Ensuring the quality of services

Investments in electricity and natural gas networks, improvement of service quality

The Group company Energijos Skirstymo Operatorius that operates from 2016 services 1.65 million electricity customers and devotes great attention to the development and modernisation of the power grid, consistently expanded and improves the provided services considering the changing needs of its customers.

The company also operates the natural gas distribution network and provides gas distribution services to about 570 thousand customers. The company makes regular investments in the construction of new gas pipelines and customer connections. The Group supplies natural gas to about 560 thousand private customers and about 9.5 thousand corporate and public sector customers.

ESO plans to carry out a major modernisation of the distribution network over the next ten years. In order to ensure the provision of reliable, safe and smart services, the company plans to invest EUR 1.7 billion in the modernisation and renewal of the network by 2025. Investments in the natural gas networks are expected to reach EUR 141.1 million over the next ten years. The major part of investments will be directed towards the development of the distribution system, reconstruction of the distribution pipelines and modernisation of remote data collection and management systems.

During 2016, 29.09 thousand new customers were connected to the electricity distribution network. In 2016, admissible electric power of newly connected customers was 349.277 thousand kW, which is 5.6% less than in 2015 (369.942 thousand kW).

In 2016, ESO replaced 97,823 units of metering devices that no longer meet the meteorological requirements, whereof 76,346 units of electricity meters and 21,477 units of natural gas meters. The company installed 23,339 units of electricity metering devices



and 4,877 units of natural gas metering devices for new customers. By investing in the modernisation and automation of the electricity and natural gas metering equipment, in 2016 ESO connected 2,435 electricity and 132 gas metering devices to the automated data reading systems. As a result, the number of operated meters that are scanned remotely reached 29,773 and 1,212, respectively.

The popularity of heating using gas, which is one of the most cheapest and the most convenient ways of heating, has been consistently rising. In 2016, ESO received 10,067 applications from new customers for the connection to gas distribution networks and signed agreements with them. This is more than in 2015 and 2014.

Based on data of Lietuvos Dujų Tiekimas 5.2 thousand new private customers submitted requests to get gas for heating homes in 2016. During the year the number of private customers of Lietuvos Dujų Tiekimas using gas for heating increased by 6% and by 15% from the beginning of 2014.

In order to test the effectiveness of smart metering devices and their benefits for private customers, in May 2015 the company announced an international tender for the procurement of smart meters. The tender was won by the consortium of companies consisting of Technolines UAB, a company registered in Lithuania, and foreign companies ELKO and ADD-Production. ELKO and ADD-Production are implementing similar projects in Latvia, Slovakia, Poland, and other countries. During the implementation of a pilot project on smart meters, 2,927 smart meters were installed for customers that allow using electricity more efficiently and saving household expenses. The self-service website www.manogile.lt provides customers with exact data on the time of electricity consumption and quantity consumed. During the pilot project ESO will also receive more accurate information on the power grid, which will create conditions for a more rapid identification and elimination of the grid's breakdowns.

During the implementation of the project, participants could choose a four time zone tariff plan adapted to the project, which give the opportunity to change electricity consumption habits and reduce costs. More than 12% of the project participants selected the four time zone tariff plan. The company continues to assess changes in consumption habits of the project participants.

The surveys conducted by the companies of the Lietuvos Energija group Energijos Skirstymo Operatorius (ESO, Lietuvos Dujų Tiekimas, Energijos Tiekimas, LITGAS and NT Valdos) showed that customer satisfaction with the services rendered and the servicing quality remains particularly high. This proves that changes initiated by Lietuvos Energija in the previous year, i.e. the establishment of the joint customer servicing centre *Gilė*, optimisation of operations by merging LESTO and Lietuvos Dujos, improvement of

effectiveness of processes and simplification of provision of services, have served the purpose.

The customer service satisfaction level of electricity and gas distribution company ESO calculated under the GCSI methodology exceeds the GCSI index for European energy companies by 9 points. ESO's result for 2016 is 79 points, whereas the European average for energy companies is 70 points; the average for global companies is 71 points. The level of private customer satisfaction with ESO's services and the servicing quality is higher compared to the corporate customer satisfaction level: the private and corporate customer satisfaction indexes reach 79 and 74 points, respectively.

The customer service satisfaction index of natural gas supply company Lietuvos Dujų Tiekimas was equal to 80 points in 2016. The overall satisfaction with the services of Lietuvos Dujų Tiekimas reaches 83 points. The company met customer expectations and was assigned 81 points.

The customer service satisfaction index of energy supply company Energijos Tiekimas increased to 86 points in 2016.

The customer service satisfaction index of liquefied natural gas supply and trade company LITGAS increased up to 77 points during the year. The meeting of customer expectations by LITGAS was evaluated at 75 points compared to 80 points assigned to the ideal desired level of service. The customer service satisfaction index of NT Valdos increased to 80 points in 2016.

Service prices to customers continue to decline

On 23 December 2016, the National Control Commission for Energy and Prices announced the revised prices for electricity public supply for 2017 applicable to electricity and gas distribution company ESO. With effect from 1 January 2017, the electricity price for private customers decreased by an average of 4.9%. It is estimated that household expenses for electricity will decrease by nearly EUR 10 per year.

The price of electricity is declining from 2017 as a result of a lower price of the distribution services and decline in electricity purchase expenses due to the international interconnections with Sweden and Poland. The change in the price of PSO services also had a positive effect. The prices of electricity to private customers continue to decline for a fourth year in a row. From 2013, the average price of electricity to private customers decreased by 22%.



In the second half of the year the gas prices to private customers of Lietuvos Dujų Tiekimas decreased by 8–15%, irrespective of the category of customers. Possibilities to lower prices arose for the company as a result of successful negotiations on LNG and its acquisition at good prices from Statoil that allowed reducing the projected overall average price for this year's import by 15%. In addition, the average price of gas purchased was lower in the previous year because of a faster than projected drop in prices in the international markets. These developments had a positive impact on the prices of the second half of the year.

From the beginning of 2014, the final gas price to private customers, irrespective of rising infrastructure costs, decreased by an average of 30%.

The National Control Commission for Energy and Prices approved the proposal of Lietuvos Dujų Tiekimas to retain the same record-low prices for the first half of 2017 as in the second half of 2016. The final gas prices for private customers will be retained stable irrespective of a current and projected rise in gas prices in the international markets. This rise is eliminated by a rationally used compensation which was negotiated by Lithuania for gas purchased in 2013-2014 as well as declining prices of gas transportation services.

With effect from 1 July 2016, based on the decision of the National Control Commission for Energy and Prices taking into consideration changes in prices and volumes of gas purchased, the projected market price of natural gas was reduced by 10% or to 15.26 EUR/MWh at which the regulated energy producers purchase gas from a designated supplier LITGAS. The new price will be applicable until the end of 2016.

The average arithmetical price of the designated supply of LNG for 2016 was 33% lower than in 2015. This decline resulted from a significant drop in gas prices in the international markets in the first half of 2016 and renegotiated agreement on the designated supply with Statoil.

The National Control Commission for Energy and Prices established the projected natural gas market price for 2017 equal to 16,45 EUR/MWh. The price rose taking into consideration the accumulated discount that will decline by 40% and by the amount of which the price to consumers will be reduced in 2017.

At the beginning of October Lietuvos Dujų Tiekimas announced a second reduction of the natural gas price to all corporate customers for 2016. A one-fifth reduction of the prices on average was applicable to corporate customers of Lietuvos Dujų Tiekimas for four months, i.e. from the beginning of September until the end of the year.

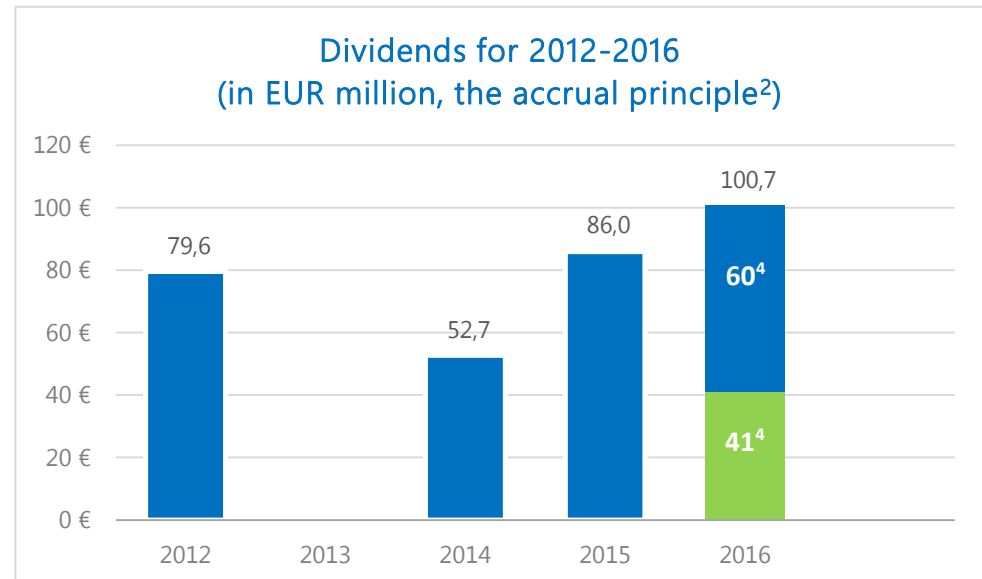
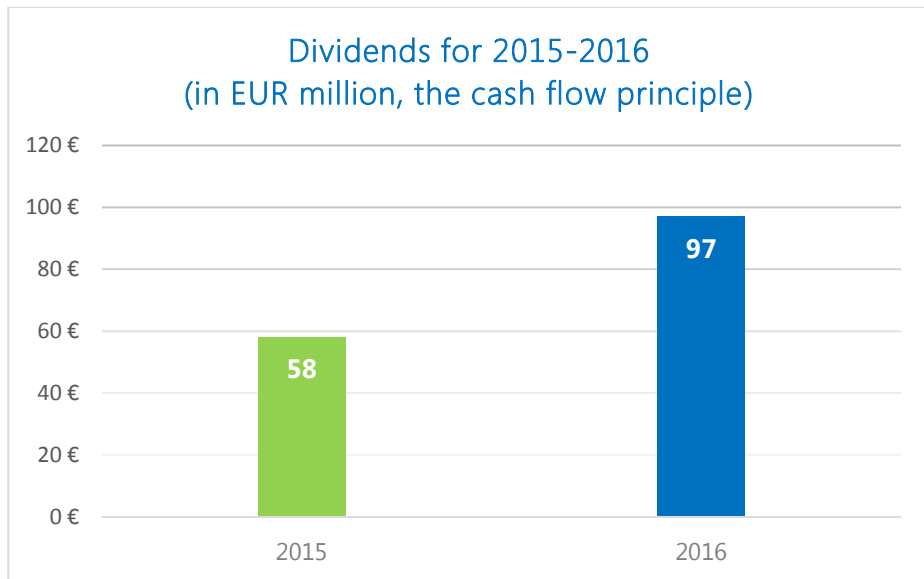
Return to the shareholder and the dividend policy

On 27 December 2016, the Board of the state-owned group of energy companies Lietuvos Energija approved the dividend policy which establishes the uniform dividend payment principles to be applicable to all companies of the Group. According to the newly approved dividend policy, appropriation of profit proposed by a company of the Lietuvos Energija group for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for payment of dividends, implementation of economic projects important for the State and other significant circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period.

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

For more information on the dividend policy of the Lietuvos Energija group please visit the website www.le.lt (the section 'For Investors'). Information on dividends paid is presented below.





- 1 - the amount of dividends actually paid during the reporting period
- 2 - the amount of dividends to be paid for the reporting period
- 3 - dividends for the first half of 2016
- 4 - dividends proposed to be paid to the shareholder for the second half of 2016



Corporate responsibility

Relationships with employees and society

The Lietuvos Energija group aims to conduct its operations in a responsible manner with a particular regard to corporate social responsibility (CSR). The Group ensures that its operations are based on the principles laid down in the Global Compact, a United Nations initiative. The latter principles define corporate responsibility in the areas of human rights, rights at work, environment, and anti-corruption. The Group is a participant of the Global Compact initiative. The model of responsible business of the Lietuvos Energija group is implemented through targeted and consistent activities in the following areas: relationships with employees and society, environmental protection, and transparent, responsible market operations.

Lietuvos Energija aims to reduce the impact of its operations on the environment, community, and other businesses, and to joint its efforts with public authorities and non-governmental organisation in dealing with social and environmental issues, thereby contributing to the development of the society and economic growth.

Lietuvos Energija has a purpose of ensuring a long-term progress of business and society, aims to contribute to the development of society and promotion of its welfare. The Group has established the Sponsorship Fund and supports initiatives and projects that are significant to the state and society.

Environmental protection

Environmental protection

In its responsible activities Lietuvos Energija follows the Global Compact principles that also define environmental responsibility and **the social responsibility policies** approved by the Board that provide common CSR directions and principles to be followed by all companies of the Group aiming to create the conduct and standards of socially responsible and sustainably developed business of the Lietuvos Energija group.

In its operations the Group seeks to use advanced measures, technologies and processes that help reducing the impact of operations on environment, promoting efficient management and utilisation of resources; it implements activities to reduce costs and waste. The Group companies promote and actively participate in environmental campaigns and preventive programmes.

The companies of Lietuvos Energija pay particular attention to the education of society and businesses in the field of energy saving (including security, energy efficiency and promotion of rational energy consumption) by creating its own initiatives and engaging in those organised by society, encouraging responsibility and awareness; it actively cooperates with local communities.

Responsible and transparent market operations



Waste management and sorting, efficient use of resources

The Lietuvos Energija group companies are implementing waste sorting initiatives, and have installed special waste containers for sorting of plastic and paper. The Group's companies keep encouraging their clients to abandon paper bills and utility bills.

The Environmental Management System complying with requirements of LST EN ISO 14001 standard has been implemented in objects of Lietuvos Energijos Gamyba and at EnePRO. The production activities are also carried out in compliance with the requirements for the atmospheric, surface water, groundwater and soil pollution monitoring and protection measures specified in the Integrated Pollution Prevention and Control (IPPC) permits.

In Elektrėnai Complex 18 types of waste are being sorted at a modern waste sorting site. Hazardous and non-hazardous waste produced as a result of the operation of the Company's power plants is collected by enterprises recycling such waste. Waste of ferrous and non-ferrous metals is sold to purchasers at a market price.

Domestic waste, paper, cardboard, plastic and glass waste in the Company's subdivisions is sorted and collected by utility companies.

Work safety and health

Safety of operations is one of the most important priorities of the Lietuvos Energija group. All companies of the Group are required to follow the **occupational safety and health policies**. Top-level managers are responsible for safe and healthy work environment.

Starting from the end of 2015, ESO continues the internal initiative *Safety Agents*, the aim of which is to encourage employees outside the working hours to identify and report about disorderly and potentially dangerous devices. 12 notifications with photos were received during 2016. Such information is reported to responsible divisions and made available on the Company's intranet. This also expands knowledge of personnel not directly related to the network's infrastructure.

Responsibility and transparency

The Lietuvos Energija group has approved the **zero-tolerance policy against corruption**, which applies to all employees of the Group and interested parties, i.e. contractors, suppliers, consultants, agents and other intermediaries. Persons responsible for the implementation of this policy have been appointed.

The policy sets out public commitments to comply with legal norms applicable to the operations and to fight corruption. All employees of the Group are acquainted with this policy and its requirements.

Procedures regarding gifts and other benefits have been established. The Trust Line is available for employees and all interested parties – its telephone number and email are announced publicly, indicated on the website. The Group commits to ensure confidentiality and keep the identity of the person giving the information secret.

Accountability

For more information on corporate responsibility and initiatives conducted please visit the websites indicated below (the sections of social responsibility and CSR progress reports):

<http://www.le.lt/lt/socialine-atsakomybe/12>,

www.eso.lt/Socialineatsakomybe,

<https://gamyba.le.lt/lt/socialine-atsakomybe>.

Relationships with society: sponsorship

Pursuant to the Order of the Minister of Finance of the Republic of Lithuania, Lietuvos Energija has set up the Sponsorship Fund (the Fund), which supports initiatives and projects that are significant to the state and society.

In 2016, the Policy for the allocation of financial support and the Rules on the management of financial support were revised. Between 21 March and 4 April, potential beneficiaries were invited to submit applications for the allocation of financial support. The following priority areas at the national level were established for 2016:

- Sports (excluding extreme sports) by promoting professional sports clubs that unite the country and build its name and sports organisations that raise new sports talents;
- Support to children with cancer diseases by promoting public organisations or movements whose activities or projects are being carried out and bring benefit at the country-wide level, that have acquired experience in the implementation of international social projects and whose activities promote a good practice of implementation of such projects, that provide knowledge and cooperate with health care establishments and families having children with cancer diseases, encourage family and social communication of such children;
- Promotion of science and innovations by supporting ideas, researches and works of young scientists, the implementation of which would consolidate Lithuania's positions in the international innovations market, would help strengthening the



educational and scientific system of Lithuania, would increase society's interest in science, would establish long-term traditions of cooperation between scientific institutions, academic society, business and public organisations and would assist young talents of science and innovations to gain their positions in the Lithuanian and global scientific community.

On 31 May 2016, the Sponsorship Fund of Lietuvos Energija allocated financial support amounting to EUR 620 thousand, which was designated for 25 activities and projects that best met the Fund's criteria and priorities.

At the national level support was allocated to 14 applications: Initiatives of the Baltic Institute of Advanced Technology *Researchers' Night, Meadow of Science*, the Charity and Sponsorship Fund Rugutė (genetic testing for a more targeted and effective treatment of each little patient), the Lithuanian Sports Federation of People with Disabilities, Š. Marčiulionis basketball academy, Kaunas men's basketball club *Žalgiris*, XXI Pažaislis Music Festival, Kaunas University of Technology, the National Student Academy, the women's world hot air balloon championship organised by Prienai hot air balloon club *Audenis*, the Lithuanian Handball Federation, the Lithuanian Rugby Federation, the Lithuanian Union of Young Scientists.

At the regional level support was allocated to social, educational, artistic, cultural, scientific and sports (excluding extreme and higher risk sports) projects and activities of the communities, in the close proximity of which companies of the Group operate. Support was allocated to 11 beneficiaries: Association TEDxVilnius, the Lithuanian Youth Centre, Elektrėnai ice-hockey club LRK ENERGIJA, the community of Rotuliai village, the Lithuanian National Committee for UNICEF and other organisations. For more information on beneficiaries please visit the website www.le.lt.

In November 2016, the Sponsorship Fund of Lietuvos Energija selected five Lithuanian universities whose Master's degree students studying the programmes related to the energy sector and technologies will be eligible for named scholarships already this year. Ten scholarships are planned to be granted to the highest achieving Master's degree students for the 2016–2017 school year. A named scholarship will amount to EUR 1,500. Named scholarships of the Sponsorship Fund of Lietuvos Energija will be granted to two Master's degree students from Vilnius University, Kaunas University of Technology, Vilnius Gediminas Technical University, Vytautas Magnus University and Klaipėda University each. This initiative of Lietuvos Energija will serve as an encouragement of young people who have chosen study fields and topics of master thesis relevant to the strategic business directions of the Group companies.

Social initiatives

Each year the Group companies are actively involved in the events of the traditional Days of Energy Professionals organised by the National Lithuanian Energy Association (NLEA). On 15-16 April 2016, free educational events were hosted at the Lithuanian Energy and Technology Museum – excursions for the public were organised. During the excursions visitors were able to familiarise with the Lithuanian energy system and its topicalities and to learn more about the energy specialist's occupation.

Aiming to strengthen relationship with the community of Elektrėnai region, where the principal activity of Lietuvos Energijos Gamyba is concentrated, the company organises traditional events *Lietuvos Energijos Gamyba Presents*. In March 2016, the meeting with a well-known Swedish publicist, director, translator John Ohman was held and in June the professional LRT team of sports journalists spoke of the highest level sports tournaments. In September the company invited Professor Alfredas Bumblauskas to visit Elektrėnai where a large audience enjoyed listening to his impressions on the national expedition along the Nemunas in Lithuania. In November ethnologist Gražina Kadžytė together with the city's community rediscovered a traditional Lithuanian calendar. Starting from December 2012, seventeen meetings of this cycle have already been organised.

In order to enhance natural environment in May Lietuvos Energijos Gamyba helped foresters of Kaišiadoriai replanting 2 ha of forest and was also traditionally involved in arrangement works of the surroundings in the territories in which it operates, i.e. Elektrėnai, Kruonis and Kaunas.

The Group allows to charge electric cars at the quick charging station at no cost. At the first in the country station for quick charging of electric cars, which was opened in cooperation with partners Nissan and NT Valdys in Vilnius at J. Lelevelio street in July 2014, around 1,000 kWh of electricity is charged per month. At present, free of charge power supply to the station is guaranteed by the largest supplier of energy of the Lithuanian capital – Energijos Tiekimas.

In order to contribute to raising awareness about energy among society and young generation in particular, Lietuvos Energijos Gamyba welcomes free of charge excursions to the objects under its control: the combined cycle block, Kruonis PSHP, Kaunas A. Brazauskas HPP. During 2016, the power plants were visited by more than 2,200 visitors from different enterprises, schools and other institutions as well as by delegations from foreign countries.

In order to raise awareness of school communities and contribute to the creation of a sustainable, energy-efficient and environmentally-friendly society of Lithuania, the



Lithuanian Youth Centre and ESO together with partners invited the country's educational institutions to participate in a one-year educational programme *Sustainable School*. This project was elected as the best social responsibility initiative of 2014 during the Swedish business award ceremony.

In spring 2016, ESO launched a large-scale campaign, which was aimed at a safe use of electricity and gas, theft prevention of technological property, provision of useful advice to the general public. In mass media – television, radio, newspapers and the internet – the campaign covered safety issues related to the commencement of fieldworks, with emphasis placed on the underground electricity and gas network, as well as educational advice on safe behaviour during storms.

Before Easter a charity fair was organised at the ESO's head office at which employees purchased handmade works of members of the fine crafts' centre for people with disabilities *Mažoji Guboja*. All funds received during the fair is allocated for the educational activities of the centre's members, the organisation of excursions and events.

The information security campaign *Safe Energy* was conducted by ESO in the third quarter of 2016. The educational campaign on a safe use of electricity, storms prevention, responsible attitude when carrying out fieldworks close to electricity and gas distribution networks was launched through different means of mass media with the use of visual measures. Large attention was directed towards the theft prevention of ESO's technological property, meetings with the representative of local police, community and mass media were organised in the regions.

In November 2016, Lietuvos Energija together with public institution Versli Lietuva offered designers, programmers, energy professionals and business developers a possibility to develop over a few-day period smart energy projects or their prototypes that in a long-term could transform into new products or businesses. The company joined the largest workshop-competition for young creators in Lithuania *Hacker Games* and established a new category of smart energy along with traditional sessions of technical devices, games and software. The participants of the event, i.e. engineers, designers, programmers, project managers and professionals of other fields, were able to create products, solutions or services at their own discretion within the topic of smart energy, they received consultations from experienced mentors of Lietuvos Energija and the winners were awarded with a EUR 1,000 prize.

Risk management and process review

Following the internal audit of the risk management function carried out in 2016 and the assessment of the effectiveness of the risk management function for 2015, the plan on

the improvement of the risk management function was drawn up and the risk management policy was updated.

Monitoring of risk factors at the Risk Management Supervision Committee of the Supervisory Council

In 2016, six sittings of the Risk Management Supervision Committee of the Supervisory Council were held. At least once in a quarter the Risk Management Supervision Committee overviews predetermined or new risk factors, in particular, after the occurrence of incidents. The areas regularly discussed in 2016 included regulation and compliance, market, project management, safety and health, and information security which were defined as priority areas in 2016. In case of occurrence of incidents/external events the purchase and going concern issues were discussed. In addition to issues related to its principal activities the Committee also deliberates organisational matters related to the risk management function: prepares the report on the Committee's activity once in a half of the year which presents an overview of the situation on the implementation of the Committee's recommendations, assesses the progress in and results of the risk management area.

Results of a regular risk assessment for 2016 – risk factors for 2017 determined

As every year during the performance of the risk assessment for 2017 at the Group areas were identified in which the main risk management measures and initiatives are concentrated and coordinated at the Group level. All other risks specific to individual companies are managed by respective companies. The Risk Management Supervision Committee regularly assesses and reviews the effectiveness of management of these risks. The main risk factors and management policies for 2017 are listed below.



Risk factor	Description	Main risk management policies
Health and safety of employees, residents and contractors	With regard to the principal business activity companies due to a specific character of the activity and nature of works the Company bears an inherent risk of health and safety of employees and residents. This risk remains a priority area for a number of years and the main causes of this risk, in addition to high-risk working environment, include the lack of awareness or experience/knowledge. Although the Group does not directly influence the safety of contractors, however accidents that still occur make the Group take (motivational/disciplinary) measures.	<ul style="list-style-type: none"> • Motivational and disciplinary system for employees and contractors; • External and internal educational activity; • Modern training bases; • Regular control and monitoring of (employees'/contractors') occupational safety.
Information security (cyber security)	By observing external factors, geopolitical situation the Group understands its strategic importance for the country's security and by cooperating with external establishments and by introducing internal measures it aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime. The relevance of this area is increased by the initiatives carried out by the Group such as digitalisation, which increases the need for high information security requirements due to the transfer of an increasing quantity of operational processes to the information systems.	<ul style="list-style-type: none"> • Improvement of resistance through tests/trainings; • Enhancement of detection/suspension; • Cooperation with external establishments.
Market changes and competitiveness	Market changes that range from fluctuations in prices of raw materials to strategic initiatives is an inherent risk of the energy sector. The major risk faced by the principal business activity companies includes the country's macroeconomic indicators that determine the level of consumption of electricity and gas. The energy sector is also affected by the competitive environment and changes in prices of raw materials. Trade in electricity is quite heavily influenced by new markets that emerged after the launch of the NordBalt and LitPolink interconnections. Companies operating in a competitive environment face traditional market risks that encourage the increase of service quality aiming to retain the existing and attract new clients.	<ul style="list-style-type: none"> • The diversification policy is applied by the majority of companies encouraging search for supply of alternative raw materials and ensurance of long-term stability of the Group; • Risk management financial instruments and control measures are used in electricity and gas trading activity;

		<ul style="list-style-type: none"> • In view of changes in competitive environment the high quality services strategic policy is established for purpose of the market share retention.
Management of strategic and internal change projects	The implementation of the internal projects on efficiency enhancement, development of new services and other development projects requires specific experience related to the implementation of such projects. The project's success makes a direct impact on the implementation of the Group's strategy, therefore it is very important to ensure their timely implementation and achievement of projected benefit. Besides a high quality project management the project's success is also dependent on external environment and its resulting decisions, therefore the management of stakeholder expectations becomes one of the main project management tasks.	<ul style="list-style-type: none"> • Involvement of a sufficient number of both external and internal experts in project implementation; • Regular monitoring of strategic projects; • External and internal application of transparent and open communication principles.
Regulation and compliance	Regulatory risk manifests through a complicated planning of cash flows and risk of damage to reputation. The National Control Commission for Prices and Energy remains the main regulatory authority making the largest impact on the prices of services provided by the companies and their revenue by establishing ceilings for them. At the same time external requirements are being increased in other areas as well such as trade in raw materials and personal data security where a possible financial and reputational damage impact on the Group companies will become increasingly significant in future.	<ul style="list-style-type: none"> • Efforts are made to fulfil the requirements of the regulatory authority in as specific manner as possible and to unify the principles of cooperation with the regulatory authority at the Group level; • To ensure compliance with new requirements projects are organised at the Group level that engage the best specialists of the Group with regard to the issue concerned;



		<ul style="list-style-type: none"> The compliance function is strengthened and formed at the Group.
--	--	--

Long-term projects

The large scale long-term social responsibility projects for children, youth and general public continued by the Group company ESO are characterised by an active involvement of communities and different social groups, and ideas of safety, energy efficiency and conservation of environment.

To the extent needed. The promotion of rational use of energy is one of the priority directions of ESO's social responsibility contributing to the conservation of environment and energy resources as well as the implementation of the country's obligations under the European Union's climate change program. The project is aimed at creating traditions of rational living by looking for solutions on rational use of electricity, with a

particular focus on consumption by businesses and industrial entities. The mentioned business conferenced is one of the initiatives of this idea.

Green protocol. This is an agreement initiated by ESO (in its sixth consecutive year), the purpose of which is that the signatory companies and organisations confirm that they accept and agree with environment-friendly ideas, and commit to apply them in practice.

Recognition of activities

Recognition of management. On 18 March 2016, the weekly magazine *Veidas* elected Dr Dalius Misiūnas, the Chief Executive Office of the group of energy companies Lietuvos Energija, as the Manager of the Year 2015. This is the first time that this prestigious award, the winners for which are elected for sixteen years, was granted to the CEO of the state-owned company.

Relationship with investors. In 2016, three awards were granted for the progress achieved by Lietuvos Dujos and LESTO in strengthening relationship with investors in 2015 at the stock exchange event Nasdaq Baltic Market Awards.

Legal function. On 14 April 2016, Ingrida Kudabienė, Director of the Legal Department of ESO, received the 2016 Lawyer of the Year Award given by the Association of Corporate and Institutional Lawyers (B.I.T.A.).

Community activities. In September 2016, at the ceremony of the National Responsible Business Awards in the category of large undertakings ESO was awarded the title of the most active partner of the community in 2015. This award was granted for a close and active cooperation with communities.

Corporate governance

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

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

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

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

In 2016, for three consecutive years the Lietuvos Energija group was recognised as the best managed state-owned entity. The analysis was carried out by the Management Coordination Centre which assesses state-owned companies based on different criteria and sets the good governance index.

Report of the Audit Committee of Lietuvos Energija

In 2016, in implementing the functions laid down in the regulations of the Audit Committee of the Company's Supervisory Council, the Audit Committee of Lietuvos Energija held 19 sittings. In 2016, the activities of the Audit Committee covered the following areas:

- monitoring of the audit process of the financial statements carried out by the independent auditor and discussion of draft independent auditor's reports on the financial statements of the Lietuvos Energija group;
- monitoring of the effectiveness of internal controls and risk management systems of the Lietuvos Energija group;
- assessment of effectiveness of operational processes of Lietuvos Energija and submission of recommendations on their improvement;
- monitoring of the effectiveness of the internal audit process organisation;
- submission of recommendations to the Supervisory Council on the appointment of the director of the Internal Audit Service, the approval of the internal audit plan and the regulations of the Internal Audit Service;
- familiarisation with the internal audit findings submitted to management of the Lietuvos Energija group;
- monitoring of the response of management of Lietuvos Energija to recommendations and comments presented by the independent auditor/audit firm;

- granting of permissions to the audit firm to participate in and submit proposals for the procurements of services other than the audit of the financial statements;
- familiarisation with the major projects and initiatives implemented at the Group;

The detailed information on the activities of the Audit Committee in 2016 was presented in the Audit Committee's reports and submitted to the Supervisory Council of Lietuvos Energija.

The Audit Committee declares that in 2016 there were no factors restricting the activity of the Audit Committee and the Audit Committee received from the Lietuvos Energija group all information necessary for the exercise of its functions. In 2016, the Audit Committee did not identify any significant findings having a negative impact on the activity of the Lietuvos Energija group of which the Company's Supervisory Council would not be informed.

Rasa Noreikienė,
Chair of the Audit Committee



Supervisory bodies

Supervisory Council

The Supervisory Council is a collegial supervisory body provided for in the Articles of Association of the Company and elected by the General Meeting of Shareholders for a term of four years. The Supervisory Council of Lietuvos Energija consists of seven members – natural persons representing the Ministry of Finance, the Ministry of Energy, the Ministry of Economy, the Office of the Government of the Republic of Lithuania, and three independent members. The Chairman is elected from the members of the Supervisory Council. This model of formation of the Supervisory Council complies with the principles of corporate governance. The term of office of the current Supervisory Council is the period from 19 July 2013 to 19 July 2017. The composition of the Supervisory Council functioning at Lietuvos Energija as at 31 December 2016 was as follows*:



Šarūnas Kliokys (born in 1959) Chairman, independent member	Antanas Danys (born in 1975) Independent member	Dr. Virginijus Lepeška (born in 1955) Independent member	Tomas Garasimavičius (born in 1978) Member	Aloyzas Vitkauskas (born in 1954) Member (until 26 May 2016)	Rasa Noreikienė (born in 1959) Member	Rokas Baliukovas (born in 1977) Member (from 17 December 2014 to 27 December 2016)	Agnė Bagočiūtė (born in 1977) Member (from 26 May 2016)
--	---	---	---	--	--	---	---

Educational background	Vyrautas Magnus University; Baltic Management Institute, Master's degree in Business Administration (EMBA); Vilnius University, Economist's Diploma.	Vilnius University, Master's degree in Business Administration (MBA); Boston College, Bachelor's degree	Vilnius University, Doctoral degree in Social Sciences.	Creighton University, Master's studies of Political Science; Institute of International Relations and Political Science (IIRPS) of Vilnius University, Master's studies of Political Science; IIRPS of Vilnius University, Bachelor's degree in Political Science.	Vilnius Civil Engineering Institute, Post-graduate studies of Technical Sciences; Vilnius Civil Engineering Institute, Master's degree in Civil Engineering.	Kaunas University of Technology, Master's degree in Public Administration; Vilnius University, Lawyer's speciality.	Kaunas University of Technology, Bachelor's degree in Electrical Engineering; Šiauliai University, Master's degree in Power Engineering; Šiauliai University, Master's degree in Management and Business Administration.	Vilnius University, Bachelor's degree in Public (Economic) Geography; Vilnius University, Master's degree in General Geography and Land-Use Planning.
Workplace, position	Chairman of the Board of Ekonovus UAB; Chairman of the Board Kilimai AB; Member of the Board of the state enterprise Centre of Registers, Member of the Board of the association EUROCHAMBERS, President of the Lithuanian Chamber of Commerce, Industry and Crafts.	Director of Grinvest PTE.LTD; Development Director of Kaštonų Kalva UAB; Member of the Board of Kruonis OU; Chairman of the Board of Neo Finance UAB; Director of Asian Pacific Green Energy Pte. Ltd.; Director of Powerful United Limited; Member of the Board of Misen Enterprises; Member of the Board of Argentum Mobile.	Consultant, Chairman of the Board of Organizacijų Vystymo Centras UAB; Consultant at OVC Mokymai UAB; Advisor to the Chairman of the Board of Vilandra UAB; Advisor to General Manager of AL Holdingas UAB; Member of the Board of the Association Mentor Lietuva; Member of the Board of the public institution Paramos Vaikams Centras; Member of the Commission for the Selection of Candidates for Judge.	Government of the Republic of Lithuania, Advisor to the Prime Minister for Energy.	Ministry of Finance of the Republic of Lithuania; Deputy Minister (until 29 April 2016).	Ministry of Economy of the Republic of Lithuania; Deputy Minister (until 13 December 2016).	Ministry of Energy of the Republic of Lithuania; Deputy Minister (until 27 December 2016).	Ministry of Finance of the Republic of Lithuania; Vice-Minister (until 13 December 2016). At the reporting date – Chief Advisor of the Ministry.

*None of the members of the Supervisory Council has any ownership interest in the capital of the Company or the Group of the companies.



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

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

According to the Corporate Governance Guidelines approved by the Ministry of Finance, independent members of the Supervisory Council and the Committees are remunerated for their activities at the Supervisory Council and the Committees. The amount of the remuneration is established by the Ministry of Finance, an institution implementing the rights of the Company's shareholder. In 2016, remuneration paid to the independent members of the Supervisory Council amounted to EUR 12,337 (before tax). Remuneration paid to the independent members of the Committees of the Supervisory Council amounted to EUR 9,513 (before tax).

Committees of the Supervisory Council

For the purpose of effective fulfilment of its functions and obligations, the Supervisory Council forms the committees. The committees of the Supervisory Board provide their conclusions, opinions and proposals to the Supervisory Council within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Council and at least one member is an independent member.

The following committees have been established at Lietuvos Energija:

- **Risk Management Supervision Committee** is responsible for the submission of conclusions or proposals to the Supervisory Council on the functioning of management and control system in the Group and (or) main risk factors and implementation of risk management or prevention measures;
- **Audit Committee** is responsible for the submission of the objective and impartial conclusions or proposals to the Supervisory Council on the functioning of the audit and control system in the Group;
- **Appointment and Remuneration Committee** is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the Board Members to the Supervisory Council, also for the

assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

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

Audit Committee

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

Main functions of the Committee are as follows:

- to monitor the process of preparation of financial statements of the Company and the Group companies, with a special focus on the relevance and consistency of accounting methods used;
- to monitor the effectiveness of internal controls and risk management systems of the Company and the Group companies, to analyse the need for and relevance of these systems and perform the review of the existing internal control management systems;
- to monitor the adherence to the principles of independence and objectivity by the certified auditor and audit firm, to provide related recommendations, as well as proposals for the selection of an audit firm;



- to monitor the audit performance processes of the Company and the Group companies, to examine the effectiveness of audit and response of the administration to the recommendations provided in the management letter;
- to monitor the effectiveness of the internal audit function of the Company and the Group companies, to analyse the need for and relevance of this function, to provide recommendations on the need for, effectiveness of the internal audit function, and on other internal audit related matters;
- to provide proposals for the internal audit plans of the Company and the Group companies, recommendations for the regulations of the internal audit units of the Company and the Group companies, appointment and dismissal of the head of a structural unit performing the functions of the internal audit, approval of his (her) job description, imposition of incentives and penalties;
- to monitor the compliance of activities of the Company and the Group companies with laws and other legal acts of the Republic of Lithuania, articles of association and operational strategy;
- to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Council;
- to perform other functions related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and in the Corporate Governance Code of companies listed on NASDAQ Vilnius Stock Exchange.

Risk Management Supervision Committee

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

Main functions of the Committee are as follows:

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

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

Appointment and Remuneration Committee

Member of the Committee	Number of shares of the Company and the Group companies held	Workplace
Aloyzas Vitkauskas Chairman of the Committee (until 26 May 2016)	-	Ministry of Finance of the Republic of Lithuania, Vice-Minister (until 29 April 2016)
Virginijus Lepeška Independent member, Chairman of the Committee (from 14 June 2016)	-	Chairman of the Board of Organizacijų Vystymo Centras UAB
Tomas Garasimavičius Member	-	Advisor to the Prime Minister of Lithuania for Energy
Agnė Bagočiutė Member (from 14 June 2016)	-	Ministry of Finance of the Republic of Lithuania; Vice-Minister (until 13 December 2016), Chief Advisor of the Ministry

Main functions of the Committee are as follows:

- to assess and provide proposals on the long-term remuneration policy of the Company and Group companies (the main fixed part of the remuneration, performance based remuneration, pension insurance, other guarantees and forms of remuneration, compensations, termination benefits, other parts of the remuneration package), principles of compensation for costs related to the individual's performance;
- to assess and provide proposals on the policy of bonuses of the Company and the Group companies;



- to monitor the compliance of the policy of remunerations and bonuses of the Company and the Group companies with the international practice and good governance practice recommendations, and provide respective proposals for the improvement of the policy of remunerations and bonuses;
- to provide proposals concerning bonuses upon appropriation of profit (losses) to be appropriated of the Company and the Group companies of the respective financial year;
- to assess the terms and conditions of agreements of the Company and the Group companies with members of management bodies of the Company and the Group companies;
- to assess the procedures of recruitment and selection of candidates to members and senior management of the Company and the Group companies and establishment of the qualification requirements;

- to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Company and the Group companies;
- to supervise how members of management bodies and employees of the Company and Group companies are notified of the professional development possibilities and how they upgrade their skills regularly;
- to supervise and assess the implementation of measures ensuring the continuity of operations of the management bodies and employees of the Company and the Group companies;
- to perform other functions attributed to the competence of the Committee by the Supervisory Council.



Management bodies

Board

The Board is a collegial management body provided for in the Articles of Association of the Company. The members of the Board are elected for a term of four years and removed by the Supervisory Council on the proposal of the Appointment and Remuneration Committee. The Board consists of five members and elects from among its members the Chairman of the Board – the Chief Executive Officer of the Company. The members of the Board, acting within their competence, must ensure the proper performance of the Company's activities / supervision of the respective areas at the Group level. The term of office of the current Board is the period from 22 July 2013 to 22 July 2017. The composition of the Board functioning at Lietuvos Energija as at 31 December 2016 was as follows*:



Dr Dalius Misiūnas
(born in 1978)

Chairman of the Board, CEO



Ilona Daugėlaitė
(born in 1970)

Member of the Board, Organisational Development Director



Darius Kašauskas
(born in 1972)

Member of the Board, Finance and Treasury Director



Mindaugas Keizeris
(born in 1980)

Member of the Board, Strategy and Development Director



Dominykas Tučkus
(born in 1981)

Member of the Board, Production and Services Director from January 2016

Educational background

Lund University, Doctoral degree in Technological Sciences;
Lund University, Master's degree in Industrial Electrical Engineering and Automatics;
Kaunas University of Technology, Bachelor's degree in Electrical Engineering.

Vilnius University, Master's degree in Hydrogeology and Engineering Geology.

ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics;
ISM University of Management and Economics, BI Norwegian Business School, Master's degree in Management;
Vilnius University, Master's degree in Economics.

Vilnius University, Master's degree in International Business.
Vilnius University, Bachelor's degree in Business Administration and Management.

L. Bocconi University (Italy), Master's degree in Finance;
L. Bocconi University (Italy), Bachelor's degree in Business Management and Administration.

Workplaces, position

Chairman of the Supervisory Council of Energijos Skirstymo Operatorius AB (from Dec 2015);
Member of the Board of Directors of the Association Eurelectric; President of the Lithuanian Power Association;
President of the Alumni Association of Kaunas University of Technology;
Member of the Board of the Sponsorship Fund of Lietuvos Energija (from Oct 2014);
Member of the Council of the Lithuanian Confederation of Industrialists. Member of the Council for Higher Education;
Member of the Board of ISM University of Management and Economics;
Professor-practician at Kaunas University of Technology.

Member of the Supervisory Council of Energijos Skirstymo Operatorius AB (from Dec 2015);
Chair of the Board of Technologijų ir Inovacijų Centras UAB (from Dec 2013); Chair of the Board of Duomenų Logistikos Centras UAB (until Jan 2016);
Chair of the Board of Verslo Aptarnavimo Centras UAB (from Jan 2016);
Member of the Supervisory Council of Elektroninių Mokėjimų Agentūra UAB (from Dec 2015).

Chairman of the Board of NT Valdosa UAB (from Dec 2013);
Chairman of the Board of Verslo Aptarnavimo Centras UAB (until Jan 2016);
Chairman of the Board of Elektroninių Mokėjimų Agentūra UAB (from Dec 2015);
Chairman of the Board of Duomenų Logistikos Centras UAB (from Jan 2016).

Chairman of the Supervisory Council of Lietuvos Energijos Gamyba AB (from Dec 2015);
Chairman of the Board of Energijos Teikimas UAB (until Feb 2016);
Chairman of the Board of LITGAS UAB (until Jan 2016);
Member of the Board of Lietuvos Dujų Tiekimas UAB (until Jan 2016);
Chairman of the Board of Energetikos Paslaugų ir Rangos Organizacija UAB (from Oct 2015);
Chairman of the Board of Vilniaus Kogeneracinė Jėgainė UAB (from Nov 2015);
Member of the Board of the Sponsorship Fund of Lietuvos Energija (from March 2016);
Member of the Supervisory Council of Elektroninių Mokėjimų Agentūra UAB (from Jan 2016).

Member of the Supervisory Council of Lietuvos Energijos Gamyba AB (from Jan 2016);
Chairman of the Board of LITGAS UAB (from Jan 2016);
Member of the Board of Lietuvos Dujų Tiekimas UAB (from Jan 2016);
Chairman of the Supervisory Council of Elektroninių Mokėjimų Agentūra UAB (from Jan 2016);
Member of the Board of Tuuleenergia OU UAB (from Feb 2016);
Member of the Board of EURAKRAS (from March 2016).

*None of the members of the Board has any ownership interest in the capital of the Company or the Group of the companies. Activities at the Board are remunerated according to the guidelines set by the company's shareholder.



Organisational culture and employees

Employees of the Company are the key element in implementing the operational strategy of the Lietuvos Energija group. The aim is to build and maintain the organisational culture based on values that motivate employees to assume responsibility, cooperate, and joint efforts to achieve the best result.

In implementing the objectives set by the shareholder and pursuing a socially responsible business, we aim at attracting and retaining skilled specialists at the Group and creating with them the long-term partnership relationships and joint successful future while ensuring the mutual benefits.

As at 31 December 2016, the Group had 4,861³ employees.

Company	Total number of employees
Lietuvos Energija UAB	103
Energijos Skirstymo Operatorius AB	2,680
Lietuvos Energijos Gamyba AB	399
Energetikos Paslaugų ir Rangos Organizacija UAB	628
Technologijų ir Inovacijų Centras UAB	177
Duomenų Logistikos Centras UAB	17
Energijos Tiekimas UAB	29
Elektroninių Mokėjimų Agentūra UAB	4
NT Valdos UAB	226
VšĮ Energetikų Mokymo Centras	80
LITGAS UAB	14
VAE SPB UAB	10
Verslo Aptarnavimo Centras UAB	435
Lietuvos Dujų Tiekimas UAB	31
Vilniaus Kogeneracinė Jėgainė UAB	19
Kauno Kogeneracinė Jėgainė UAB	3
Energijos Sprendimų Centras UAB	6
Total	4,861

As at 31 December 2016, the Company had 103 employees. The total of 96.12% of the Company's employees have higher university education, of whom 4 have doctoral degrees. The Company employs two certified professional project managers (PRINCE2 and PMP), one certified financial analyst (CFA), one certified internal auditor (CIA), one certified fraud examiner (CFE), two certified risk management assurance experts

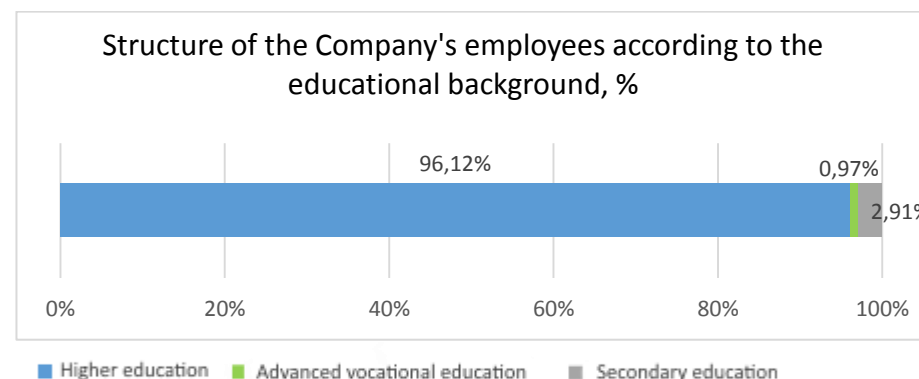
(CRMA), one certified risk management expert (ISO 31000:2009), five employees holding the professional Board Member's qualification of the Baltic Institute of Corporate Governance. The employees are active members of the associations, unions, and academic community (Scientific Council of the Lithuanian Energy Institute, Business Council of Kaunas University, the Supervisory Council of the Lithuanian Energy Institute; Technological Development Committee of the Agency for Science, Innovation and Technology).

Remuneration and performance management

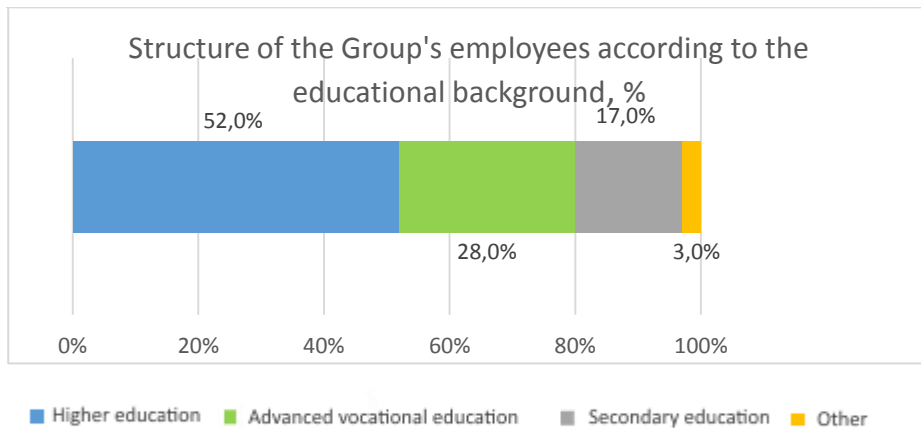
Based on the remuneration policy a fixed part of remuneration paid to employees is established referring to the position's grade which depends on the complexity of functions and tasks performed, the level of responsibility and decision-taking and the competences of the employee. A variable part of the remuneration is paid for measurable performance results – the achievement of objectives or indicators set for each position.

Educational background of the Group's employees and distribution by gender

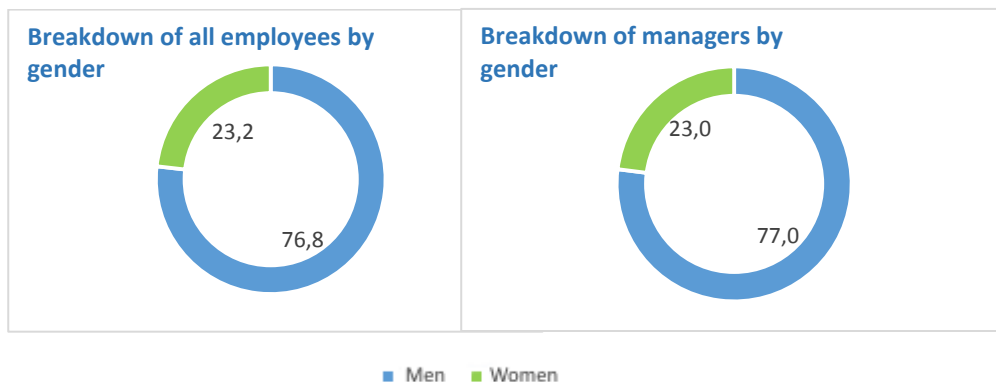
The total of 52% of the Group's employees have higher education, of whom 21 have doctoral degrees, 28% of employees have acquired advanced vocational education and 17% have secondary education.



Category of the Group's employees	Average monthly wage, in EUR		
	2016	2015	2014
Chief executive officer (CEO)	4,244	4,736	4,211
Top-level managers	4,004	4,004	3,774
Medium-level managers	2,107	2,079	1,895
Experts, specialists	1,066	9,84	915
Total wage bill	65.6 million	72.8 million	61.2 million



The percentage of men and women employed at the Group is equal to 76.8% and 23.2%, respectively. The breakdown of managers by gender is similar, i.e. male managers make up 77.0% and female managers – 23.0%.



The total wage bill of the Company for January–December 2016 amounted to EUR 2.34 million.

Average monthly wage of the Group's employees and wage bill

As at 31 December 2016, the Group had 4,861 employees. The total wage bill of the Group for January–December 2016 amounted to EUR 65.6 million.

Development of the organisation and its culture

Following the reorganisation of the management of the Lietuvos Energija group in 2016 attention was focused on a coordinated development of the organisation, management of human resources, formation of a new organisational culture, enhancement of efficiency of organisation of operations, training of new employees and development and maintenance of competences. Aiming to promote innovations and strengthen competences of the Lietuvos Energija group in this area, to create conditions for cooperation with scientific institutions and define the principles of such cooperation, to establish the principles and framework for granting scholarships to high achieving students by the Lietuvos Energija group, the rules of the Lietuvos Energija group on the granting of scholarships were approved. Based on the mentioned rules 7 scholarships were granted to Master's degree students of 5 universities. Processes related to career management, structuring of the rotation systems are being successfully continued (93 employees were rotated within the Group companies, 411 employees achieved career advancement within a company in 2016).

Development of competences

In the fourth quarter of 2016, the e-training platform was launched that provides educational measures stipulated in the employee educational model of the Lietuvos Energija group. A single electronic training system was developed to help new employees adapt more readily and to assist current employees to develop their qualification and save time in both cases. E-trainings are available for all employees of the Group at any time. The launch of e-trainings was supplemented by the starting up of the Lietuvos Energija Academy that provides trainings delivered by internal lecturers of the companies of the Lietuvos Energija group.

The Lietuvos Energija group is consistently taking care of the professional development of employees and ensures that employees possess all certificates established by laws that are necessary for their work and improve the required competences. The individual companies of the Group organised various training courses on the development of general, professional and management competences, e.g. leadership, team formation, change management, communication, project management, business process management, etc.

Internship opportunities



The Group companies create conditions for students of higher educational institutions and vocational schools to apply their theoretical knowledge and acquire practical

skills. In 2016, the internship programme was accomplished by 47 students at the Group.



Supervisory and management bodies of the listed companies of the Group

As at 31 December 2016, the composition of the Supervisory Council of Energijos Skirstymo Operatorius (the term of office expires on 3 December 2019) was as follows:

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Workplace
Dalius Misiūnas Chairman	-	3 Dec 2015 – Dec 2019	Lietuvos Energija UAB, Chief Executive Officer
Ilona Daugėlaitė Member	-	3 Dec 2015 – Dec 2019	Lietuvos Energija UAB, Director of Organisational Development
Petras Povilas Čėsna Independent Member	-	3 Dec 2015 – Dec 2019	LITEXPO, Chairman of the Board

As at 31 December 2016, the composition of the Board of Energijos Skirstymo Operatorius (the term of office expires on 3 December 2019) was as follows:

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Workplace
Dalia Andrulionienė Chair from 4 Nov 2016	-	3 Dec 2015 – December 2019	Energijos Skirstymo Operatorius AB, Chief Executive Officer
Rytis Borkys Member	-	3 Dec 2015 – December 2019	Energijos Skirstymo Operatorius AB, Director of Networks Maintenance Service
Dalius Svetulevičius Member until 28 Feb 2017	-	3 Dec 2015 – December 2019	Energijos Skirstymo Operatorius AB, Director of Networks Development Service
Augustas Dragūnas Member	-	February 2016 – December 2019	Energijos Skirstymo Operatorius AB, Director of Finance and Administration Service
Ignas Pranskevičius Member	-	20 Jan 2017 – December 2019	Energijos Skirstymo Operatorius AB, Director of Services Division
Liudas Liutkevičius Chairman	-	31 Dec 2015 – 4 Nov 2016	Energijos Skirstymo Operatorius AB, Chief Executive Officer

General Manager: Dalia Andrulionienė, Chief Executive Officer of Energijos Skirstymo Operatorius AB.

As at 31 December 2016, the composition of the Supervisory Council of Lietuvos Energijos Gamyba (the term of office expires on 5 August 2017) was as follows:

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Workplace
Mindaugas Keizeris <i>Chairman from 2 Dec 2015</i>	-	20 Nov 2014 – August 2017	Lietuvos Energija UAB, Director of Strategy and Development
Pranas Vilkas <i>Independent Member</i>	-	August 2013 – August 2017	-
Dominykas Tučkus <i>Member</i>	-	21 Dec 2015 – August 2017	Lietuvos Energija UAB, Director of Production and Services

As at 31 December 2016, the composition of the Board of Lietuvos Energijos Gamyba (the term of office expires on 5 August 2017) was as follows:

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Workplace
Eglė Čiužaitė Chair	-	February 2016 – September 2017	Lietuvos Energijos Gamyba AB, Chief Executive Officer
Adomas Birulis Member	-	September 2013 - January 2017	Lietuvos Energijos Gamyba AB, Director of Business Development Department
Darius Kucinas Member	-	September 2013 - September 2017	Lietuvos Energijos Gamyba AB, Director of Production Department
Mindaugas Kvekšas Member	-	December 2015 – September 2017	Lietuvos Energijos Gamyba AB, Director of Finance and Legal Department
Mindaugas Gražys Member	-	6 Jan 2017 – September 2017	Lietuvos Energijos Gamyba AB, Director of Business Development Department

General Manager: Eglė Čiužaitė, Chief Executive Officer of Lietuvos Energijos Gamyba AB.



Basic information about the Company and the Group

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

Company name	Lietuvos Energija, UAB
Company code	301844044
Authorised share capital	EUR 1,212,156 thousand
Paid-up share capital	EUR 1,212,156 thousand
Address	Žvejų g. 14, LT-09310, Vilnius, Lithuania
Telephone	(8 5) 278 2998
Fax	(8 5) 278 2115
E-mail	biuras@le.lt
Website	www.le.lt
Legal form	Private limited liability company
Date and place of registration	28 August 2008, Register of Legal Entities
Register accumulating and storing data about the Company	Register of Legal Entities, State Enterprise the Centre of Registers

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

On 13 February 2013, the Company's shares were transferred to the Ministry of Finance by the right of trust.

With effect from 30 August 2013, the Company's name Visagino Atominė Elektrinė UAB was changed to Lietuvos Energija, UAB.

As at 31 December 2016, the authorised share capital was divided into ordinary registered shares with the nominal value of LTL 1 (EUR 0.29) each. All the shares are fully paid.

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

The Group's set of the consolidated financial statements for the year ended 31 December 2016 was audited by the independent audit firm PricewaterhouseCooper UAB which presented an unqualified auditor's opinion on this set of the financial statements. A fee for the mentioned audit of the financial statements amounted to EUR 9,200 (excl. VAT).

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

Year	Auditor	Opinion
2016	PricewaterhouseCoopers UAB	Unqualified
2015	PricewaterhouseCoopers UAB	Qualified*
2014	PricewaterhouseCoopers UAB	Qualified

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



Indicators on the implementation of strategic objectives*

	Strategic direction Strategic objective	Indicators of strategic objectives	Measurement unit	Actual result of 2015	Actual result of 2016	Budgeted result / Target for 2020
Increase in value						
Finances	Sustainable increase in value	Group's EBITDA	EUR million	216	255	319
		Group's ROE (return on equity)	%	9.5%	10.3%	>9%
		Group's D/E (capital structure)	ratio	0.19	0.24	<1.1
High quality services						
	High quality customer service	GCSI (Global Customer Satisfaction Index)	index	76.3	79.1	≥75
Customers	Services meeting customer needs	Electricity SAIDI with <i>force majeure</i>	minutes	106.526	111.99	87
		Electricity SAIFI with <i>force majeure</i>	times	1.0641	1.1132	0.94
		Natural gas SAIDI with <i>force majeure</i>	minutes	1.03367	0.5290	1.03367
		Natural gas SAIFI with <i>force majeure</i>	times	0.00708	0.00596	0.00708
	Contribution to the increase in the competitiveness of the country's economy	Duration of new customer connection to electricity networks	days	78.45	58.46	50
		Duration of new customer connection to natural gas networks	days	216	162.38	85
Diversification of activities						
Customers	Diversified activity	A part of new activities in the Group's EBITDA ratio	%	16.9%	21.1%	24%
Operational efficiency						
Internal processes	Processes of the principal activities were clarified and optimised	EBITDA margin of the principal activities	% (generation)	23%	33.6%	38%
			% (distribution)	15%	25.1%	29%
			% (supply)	4%	7.1%	5%
	Effective governance	Governance index set by the Management Coordination Centre	rating	A	-	A
Development of organisational culture						
Learning and development	Engaged employees	Engagement of employees	%	45%	56%	≥EU average
	Integration of operational excellence in organisational culture	Number of implemented improvements (KAIZEN) per employee	units per employee	-	0.0784 (381 KAIZEN)	From 2019 operational excellence objectives were integrated in financial objectives
	Successors for management personnel and key employees ensured	Percentage of preparation of successors	%	66%	74%	>90%

*The budget values of the indicators for separate periods were planned on a straight-line basis focusing on a respective indicator's target value at the end of the period for the implementation of the Lietuvos Energija group strategy. The actual values of certain individual indicators for a reporting period are not yet available (in cases when the actual value of the indicator depends on the external institutions), therefore they will be announced after the date of the issue of this report. Certain indicators may require more detailed comments and explanations related to a specific indicator or its calculation that are outside the scope of this document.

Information on subsidiaries, branches and representative offices

Companies directly or indirectly controlled by Lietuvos Energija UAB at the end of the reporting period (31 December 2016) were as follows:

Company	Registered office address	Effective ownership interest at 31 Dec 2016. (%)	Share capital (EUR '000) at 31 Dec 2016	Profile of activities
Lietuvos Energijos Gamyba, AB	Elektrinės g. 21, Elektrėnai	96.75	184,174	Production, supply and trade in electricity
Energijos Skirstymo Operatorius, (until 1 January 2016, LESTO AB and AB Lietuvos Dujos AB)	Aguonų g. 24, Vilnius	94.98	259,443	Electricity supply and distribution to customers; natural gas supply
NT Valdosa, UAB	Geologų g. 16, Vilnius	100	85,550	Disposal of real estate, other related activities and service provision
Duomenų Logistikos Centras UAB	A. Juozapavičiaus g. 13, Vilnius	79.64	4,033	Support services for information technology and telecommunications
Energetikos Paslaugų ir Rangos Organizacija UAB (until 1 January 2016, ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB)	Motorų g. 2, Vilnius	100	7,003	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid, energy equipment repair, production of metal structures
LITGAS UAB	Žvejų g. 14, Vilnius	66.67	13,050	Supply of liquid natural gas via the terminal and trade in natural gas
Elektroninių Mokėjimų Agentūra UAB	Žvejų g. 14, Vilnius	100	437	Provision of payment collection services
Energijos Tiekimas UAB	P. Lukšio g. 1, Vilnius	100	17,240	Electricity and natural gas supply, electricity import, export, balancing services
Public Institution Training Centre for Energy Specialists	Jeruzalės g. 21, Vilnius	100	85	Professional development and further professional training of energy sector specialists
Geton Energy OÜ	Narva mnt 5, 10117 Talinas	100	35	Electricity supply
Geton Energy SIA	Bezdelingu 12, LV-1048, Ryga	100	28	Electricity supply
Technologijų ir Inovacijų Centras UAB	A. Juozapavičiaus g. 13, Vilnius	97.80	6,440	IT and telecommunication, and other services
VAE SPB UAB	Smolensko g. 5, Vilnius	100	293	Business and other management consultations
Verslo Aptarnavimo Centras UAB	P. Lukšio g. 5 b, Vilnius	97.00	580	Public procurement organisation and implementation, accounting, personnel administration services
Lietuvos Dujų Tiekimas UAB	Žvejų g. 14, Vilnius	100	8,370	Gas supply
Sponsorship Fund of Lietuvos Energija	Žvejų g. 14, Vilnius	100	3	Provision of financial support to projects, initiatives and activities significant for society
Vilniaus Kogeneracinė Jėgainė UAB	Žvejų g. 14, Vilnius	100	1,003	Modernisation of the district heating sector in the city of Vilnius
Kauno Kogeneracinė Jėgainė UAB	Žvejų g. 14, Vilnius	51	10,759	Modernisation of the district heating sector in the city of Kaunas
Tuuleenergia OU	Keskus, Helmküla, Varbla Rural Municipality, Pärnu County	100	499	Generation of electricity from renewable energy sources
Eurakras UAB	Vytenio g. 46, Vilnius	75	8,096	Generation of electricity from renewable energy sources
Energijos Sprendimų Centras UAB	Žvejų g. 14, Vilnius	100	10	Provision of electricity saving services



Information on securities of the Group companies

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

Structure of the authorised share capital and shareholders owning more than 5 per cent of the issuer's authorised share capital as at 31 December 2016

Company	Total nominal value of shares (in EUR)	ISIN code	Securities' abbreviation	Trading list	Full name of the shareholder (name of the company)	Percentage of voting rights conferred by shares owned
Lietuvos Energijos Gamyba AB	184,174,248.35	LT0000128571	LNR1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	96.75%
Energijos Skirstymo Operatorius AB	259,442,796.57	LT0000130023	ESO1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	94.98%

Information about agreements with securities intermediaries

Lietuvos Energija has not concluded any agreements with intermediaries of public trading in securities, because its securities are not traded on the stock exchange.

Group companies:

Lietuvos Energijos Gamyba AB

As at 31 December 2016, the company had issued 635,083,615 ordinary registered shares with the nominal value of EUR 0.29. Shares of Lietuvos Energijos Gamyba have been listed on the main list of NASDAQ OMX Vilnius stock exchange. ISIN code of the issue is LT0000128571.

Lietuvos Energijos Gamyba has concluded the securities accounting agreement on the accounting of securities issued and management of personal securities accounts with SEB Bankas AB.

Energijos Skirstymo Operatorius AB

As at 31 December 2016, the company had issued 894,630,333 ordinary registered shares with the nominal value of EUR 0.29. Shares of Energijos Skirstymo Operatorius AB have been listed on the main list of NASDAQ OMX Vilnius Stock Exchange. ISIN code of the issue is LT0000130023.

Energijos Skirstymo Operatorius AB has concluded the agreement on the accounting of securities issued by the company and management of personal securities accounts with SEB Bankas AB.

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

The activities of Energijos Skirstymo Operatorius AB (ESO), which was established on the basis of LESTO and Lietuvos Dujos, were started. The new self-service website was launched www.manogile.lt. **(1 January 2016)**.

The activities of Energetikos Paslaugų ir Rangos Organizacija (EnePRO), which was established on the basis of Elektros Tinklo Paslaugos and Kauno Energetikos Remontas, were started. **(1 January 2016)**.

Lietuvos Energija announced the procurement for the overdraft of EUR 60 million with the two-year maturity. **(5 January 2016)**.

The trading in shares of ESO was started at the Nasdaq Vilnius stock exchange. **(11 January 2016)**.

Mr Mindaugas Keizeris was revoked from the Boards of Lietuvos Dujų Tiekimas and LITGAS and Mr Dominykas Tučkus was appointed to take over these positions. **(11 January 2016)**.

The Lithuanian Consumer Association filed a claim to the court whereby it alleges that Lietuvos Dujų Tiekimas fails to refund the overpayment for natural gas. **(12 January 2016)**.

Vilnius Regional Court rejected the claim of Vilniaus Energija against Lietuvos Dujų Tiekimas for a EUR 19 million overpayment for gas. **(21 January 2016)**.

Lietuvos Energija acquired two companies operating wind power parks in Lithuania and Estonia – Eurakras UAB and Tuulueenergia OU. **(21 January 2016)**.

Energijos Teikimas joined the electricity financial derivatives' exchange Nasdaq Commodities. **(28 January 2016)**.

The announcement on the auction of real estate of NT Valdos to be held on 26 February 2016 was released. **(1 February 2015)**.

The process of acquisition of shares from the minority shareholders of the former public limited liability company LIETUVOS ELEKTRINĖ was started. The established

price paid for the calculated quantity of shares of Lietuvos Energijos Gamyba being purchased is equal to EUR 1.2959 per share **(2 February 2016)**.

The following persons were elected to the Board of Energijos Tiekimas: Dominykas Tučkus, Ieva Lauraitytė and Edvardas Jatautas (independent member). **(2 February 2016)**.

Vilnius Regional Administrative Court rejected the complaint of LESTO whereby it requested to annul the Resolution of the Commission dated 19 December 2014 *On the Scheduled Audit of LESTO*. **(5 February 2016)**.

The National Association of Electric Energy and the Association of Gas merged and became the National Power Association. **(8 February 2016)**.

LITGAS signed the revised agreement on the designated supply with Norwegian company Statoil. The amendments to the agreement are expected to result in a decrease in the maintenance costs of the Klaipėda LNG Terminal by more than a third. **(18 February 2016)**.

The Commission designated Lietuvos Dujų Tiekimas as an operator with Significant Market Power in wholesale and retail trade markets. **(18 February 2016)**.

Mr Augustas Dragūnas was appointed to the positions of the Board Member and Finance and Administration Service Director of ESO. He replaced Ms Eglė Čiužaitė who was appointed as the Chair of the Board and CEO of Lietuvos Energijos Gamyba. Before that the resignation of the former CEO of Lietuvos Energijos Gamyba was satisfied and he as well as Mr Vidmantas Salietis were revoked from the company's Board. **(19 February 2016)**.

Lietuvos Dujų Tiekimas reduced the prices for natural gas for this year to corporate customers by an average of 16%. **(25 February 2016)**.

During the auction of real estate of NT Valdos 8 objects for EUR 1.265 million were sold. **(26 February 2016)**.

Lietuvos Energija and SEB Bankas signed the agreement on the overdraft of EUR 40 million with the two-year maturity. **(7 March 2016)**.



After the completion of the agreed preparatory works the group of energy companies Lietuvos Energija and Fortum Heat Lietuva UAB signed the statement on the completion of the transaction on Kaunas Kogeneracinė Jėgainė UAB. **(18 March 2016).**

Dividends relating to the second half year allocated by Energijos Skirstymo Operatorius amounted to EUR 30.596 million (29 March 2016). In response to the conclusions of the Anticorruption Commission of the Lithuanian Parliament, Lietuvos Energija started an internal investigation regarding the agreement concluded between private limited liability company Queen Morta School and the group company NT Valdros. **(22 March 2016).**

On the initiative of NT Valdros UAB the preliminary agreement signed with Queen Morta School on 11 September 2015 on the development project was terminated. **(24 March 2016).**

The Supreme Court of Lithuania passed the ruling on 30 March 2016 whereby it approved the peace agreement in the case on the examination of operations of Lietuvos Dujos AB. **(30 March 2016).**

The National Audit Office started the audit of the agreements of NT Valdros – Lietuvos Energija received a request to make necessary data available to the representatives of the authority. **(4 April 2016).**

The National Control Commission for Prices and Energy disapproved of the application of the sanction for ESO on the basis of the report on the scheduled audit of the 2009–2013 regulated activities of Lietuvos Dujos. **(21 April 2016).**

After the completion of the redemption of shares of the public company LIETUVOS ELEKTRINĖ Lietuvos Energija transferred monetary funds to former shareholders of the company according to the agreement which have entered into force. During the share redemption process the total of 1,144 share purchase and sale agreements were concluded, on the basis of which 3,866,497 shares of Lietuvos Energijos Gamyba representing 0.61% of the total issue were transferred to Lietuvos Energija. Entities that did not exercise their right to sell shares during this process or did not submit necessary documents for the redemption of shares by the set date will remain the shareholders of Lietuvos Energijos Gamyba and can trade their shares on the stock exchange. **(23 May 2016).**

In response to changes in the market after the commencement of import of electricity from Poland and Sweden to Lithuania, the National Control Commission for Prices and Energy established 5% lower price caps of electricity public supply for private

customers for the second half of 2016. The price cap of 7.499 ct/kWh (excl. VAT) (previously 8.086 ct/kWh (excl. VAT)) was established to private consumers who receive electricity via medium voltage networks, and the price cap of 9.530 ct/kWh (previously 9.852 ct/kWh (excl. VAT)) to private consumers who receive electricity via low voltage networks. **(25 May 2016).**

Under the order of the Minister of Finance Mr Aloyzas Vitkauskas was revoked from the Supervisory Council of Lietuvos Energija and Ms Agnė Bagočiūtė, Vice-Minister of the Ministry of Finance, was appointed to take over the position of a member of the Supervisory Council. **(26 May 2016).**

The National Control Commission for Prices and Energy announced new prices for electricity transmission services and electricity public supply to be effective for the second half of 2016. As of 1 July 2016, electricity prices for private customers will decrease on average by 5.4 %. **(30 May 2016).**

The total amount of financial support allocated by the Sponsorship Fund of Lietuvos Energija to 25 selected applicants was equal to EUR 661 thousand. **(30 May 2016).**

The National Control Commission for Prices and Energy approved the four time zone tariff plan *Smart*, which can be selected by customers taking part in the pilot project. **(30 May 2016).**

Lietuvos Energija initiated the establishment of the venture capital fund the Innovation Fund. **(31 May 2016).**

Mr Algaudas Martinka was appointed as the Acting CEO of EnePRO replacing Mr Martynas Pargaliauskas in this position. **(1 June 2016).**

Having carried out the national audit as instructed under the Resolution of the Lithuanian Parliament of 22 March regarding the preliminary agreement signed between NT Valdros and Queen Morta School on 11 September 2015, the National Audit Office did not identify any violations and recognised the company's activities as an acceptable practice and submitted recommendations. **(2 June 2016).**

The Lietuvos Energija group announced the Corporate Responsibility Report in this it presented the responsible business and corporate governance principles in daily activities in 2015. **(2 June 2016).**

Kauno Kogeneracinė Jėgainė was issued the main permit for the construction of a power plant at address: Veterinarų st. 19, Kaunas region municipality, Karmėlava district, Biruliškiai village. **(10 June 2016).**



The increased authorised share capital of Lietuvos Dujų Tiekimas was registered (from EUR 7.5 million to EUR 8.37 million). (13 June 2016). **(13 June 2016)**.

Lietuvos Energija announced the tender for the acquisition of the project to ensure the infrastructure necessary for the installation and operation of the wind power park. (15 June 2016). **(2 June 2016)**.

The Board of the European Investment Bank officially approved the allocation of funding of EUR 190 million to the co-generation power plant in Vilnius. **(16 June 2016)**.

The entry was made in the amendment to the EU support action programme allowing the European Commission to apply for the granting of the EU support to the Kaunas project after the adoption of the Circular Economy Strategy. **(16 June 2016)**.

LITGAS decreased a possible excess of the minimum quantity of natural gas required for the LNG Terminal nearly 8 times. **(17 June 2016)**.

Vilnius Region Prosecution Service refused to start pre-trial investigation regarding the agreement signed between NT Valdos and Queen Morta School UAB. **(20 June 2016)**.

Vilniaus Kogeneracinė Jėgainė received final proposals in the procurement for contracted works and related services (EPC). **(30 June 2016)**.

ESO commenced a pilot project on smart metering during which the four time zone tariff plan is offered to 3 thousand customers. **(1 July 2016)**.

In the implementation of the resolution of the Government, the provision of physical protection services at Kruonis Pumped Storage Hydroelectric Plant and Kaunas Algirdas Brazauskas Hydro Power Plant was taken over by the Public Security Service under the Lithuanian Ministry of Internal Affairs. **(1 July 2016)**.

Lietuvos Energija became a participant of the Global Compact, a United Nations initiative. **(8 July 2016)**.

Vilniaus Kogeneracinė Jėgainė established the ranking of proposals received from the participants (contractors for the building of the power plant) of the international public procurement. According to the contracting agreements to be concluded in the nearest term a new power plant will be built for EUR 327.9 million. The best proposal for the waste incineration facility was presented by the consortium consisting of Steinmuller Babcock Environment GmbH, Budimex S.A. and Kauno Dujotiekio Statyba UAB. The total value of the proposal is EUR 178.29 million. The best proposal for biofuel combustion facilities and biofuel supply infrastructure was presented by RAFAKO S.A. The value of the proposal is EUR 149.65 million. **(12 July 2016)**.

In Vilnius old town ESO started reconstruction works of the gas distribution network during which gas pipelines with a length of nearly 4 km will be reconstructed. The performance of reconstruction works in separate stages is planned from 19 July to 2 October. **(19 July 2016)**.

Lietuvos Energija announced the ranking of potential implementers of the integrated business management system that participated in the international procurement. The consortium of companies with the best proposal will be offered to sign the agreement. The price of the best proposal is EUR 18.8 million (excl. VAT) and it was presented by NESS Czech s.r.o and InnoForce UAB, companies operating as a joint venture. During the implementation period NESS Czech s.r.o. will act as a responsible partner of the joint venture thus ensuring the use of the best practice accumulated by the implementer in introducing analogous SAP solutions in the energy sector in the Group's project. **(22 July 2016)**.

The environmental impact assessment report on the wind power park in the territory of Kruonis Pumped Storage Hydroelectric Plant was prepared. **(25 July 2016)**.

Payments for all utility services and for certain personal expenses can already be made at the self-service website *manogile.lt* managed by the Lietuvos Energija group. After the introduction of new functionalities a single payment can be made for other utility services as well: heating, water supply, removal of refuse, cable TV, internet, mobile communication services. Other payments can also be made. **(8 August 2016)**.

At the auction held nearly a third of real estate offered not used in the activities of the group of energy companies Lietuvos Energija was sold – 10 objects were sold for a total value of EUR 3.8 million (incl. VAT). The total of 34 objects were offered at the auction. The remaining objects will be repeatedly offered at other auctions. **(9 August 2016)**.

The customer service platform *manogile.lt* offers a possibility to pay for all utility services – new service providers were added. **(8 August 2016)**.

Kauno Kogeneracinė Jėgainė initiated the procurement for the provision of a loan. **(24 August 2016)**.

The official opening event of the wind power park in Rotuliai was held. **(25 August 2016)**.

During the first half of 2016, consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) of Lietuvos Energija amounted to EUR 142.4 million. **(31 August 2016)**.



During the first six months of 2016, ESO's EBITDA amounted to EUR 87.7 million. ESO decided to pay dividends of EUR 12.525 million for the six-month period. **(31 August 2016).**

EBITDA of Lietuvos Energijos Gamyba for the first six months of this year amounted to EUR 21.7 million. Lietuvos Energijos Gamyba decided to pay dividends of EUR 27.309 million for the six-month period. **(31 August 2016).**

ESO and the State Labour Inspectorate signed the cooperation agreement whereby they agreed to exchange information on noted cases of illegal work or illegal connection to electricity and gas networks. **(14 September 2016).**

Mr Algaudas Martinka was revoked and dismissed from the position of the Acting CEO of EnePRO following the disclosure of violations identified during the internal inspection. **(15 September 2016).**

LITGAS, Lietuvos Dujų Tiekimas and Statoil signed the agreement under which these companies will cooperate in offering wholesale LNG supply services at the Klaipėda LNG Terminal (the development of small-scale LNG market across the Baltic region, Lietuvos Dujų Tiekimas will help balance gas flows). **(15 September 2016).**

The Management Coordination Centre announced the report on the state-owned companies for 2015 in which Lietuvos Energija was assigned with A rating (the highest among all state-owned companies) according to the good governance index. **(16 September 2016).**

The European Commission approved the allocation of state aid to the co-generation power plant in Vilnius. **(19 September 2016).**

Lietuvos Energijos Gamyba publicly presented the updated operational strategy until 2020. **(20 September 2016).**

NT Valdos announced a third auction at which real estate worth of EUR 19.9 million will be offered for the market. **(21 September 2016).**

The Ministry of Finance passed a decision regarding dividends of Lietuvos Energija UAB – EUR 40.9 million allocated to the state. **(23 September 2016).**

LDT started a pilot project on trade in boilers using gaseous fuels and related services in Vilnius. **(23 September 2016).**

During the operation of the combined cycle block of Lietuvos Energijos Gamyba an increased level of vibration of the gas turbine was noted. The repair of the combined

cycle block was started which will be carried out until the end of October. **(27 September 2016).**

Lietuvos Dujų Tiekima signed the agreement with Koch Supply & Trading regarding the supply of LNG in 2017. LNG acquired will account for more a third of the projected gas demand of Lietuvos Dujų Tiekimas customers for 2017. **(28 September 2016).**

The agreements on construction works of Vilnius co-generation power plant were signed. **(29 September 2016).**

Lietuvos Energija acquired 33.33% of shares of LITGAS UAB (15 million ordinary registered shares) from Klaipėdos Nafta and became the sole shareholder of the company. **(3 October 2016).**

Lietuvos Dujų Tiekimas announced a second reduction of the natural gas prices to all corporate customers (6,600 customers) for 2016. A one-fifth reduction of the natural gas prices on average was applicable to corporate customers of Lietuvos Dujų Tiekimas for four months, i.e. from September until the end of the year. **(5 October 2016).**

The co-generation power plant in Kaunas was recognised as a waste management object of state significance. **(5 October 2016).**

Mr Liudas Liutkevičius, ESO's CEO, officially informed of his resignation from the position of the company's Chief Executive Officer and the Chairman of the Board from 4 November 2016. **(10 October 2016).**

Aiming to strengthen cooperation between business and scientific establishments the Sponsorship Fund of Lietuvos Energija decided to grant named scholarships to the highest achieving students of the Lithuanian higher education schools. **(11 October 2016).**

The Court of Appeal of Lithuania announced that it imposes remedies and suspends the execution of the agreement on the construction works of the waste-fired co-generation facility and its appurtenances of the public procurement 'Construction works of Vilnius co-generation power plant'. **(11 October 2016).**

ESO was granted the right to distribute natural gas in Druskininkai municipality. The decision on the inclusion of Druskininkai municipality in the licensed activity territory serviced by ESO was made by the National Control Commission for Prices and Energy on 31 October. ESO will start to supply gas to Druskininkai residents from 1 November 2016. **(31 October 2016).**



Mr Simonas Šileikis was elected as the CEO of Energetikos Paslaugų ir Rangos Organizacija (EnePRO). **(2 November 2016).**

Lietuvos Energija continues the clarification of its activities – the process of the sale of Duomenų Logistikos Centras, one of the most advanced IT and telecommunications companies in the Baltic region providing data transfer and data centres services, was initiated. **(14 November 2016).**

The National Control Commission for Prices and Energy approved new prices for natural gas and electricity distribution for ESO. With effect from 1 January 2017, gas distribution prices decrease for all seven categories of customers which are established based on the volume of gas consumed. **(17 November 2016).**

The Sponsorship Fund of Lietuvos Energija selected five Lithuanian universities whose Master's degree students studying the programmes related to the energy sector and technologies will be eligible for named scholarships already this year. **(17 November 2016).**

At the fourth auction Lietuvos Energija offered for the market real estate worth of EUR 15 million held by NT Valdos. **(22 November 2016).**

The Government resolved that the service stipulated in subparagraph 7.4 of the Description of the procedure for PSO services in the electricity sector will be rendered by Lietuvos Energijos Gamyba through the combined cycle block. Such resolution will allow ensuring a constant readiness of this facility for the electricity generation when its demand in the market will be the highest. **(23 November 2016).**

The Supervisory Council of Lietuvos Energija approved the candidature of Dalia Andrulionienė proposed by the Company's Board for the position of the Chair of the Board and CEO of electricity and gas distribution company ESO. **(25 November 2016).**

Gas prices to private customers of Lietuvos Dujų Tiekimas for the first half of 2017 will remain record low – the company's proposal to apply the same prices as in the second half of this year was approved by the National Control Commission for Prices and Energy. **(28 November 2016).**

ESO and Druskininkų Šilumos Tinklai AB signed the purchase-sale agreement, under which ESO acquired ownership rights to the natural gas distribution system in the municipality of Druskininkai. **(29 November 2016).**

The Lietuvos Energija group's consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) for three quarters of 2016 amounted to EUR 201 million,

which is 20.9% or EUR 34.7 million more compared to the 2015 reporting period. **(30 November 2016).**

ESO's natural gas distribution pipeline was constructed in Tauragė. **(1 December 2016).**

The agreement on a EUR 190 million loan for the construction works of the co-generation power plant in Vilnius was signed with the European Investment Bank. **(5 December 2016).**

Information was announced that from 2017 ESO will provide services of the electricity and gas internal network installation. **(6 December 2016).**

In Kaunas ESO started the largest gasification project in the region during which gas networks with the length of nearly 56 km are planned to be constructed to reach residential housing of Vaišvydava district. **(22 December 2016).**

At the fourth auction held by NT Valdos UAB preliminary agreements on the sale of 8 real estate objects for the total value of EUR 1.55 million (incl. VAT) were concluded. **(22 December 2016).**

The final prices of electricity public supply were announced – the electricity price for private customers will be 5% lower in 2017. **(23 December 2016).**

Aiming to effectively implement necessary changes the authorised share capital of EnePRO was reduced from 7 million to 2.5 million. **(23 December 2016).**

Board member Mr Adomas Birulis informed LEG of his resignation from the position of the company's Board member. The term of his position as the Board member expires on 6 January 2017. **(23 December 2016).**

The Board of Lietuvos Energija approved the Group's dividend policy which establishes the net profit appropriation principles to be applicable to all companies of the Group. Based on new policy all companies of the Group will plan the distribution of dividends in view of the ratio of return on equity and net profit earned. **(27 December 2016).**

Litgrid announced that the tertiary active capacity reserve services will be ensured by the Lithuanian Power Plant's units 7 and 8 controlled by LEG. **(28 December 2016).**

At the end of December the campaign on the attraction of the website's www.manogile.lt users was carried out that covered the campaign on the internet, on the radio, direct marketing actions by automatically connecting ESO users and sale of manogile.lt through ESO engineers. This allowed achieving the annual target of VAC – 400,000 registered users of the GILÉ website. **(28 December 2016).**



In December EMA achieved the annual target set and distributed the record-high number of customers' payments, i.e. 131 thousand payments. **(30 December 2016).**

The first agreement on the installation of the solar power plant under the ESCO model was signed with Duomenų Logistikos Centras UAB. **(30 December 2016).**

In cooperation with Lietuvos Dujų Tiekimas UAB LITGAS conducted the LNG congestion at the Klaipėda LNG Terminal. Nearly 15 thousand cubic metres of LNG were reloaded to the first small-scale LNG carrier Coral Energy, which were transported to one of the small terminals in the Baltic sea. At the end of February the second congestion transaction was conducted. **(2 January 2017).**

Mr Mindaugas Gražys was elected as a new member of LEG Board and Mr Adomas Birulis was revoked from the position of the Board member. **(6 January 2017).**

Vilniaus Kogeneracinė Jėgainė UAB signed the agreement with AF-Consult, a company which will provide the FIDIC (International Federation of Consulting Engineers) engineer's services which are stipulated in the contract. **(17 January 2017).**

Mr Ignas Pranskevičius was elected as a member of the Board of ESO and Director of Services Division. **(20 January 2017).**

Lietuvos Energija continues the clarification of its activities and started the sale of the Training Centre for Energy Specialists. **(2 February 2017).**

Aiming to ensure a safe and reliable supply of natural gas to consumers in Druskininkai municipality ESO plans to install the LNG regasification facility installation. **(3 February 2016).**

NT Valdos announced a public real estate auction at which 29 objects with the total value of EUR 17.8 million were offered for purchase. **(8 February 2017).**

LITGAS optimises the schedule of LNG cargos of the designated supply for 2017 that would allow earning up to EUR 1 million. This amount will directly reduce natural gas infrastructure maintenance costs for corporate and private customers.

Aiming to diversify the debt portfolio held Lietuvos Energija announced its plans to issue bonds with a value of up to EUR 200 million. Funds received will be allocated for investments in the green energy projects. **(1 March 2017).**

Lietuvos Energija, which holds the companies of strategic importance to national security, and the Policy Department will cooperate in fight against offenders and implement joint prevention projects. The cooperation agreement containing such provisions was signed by the CEO of Lietuvos Energija Dalius Misiūnas and the Police Commissioner General Linas Pervanas. **(10 March 2017).**

At the fifth public auction real estate not used in the activities of the group of energy companies Lietuvos Energija amounting to nearly EUR 1.2 million (incl VAT) was sold. 6 real estate objects were successfully sold at the public auction organised by NT Valdos, a company that is part of the group of energy companies. The total of 29 objects were offered at the auction. The remaining objects will be repeatedly offered at other auctions. **(10 March 2017).**

Kauno Kogeneracinė Jėgainė, a joint venture of the state-owned company Lietuvos Energija and the company Fortum, signed the agreements on the supply and engineering of the critical equipment for a new power plant, and the provision of purchase and construction management services (EPCM). **(16 March 2017).**

ESO presented the plan on the enlargement of users that produce electricity which is aimed at cutting red tape and creating an effective ecosystem. **(28 March 2017).**



Dr Dalius Misiūnas
Chairman of the Board and the Chief Executive Officer
of Lietuvos Energija UAB

31 March 2017

NASDAQ Structured table for disclosure

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

Principle II: The corporate governance framework

The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.

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

2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Irrelevant	According to the Company's Articles of Association, a collegial Company's business supervising body – the Supervisory Board and a collegial Company's management body – the Board are formed.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. ²	Yes	According to the Company's Articles of Association, the Company elects a collegial body supervising over the Company's business – the Supervisory Board. The recommendations laid out in the principles III and IV are not implemented fully in the Company, however, the Company complies with all the requirements, as per legal acts, for setting up of the collegial body. It should be noted that the Company carries out patronising functions of the group of energy companies. Activities of some daughter companies are strictly regulated by legal acts and supervised by respective state institutions (National Control Commission for Prices and Energy and others). This way, the clarity and timeliness of the above-mentioned decision-making is ensured, as well as the principles of the Company's client non-discrimination, the Company's expenses reduction, and other.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. ³	Yes	According to the Corporate Governance Guidelines and the Company's Articles of Association, the Company's Supervisory Board consists of 7 (seven) members. At least 1/3 (one third) of the Supervisory Board consists of independent members. Currently, the Supervisory Board consists of 3 independent members and 3 shareholder's representatives. The Company's Board consists of 5 (five) members. From the perspective of the Company, the number of members of the Board and the Supervisory Board is sufficient to ensure the proper supervision over the Company's business and timely and efficient Company's management, whereas involvement of independent members into the Company's Supervisory Board

² Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board (e.g. formation of the committees), should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

³ Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.



		<p>establishes the conditions for efficient supervision of activities, separate persons or their groups do not have a possibility to dominate during decision-making (a meeting of the Supervisory Board is deemed to have been held when it is attended by more than a half of members, and of the Board – when it is attended by at least 4 members)</p>
<p>2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>Yes</p>	<p>The members of the Supervisory Board are elected according to the maximum term of office, specified in the Law on Companies of the Republic of Lithuania – for 4 years per term of office. Limitations concerning re-election of the members of the Supervisory Board and the Board are not provided in the Company's Articles of Association, nevertheless, limitations provided by valid legal acts are applied to candidates to members of the mentioned bodies. The Company's Articles of Association provide a possibility to revoke (dismiss) both separate members of the collegial boards and the whole collegial body <i>in corpore</i>, without waiting for their mandates' terms to end. The members of the Board (separate or the body itself) may be dismissed by the Supervisory Board, and the members of the Supervisory Board (separate or the body itself) may be dismissed by the General Shareholder Meeting.</p>

<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>The chairperson of the Supervisory Board which is elected by the General Meeting of Shareholders and the manager of the Company is not the same person. Members and the chairperson of the Supervisory Board have never been the members of the Board of the Company or the manager of the Company. The manager of the Company is a member and a chairperson of the Board, but this does not create assumptions for possible impartial behaviour, since the Company has a properly installed Company's activities supervising body – the Supervisory Board.</p>
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.⁴</p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	<p>According to the Articles of Association, each candidate to the Supervisory Board members is required to submit to the General Meeting of Shareholders the candidate's declaration of interests indicating any circumstances that could lead to the candidate and the company's conflict of interest by stating any possible risks of the conflict of interests and their management measures (including withdrawal during decision-making, non-participation in the discussion of specific issues, etc.).</p> <p>The Supervisory Board is elected by the General Meeting of Shareholders, according to the requirements set out by the Law on Companies of the Republic of Lithuania and the Company's Articles of Association, also other legal acts governing the procedure of election to a collegial body of state-owned companies by the General Meeting of Shareholders.</p>

⁴ Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.



<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	<p>Information on candidates to a collegial body of a state-owned company elected by the General Meeting of Shareholders is provided under the procedure established in the laws. The selection procedures and selection requirements are set by separate legal acts. Information on the candidate's education, work experience, competence, position held and former positions (CV), declaration of interests and other documents specified in the legal acts are provided. An opinion on the suitability of candidates is submitted by the Selection Commission formed in accordance with the procedure established by legal acts. The declarations of interest disclose all circumstances that could give rise to a conflict of interest between a candidate and the Company, as well as the measures for managing it.</p> <p>If new circumstances emerge that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company and the Supervisory Board of such new circumstances in writing. Information on offices held by members of the Supervisory Board or their involvement in activities of any other companies is constantly collected, accumulated, and published in the annual report, as well as on the Company's website.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	<p>The information on the candidates for the Company's Supervisory Board members is presented to the General Meeting of Shareholders in accordance with the procedure prescribed by the Law on Companies of the Republic of Lithuania at the General Meeting of Shareholders (see the comment for Item 3.2). The information presented at the General Meeting of Shareholders covers the professional experience of and offices/positions held by the candidates, also any other information evidencing a candidate's competence. The information on the offices held by the members of the Supervisory Board or their involvement in any other companies is collected, accumulated and disclosed in the annual report as well as the Company's website.</p>
<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of</p>	<p>Yes</p>	<p>The model of forming the Supervisory Board and the Board enables to ensure diverse competence of members with consideration to the specifics of activities pursued by the Group; also recommendations submitted by OECD regarding the formation of collegial bodies in state-owned companies are taken into consideration. The</p>



<p>members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly.</p> <p>The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>Supervisory Board and the Board have members with knowledge of energy activity, also competences in strategic management, risk management, finance, organisational development, and other skills, enabling them to ensure effective performance of the supervision and management functions.</p> <p>The Audit Committee has been formed in the Company which members have necessary knowledge in the fields of finance and audit.</p> <p>At least one member of the Nomination and Remuneration Committee has knowledge and experience in the field of determining remuneration and implementation of selection procedures.</p>
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities.</p> <p>The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Yes</p> <p>Yes</p>	<p>Members of the Supervisory Board (including also new members) are regularly informed on the Company's activity and changes in it, essential changes in the legal acts governing the Company's activity, also other circumstances affecting the Company's activity during meetings of the Supervisory Board and individually, subject to the need. The improvement of competence of members of the Supervisory Board is governed by the Supervisory Board Training Guidelines.</p> <p>At least once a year the Company's supervision and management bodies make an assessment of their activity where they identify the areas (if necessary) in which they should renew their knowledge and skills. To this end, the Company reserves a part of the budget funds under the procedure laid down in the Training Guidelines.</p>
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient¹¹ number of independent ⁵ members.</p>	<p>Yes</p>	<p>The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders.</p> <p>The Corporate Governance Guidelines and the Company's Articles of Association provide for that the Company's Supervisory Board is formed of 3 (three) members, of which at least 1/3 (one third) should be independent. As of the date of submitting this report, there are (three) independent members of the Supervisory Board out of the total 7 (seven) members. It is noteworthy that as of the date of submitting the</p>

⁵ The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance. ¹² It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

		Report, 6 members were elected to the Supervisory Board; therefore, the Supervisory Board consists of ½ of independent members.
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <p>He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</p> <p>He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</p> <p>He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance-based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p>	Yes	<p>According to the Company's Articles of Association, following the requirements provided by legal acts and the Company's good management practice, the criterion of independence is set by the General Meeting of Shareholders and assessed by the Selection Commission under the procedure established in the laws. While assessing the independency of members, reference is made to the requirements established in the Corporate Governance Code for companies listed on NASDAQ Vilnius, Item 64 of the Description of the procedure for implementing property and non-property rights of the State in state-owned companies (approved by resolution No 665 of the Government of the Republic of Lithuania on 6 June 2012).</p> <p>According to article 22 of the Company's Articles of Association, each candidate to members of the Supervisory Board must submit to the General Meeting of Shareholders a declaration of the candidate's interests, stating all the circumstances that may give rise to a conflict of interests between the candidate and the Company. Upon emergence of the new circumstances that may give rise to a conflict of interests between a member of the Supervisory Board and the Company, the member of the Supervisory Board shall immediately notify the Company, the Supervisory Board, and the General Meeting of Shareholders of such new circumstances in writing.</p>



<p>He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group;</p> <p>He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances..</p>	<p>Yes / No</p>	<p>The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders (see also the Comment for Item 3.6). According to the Corporate Governance Guidelines and the Company's Articles of Association, the criterion of independence is set by the General Meeting of Shareholders following the requirements provided by legal acts and Company's good management practice (see also the Comment for Item 3.7). The Corporate Governance Guidelines and the Company's Articles of Association also</p>



		lay down what persons may not be members of the Supervisory Board (CEO, a member of the supervision body, management body or administration of the legal entity engaged in electricity or gas transmission or production (generation), and any person who has no right to hold his office according to legal acts).
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	The formation of the Supervisory Board (and election of independent members) belongs to the competence of the General Meeting of Shareholders (see also the Comment for Item 3.6). The information on candidates elected independent members of the Supervisory Board is provided in interim and annual reports, as well as on Company's website.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Irrelevant	Until now there have not been occasions in the Company when the need to apply this recommendation has emerged. The agreement, concluded with the independent member of the Supervisory Board regarding activity as the independent member of the Supervisory Board, incorporates an obligation to notify the Company and the Supervisory Board in writing about any new circumstances that may give rise to a conflict of interests between the member of the Supervisory Board and the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds ⁶ . The general shareholders' meeting should approve the amount of such remuneration.	Yes	The independent member of the Supervisory Board is remunerated for his/her activity in the Supervisory Board according to the procedure and terms established in the agreement signed with him on activity as an independent member of the Supervisory Board.

⁶ It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the



		The conditions of the agreement with the independent member of the Supervisory Board are approved by the General Meeting of Shareholders. According to the Corporate Governance Guidelines, the amount of remuneration to the independent member of the Supervisory Board has been limited to a maximum amount of EUR 1, 014 (before taxes).
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring¹⁴ of the company's management bodies and protection of interests of all the company's shareholders.</p>		
<p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.⁷</p>	Yes	The Supervisory Board, the collegial body elected by the General Meeting of Shareholders, is responsible for efficient supervision of the Company's management bodies performance (it elects members of the Board and revokes them from office, submits proposals and responses to General Meeting of Shareholders concerning strategy of the Company, the Company's annual financial reports, profit (loss) allocation project, the Company's annual report, performance of the Board and the manager of the Company; submits to the Board of the Company proposals and responses concerning performance strategy of the Company, as well as budget of the performance, takes decisions on other questions attributed to the competence of the Supervisory Board by legal acts and Articles of Association).
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions, (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make</p>	Taip	Members of the Supervisory Board act in good will with respect to the Company, with due regard to the Company's interests and public welfare. Members of the Supervisory Board have the right to express their opinion concerning all questions included in the agenda that according to work regulations of the Supervisory Board must be properly reflected in the minutes of the meeting.

company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the only form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

⁷ See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.



<p>adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>		
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half¹⁶ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes</p>	<p>Members of the Supervisory Board are active participants of the meetings of the collegial body and devote sufficient time to perform their duties as members of the collegial body. In 2016 there were 14 (fourteen) Supervisory Board's meetings. All members of the Supervisory Board participated in more than half of the organized meetings. Members of the Supervisory Board also participated in activities of committees (Risk Management, Nomination and Remuneration, Audit Committees), submitted an opinion on issues relevant in activities of the Company).</p>
<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	<p>Collegial bodies of the Company follow the prescribed recommendations. Before taking decisions, members of the collegial bodies discuss their influence to the Company's performance and the shareholder. The Company's Articles of Association oblige the collegial bodies of the Company and also each of their members to act on behalf of the Company and its shareholders. Communication with the shareholders and obligations for them are established in accordance with requirements of legal acts. The Company's Supervisory Board informed the institution holding the rights of the Company's shareholder on its activity at least once (1) a quarter, submitted quarterly reports on the Company's performance.</p>
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body.</p> <p>The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Irrelevant</p>	<p>Agreements on activities in the Supervisory Board are made with members of the Supervisory Board at the decision of the General Meeting of Shareholders. Conditions of agreements with members and the Chairperson of the Board regarding their activity in the Board are set by the Supervisory Board. Conditions of the agreement with the manager of the Company are set by the Board. Collegial bodies of the Company conclude transactions and approve them by observing the requirements set in legal acts and the Company's Articles of Association. There have not been any transactions between the persons indicated in this recommendations and the Company.</p>



<p>committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>		
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	Yes	<p>According to the Corporate Governance Guidelines and the working procedure regulations, the Committees are aimed to ensure the advisory function, whereas the final decision is made by the Supervisory Board.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	Yes	<p>Committees consist of at least 3 members by involving also independent members. Chairpersons of the Supervisory Board and the Nomination and Remuneration Committee are independent members of the Supervisory Board.</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of</p>	Yes	<p>Committees are advisory bodies of the Supervisory Board. Their regulations are approved and members are appointed by the Supervisory Board. Committees prepare reports on their performance at least once every 6 (six) months that is delivered at the meeting of the Supervisory Board.</p>



<p>the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Yes / No</p>	<p>The number of meetings is not disclosed in the annual report; however, the Supervisory Board and the institution implementing the rights of the Company's shareholder inform on the main decisions adopted in them at least once every 6 months.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Yes</p>	<p>All chairpersons of committees are members of the Supervisory Board. The members of the Supervisory Board have the right to attend meetings of committees. If necessary, at the invitation of committees, particular employees or experts attend the meetings. Chairpersons of committees have a possibility to maintain direct relationships with the institution implementing the shareholder's rights.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive</p>	<p>Yes</p>	<p>The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and conform with, however, not limited to, the functions laid down in this principle. The Nomination and Remuneration Committee submits an opinion on candidatures to the management and supervision bodies of the Group's companies (if necessary, it may submit an opinion also regarding other candidatures). Decisions on the approval of such candidatures are adopted by the Supervisory Board. An opinion on the suitability of the mentioned candidatures is also submitted by the Company's Board (including the CEO).</p>

<p>directors or members of the board (if a collegial 15 body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>		
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company. 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation. 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 	<p>Yes</p>	<p>The main functions of the Nomination and Remuneration Committee are described in the Corporate Governance Guidelines and comply with, however, are not limited to, the functions listed in this principle. The Nomination and Remuneration Committee submits an opinion on the guidelines for the top-level management policy to the Supervisory Board. The Supervisory Board adopts decisions on the approval of such remuneration guidelines with consideration to the opinion of the Nomination and Remuneration Committee. The Committee does not participate in the General Meeting of Shareholders; however, the Supervisory Board and the institution implementing the rights of the shareholder are regularly (once every 6 months) informed about its activity.</p>



<p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other sharebased incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
--	--	--



<p>4.14. Audit Committee</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 	<p>Yes</p>	<p>The main functions of the Audit Committee are described in the Corporate Governance Guidelines and conform with, however, are not limited to, the functions laid down in this principle. Meetings of the Audit Committee are attended by the Head of the Internal Audit Unit, and, if necessary, by other employees when discussing specific issues. The Audit Committee also cooperates with other committees, and, if necessary, joint meetings are organised. If necessary, a meeting of the Audit Committee is attended by representatives of the company conducting an independent audit of financial statements. The Audit Committee submits an opinion on annual plans of internal audit that is approved by the Supervisory Board. The Internal Audit Unit informs the Audit Committee on the implementation of internal audit plans and submits reports. So far there has not been any need to examine employees' complaints on violations or suspicions. The Audit Committee submits its performance reports at least once every 6 months.</p>
---	------------	---



<p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate followup action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work</p>	<p>No</p>	<p>The Supervisory Board makes an assessment of its activity every year. The Supervisory Board assesses the organisation of meetings, efficiency, the need for competences, mutual cooperation, and sufficiency of the information furnished by the management</p>



<p>organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>		<p>for decision-making. Information on the working procedure regulations of the Supervisory Board, applied practices, adopted decisions is not published; however, the Supervisory Board informs the institution implementing the right of the Company's shareholder thereof at least once a quarter.</p>
<p>Principle V: The working procedure of the company's collegial bodies The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</p>		
<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	<p>Yes</p>	<p>The Supervisory Board and the Board are under the management of their chairpersons. The chairperson of the Supervisory Board is an independent member. Meetings are held according to a pre-set schedule and their regularity is abided by; if necessary, extraordinary meetings are organised. All members of collegial bodies have even opportunities to become familiar with information necessary for decision-making in advance.</p>
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.¹⁰</p>	<p>Yes</p>	<p>Meetings of collegial bodies proceed according to the pre-approved schedule. An annual plan of meetings and their agendas are formed for the Supervisory Board which, with consideration to activities of the group of Companies and processes going on in them, is supplemented in the course of the year. Meetings of the Supervisory Board are held once a month and of the Board – once a week. Members of the Supervisory Board suggest issues to be discussed during meetings. Members of the Supervisory Board are familiarised with activities pursued not only by the Company, but also those of separate companies of the Group.</p>

¹⁰ The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.



<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	<p>Members of the collegial body are informed on the agenda of a meeting in advance. The agenda of the future meeting is discussed at the end of the current meeting, and issues are included into the agenda of the future meeting by consensus. In the course of the meeting, the agenda is not usually changed. All members of collegial bodies receive the material necessary for decision-making on issues on the agenda in advance and have a possibility to become familiar with them, also to ask questions before the meeting and during the meeting; they have the right to suggest that materials of the issue discussed should be supplemented, or ask to specify it. All members of the collegial bodies are informed about any received comments or specification.</p>
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision making process, chairpersons of the company's collegial bodies of supervision and management should closely cooperate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>Yes</p>	<p>Meetings of the Supervisory Board are also attended by the Board of the Company. Dates and agenda of the meetings are coordinated in such a way that they could be attended by all members of collegial bodies. The Supervisory Board and the Board cooperate in forming agendas of the meetings by including relevant issues on activities of the Company or the Group's companies.</p>
<p>Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</p>		
<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>Yes</p>	<p>The Company's total authorised capital consists of ordinary nominal shares with a par value of EUR 0.29 each that grant equal property and non-property rights to all holders thereof.</p>
<p>6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.</p>	<p>Irrelevant</p>	<p>The rights carried by shares are specified in the Company's Articles of Association and are not different from those referred to in the Law on Companies of the Republic of Lithuania. The recommendation is not relevant, as the Company's sole shareholder is the state. Special legal regulation is applied for the acquisition of the Company's shares, as the Company is attributed to the companies having special significance for national security.</p>



<p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting¹¹. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p>	<p>Yes</p>	<p>The Company's transactions are made according to the order specified in the Law on Companies of the Republic of Lithuania and the Company's Articles of Association. Important transactions, setting up of new companies or change of the capital structure (increase, reduction, formation of share premiums) of separate companies of the Group, reorganization, etc., making important crediting transactions may be carried out only on approval by the General Meeting of Shareholders.</p>
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.</p>	<p>Yes</p>	<p>The Company convenes the General Meeting of Shareholders and implements other meeting-related procedures in accordance with the procedure established in the Law on Companies of the Republic of Lithuania.</p>
<p>6.5. If possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>Irrelevant</p>	<p>The Company's sole shareholder is the State. The rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania. There are no shareholders residing overseas; therefore, this recommendation is not relevant.</p>

¹¹ The Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company..



<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	<p>Yes</p>	<p>The institution implementing the rights of the Company's shareholder may exercise its right to attend the General Meeting of Shareholders under the procedure laid down in the legal acts and this right is not restricted.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	<p>Irrelevant</p>	<p>As the rights of the Company's shareholder are implemented by the Ministry of Finance of the Republic of Lithuania, the adoption of decisions at General Meetings of Shareholders takes place according to the internal procedures of the Ministry.</p>
<p>Principle VII: The avoidance of conflicts of interest and their disclosure The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</p>		
<p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</p>	<p>Yes</p>	<p>The Company does observe the recommendations. According to the Company's Articles of Association, each candidate to a member of the collegial body is obliged to provide a declaration of interest to the body electing him/her stating all of circumstances which could lead to a conflict of interests between the candidate and the Company. In the event a new circumstance emerge that may give rise to a conflict of interest between a member of the collegial body and the Company, a member of the Supervisory Board must immediately inform in writing the Company and the Supervisory Board of such new circumstances.</p> <p>Besides, according to the Company's Articles of Association, members of the Board may not have any other job or hold any other office that would be incompatible with their activity on the Board, including the holding of management positions in other legal entities (except for the position and work in the company or the Group of companies), work in civil service, statutory service. Members may hold any other position or have other job, except for the position held in the Company and other</p>



		legal entities the participant whereof the Company is, also engage in educational, creative, or authorship activity only on receipt of prior consent from the Supervisory Board.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	The Company does observe the recommendations.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The Company does observe the recommendations.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	According to the laws and the Company's legal acts regulating activities of members of the Company's Supervisory Board and management body, members of the Company's bodies are obliged to avoid situations when their personal interests are or may be in conflict with the Company's interests. They are also prohibited to vote, whenever the meeting decides on the issues related to their responsibilities or activities in the respective company body. Besides, measures for the management of the conflict of interest, including withdrawal during decision-making, and, where appropriate, also non-participation in a meeting when discussing particular issues are indicated in the declarations of interest.



Principle VIII: Company's remuneration policy

Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.

<p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p>	Yes / No	General information on the Company's salary policy and the average salary sizes for different groups of the Company's employees are published in the Company's interim and annual reports. The Company publicly announces salary fixed to members of the Company's management bodies, as well as any other benefits related with functions as members of the management bodies.
<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	No	See the comment for Item 8.1. The remuneration policy for the company's directors for the next and further years is not provided in the annual report. Information on the amounts of money (salaries, other benefits) calculated to members of the Company's bodies is furnished in interim and annual reports.
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none">1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;5) Sufficient information on deferment periods with regard to variable components of remuneration;6) Sufficient information on the linkage between the remuneration and performance;7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;	No	See the comment for Item 8.1. Information on the amounts of money calculated for members of the Company's bodies (salaries, other benefits, bonus shares, other payments from the profit), information on assigned property and other guarantees granted to members of the bodies, also other information related with remuneration to members of the bodies is furnished in the interim and annual reports.



<p>8) Sufficient information on the policy regarding termination payments;</p> <p>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</p> <p>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</p> <p>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</p> <p>13) Remuneration statement should not include commercially sensitive information.</p>		
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	No	See the comment for Item 8.1.
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <p>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</p> <p>2) The remuneration and advantages received from any undertaking belonging to the same group;</p> <p>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</p> <p>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</p>	No	See the comment for Item 8.1.



<p>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	<p>Yes</p>	<p>The determination and payment of the variable part of remuneration is regulated in the Company by the guidelines for remuneration to top-level executives approved by the Supervisory Board and applied at the Group level. A more detailed procedure is regulated by the policy of remuneration to top and middle-level executives.</p>



		<p>The variable part up to 30 percent of the annual fixed part of remuneration to the CEO is fixed by the Board of the Company. An opinion for such a decision is provided by the Company's Supervisory Board.</p> <p>It is noteworthy that uniform principles for the determination and payment of the variable part of remuneration are applied in the whole group of "Lietuvos energija", UAB companies.</p>
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	<p>The determination of the variable part of remuneration to executives and employees is linked with pre-approved goals of the Company and employees and depends on the achievement thereof.</p> <p>The variable part of remuneration to the CEO is allocated for achievement of goals (indicators). Goals (indicators) are set for the CEO and are approved by the Company's Board with consideration to the opinion of the Company's Supervisory Board.</p>
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	<p>The policy of remuneration to top and middle-level executives lays down that the variable part of remuneration to top-level executives is paid in (two) instalments: the first variable part of remuneration, constituting 80 percent of the total gross and allocated variable part of remuneration (for achieved goals (indicators) of the reporting period), is paid within 30 calendar days of taking a decision on the payment of the variable part of remuneration; the second variable part of remuneration, constituting 20 percent of the gross variable part of remuneration (for goals (indicators) achieved during the reporting period No. 1), seeking to ensure loyalty of the top-level executives to the Company and continuity of the performance results, is reserved and is payable in 1 (one) year within 30 calendar days of making a decision on the payment of the second variable part of remuneration, by paying it together with the 80 percent variable part of remuneration calculated for goals (indicators) achieved during the last reporting period.</p> <p>The procedure for determination of performance indicators for the CEO and calculation of the variable part of remuneration does not differ from the described one.</p>

<p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	<p>Irrelevant</p>	
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p>	<p>Yes</p>	<p>Severance compensations are calculated and paid in accordance with provisions of the Labour Code of the Republic of Lithuania.</p>
<p>8.11. Termination payments should not be paid if the termination is due to inadequate performance.</p>	<p>Yes</p>	<p>See the comment for Item 8.10.</p>
<p>8.12. The information on preparatory and decisionmaking processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p>	<p>No</p>	<p>See the comment for Item 8.1.</p>
<p>8.13. Shares should not vest for at least three years after their award.</p>	<p>Irrelevant</p>	
<p>8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.</p>	<p>Irrelevant</p>	
<p>8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).</p>	<p>Irrelevant</p>	



<p>8.16. Remuneration of non-executive or supervisory directors should not include share options.</p>	<p>Yes</p>	<p>Independent members of the Supervisory Board are paid the remuneration fixed in the Corporate Governance Guidelines. No other remuneration is paid to members of the Supervisory Board.</p>
<p>8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.</p>	<p>Irrelevant</p>	<p>See the comment for Item 8.1.</p>
<p>8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	<p>Irrelevant</p>	<p>See the comment for Item 8.1.</p>
<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	<p>Irrelevant</p>	<p>Remuneration consists of the main (fixed) and variable parts. No other remuneration has been provided for.</p>



<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. <p>Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</p>	Irrelevant	See the comment for Item 8.19.
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	Irrelevant	See the comment for Item 8.19.
<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	Irrelevant	See the comment for Item 8.19.
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the</p>	Irrelevant	See the comment for Item 8.19.



<p>share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on schemerelated expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>		
<p>Principle IX: The role of stakeholders in corporate governance The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>The Company's management system ensures that such rights of interest holders are respected which are protected by the law.</p>
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>	<p>Yes</p>	<p>The Company observes these recommendations when establishing the general rules applied to the Group of companies.</p> <p>Interest holders (e.g. trade unions of employees of daughter companies) may participate in the management of daughter companies to the extent provided for by the laws.</p>
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>Yes</p>	<p>The Company does observe these recommendations.</p>



Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none">1. The financial and operating results of the company;2. Company objectives;3. Persons holding by the right of ownership or in control of a block of shares in the company;4. Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;5. Material foreseeable risk factors;6. Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;7. Material issues regarding employees and other stakeholders;8. Governance structures and strategy. <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p>	<p>Yes</p>	<p>Information on the company's operation and financial results, strategy, members of the supervisory and management bodies and the CEO, remuneration fixed for members of the Company's supervision and management bodies, also other benefits associated with functions as members of management bodies is disclosed in the Company's annual and interim reports.</p> <p>Information specified in Items 4 and 6 of the recommendation is published to the extent compulsory under valid legal acts and requirements set for the preparation of annual financial statements.</p>
<p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p>	<p>Yes</p>	<p>The Company discloses the Group's consolidated results.</p>
<p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p>	<p>Yes</p>	<p>10.1 The information specified in Item 4 of the recommendation is published in the Company's annual report and on the Company's website.</p> <p>The Company makes public the salary to the Company's CEO and other benefits associated with the functions as members of the management bodies.</p>



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



Principle XI: The selection of the company's auditor

The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.

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



The background features a dark blue overlay with several financial data visualizations. On the left, there is a table with columns for 'High' and 'Low' values. On the right, there are two line charts. The top chart is titled 'EURUSD - 1,35379 - 00:00:00 14 giv (EEST)' and 'EURUSD (Bid), Ticks, # 300 / 300'. The bottom chart is titled 'Gold, spot - 1,276,820 - 23:00:00 13 giv (CEST)' and 'Gold, spot (Bid), 1 minute, # 159 / 300, Logarithmic, Heikin Ashi'.

INDEPENDENT AUDITOR'S REPORT



This version of our report is a translation from the original, which was prepared in Lithuanian language. 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 our report takes precedence over this translation.

Independent auditor's report

To the shareholder of Lietuvos Energija UAB

Our opinion

In our opinion, the stand-alone and consolidated financial statements present fairly, in all material respects, the stand-alone and consolidated financial position of the Lietuvos Energija UAB ("the Company") and its subsidiaries ("the Group") as at 31 December 2016, and their stand-alone and consolidated financial performance and their stand-alone and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's and Group's stand-alone and consolidated financial statements comprise:

- the stand-alone and consolidated statements of financial position as at 31 December 2016;
- the stand-alone and consolidated statements of profit and loss and other comprehensive income for the year then ended;
- the stand-alone and consolidated statement of changes in equity for the year then ended;
- the stand-alone and consolidated statement of cash flows for the year then ended; and
- the notes to the stand-alone and consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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



Other information

Management is responsible for the other information. The other information comprises the consolidated annual report (but does not include the stand-alone and consolidated financial statements and our auditor's report thereon).

Our opinion on the stand-alone and consolidated financial statements (together "the financial statements") does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.



The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
General Manager
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
3 April 2017

Vytenis Lazauskas
Auditor's Certificate No.000536

A background image showing a field of wind turbines under a clear blue sky. The turbines are silhouetted against the sky, and the ground is a flat, greenish field. The overall color palette is dominated by shades of blue and green.

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS



CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS

for the year ended 31 December 2016,
prepared according to International Financial Reporting Standards as adopted by the European Union,
presented together with independent auditor's report

The Company's and the Group's consolidated financial statements were approved by Lietuvos Energija UAB management and signed on 3 April 2017:

Dalius Misiūnas
Chief Executive Officer

Darius Kašauskas
Finance and Treasury Director

Giedruolė Guobienė
Verslo Aptarnavimo Centras UAB, Head of
Accounting Services Centre acting under Order No
IS17-20 of 22 February 2017

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

All amounts in EUR thousands unless otherwise stated

	Notes	Group	
		31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Intangible assets	5	32,261	21,539
Property, plant and equipment	6	1,770,814	1,631,117
Investment property	7	46,207	48,519
Amounts receivable after one year	9	203,582	244,426
Other non-current assets	10	2,620	3,288
Deferred income tax assets	20	5,699	6,488
Total non-current assets		2,061,183	1,955,377
Current assets			
Inventories	11	38,117	39,974
Prepayments	11	6,967	40,170
Trade receivables	12	111,884	107,066
Other amounts receivable	13,14	29,363	20,977
Other current assets	26	4,606	798
Prepaid income tax		589	5,757
Short-term investments	15	-	4,561
Cash and cash equivalents	16	178,565	164,341
		370,091	383,644
Non-current assets held for sale		878	209
Total current assets		370,969	383,853
TOTAL ASSETS		2,432,152	2,339,230

	Notes	Group	
		31 December 2016	31 December 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	17	1,212,156	1,212,156
Reserves	18	92,171	91,148
Retained earnings (accrued deficit)		(35,952)	(49,264)
Equity attributable to owners of the parent		1,268,375	1,254,040
Non-controlling interests		51,172	50,445
Total equity		1,319,547	1,304,485
Liabilities			
Non-current liabilities			
Non-current borrowings	19	364,957	277,805
Finance lease liabilities		316	473
Grants and subsidies	21	284,929	296,437
Deferred income tax liabilities	20	40,481	26,648
Provisions	23	3,254	5,084
Deferred revenue	22	52,214	53,602
Other non-current amounts payable and liabilities	24	11,780	9,033
Total non-current liabilities		757,931	669,082
Current liabilities			
Current portion of non-current borrowings	19	90,008	99,023
Current borrowings	19	38,953	43,232
Current portion of finance lease liabilities		157	155
Trade payables	25	96,118	92,119
Advance amounts received		27,636	39,386
Income tax liabilities		9,355	1,314
Provisions	23	12,883	23,333
Other current amounts payable and liabilities	26	79,564	67,101
Total current liabilities		354,674	365,663
Total liabilities		1,112,605	1,034,745
TOTAL EQUITY AND LIABILITIES		2,432,152	2,339,230

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

All amounts in EUR thousands unless otherwise stated

	Notes	Company	
		31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	348	286
Investments in subsidiaries	8	1,172,187	1,102,286
Amounts receivable after one year	9	196,511	238,975
Deferred income tax assets	20	93	50
Total non-current assets		1,369,139	1,341,597
Current assets			
Prepayments	12	5,011	6
Other amounts receivable	13,14	14,294	4,760
Prepaid income tax		160	-
Short-term investments	15	4,902	4,561
Cash and cash equivalents	16	73	13,179
		24,440	22,506
Non-current assets held for sale		4,782	77
Total current assets		29,222	22,583
TOTAL ASSETS		1,398,361	1,364,180

	Notes	Company	
		31 December 2016	31 December 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	17	1,212,156	1,212,156
Reserves	18	9,758	4,255
Retained earnings (accumulated deficit)		75,699	83,289
Total equity		1,297,613	1,299,700
Liabilities			
Non-current liabilities			
Non-current borrowings	19	23,440	-
Other non-current amounts payable and liabilities	24	9,358	17,873
Total non-current liabilities		32,798	17,873
Current liabilities			
Current portion of non-current borrowings	19	2,131	-
Current borrowings	19	64,759	-
Trade payables	25	343	443
Advance amounts received		-	28
Income tax liabilities		-	223
Other current amounts payable and liabilities	26	717	45,913
Total current liabilities		67,950	46,607
Total liabilities		100,748	64,480
TOTAL EQUITY AND LIABILITIES		1,398,361	1,364,180

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2016	2015	2016	2015
Revenue					
Revenue	27,38	1,070,542	1,048,021	1,802	1,992
Other revenue	28	31,088	47,745	2	2
Dividends	35	-	-	69,525	93,825
Total revenue		1,101,630	1,095,766	71,329	95,819
Operating expenses					
Purchases of electricity, gas for trade and related services	29	(691,738)	(761,490)	-	-
Purchases of gas and heavy fuel oil for production		(35,689)	(12,511)	-	-
Depreciation and amortisation	5,6,21	(78,518)	(74,237)	(3)	(3)
Wages and salaries and related expenses		(86,065)	(93,705)	(3,372)	(2,735)
Repair and maintenance expenses		(22,765)	(27,196)	-	-
Revaluation of Property, plant and equipment, and investment property	6,7	336	(1,277)	-	-
Reversal of impairment of investments in subsidiaries	8	-	-	20,869	16,216
Impairment of Property, plant and equipment	6	(566)	(30,133)	-	-
Other expenses	30	(39,274)	(30,124)	(5,973)	(1,771)
Total operating expenses		(954,279)	(1,030,673)	11,521	11,707
Finance income	31	3,720	5,632	13,526	6,060
Finance costs	32	(6,856)	(6,549)	(1,232)	(2,321)
Profit (loss) before tax		144,215	64,176	95,144	111,265
Current year income tax expense	34	(13,373)	(2,140)	(23)	(262)
Deferred income tax (expense)/benefit	20, 34	(12,404)	(6,740)	34	14
Net profit (loss)		118,438	55,296	95,155	111,017
Attributable to:					
Owners of the parent		108,105	49,216	95,155	111,017
Non-controlling interests		10,333	6,080	-	-

	Notes	Group		Company	
		2016	2015	2016	2015
Other comprehensive income (loss)					
Items that will not be reclassified subsequently to profit or loss					
Gain (loss) on revaluation of non-current assets		385	1,080	-	-
Items that will not be reclassified subsequently to profit or loss, total		385	1,080	-	-
Items that will be reclassified subsequently to profit or loss					
Change in fair value of available-for-sale financial assets		(48)	(26)	(48)	(26)
Items that will be reclassified subsequently to profit or loss, total		(48)	(26)	(48)	(26)
Other comprehensive income (loss)		337	1,054	(48)	(26)
Total comprehensive income (loss) for the year		118,775	56,350	95,107	110,991
Attributable to:					
Owners of the parent		108,442	50,256	95,107	110,991
Non-controlling interests		10,333	6,094	-	-



STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Group	Notes	Equity attributable to owners of the Group					Subtotal	Non-controlling interest	Total
		Share capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings			
Balance at 1 January 2015		1,210,568	24,362	67,630	47	(42,547)	1,260,060	48,830	1,308,890
Revaluation of property, plant and equipment, net of deferred income tax		-	-	1,066	-	-	1,066	14	1,080
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	(26)	-	(26)	-	(26)
Total other comprehensive income (loss) for the year		-	-	1,066	(26)	-	1,040	14	1,054
Net profit (loss) for the year		-	-	-	-	49,216	49,216	6,080	55,296
Total comprehensive income (loss) for the year		-	-	1,066	(26)	49,216	50,256	6,094	56,350
Transfer of revaluation reserve to retained earnings (net of deferred income tax)		-	-	(6,614)	-	6,614	-	-	-
Transfer to reserves and movement in reserves		-	4,413	-	27	(4,440)	-	9	9
Dividends	35	-	-	-	-	(57,844)	(57,844)	(4,191)	(62,035)
Share capital conversion result	17	1,588	-	-	-	-	1,588	-	1,588
Acquisition of shares from non-controlling interest		-	2	141	-	(166)	(23)	(297)	(320)
Correction of previous year errors for Kauno Energetikos Remontas UAB		-	-	100	-	(97)	3	-	3
Balance at 31 December 2015		1,212,156	28,777	62,323	48	(49,264)	1,254,040	50,445	1,304,485
Balance at 1 January 2016		1,212,156	28,777	62,323	48	(49,264)	1,254,040	50,445	1,304,485
Revaluation of property, plant and equipment, net of deferred income tax		-	-	385	-	-	385	-	385
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	(48)	-	(48)	-	(48)
Total other comprehensive income (loss) for the year		-	-	385	(48)	-	337	-	337
Net profit (loss) for the year		-	-	-	-	108,105	108,105	10,333	118,438
Total comprehensive income (loss) for the year		-	-	385	(48)	108,105	108,442	10,333	118,775
Transfer of revaluation reserve to retained earnings (net of deferred income tax)		-	-	(5,523)	-	5,523	-	-	-
Transfer to reserves and movement in reserves		-	5,768	-	-	(5,768)	-	-	-
Dividends	35	-	-	-	-	(97,194)	(97,194)	(3,453)	(100,647)
Acquisition of subsidiary (EURAKRAS UAB)	33	-	-	-	-	-	-	5,199	5,199
Change in non-controlling interest on reorganisation	18	-	85	284	-	9	378	(378)	-
Acquisition of shares from non-controlling interest	8	-	66	6	-	2,637	2,709	(11,764)	(9,055)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB	8	-	-	-	-	-	-	790	790
Balance at 31 December 2016		1,212,156	34,696	57,475	-	(35,952)	1,268,375	51,172	1,319,547



STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Company	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2015		1,210,568	-	74	34,323	1,244,965
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	(26)	-	(26)
Total other comprehensive income (loss) for the year		-	-	(26)	-	(26)
Net profit for the year		-	-	-	111,017	111,017
Total comprehensive income for the year		-	-	(26)	111,017	110,991
Transfer to reserves		-	4,207	-	(4,207)	-
Dividends	35	-	-	-	(57,844)	(57,844)
Share capital conversion effect	17	1,588	-	-	-	1,588
Balance at 31 December 2015		1,212,156	4,207	48	83,289	1,299,700
Balance at 1 January 2016		1,212,156	4,207	48	83,289	1,299,700
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	(48)	-	(48)
Total other comprehensive income (loss) for the year		-	-	(48)	-	(48)
Net profit for the year		-	-	-	95,155	95,155
Total comprehensive income for the year		-	-	(48)	95,155	95,107
Transfer to reserves		-	5,551	-	(5,551)	-
Dividends	35	-	-	-	(97,194)	(97,194)
Balance at 31 December 2016		1,212,156	9,758	-	75,699	1,297,613



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2016	2015	2016	2015
Cash flows from operating activities					
Net profit for the year		118,438	55,296	95,155	111,017
Adjustments for non-monetary expenses (income):					
Depreciation and amortisation	5,6	90,925	86,439	3	3
Impairment of intangible assets and property, plant and equipment	6,21	566	30,133	-	-
Impairment of financial assets		1,019	(2,289)	-	-
Revaluation of investment property	7	(214)	1,407	-	-
Result of revaluation of property, plant and equipment		(122)	(130)	-	-
Revaluation of derivative financial instruments	26	(2,036)	-	-	-
Impairment of investments in subsidiaries and associates/(reversal)	30	-	-	(20,869)	(16,216)
Share of (profit) of associates and joint ventures	8	-	13	-	-
(Gain) loss on disposal of investments in subsidiaries and associates		-	(21)	-	-
Income tax expense (benefit)	34	25,777	8,880	(11)	248
(Depreciation) of grants	21	(12,407)	(12,202)	-	-
Increase (decrease) in provisions		(10,481)	13,819	-	-
Inventory write-down expenses (income)	11	275	(1,077)	-	-
(Gain) loss on disposal/write-off of non-current assets (other than financial assets)		2,285	3,710	(9)	-
Emission allowance revaluation expenses (income)		3,346	(370)	-	-
Emission allowances utilised	5	1,742	2,992	-	-
Elimination of results of financing and investing activities:					
Interest (income)	31	(2,858)	(4,957)	(3,871)	(6,060)
Interest expenses	32	5,760	4,456	732	419
Other finance (income) costs		234	1,418	(78,680)	(91,923)
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		3,803	26,902	3,265	(3,315)
(Increase) decrease in inventories, prepayments and other current assets		31,057	(16,209)	(5)	(3)
Increase (decrease) in amounts payable, deferred income and advance amounts received		(3,188)	(60,158)	1,191	322
Income tax (paid)		(2,229)	(12,624)	(255)	-
Net cash flows from (used in) operating activities		251,692	125,428	(3,354)	(5,508)
Cash flows from investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(172,946)	(148,722)	(65)	(280)
Disposal of property, plant and equipment and intangible assets		4,327	306	-	-
Loans (granted)	9,15	-	-	(5,191)	-
Loan repayments received		29,201	96	29,500	-
(Acquisition) disposal of investments in subsidiaries and associates	8, 26	(27,378)	125	(104,726)	(54,627)
Grants received		2,157	9,362	-	-
Bonds redeemed		4,534	145	4,534	131
Interest received		2,858	4,629	4,289	6,507
Change in non-controlling interest resulting from changes in the Group's structure		-	(320)	-	-
Dividends received	35	-	-	69,525	93,825
Net cash flows from (used in) investing activities		(157,247)	(134,379)	(2,134)	45,556
Cash flows from financing activities					
Proceeds from borrowings		172,189	282,048	90,330	-
Repayments of borrowings		(96,689)	(282,031)	-	-
Finance lease payments		(155)	120	-	-
Interest paid		(5,760)	(4,329)	(754)	(372)
Dividends paid	35	(100,537)	(62,035)	(97,194)	(57,844)
Increase in share capital of Kauno Kogeneracinė Jėgainė UAB		1,317	-	-	-
Acquisition of non-controlling interest		(9,055)	-	-	-
Net cash flows from (used in) financing activities		(38,690)	(66,227)	(7,618)	(58,216)
Increase (decrease) in cash and cash equivalents (including overdraft)		55,755	(75,178)	(13,106)	(18,168)
Cash and cash equivalents (including overdraft) at the beginning of the year	16	122,810	197,988	13,179	31,347
Cash and cash equivalents (including overdraft) at the end of the year	16	178,565	122,810	73	13,179



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

1 General information

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

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

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

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

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

Company’s shareholder	31 December 2016		31 December 2015	
	Share capital	%	Share capital	%
Republic of Lithuania represented by the Lithuanian Ministry of Finance	1,212,156	100.00	1,212,156	100.00

As at 31 December 2016, the Group and the Company had 4,859 and 103 employees, respectively (31 December 2015: 5,379 and 78 employees, respectively).

The Company’s management approved these financial statements on 3 April 2017. The Company’s shareholders have a statutory right to approve or not to approve these financial statements and require that management prepare a new set of financial statements.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Company’s and the Group’s financial statements for the year ended 31 December 2016 are summarized below.

2.1 Basis of preparation

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

The Group’s and the Company’s financial statements as at and for the year ended 31 December 2016 have been prepared on a historical cost basis, except for property, plant and equipment measured at revalued amount, investment property, emission allowances and certain financial instruments measured at fair value.

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 were relevant to the Group and the Company and were adopted for the first time in the financial year ended 31 December 2016:

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. The changes did not have material impact on the financial statements.

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. The Group has considered the clarification and concluded that it follows the clarification, therefore no impact.

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. The Group and the Company have considered the clarification and concluded that there no entities, providing key management personnel services to the Group and the Company, therefore the amendment did not have impact on the financial statements.

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. The clarification did not impact on the Group and the Company as depreciation and amortisation are calculated on a straight-line basis.

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 has considered the amendment and decided to keep the existing accounting policies.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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. The Group and the Company have reviewed disclosures in the financial statements and eliminated immaterial items.

Other standards, amendments and interpretations effective for annual periods beginning on 1 January 2016 were not relevant for the Group/Company:

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

Other new standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2017 that have not been adopted in 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.

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 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 Unrealized 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 unrealized losses on debt instruments. The entity will have to recognise deferred tax asset for unrealized 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

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 license 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.

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 organizations 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 recognizes the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework.

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

2.2 Consolidation

Consolidation

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

consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

Business combinations

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

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

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

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

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

2.3 Investments in subsidiaries (Company)

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

2.4 Investments in associates

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

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

In the consolidated financial statements of the Group results of operations, assets and liabilities of associates are accounted for using an equity method, except when the investment is classified as held-for-sale and it is recognised according to IFRS 5 'Non-current assets held for sale and discontinued operations'. Under the equity method, on initial recognition the investment in an associate is recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the associate after the date of acquisition. The Group's share of the associate profit or loss is recognised in the Group's profit or loss. Distributions received from an associate reduce the carrying amount of the associate. Adjustments to the carrying amount are also performed for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income.

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.6 Property, plant, and equipment

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

subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at the end of the reporting period. Any accumulated depreciation and impairment losses at the date of revaluation are eliminated against gross carrying amount of the asset and net amount is restated to the revalued amount of the assets.

Cost includes replacement costs of components of property, plant and equipment when incurred and when these costs meet the recognition criteria of property, plant and equipment.

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

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

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

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

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

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

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

2.7 Intangible assets

(a) Patents and licenses

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

For the License acquired in business combination (License to produce electricity with incentive rate), useful life is determined to be 11 years.

(b) Computer software

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

(c) Emission allowances

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

(d) Other intangible assets

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

2.8 Impairment of non-financial assets

At each reporting date, the Group/Company reviews the book values of its property, plant and equipment and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is

estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, otherwise they are allocated to the smallest groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

2.9 Investment property

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

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

2.10 Non-current assets held for sale

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

2.11 Financial assets

The Group/Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans granted and receivables. The classification of financial assets is based on the purpose of financial assets acquired, the



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

management's intentions and whether the investments are quoted in active market. The management determines the classification of financial assets at initial recognition.

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

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

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

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

Loans and receivables

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

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

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

Impairment of financial assets

At each reporting date the Group and the Company assess whether there is an indication that financial assets may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic

conditions that correlate with defaults. For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows, estimated using the original effective interest rate.

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

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

Derecognition of financial assets

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

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

2.12 Derivative financial instruments

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

2.13 Inventories

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

2.14 Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand deposits held at call with banks and other short-term highly liquid investments with original maturities



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

of three months or less, and bank overdrafts. Bank overdrafts are shown under liabilities within current borrowings in the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity.

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

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

2.16 Trade payables

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

2.17 Borrowings

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

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

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

2.18 Income tax and deferred income tax

Income tax

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

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

In 2016 and 2015, a standard income tax rate of 15% was applicable to the companies in Lithuania.

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

and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax

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

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

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

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

Current and deferred income tax

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

2.19 Employee benefits

Social security contributions

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

Termination benefits

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

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

Long-term employee benefits

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

2.20 Provisions

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

Provisions for onerous contract

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

2.21 Revenue and expense recognition

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

Revenue from sale of electricity to end customers

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

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

estimate is based on historical experience and average payment for electricity period by the customers.

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

Regulation of tariffs and profitability

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

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

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

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

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

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

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

Tariffs for import and export of electricity are not regulated.

Revenue from provision of PSO services

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

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

The Group's subsidiary, which is a distribution network operator, collects PSO service fees from users at tariffs established by the Commission and transfers the fees to the electricity transmission system



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

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

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

Revenue from distribution and supply of natural gas

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

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

Revenue from supply of liquefied natural gas

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

Revenue from the LNGT security component

Due to changes in regulations, the approved market price for liquefied natural gas for 2016 is lower than its actual cost; the difference is compensated by the Liquefied Natural Gas Transmission (LNGT) security component. Revenue from the LNGT security component is considered to be part of regulated revenue and is recognised with reference to the reports received from natural gas transmission system operator (hereinafter "TSO") who administers collection and distribution of these payments.

Pursuant to Article 5.2 of the Law on LNG Terminal, all users of natural gas transmission system (including the end users) are required to pay additional security component together with other fees payable for natural gas transmission services. The payments are collected by the TSO directly from the consumers or from natural gas suppliers in case the consumers have no direct contracts with the TSO. The Commission decides annually on the amount of the security component in proportion to the

quantities of natural gas consumed by the users (either through direct consumption or resale). Based on the Commission's Resolution, part of the collected TSO funds are transferred to the Group.

Reload and storage services

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

Construction contracts

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

Income from new customer connection

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

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

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

Revenue from sale of services

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

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

Income from sale of goods

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

Interest income

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Dividend income

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

Lease income

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

Expense recognition

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

2.22 Emission allowances

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

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

Intangible assets

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

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

Government grant

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

Provision for the utilisation of emission allowances

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

Lending of emission allowances

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

2.23 Leases

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

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

Where the Company and (or) the Group are lessors

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

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

Where the Company and (or) the Group are lessees

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

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

2.24 Grants and subsidies

Asset-related grants

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

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

Income-related grants

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

2.25 Dividend distribution

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

2.26 Contingencies

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

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

2.27 Events after the reporting period

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

2.28 Related parties

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

2.29 Inter-company offsetting

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

2.30 Fair value

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

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

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

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

2.31 Segment reporting

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

2.32 Financial guarantee contracts

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

2.33 Put option arrangements

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

3 Financial risk management

3.1 Financial risk factors

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

Market risk

Foreign exchange risk

As from 1 January 2015, Lithuania adopted euro as its official currency. Group's/Company's purchases and sales are mostly denominated in euros. Transactions denominated in other currencies (USD) are insignificant at the Group and Company level.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

In 2016, the Group companies did not use any derivative financial instruments intended to manage the foreign exchange risk.

Interest rate risk

The Group's income and cash flows are affected by fluctuations in market interest rates because the Group's loans and borrowings had fixed and variable interest rates as of 31 December 2016. The Group has financial assets measured amortised costs with fixed interest rates, therefore, it is exposed to interest rate risk.

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

Group	Increase/decrease, percentage points	(Decrease)/increase in profit
2016	+0.3/-0.3	(63)/63
2015	+0.3/-0.3	(42)/42

Company	Increase/decrease, percentage points	(Decrease)/increase in profit
2016	+0.3/-0.3	56/(56)
2015	+0.3/-0.3	51/(51)

As at 31 December 2016 the Group and the Company had valid interest rate swaps (Note 26) that were concluded with the purpose to manage interest risk attributable to long-term bank loans (Note 19).

Fair values of financial instruments

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

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

The carrying amount of the Group's and the Company's financial assets and financial liabilities approximated their fair value except for borrowings of the Group company Lietuvos Energijos Gamyba AB (Note 19) and amounts receivable on disposal of Litgrid AB (Notes 9, 13).

As at 31 December 2016, the carrying amount of the Group's and the Company's amounts receivable on disposal of Litgrid AB (Notes 9, 13) was equal to EUR 205,793 thousand (31 December 2015: EUR 238,975 thousand), and the fair value amounted to approx. EUR 203,004 thousand (31 December 2015: EUR 247,350 thousand). The fair value was determined on the basis of discounted cash flows using a discount rate of 1,43% (31 December 2015: 1.00%). Their fair value is attributed to Level 3 in the fair value hierarchy.

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

a) The carrying amount of current trade and other receivables, current trade and other payables and current interest-bearing borrowings approximates their fair value.

b) The fair value of non-current interest-bearing borrowings (including current and non-current portion) is estimated by discounting contractual future cash flows at interest rate established based on the quoted market price for the same or similar loans or on the current rates available for debt with the same maturity profile. The fair value of the mentioned borrowings, except for borrowings of Lietuvos Energijos Gamyba AB (Note 19) and amounts receivable from Epsco-G UAB on sale of Litgrid AB, approximates their carrying amounts.

Credit risk

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

The Group is not exposed to significant credit risk concentration related to trade receivables and other amounts receivable. Principally all trade receivables and other amounts receivable of the Company are due from related parties (see Note 37). 31 December 2016 other receivables of the Company and the Group principally consist of the EPSO-G outstanding receivables for sale of Litgrid AB shares in 2012 (Notes 4,9,13).

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

The credit risk on cash in banks is limited because the Group and the Company conduct transactions with the banks with high credit ratings assigned by international credit rating agencies. The Group and the Company hold cash balances and time deposits in accounts of the major banks in Lithuania assigned with a long-term credit rating not lower than 'A-' according to the rating agency Fitch Ratings.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The maximum exposure to credit risk as at 31 December 2016 and 31 December 2015 was equal to the carrying amount of financial assets and nominal amounts of guarantees.

	Note	Group		Company	
		2016	2015	2016	2015
Loans and receivables:					
Trade receivables	12	111,884	107,066	-	-
Financial lease	14	9,590	3,262	-	-
Amounts receivable on emission allowances lent	9	157	214	-	-
Other non-current receivables less impairment	9	1,409	2,028	40	-
Accrued revenue for gas and electricity sales	9,13	6,367	10,880	-	-
Amount receivable on revision of Kauno energetikos remontas UAB shares price	13	-	-	1,067	-
Other amounts receivable less impairment	13	3,618	3,695	1,016	4,549
Loan receivables	9,15	599	29,765	7,802	29,000
Amount receivable on disposal of Litgrid AB	9,13	205,793	209,975	205,793	209,975
Available-for-sale financial assets:					
Government bonds	15	-	4,534	-	4,534
Financial assets at fair value through profit or loss					
Derivative financial instruments	26	4,606	-	-	-
Cash and cash equivalents	16	178,565	122,810	73	13,179
		522,588	494,229	215,791	261,264
Off-balance sheet commitments:					
Open guarantees issued	36	-	-	35,830	67,430
Total		522,588	494,229	251,621	328,694

Liquidity risk

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

As at 31 December 2016, the Group's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 1.046 and 0.938, respectively (31 December 2015: 1.05 and 0.94, respectively).

31 December 2016 the Company's current ratio (total current assets / total current liabilities) was 0.43. Given that at 31 December 2016, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 71,052 thousand (Note 19) the Company's management considers as appropriate application of the going concern principle to the Company's financial statements.

The guarantee issued by the Company to LITGAS UAB in the amount of EUR 67,430 thousand as at 31 December 2015 was intended to serve as a security under the credit facility agreements signed by LITGAS UAB with the credit institutions and under the long-term liquefied natural gas (LNG) purchase agreements signed with the LNG suppliers. The guarantee expired on 23 February 2016.

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

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

	Reference to undiscouted cash flows	Group		Company	
		2016	2015	2016	2015
Financial liabilities measured at amortised cost					
Borrowings (Note 19)	a	493,918	420,060	90,330	-
Finance lease liabilities	b	473	628	-	-
Non-current trade payables (Note 24)	c	813	1,529	-	-
Trade payables (Note 25)	d	96,118	92,119	343	443
Amounts payable for property, plant and equipment (Note 26)	e	34,149	31,994	45	-
Current amounts payable for acquired shares of subsidiaries (Note 26)	f	-	-	-	45,552
Put option redemption liability	g	4,481	-	-	-
Other amounts payable and liabilities (Note 26)	h	4,244	3,425	49	361
Financial liabilities at fair value through profit or loss					
Non-current amounts payable for the acquired shares of subsidiaries (Note 24)	i	-	-	9,272	17,819
Derivative financial instruments (Note 26)	j	3,758	-	15	-
Off-balance sheet commitments:					
Open guarantees issued	k	-	-	35,830	67,430
Total		640,003	549,881	135,869	131,605



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

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

Group	2016				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities (a, b)	10,312	122,565	304,171	70,002	507,050
Trade payables (c, d)	55,458	40,660	813	-	96,931
Other amounts payable (e-h)	38,393	4,481	-	-	42,874
Derivative financial instruments (j)	-	3,758	-	-	3,758
At 31 December 2016	104,163	171,464	304,984	70,002	650,613

Group	2015				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities (a, b)	60,067	87,945	224,223	60,661	432,896
Trade payables (c, d)	91,954	255	674	765	93,648
Other amounts payable (e-h)	32,507	2,912	-	-	35,419
Derivative financial instruments (i)	-	-	-	-	-
At 31 December 2015	184,528	91,112	224,897	61,426	561,963

Company	2016				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities (a, b)	696	66,595	11,531	13,067	91,889
Trade payables (c, d)	343	-	-	-	343
Other amounts payable (e,h)	45	-	-	-	45
Payables for acquired shares of subsidiaries (i)	-	-	9,272	-	9,272
Derivative financial instruments (j)	-	-	15	-	15
Open guarantees issued (k)	35,830	-	-	-	35,830
At 31 December 2016	36,914	66,595	20,818	13,067	137,394

Company	2015				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities (a, b)	-	-	-	-	-
Trade payables (c, d)	443	-	-	-	443
Other amounts payable (e,g)	361	-	-	-	361
Payables for acquired shares of subsidiaries (f,h)	-	45,552	17,819	-	63,371
Derivative financial instruments (i)	-	-	-	-	-
Atviroso garantijos (k)	67,430	-	-	-	67,430
At 31 December 2015	68,234	45,552	17,819	-	131,605

3.2 Capital risk management

Pursuant to the Lithuanian Law on Companies, the authorised share capital of a public limited liability company must be not less than EUR 40 thousand, the authorised share capital of a private limited liability company must be not less than EUR 2.5 thousand, and the shareholders' equity must be not lower than 50% of the company's authorised share capital. As at 31 December 2016 and 2015, the Company and all Group companies, except for Energetikų Mokymo Centras VŠĮ (Public Institution Training Centre for Energy Specialists), complied with these requirements. The latter company has obtained a confirmation from the Company certifying that financial support will be provided for not less than 12 months after the approval of its financial statements.

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

On 27 December 2016, the Board of Lietuvos Energija UAB group approved a common dividend policy, which sets uniform principles for the payment of dividends for all the group companies. The dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by the Company and the Group companies will depend on the ratio of return on equity and net profit earned. According to the dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for the payment of dividends, implementation of economic projects important for the State and other circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period. A company is not obliged to distribute dividends when it incurs net loss. the Company and the Group companies will not pay any dividends when its financial debts at the end of the reporting period are equal to or exceed four times EBITDA amount for the last twelve months as from the end of the reporting period. Dividends will not be paid if 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 the Company and/or the Group companies becomes insolvent or would become insolvent upon payment of dividends. the Company and the Group companies will also be able not to pay dividends if its ratio of financial debts-to-equity becomes equal to or exceeds 1.0



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

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

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

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

Revaluation of property, plant and equipment

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

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

Recent revaluations by the group of assets were performed:

Group	Recent revaluation performed
Land	2013
Buildings	2016
Structures and machinery	2014
Motor vehicles	2014
Other property, plant and equipment	2014
Construction in progress	2014

In 2016 the Group has performed revaluation of Buildings. Revaluations were performed by independent valuer using the comparable sales price approach and the income approach. Based on revaluation results value increase of EUR 575 thousands was recognised. Detailed revaluation results are disclosed in Note 6.

As at 31 December 2016, other Group assets stated at revalued amounts were not revalued, because there were no indications of a significant difference between the net book amount and market value of assets stated at revalued amount.

In 2016 the Group has performed a separate assessment for Buildings, Structures and machinery and construction in progress which are employed in electricity supply and distribution activities performed by subsidiary Energijos Skirstymo Operatorius, AB, i.e. the assessment whether there is an indication, that market value of these assets has changed significantly due to internal or external factors. The carrying amount of assessed assets was EUR 849 million as at 31 December 2016. The fair value of these assets was tested by making cash flow forecast for the period until 2056, because the electricity supply activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – electricity lines (useful life of 40 years).

Key assumptions used in making cash flow forecast in 2016 were as follows:

1. When setting the price cap for electricity distribution services for 2017 in its Report of 14 October 2016, the NCC approved the rate of return on investments equal to 4.94% for this period. This rate is used to determine return on investments for the period 2017–2020. The rate of return on investments of 4.32% is applied to the entire remaining cash flow forecast period (based on calculation data publicly available on the NCC's website);
2. A pre-tax discount rate of 5.53% was used for discounting cash flows;
3. Operating expenses of Energijos Skirstymo Operatorius AB for the period 2017–2025 are planned with reference to long-term plans approved by Energijos Skirstymo Operatorius AB. Starting from 2026, changes are planned in view of the projected changes in the average annual consumer price index and work pay;
4. Part of operating expenses incurred by Energijos Skirstymo Operatorius AB is not included in the regulated prices of distribution and supply activities in accordance with the provisions of the Electricity Description;
5. It is considered that additional profit will be earned during different regulatory periods as a result of the planned operational efficiency of Energijos Skirstymo Operatorius AB (such possibility is established by law);
6. Investments are shown for the period 2017–2020 under the approved strategy of Energijos Skirstymo Operatorius AB, and for the period 2021–2025 under the approved ten-year investment plan. Starting from 2026, investments are reduced proportionately in the electricity operating segment assuming that all items of technological assets that are currently depreciated or will become depreciated over the period until 2055 will be recovered until 2055;
7. The cost of capital (return on investments and depreciation of non-current assets) is calculated and considered when determining the prices of distribution services for other regulatory periods in accordance with the long-run average incremental cost (LRAIC) model approved by the the Commission;
8. Possible positive cash flows from ongoing legal disputes were not included in the assessment by Energijos Skirstymo Operatorius AB.

Having performed the fair value test, the Group concluded that there would be an immaterial increase (up to 5%) in the carrying amount of property, plant and equipment used in the electricity supply and distribution (EUR 849 million) and accordingly decided not to make any adjustments to the fair value of assets. Sensitivity analysis for these assets as of 31 December 2016 is presented below:

Sensitivity analysis scenario I : Establishment of the level of revenue as from 2021 and introduction of a 10% lower rate of return on investments equal to 3.89% by the Commission would result in decrease in the fair value of property, plant and equipment as of 31 December 2016 down to EUR 757 million during the forecast period.

Sensitivity analysis scenario II: Changes in the current regulatory environment and the Commission's abolishment of possibilities to generate additional profit due to operational efficiency would result in decrease in the fair value of property, plant and equipment as of 31 December 2016 down to EUR 832 million.

Value assessment was also performed for Buildings, Structures and machinery and construction in progress with carrying value of EUR 756 million as at 31 December 2015 which are employed in electricity supply and distribution activities and no significant change in fair value was identified. Key assumptions used in making cash flow forecast in 2015 are described in subsection "LESTO AB and Lietuvos Dujos AB as at 31 December 2015".

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Impairment of property, plant and equipment carried using the cost method

The Group accounts for Gas distribution pipelines, Gas technological equipment and installations, Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant, Structures and machinery of Thermal Power Plant, Wind power plants and IT and telecommunication equipment at cost. In 2016 and 2015 the Group considered impairment of property, plant and equipment as described below.

a) Review for impairment of Gas distribution pipelines, Gas technological equipment and installations

Gas distribution pipelines, Gas technological equipment and installations are managed by Company subsidiary Energijos Skirstymo Operatorius, AB. In 2016 the recoverable amount of these assets was tested for impairment by making cash flow forecast for the period until 2071, because the gas distribution activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – gas pipelines (useful life of 55 years).

Key assumptions used by the Group in making cash flow forecast in 2016 were as follows:

1. When setting the price cap for natural gas distribution services for 2014–2018, the Commission approved the rate of return on investments equal to 7.09% for this period. This rate is used to determine return on investments for the period 2016–2018. The rate of return on investments of 4.32% is applied to the entire remaining cash flow forecast period (based on calculation data publicly available on the Commission's website);
2. A pre-tax discount rate of 5.53% was used for discounting cash flows;
3. Operating expenses of Energijos Skirstymo Operatorius AB for the period 2017–2025 are planned with reference to long-term plans approved by Energijos Skirstymo Operatorius AB. Starting from 2026, changes are planned in view of the projected changes in the average annual consumer price index and work pay;
4. Part of operating expenses incurred by Energijos Skirstymo Operatorius AB is not included in the regulated prices of distribution and supply activities in accordance with the provisions of the Commission 18 July 2013 resolution No. O3-316 "Description of requirements on natural gas companies accounting separation, cost allocation and accounting separation";
5. It is considered that additional profit will be earned during different regulatory periods as a result of the planned operational efficiency of Energijos Skirstymo Operatorius AB (such possibility is established in the Methodology);
6. Investments are shown for the period 2017–2020 under the approved strategy of Energijos Skirstymo Operatorius AB, and for the period 2021–2025 under the approved ten-year investment plan. Starting from 2026 until 2071, investments are planned to be maintained at the level that existed in 2025;

Having considered all the above-mentioned assets used in gas distribution business, the Group concluded that the recoverable amount of property, plant and equipment used in the gas distribution activities is higher than its carrying values and that no impairment exist as of 31 December 2016.

At the reporting date of 31 December 2015, the Group also assessed whether the recoverable amount of its property, plant and equipment used in the gas distribution activities is higher than its carrying values and concluded that no impairment existed as of 31 December 2015. The assessment was based on discounted cash flows calculated in accordance with the legal acts and methodologies regulating the distribution and supply activities in force as at the 31 December 2015 as disclosed in section on

impairment test for subsidiaries, subsection LESTO AB and Lietuvos Dujos AB as at 31 December 2015.

b) Review for impairment of "Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant" and "Structures and machinery of Thermal Power Plant"

Property, plant and equipment classes "Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant" and "Structures and machinery of Thermal Power Plant" are managed by Company's subsidiary Lietuvos Energijos Gamyba, AB

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

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

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

As at 31 December 2015, the Group'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 decision of management of Lietuvos Energijos Gamyba AB on dismantling units 5 and 6 of the Reserve Power Plant at the end of 2015, Lietuvos Energijos Gamyba AB recognised impairment loss of EUR 36,734 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 other property, plant and equipment of "Structures and machinery of Thermal Power Plant", and impairment was not identified.

The "Structures and machinery of Thermal Power Plant" (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;



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

- 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 3 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 of Lietuvos Energijos Gamyba AB estimated the projected operating profit in view of historical data, forecasts of position in the market and effective legal acts.

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

1. The 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 cost of capital (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 revenue from regulated activities also take into account the depreciation expenses of property, plant and equipment and the return on investments, which is calculated on the value of assets used in the regulated activities. When estimating the 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, management Lietuvos Energijos Gamyba AB determined that it was not necessary to recognise any impairment losses as at 31 December 2015, except for the impairment losses for units 5 and 6 of the Reserve Power Plant accounted for in “Structures and machinery of Thermal Power Plant”. Had the discount rate increased by 0.5 p.p. in 2015, the value in use of the “Structures and machinery of Thermal Power Plant” would exceed the carrying amount.

Impairment tests for subsidiaries

Although the shares of the Company’s subsidiaries Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB are traded on Vilnius Stock Exchange, the Group’s management believes this

market is not active enough so that the quoted stock prices could be treated as equivalent to the fair value of investments in subsidiaries at the reporting date.

Energijos Skirstymo Operatorius AB as at 31 December 2016

As at 31 December 2016, impairment test was carried out to determine the recoverable value (based on fair value less costs of disposal) of investment in shares of Energijos Skirstymo Operatorius AB using the discounted cash flow method. The established recoverable value was higher than cost of investment and as the result impairment in amount of EUR 37,5 million was reversed; the reversal is caused by changes in rate of return and discount rate as well as by merger of two companies into one. Initially, the impairment was recorded in 2014 with respect of shares of LESTO AB and in 2015 with respect of shares of Lietuvos Dujos AB. After the reversal, the carrying value of investment (which is its acquisition cost) equals EUR 710,9 million (EUR 673,6 million as at 31 December 2015).

The discounted cash flows were calculated in line with the legal acts and methodologies regulating gas distribution, electricity distribution and supply activities and effective as at 31 December 2016.

The impairment test of investment in Energijos Skirstymo Operatorius AB was performed by the Company based on the following key assumptions:

1. The cash flow forecast for the gas distribution business covered the period until 2071, because the gas distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (55 years); a continuous cash flow has been estimated beyond the year 2071.
2. The cash flow forecast for the electricity distribution business covered the period until 2056, as the electricity distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (40 years) – electricity lines; a continuous cash flow has been estimated beyond the year 2056.
3. The rate of return on investments for the gas business was set by the NCC as 7.09% for the years 2016-2018 and 4.32% for the year 2019 and beyond, which was calculated with reference to the components approved by the NCC.
4. The rate of return on investments for the electricity business was set by the NCC as 4.94% for the years 2016-2020 and 4.32% for the year 2021 and beyond, which was calculated with reference to the components approved by the NCC.
5. A pre-tax discount rate of 5.53% was used for discounting cash flows
6. Operating expenses are reduced annually by 4% until 2025, and they are no longer reduced and are indexed in 2026 and beyond.
7. Investments are shown for the period 2017–2025 under the approved ten-year investment plan. Starting from 2026, investments remain stable in the gas business. During 2026-2030, investments in the electricity business remain stable, and as from 2031 they are reduced proportionately to match LRAIC.
8. Possible positive cash flows from ongoing legal disputes were not included by the Company in the assessment.

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

1. The changes in discount rates have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in discount rate would not result in change in reversal of impairment (at a discount rate of 5.03%) or would result in impairment of EUR 45,6 million (at a discount rate of 6.03%).
2. The rate of return on investments (starting from 2019 for the gas distribution business and 2021 for the electricity supply and distribution business) has a significant impact on the result of valuation. The sensitivity analysis showed that a 1 p.p. change would result in impairment of EUR 46,3 million (at a rate of return of 3.82%) or would result in change of reversal of impairment (at a



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

rate of return of 4.82%). If the rate of return on investments did not change (i.e. remain at 7.09% level for the gas business starting from 2019 and at 4.94% level for the electricity business starting from 2021), there would be no changes in the reversal of impairment.

LESTO AB and Lietuvos Dujos AB as at 31 December 2015

As at 31 December 2015, the Company tested for impairment its investment in subsidiary LESTO AB using the discounted cash flow method and recognised reversal of impairment of EUR 38,9 million, which largely resulted from changes in the regulatory environment. Following the reversal of impairment, the investment's recoverable amount (which is equivalent to its fair value) was equal to EUR 522,0 million as at 31 December 2015.

Discounted cash flows were calculated in accordance with the following legal acts and methodologies regulating the distribution and supply activities, effective as at 31 December 2015:

1. Methodology for Setting Price Caps for Electricity Transmission, Distribution and Public Supply Services and Public Energy Price Caps ("the Methodology") approved by the Commission's Resolution No O3-3 of 15 January 2015 and amended by Resolution No O3-572 of 29 October 2015;
2. Description of the Requirements for Accounting Separation and Cost Allocation of Electric Power Sector Companies and Requirements Related to Accounting Separation ("the Description") approved by the Commission's Resolution No O3-112 of 29 April 2014 and amended by Resolution No O3-507 of 18 September 2015;
3. Methodology for Setting the Rate of Return on Investments ("the WACC Methodology") approved by the Commission's Resolution No O3-510 of 22 September 2015.

The impairment test of investment in LESTO AB was performed by the Company based on the following key assumptions:

1. The cash flow forecast covered the period until 2055, because the distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (40 years) - electricity lines;
2. When determining the price cap for the distribution services for 2016–2020 in Certificate No O5-16 of 29 October 2015, the Commission approved the rate of return on investments equal to 5.24% for this period. This rate was used to determine the return on investments over the entire cash flow forecast period;
3. The cash flows were discounted using a pre-tax discount rate of 6.6%;
4. LESTO AB's operating expenses for 2016–2020 were projected according to the approved long-term plans of LESTO AB. Starting from 2021, the changes were estimated in view of the forecast changes in the average annual consumer price index and the work pay prevailing at the time of the assessment.
5. Based on the provisions of the Description, a part of operating expenses incurred by LESTO AB is not included in the regulated prices of the distribution and supply activity;
6. It was assumed that in different regulatory periods additional profit would be earned as a result of the planned performance efficiency (such possibility is established in the Methodology);
7. Investments were projected for the period 2016–2025 under the approved ten-year investment plan. Starting from 2026, investments were reduced proportionately under the assumption that all items of technological assets that are currently fully depreciated or will become fully depreciated over the period until 2055 will be recovered until 2055;
8. LESTO AB's cost of capital (return on investments and depreciation of non-current assets) was calculated and taken into account when determining the prices for electricity distribution and supply services for other regulatory periods, in accordance with the long-run average incremental cost (LRAIC) model (hereinafter "the Model") and in view of paragraph 7 of the Methodology;

9. The Company did not take into account the potential favorable outcomes from the litigation processes (note 36) .

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

1. The changes in discount rates have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in discount rate would result in increase in impairment reversal up to EUR 101,9 million (at discount rate of 6.10%) or in impairment of EUR 17,0 million (at discount rate of 7.10%).
2. If for the periods starting from 2021, the return on investments set by the Commission when determining the revenue level for LESTO AB was 10% lower (i.e. equal to 4.72%), the forecast revenue of LESTO AB (for the period 2016-2055) would be lower by EUR 318 million. This would result in additional impairment of EUR 23,3 million.

As at 31 December 2015, the Company tested for impairment its investment in subsidiary Lietuvos Dujos AB using the discounted cash flow method and recognised impairment of EUR 20,4 million, which largely resulted from changes in the regulatory environment. The Company estimated the fair value and value in use of the investment, and determined that the value in use was higher and, therefore, treated as the recoverable amount of the investment. Following the impairment, the recoverable amount of the investment was equal to EUR 151,6 million as at 31 December 2015 (31 December 2014: EUR 174,8 million).

For the impairment test of investment in Lietuvos Dujos AB, the Company used the following key assumptions:

1. The value in use was estimated with reference to the financial plan covering the period 2016-2020, the projected pre-tax discounted cash flows using a pre-tax weighted average cost of capital (WACC) of 6.60%.
2. Cash flow forecasts were prepared by the management in the course of financial projections based on the financial performance results, market development expectations and regulatory environment. The projections of revenue from regulated activities also took into account the depreciation expenses of property, plant and equipment and the return on investments, which was calculated on the value of assets used in the regulated activities. When estimating the return on investments, the management used the rate of return on investments set by the Commission, which was 7.09% for the years 2016-2018 and 5.59% for the year 2019 and beyond.
3. The value in use calculations included only the investments necessary to maintain the current asset base and approved under the financial plan, whereas the fair value calculations included the investments intended for the development and modernization of the asset base.
4. The forecast cash flows were calculated with reference to historical data, natural gas consumption forecasts and effective legal acts.

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

1. The rate of return on investments (starting from 2019) has a significant impact on the result of valuation. The sensitivity analysis showed that a 1 p.p. change would result in increase in impairment up to EUR 35,4 million (at rate of return of 4.59%) or decrease in impairment down to EUR 5,4 million (at rate of return of 6.59%). If starting from 2019 the rate of return on investments did not change (i.e. remain at 7.09% level), the recoverable amount would be equivalent to the fair value, which would be equal to EUR 178,2 million (representing EUR 6,2 million surplus of the recoverable amount over the cost of investment);
2. The changes in discount rate also have a significant impact on the result of valuation. The sensitivity analysis showed that a 1 p.p. change in discount rate would result in increase in



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

impairment by up to EUR 34,4 million (at discount rate of 7.60%) or decrease in impairment by up to EUR 1,9 million (at discount rate of 5.60%).

Litgas UAB

As at 31 December 2016, the Company tested for impairment its investment in subsidiary LITGAS UAB using the discounted cash flow method and accounted for the reversal of impairment of EUR 307 thousand. Following the reversal of impairment, the recoverable amount of investment (i.e. its fair value) amounted to EUR 11,856 thousand (31 December 2015: EUR 11,549 thousand).

On 3 October 2016, the Company acquired 33.3% of shares of Litgas UAB from Klaipėdos Nafta AB, and as a result the Company's shareholding in Litgas UAB is 100%. The value of the transaction was based on the valuation report issued on 18 August 2016 by independent property valuer Deloitte Verslo Konsultacijos UAB. As at 31 December 2016, the Company accounted for 100% shareholding in Litgas UAB at the value of the transaction (33.33% of shares were acquired for EUR 3,952 thousand, and the value of 100% shareholding is EUR 11,856 thousand). This resulted in reversal of impairment of EUR 307 thousand as at 31 December 2016.

As at 30 June 2015, the Company tested for impairment its investment in subsidiary Litgas UAB using the discounted cash flow method. Discounted cash flows were calculated in accordance with the effective legal acts and methodologies regulating the activity of the designated supplier and taking into consideration the most probable scenario for the development of the natural gas trade activity and uncertainties existing in the liquefied natural gas industry. Discounted cash flows were calculated using a discount rate of 9.72%, which is established as the required return on the share capital. As a result of the analysis, the Company's management determined that the impairment of the investment in Litgas UAB was equal to EUR 1,092 thousand as at 30 June 2015 and 31 December 2015.

NT Valdos UAB

As at 31 December 2016, the Company carried out impairment test in respect of investment in subsidiary NT Valdos UAB using the discounted cash flow method and recognised impairment of EUR 9,0 million, which was largely caused by probable slowdown in future growth rate. Following the recognition of impairment, the recoverable amount (i.e. the value in use) of investment was EUR 80,3 million (31 December 2015: EUR 89,4 million).

The impairment test of investment in NT Valdos UAB was performed by the Company based on the following key assumptions:

1. Actual results for 2016 were used in the valuation as the basis for terminal value calculation.
2. Cash flows were discounted at a discount rate of 5.8% (post-tax).
3. Annual growth rate was 2.5%.

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

1. The changes in discount rate have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in discount rate would result in no impairment (at a discount rate of 5.3%) or would result in increase in impairment up to EUR 22,1 million (at a discount rate of 6.3%).
2. The changes in annual growth rate also have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in annual growth rate would result in increase in impairment up to EUR 22,4 million (at a growth rate of 2.0%) or would result in no impairment (at a growth rate of 3.0%).

The Company acquired NT Valdos UAB in 2015 and as at 31 December 2015 there were no impairment indications.

Energetikos Paslaugu ir Rangos Organizacija UAB

As at 31 December 2016, the Company carried out impairment test in respect of its investment in subsidiary Energetikos Paslaugu ir Rangos Organizacija UAB due to its worse results than planned for 2016. The test was performed using the discounted cash flow method, as the result impairment of EUR 7,320 thousand was recognised. Following the recognition of impairment, the carrying value of investment was EUR 1,817 thousand (i.e. its fair value) (31 December 2015: EUR 9,137 thousand).

The impairment test of investment in Energetikos Paslaugu ir Rangos Organizacija UAB was performed by the Company based on the following key assumptions:

1. Budget for 2017 was used in the valuation.
2. Cash flows were discounted at a discount rate of 9.8% (post-tax).
3. Annual growth rate was 2.0%.

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

1. The changes in discount rate have a significant impact on the result of valuation. The sensitivity analysis showed that a 1.0 p.p. change in discount rate would result in decrease in impairment to EUR 5.8 million (at a discount rate of 8.8%) or would result in increase in impairment up to EUR 8.4 million (at a discount rate of 10.8%).
2. The changes in annual growth rate also have a significant impact on the result of valuation. The sensitivity analysis showed that a 1.0 p.p. change in annual growth rate would result in increase in impairment up to EUR 8.1 million (at a growth rate of 1.0%) or would result in decrease in impairment to EUR 6.3 million (at a growth rate of 3.0%).

VAE SPB UAB

As at 31 December 2016, the Company carried out impairment test in respect of its investment in subsidiary VAE SPB UAB and recognised impairment of EUR 201 thousand for the investment (2015: EUR 1,168 thousand). Following the recognition of impairment, the recoverable amount (i.e. the fair value) of investment was EUR 90 thousand (31 December 2015: EUR 291 thousand).

Energetiku Mokymo Centras VŠĮ

As at 31 December 2016, the Company carried out impairment test in respect of its investment in subsidiary Energetiku Mokymu Centras VŠĮ using discounted cash flow method and recognised impairment of EUR 186 thousand for the investment which was caused worse 2016 results than planned. Following the recognition of impairment, the recoverable amount (i.e. the fair value) of investment was EUR 123 thousand (31 December 2015: EUR 309 thousand).

Investments to other subsidiaries

There were no impairment indicators for investments in other subsidiaries.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Goodwill impairment assessment "EURAKRAS"

In 2016 the Company has accounted for EUR 1,461 thousand goodwill recognised on acquisition of UAB EURAKRAS. The Company carried out goodwill impairment test, applying the value in use method. Test of goodwill impairment completed applying following key assumptions:

1. Cash flow projection compiled for period up to 2045 as standard operating periods of wind parks are 30 years;
2. Production volume is constant and determined according to research of wind park completed by third-party;
3. For the first twelve years of operation price of the electricity is 70.96 EUR / MWh, based on the preferential rate. After the expiry of the preferential rate period, there is used rate determined according to research of wind park completed by third-party;
4. Discounting cash flows applied 5.0 per. the discount rate (after tax).

Results of carried out test do not indicate presence of goodwill impairment

Judgements regarding retaining control over Kauno Kogeneracinė Jėgainė

On 15 March 2016, the share capital of subsidiary Kauno Kogeneracinė Jėgainė (hereinafter "KKJ") was increased. Following the increase in share capital, the Company holds 51% of shares of KKJ, and the remaining 49% of shares are held by FORTUM HEAT LIETUVA UAB (hereinafter FORTUM).

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

In the Group's management view the call option gives to the Group control over KKJ, and call option's strike value approximates the fair value within the limits of the materiality (materiality threshold is based on the best assessment practices to +/- 15% of the market value) of the price to be paid by the Company to FORTUM for buyout of KKJ shares owned by FORTUM, and thus gives to the Group control over KKJ.

At 31 December 2016 the Group accounted for Eur 4,481 thousand put option redemption liability (Note 26) which is measured as net present value of the single future cash outflow, that will be paid out to FORTUM for KKJ shares in a deadlock situation if put option is realised.

Contingent consideration on disposal of Litgrid AB

In year 2012 shares of Litgrid AB held by the Company were transferred to a newly established private limited liability company EPSO-G UAB in return for a certain consideration based on the market value of shares established by independent valuers. The independent valuer determined the market value in respect of 97.5% of shares of Litgrid AB using the income approach.

The purchase-sale agreement of shares of Litgrid AB provides for a Contingent consideration to the final price, the amount of which depends on return of regulated asset base of Litgrid AB in 2014-2018. On 24 September 2014 the Government approved the *Principles for determining the prices regulated by the state in the sector of electricity energy* and on 15 January 2015 the Commission approved a new (LRAIC) regulation methodology. On 19 January 2015, the Commission approved the price caps for electricity transmission via high voltage networks for the period 2016-2020. In 2016, due to

decreased rate of return on Litgrid AB regulated asset base, as approved by the Commission. In view of these regulatory changes, the Company and the Group assessed the Contingent consideration and concluded that according to the purchase-sale agreement of shares of Litgrid AB, the Contingent consideration was negative at 31 December 2016 and amounted to EUR 4,182 thousand, at 31 December 2015 Contingent consideration equal to zero. In the statement of financial position receivable on disposal on Litgrid AB was reduced as the sales price was adjusted by the change in the contingent consideration." (Note 9).

Contingent consideration is measured at level 3 of fair value hierarchy.

The Company performed the sensitivity analysis of receivables, for sale of Litgrid AB shares, in respect of changes in unobservable inputs. Investment rate of return in 2018 has a significant impact on the outcome of the assessment. Sensitivity analysis shows that:

- a) 0.5 p. p. fluctuation would cause negative value of EUR 5.6 million when applied 4.43% rate of return, or
- b) zero value when applied 5.43% rate of return.

Contingent consideration for the shares of NT Valdos UAB

In April 2015, the Company acquired the shares of NT Valdos UAB from LESTO AB, Lietuvos Energijos Gamyba AB, Duomenų Logistikos Centras UAB and Litgrid AB, thereby resulting in 100% direct control over NT Valdos UAB.

The Contingent consideration to the basic sale price set for the acquired shares is payable by 31 March 2019, the amount of which will vary depending on the financial performance of NT Valdos UAB, the maximum value will be EUR 19,400 thousand and the minimum value would equal zero. At acquisition date, the Company accounted the maximum amount of the Contingent consideration payable in 2019, ie the EUR 19,400 thousand. When estimating the cost of investments, the Company recognised the Contingent consideration at present value as at the date of acquisition, which was equal to EUR 17,506 thousand. The Contingent consideration was discounted to present value using an average interest rate set by the Bank of Lithuania on borrowings in excess of EUR 1,000 thousand, which was equal to 2.65% at the date of acquisition. As at 31 December 2016, the Company reviewed the actual and projected performance results of NT Valdos UAB and concluded that the Contingent consideration should be reduced, because the performance results of NT Valdos UAB were not likely to achieve the level that was expected on initial recognition. Based on the Company's estimate, the fair value of Contingent consideration for the shares of NT Valdos UAB amounted to EUR 9,257 thousand as at 31 December 2016 (31 December 2015: EUR 17,819 thousand).

Contingent consideration is measured at level 3 of fair value hierarchy.

Contingent consideration for the shares of Kauno Energetikos Remontas UAB

On 31 March 2015, the Company signed the share purchase-sale agreement with Lietuvos Energijos Gamyba AB, under which it acquired 100% (i.e. 15,244,112) of ordinary registered shares of Kauno Energetikos Remontas UAB.

Kauno Energetikos Remontas UAB is implementing the biofuel boiler plant project. If the expected loss of the project increases or decreases by more than EUR 50 thousand, the purchase price of KER will adjusted downwards or upwards, accordingly by 89% of the change.

As at 31 December 2015, in view of the fact that the loss from the biofuel boiler plant project increased, the Company's management estimated that the acquisition cost of the shares of Kauno Energetikos



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Remontas UAB should be EUR 436 thousand lower. The Company reduced accordingly the acquisition cost of investment in Kauno Energetikos Remontas UAB from EUR 4,778 thousand to EUR 4,342 thousand.

As at 31 December 2016, a loss was estimated on the implementation of the Biofuel Boiler House Project and the Company recognised EUR 619 thousand amounts receivable from seller for the shares (Notes 13, 31).

Contingent consideration is measured at level 3 of fair value hierarchy.

Useful lives of property, plant and equipment

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

Accrued revenue

Revenue from household customers is recognised when meter data is declared and payments are received. Accordingly, at the end of each reporting period the amount of income earned but not yet paid by household customers is estimated and accrued by the management of the Group company operating the distribution networks. Accrued revenue is estimated as 1/3 of total payments for electricity received in December. Accrued revenue is based on past experience and average term of settlement for electricity. The management has estimated that the majority of household customers declare and make payments for the electricity consumed on approx. the 20th day of the month, while electricity is supplied for a full month (30 or 31 days). Consequently, the electricity consumed during the remaining 10 days is proportionally calculated referring to the total volume of electricity provided to the electricity supply network (the actually known variable) and the total volume of electricity declared by household customers during December and multiplied by the average rate per 1 kWh (Note 13).

New customer connection fees

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

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

Payments made by customers for the connection to the Company's gas system are recorded as accrued deferred revenue in the statement of financial position and recognised as revenue over the

useful life of the capitalised property, plant and equipment concerned. Such revenue is shown under the line item 'Sales revenue' in the statement of comprehensive income.

Accounting methods applied to account for fees paid by new customers for the connection to the electricity and gas system differ depending on the pricing of these services:

- the fee for the connection to the electricity network is determined on the basis of fees and methodologies approved by the Lithuanian legal acts and regulatory authorities; the service is deemed to be provided upon the connection of the customer to the electricity network;
- the fee for the connection of non-household customers to the gas system is determined on the basis of fees and methodologies approved by the Lithuanian legal acts and regulatory authorities, however, the connection agreement of the customer who connects a new natural gas system stipulates a minimum quantity of gas to be transported via a non-household customer or new natural gas system and the minimum capacities which ensure that the new customer or new natural gas system connected does not increase the price cap for the existing customers, as well as the procedure for calculating a fee for the minimum quantities of gas to be transported by a non-household customer or natural gas system and for the minimum capacities and the periodicity of payments if a new customer connecting a new natural gas system transports lower quantities or orders lower capacities than those specified in the new customer connection agreement. When approving the connection fees for household natural gas customers, the NCC assesses the return on investments intended for the connection of new price cap level of natural gas distribution system (investments should not exceed the current price cap) under the same principle as that used for non-household natural gas customers, yet not on individual customer-by-customer basis, but by establishing a connection fee collectively. In this case, the service provided to non-household and household customer is continuous in nature and it relates to contractual obligations and future consumption levels, and therefore, revenue is split over the depreciation period of property, plant and equipment concerned.

Impairment of amounts receivable

Impairment losses for amounts receivables are determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the management could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Amounts receivable are assessed to determine their value and impairment individually or collectively in a group of similar receivables. In case of individually assessed receivables for impairment, the Group takes into account the available or accessible data from external sources of information on market trends and forecasts, the possible credit enhancements (collateral) provided for receivables and events providing evidence of impairment of receivables such as, for example, fulfilment of contractual terms, the borrower's actual performance, etc. In case of collectively assessed receivables for impairment, the Group takes into account the historical statistics, and reviews annually whether the provisioning rates used for collectively assessed receivables are in line with the historical data of impairment of receivables, and that the provisioning rates used for collectively assessed receivables are approved for the upcoming year.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Accrued revenue from PSO and capacity reserve service fees

Part of funds for PSO and tertiary capacity reserve services are allocated for the maintenance of infrastructure of the Elektrėnai Complex and for the compensation of the necessary trial costs of electricity generation facilities. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes. Allocated amount of PSO funds and the price for capacity reserve services are Group. In the Group's financial statements, income from these services is recognised on accrual basis based on actually incurred costs.

As at 31 December 2016, the Group recognised PSO funds of EUR 9,404 thousand within 'Other non-current amounts payable and liabilities' (Note 24) 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'.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

5 Intangible assets

Group	Patents and licenses	Computer software	Emission allowances	Other intangible assets	Goodwill	Total
At 31 December 2014						
Acquisition cost	2,891	9,395	10,531	526	-	23,343
Accumulated amortisation	(1,535)	(6,194)	-	(280)	-	(8,009)
Net book amount	1,356	3,201	10,531	246	-	15,334
Net book amount at 31 December 2014						
	1,356	3,201	10,531	246	-	15,334
Additions	87	403	-	2,191	-	2,681
Reclassified to/from PP&E categories	1	1,501	-	(1,423)	-	79
Write-offs	-	(91)	-	-	-	(91)
Emission allowances utilised (Note 23)	-	-	(2,992)	-	-	(2,992)
Revaluation of emission allowances	-	-	2,144	-	-	2,144
Return of emission allowances lent	-	-	4,615	-	-	4,615
Grant received on emission allowances	-	-	2,140	-	-	2,140
Amortisation charge	(592)	(1,746)	-	(33)	-	(2,371)
Net book amount at 31 December 2015	852	3,268	16,438	981	-	21,539
At 31 December 2015						
Acquisition cost	2,836	10,760	16,438	1,259	-	31,293
Accumulated amortisation	(1,984)	(7,492)	-	(278)	-	(9,754)
Net book amount	852	3,268	16,438	981	-	21,539
Net book amount at 31 December 2015						
	852	3,268	16,438	981	-	21,539
Increase on acquisition of subsidiaries (Note 33)	14,900	-	-	-	1,461	16,361
Additions	44	588	9	2,470	-	3,111
Reclassified to/from PP&E categories	1,031	1,544	-	(2,442)	-	133
Emission allowances utilised (Note 23)	-	-	(2,999)	-	-	(2,999)
Revaluation of emission allowances	-	-	(3,346)	-	-	(3,346)
Grant received on emission allowances	-	-	1,733	-	-	1,733
Amortisation charge	(1,673)	(2,544)	(1)	(53)	-	(4,271)
Net book amount at 31 December 2016	15,154	2,856	11,834	956	1,461	32,261
At 31 December 2016						
Acquisition cost	17,957	13,572	11,838	1,435	1,461	46,263
Accumulated amortisation	(2,803)	(10,716)	(4)	(479)	-	(14,002)
Net book amount	15,154	2,856	11,834	956	1,461	32,261

The fair value of emission allowances is determined with reference to the prices available on the active market, and accordingly, it is within Level 1 of the fair value hierarchy. At the end of each reporting period, emission allowances are measured with reference to year-end market prices.

In 2016 the Group accounted for Patents and licenses identified in business combination that comprise License to produce electricity with incentive rate. Fair value of the License, at the moment of business acquisition, was determined to be EUR 14,900 thousand, amortisation period of the License are set to 11 years. Carrying value of the License at 31 December 2016 is 13,762 thousand EUR.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment

The Group related disclosures on Property, plant and equipment

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, Gas technological equipment and installations	Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant	Wind power plants	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
At 31 December 2014												
Cost or revalued amount	2,011	68,190	658,802	111,201	204,418	-	921,772	19,330	24,283	13,382	44,424	2,067,813
Accumulated depreciation	-	(1,242)	(4,891)	(1,779)	(71,405)	-	(341,814)	(1,542)	(10,870)	(1,497)	-	(435,040)
Accumulated impairment	-	-	-	-	-	-	(11,461)	-	-	-	(223)	(11,684)
Net book amount	2,011	66,948	653,911	109,422	133,013	-	568,497	17,788	13,413	11,885	44,201	1,621,089
Net book amount at 31 December 2014	2,011	66,948	653,911	109,422	133,013	-	568,497	17,788	13,413	11,885	44,201	1,621,089
Additions	-	44	1,133	15	18	-	1,045	7,325	1,274	377	136,508	147,739
Revaluation	-	1,308	125	-	-	-	-	(29)	-	-	-	1,404
Disposals	-	(612)	(56)	-	-	-	-	(330)	(93)	(424)	(21)	(1,536)
Write-offs	-	(14)	(2,605)	(4)	-	-	-	(1)	(15)	(17)	(43)	(2,699)
Reclassifications between groups	-	3,658	109,715	9,533	722	-	34,572	10	8,036	(3,863)	(162,383)	-
Reclassified to assets, intangible assets	-	-	-	-	-	-	-	-	(15)	-	(64)	(79)
Reclassified to assets held for sale	-	-	-	-	-	-	-	(46)	-	-	-	(46)
Reclassified to investment property	-	(11,973)	(559)	-	-	-	-	-	-	-	-	(12,532)
Reclassified to finance lease (Note 14)	-	-	-	-	-	-	-	(1,957)	-	-	-	(1,957)
Reclassified from (to) inventories	-	-	-	-	28	-	175	48	(3)	-	146	394
Impairment	-	-	-	-	-	-	(36,734)	(6)	-	-	-	(36,740)
Reversal of impairment	-	-	-	-	-	-	148	-	-	-	-	148
Depreciation charge	-	(3,380)	(32,093)	(3,686)	(7,954)	-	(25,426)	(4,923)	(4,704)	(1,902)	-	(84,068)
Net book amount at 31 December 2015	2,011	55,979	729,571	115,280	125,827	-	542,277	17,879	17,893	6,056	18,344	1,631,117
At 31 December 2015												
Cost or revalued amount	2,011	60,698	766,198	120,742	205,122	-	887,174	23,801	34,604	8,145	18,567	2,127,062
Accumulated depreciation	-	(4,719)	(36,627)	(5,462)	(79,295)	-	(307,330)	(5,922)	(16,711)	(2,089)	-	(458,155)
Accumulated impairment	-	-	-	-	-	-	(37,567)	-	-	-	(223)	(37,790)
Net book amount	2,011	55,979	729,571	115,280	125,827	-	542,277	17,879	17,893	6,056	18,344	1,631,117

(Cont'd on next page)



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

(cont'd)

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, Gas technological equipment and installations	Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant	Wind power plants	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2015	2,011	55,979	729,571	115,280	125,827	-	542,277	17,879	17,893	6,056	18,344	1,631,117
Additions	-	129	862	7	8	-	89	13,282	4,564	708	152,311	171,960
In-kind contributions received	-	-	-	-	-	-	-	-	-	-	3,954	3,954
Revaluation	-	674	(99)	-	-	-	-	-	-	-	-	575
Disposals	-	(621)	(247)	-	-	-	(2)	(206)	(30)	(4)	(10)	(1,120)
Write-offs	-	(8)	(3,337)	(12)	-	-	(2)	(9)	(22)	(3)	-	(3,393)
Reclassifications between groups	-	687	114,970	14,112	1,338	-	1,834	-	1,021	1,996	(135,958)	0
Reclassified to assets, intangible assets	-	-	-	-	-	-	-	-	(8)	-	(125)	(133)
Reclassified to assets held for sale	-	(226)	(3)	-	-	-	-	(1,351)	-	-	-	(1,580)
Reclassified to investment property	-	3,430	(191)	-	-	-	-	-	-	-	(2,812)	427
Reclassified to finance lease (Note 14)	-	-	-	-	-	-	-	(7,617)	-	-	-	(7,617)
Reclassified from (to) inventories	-	-	-	-	51	-	(36)	-	(11)	-	840	844
Impairment	-	-	-	-	-	-	(613)	-	-	-	-	(613)
Reversal of impairment	-	-	2	-	-	-	45	-	-	-	-	47
Depreciation charge	-	(2,364)	(35,926)	(4,461)	(7,975)	(1,684)	(23,361)	(4,736)	(4,433)	(1,714)	-	(86,654)
Increase on acquisition of subsidiary (Note 33)	365	602	-	-	-	62,029	-	-	1	3	-	63,000
Net book amount at 31 December 2016	2,376	58,282	805,602	124,926	119,249	60,345	520,231	17,242	18,975	7,042	36,544	1,770,814
At 31 December 2016												
Cost or revalued amount	2,376	65,579	876,992	134,046	206,492	62,029	888,633	27,725	39,315	10,904	36,767	2,350,858
Accumulated depreciation	-	(7,297)	(71,390)	(9,120)	(87,243)	(1,684)	(330,267)	(10,483)	(20,340)	(3,862)	-	(541,686)
Accumulated impairment	-	-	-	-	-	-	(38,135)	-	-	-	(223)	(38,358)
Net book amount	2,376	58,282	805,602	124,926	119,249	60,345	520,231	17,242	18,975	7,042	36,544	1,770,814

In 2016 and 2015, the Group's property, plant and equipment (excluding structures and machinery of Hydro Power Plant, Pumped Storage Power Plant and Thermal Power Plant (Combined Cycle Unit, Reserve Power Plant), gas distribution pipelines, gas technological equipment, wind power plans, and IT and telecommunication equipment) was accounted for at revalued amount.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

In 2016, the Group performed revaluation of buildings with carrying amount of EUR 34,200 thousand and structures and machinery with carrying amount of EUR 800 thousand with reference to the Reports on Assessment of Market Value of Immovable Property prepared by independent property valuer InReal UAB; the assets were valued using the sales comparison approach (analogous sales price) and the income approach.

The table below contains information on the results of revaluation performed in 2016:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	453	122	575
	453	122	575

The table below contains information on the results of revaluation performed in 2015:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	1,274	130	1,404
	1,274	130	1,404

In the opinion of the Group's management, the carrying amount of assets stated at revalued amount as at 31 December 2016 did not differ significantly from their fair value. The table below presents the distribution of the Group's property, plant and equipment based on the fair value hierarchy levels as at 31 December 2016 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	2,032	344	2,376
Buildings	-	6,237	52,045	58,282
Structures and machinery	-	3,174	802,428	805,602
Motor vehicles	-	14,708	2,534	17,242
Other property, plant and equipment	-	95	6,947	7,042
Construction in progress	-	-	36,544	36,544
Total	-	36,112	890,976	927,088

The table below presents distribution of the Group's property, plant and equipment based on fair value hierarchy levels as at 31 December 2015 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	1,880	79	1,959
Buildings	-	6,891	49,088	55,979
Structures and machinery	-	3,078	725,519	728,597
Motor vehicles	-	16,881	971	17,852
Other property, plant and equipment	-	118	5,475	5,593
Construction in progress	-	-	12,297	12,297
Total	-	28,848	793,429	822,277

Land was mostly attributed to Level 2 of the fair value hierarchy. The valuation was based on the market approach.

Buildings were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of buildings attributed to Level 2 was based on the comparative value method approach. The valuation of assets attributed to Level 3 was based on the income approach, comparative value method approach, the cost approach or mix of these approaches.

Structures and machinery were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of assets within Level 2 was based on the market approach. The valuation of assets within Level 3 was based on the income approach, comparative value method approach, the cost approach or mix of these approaches. The valuation was based on data and information available to the valuer to make accurate forecasts of future cash flows.

Motor vehicles were attributed to Levels 2 and 3 of fair value hierarchy. The valuation was based on the market approach and cost approach.

Construction in progress and other PP&E were mostly attributed to Level 3 of fair value hierarchy, valuation was based on income method or depreciated replacement cost method. The management considers, that cost of these assets approximate its fair value.

During 2016, the Group companies did not capitalize any interest expenses on borrowings intended to finance development of non-current assets (2015: EUR 111 thousand). The average capitalised interest rate was 0.29% in 2015.

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2016, the Group's commitments to purchase or construct property, plant and equipment amounted to EUR 362 million (31 December 2015: EUR 20.1 million).

As at 31 December 2016, the Group had pledged to the banks its property, plant and equipment in amount of EUR 353,686 thousand (31 December 2015: EUR 345,297 thousand) (Note 19).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The Company related disclosures on Property, plant and equipment

Company	Other PP&E	Construction in progress	Total
At 31 December 2014			
Cost or revalued amount	28	-	28
Accumulated depreciation	(19)	-	(19)
Net book amount	9	-	9
Net book amount at 31 December 2014			
Additions	-	280	280
Depreciation charge	(3)	-	(3)
Net book amount at 31 December 2015	6	280	286
At 31 December 2015			
Cost or revalued amount	28	280	308
Accumulated depreciation	(22)	-	(22)
Net book amount	6	280	286
Net book amount at 31 December 2015			
Additions	-	65	65
Depreciation charge	(3)	-	(3)
Net book amount at 31 December 2016	3	345	348
At 31 December 2016			
Cost or revalued amount	28	345	373
Accumulated depreciation	(25)	-	(25)
Net book amount	3	345	348

7 Investment property

Group	Investment property
Carrying amount at 31 December 2014	37,394
Reclassification from property, plant and equipment	12,532
Increase in value	515
Decrease in value	(1,922)
Carrying amount at 31 December 2015	48,519
Carrying amount at 31 December 2015	48,519
Reclassification from property, plant and equipment	(427)
Increase in value	4,323
Decrease in value	(4,109)
Disposal	(2,099)
Carrying amount at 31 December 2016	46,207

In 2016, the Group's income from lease of investment property amounted to EUR 2,707 thousand (2015: EUR 2,652 thousand).

In 2016 and 2015 the Company had no investment property.

The table below presents distribution of the Group's investment property based on fair value hierarchy

levels as at 31 December 2016 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Buildings	-	-	44,756	44,756
Structures	-	-	1,451	1,451
Total	-	-	46,207	46,207

The table below presents distribution of the Group's investment property based on fair value hierarchy levels as at 31 December 2015 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Buildings	-	-	47,148	47,148
Structures	-	-	1,371	1,371
Total	-	-	48,519	48,519

The fair value of investment property as at 31 December 2016 and 2015 was determined in November 2016 and December 2015, respectively. Valuations were carried out by independent property valuers using the market approach and income approach. Investment property is attributed to Level 3 of fair value hierarchy. The valuation was based on data and information available to the valuer for making accurate forecasts of future cash flows. Future cash inflows were estimated with reference to comparable object rental prices, adjusted for location, condition and other factors affecting the value, and with reference to the actual rental prices of the subject object, adjusted for the occupancy rate. In the opinion of the Group's management, the value of investment property determined using the above-mentioned approach represented its fair value as at 31 December 2016 and 2015.

8 Investments in subsidiaries and associates

Reorganisation of subsidiaries

On 1 January 2016, LESTO AB and Lietuvos Dujos AB were reorganised by way of merger under Art. 2.97(4) of the Lithuanian Civil Code, as a result of which a new entity Energijos Skirstymo Operatorius AB (ESO) was founded. As from 11 January 2016, the shares of ESO have been quoted on the Main List of NASDAQ OMX Vilnius stock exchange. Following the reorganisation, ESO took over from LESTO AB and Lietuvos Dujos AB all their non-current and current assets, non-current and current financial and other liabilities, amounts receivable and payable under the agreements signed between LESTO AB and Lietuvos Dujos AB, including any other otherwise arising obligations.

Following the merger of LESTO AB and Lietuvos Dujos AB, the Group's effective ownership interest in Energijos Skirstymo Operatorius AB is 94.98%.

On 1 January 2016, ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB were reorganised by way of merger, as a result of which ELEKTROS TINKLO PASLAUGOS UAB and



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Kauno Energetikos Remontas UAB ceased to exist as legal entities and a new entity was founded under the name of Energetikos Paslaugų ir Rangos Organizacija UAB.

Foundation of subsidiaries

On 9 February 2016, the Company founded a new entity Energijos Sprendimų Centras UAB with the authorised share capital of EUR 10 thousand, which is divided into 10,000 ordinary registered shares with the nominal value of EUR 1 each. The total issue price of shares was equal to EUR 150 thousand. Energijos Sprendimų Centras UAB provides energy saving (efficiency) services and is engaged in development of renewable energy sources. The Articles of Association of Energijos Sprendimų Centras UAB were registered with the Register of Legal Entities on 17 February 2016.

Increase and decrease in share capital, acquisitions of subsidiaries

During 2016 there was increased share capitals of subsidiaries and covered losses are as follows:

Subsidiary	Issue date	Amount of shares, pcs,*	Nominal price	Nominal value of issued shares, EUR'000	Paid during 2016,	Unpaid by 31 December 2016	Date of articles amendment
UAB Vilniaus kogeneracinė jėgainė	19 December 2016	68,965,518	0,29	20,000	5,000	15,000	19 January 2017
UAB Energijos Sprendimų centras	29 August 2016	520,000	1,00	520	348	172	September 2016
UAB Lietuvos dujų tiekimas	19 May 2016	25,862,070	0,29	7,500	7,500	-	13 June 2016
UAB Kauno kogeneracinė jėgainė	15 March 2016	5,484,292	1,00	5,484	5,484	-	17 March 2016
Energijos tiekimas UAB	23 December 2015	16,240,000	1,00	16,240	7,240	-	December 2015
UAB Elektroninių mokėjimų agentūra	1 December 2015	434,000	1,00	434	262	-	December 2015
Cover of losses							
UAB VAE SPB					131	-	
Total				50,178	25,965	15,172	

* there is stated amount of shares that belong to the Company

During 2015 increased (decreased) share capitals of subsidiaries and covered losses are as follows:

	Issue date	Amount of shares issued (cancelled), pcs,*	Nominal price	Nominal value of issued shares, EUR'000	Paid (received) during 2015,	Unpaid by 31 December 2015	Date of articles amendment
UAB Vilniaus kogeneracinė jėgainė	19 February 2015	10,000	0.29	3	3	-	19 February 2015
UAB Vilniaus kogeneracinė jėgainė	4 July 2015	3,450,000	0.29	1,000	1,000	-	4 July 2015
UAB Kauno kogeneracinė jėgainė	19 February 2015	10,000	0.29	3	3	-	19 February 2015
UAB „ELEKTROS TINKLO PASLAUGOS“	24 April 2015	(10,000)	0.29	(2,900)	(2,900)	-	20 April 2015
UAB Energijos tiekimas	14 October 2015	785,500	1	783	783	-	14 October 2015
UAB Energijos tiekimas	23 December 2015	16,240,000	1	16,240	9,000	7,240	23 December 2015
UAB Elektroninių mokėjimų agentūra	24 August 2015	347,104	1	347	347	-	28 August 2015
UAB Elektroninių mokėjimų agentūra	26 October 2015	350,000	1	350	87	263	6 November 2015
				15,826	8,323	7,503	

* there is stated amount of shares that belong to the Company

During 2015 the Company acquired shares of indirectly, through other subsidiaries, controlled companies:

Date	Amount of shares acquired, pcs,*	Base purchase price	Contingent consideration	Share of Equity acquired, percent	Acquired from
UAB Kauno energetikos remontas	31 March 2015	15,244,112	4,342	-	„Lietuvos energijos gamyba“, AB
UAB Energijos tiekimas	31 March 2015	750,000	6,883	-	„Lietuvos energijos gamyba“, AB
UAB ELEKTROS TINKLO PASLAUGOS	31 March 2015	18,904	7,695	-	„Lietuvos energijos gamyba“, AB
NT Valdos, UAB	27 April 2015	1,692,666	41,176	11,120	57.30 LESTO AB
NT Valdos, UAB	27 April 2015	1,232,897	29,987	8,099	41.73 „Lietuvos energijos gamyba“, AB
NT Valdos, UAB	27 April 2015	17,384	424	114	0.59 UAB Duomenų logistikos centras
NT Valdos, UAB	27 April 2015	10,193	252	67	0.35 Litgrid AB
UAB „Gotlitas“	19 August 2015	100	61	-	UAB „Kauno energetikos remontas“
				90,820	19,400



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The recognised price premium for the shares of NT Valdos UAB amounting EUR 19,400 thousand as of 31 December 2015 and payable 2019, was discounted to the present value at an average interest rate of 2.65% published by the Bank of Lithuania, and the discounting effect on initial recognition of investment amounted to EUR 1,895 thousand. As a result of transactions concluded in 2015 the Company acquired 100% control over the shares of NT Valdos UAB.

Change in ownership interest

On 15 March 2016, the Company's subsidiary Kauno Kogeneracinė Jėgainė UAB issued 10,756,300 ordinary registered shares with the nominal value of EUR 1 each. The total issue price of all new shares amounted to EUR 10,756 thousand. The Company acquired 5,484,292 new shares with the nominal value of EUR 1 each by making cash contribution of EUR 5,484 thousand. Following the transaction, the Company holds 51% of shares of Kauno Kogeneracinė Jėgainė UAB. Accordingly, the remaining 49% of Kauno Kogeneracinė Jėgainė UAB are held by FORTUM HEAT LIETUVA UAB which supplied EUR 3,954 thousand property contribution to the long-term tangible assets (Note 6), and EUR 1,317 thousand was paid up with bank transfer, in total EUR 5,271 thousand. An amount indicated in the Group's statement of changes in equity line "Increase in share capital of Kauno Kogeneracinė Jėgainė UAB" comprise the increase of non-controlling interest of EUR 5,271 thousand net of EUR (4,481) thousand redemption liability which may arise to the controlling shareholder under the put option provided to the non-controlling shareholder (Notes 4,26), in total EUR 790 thousand.

On 3 October 2016 the Company signed a share purchase-sale agreement with Klaipėdos Nafta AB under which it acquired 15,000,000 ordinary registered shares of Litgas UAB representing 33.33% of its share capital. The cost of acquisition of shares amounted to EUR 3,952 thousand. Following the transaction, the Company holds 100% of shares of Litgas UAB.

Buyout of shares to ensure compliance with the ruling of the Supreme Court of Lithuania

Under the Finance Minister's Order of 12 January 2016, the Company is obliged to implement the Lithuanian Government Resolution No 1126 of 26 October 2015 *On buyout of shares* (the Resolution), and to buy out (obtain ownership title to) the shares of the Lietuvos Energijos Gamyba AB (former AB LIETUVOS ELEKTRINĖ) from minority shareholders following the reorganisation of AB LIETUVOS ENERGIJA and AB LIETUVOS ELEKTRINĖ, and which were not disposed to any third parties.

On 9 February 2016, the date for initiation of buyout of shares was published. The price of one ordinary registered share of Lietuvos Energijos Gamyba AB to be bought out was equal to EUR 1.2959.

On 31 December 2016, the Company obtained ownership title to additional 3,938,240 shares for EUR 5,103 thousand of Lietuvos Energijos Gamyba AB, as a result of which the Company's ownership interest in Lietuvos Energijos Gamyba AB increased up to 96.75% as at 31 December 2016. The company has no further commitments for acquisition of Lietuvos Energijos Gamyba AB shares.

Decision on disposal of Duomenų Logistikos Centras UAB

In November 2016, the Company's shareholder made a decision to initiate disposal of Duomenų Logistikos Centras UAB, thereby contributing to further attempts of identifying clearly the Group's activities and focusing on the main ones. The disposal is expected to be finalized by the middle of 2017. As at 31 December 2016, the Company included the carrying amount of investment in Duomenų Logistikos Centras UAB within non-current assets held for sale in the statement of financial position. The subsidiary is consolidated in the Group financial statements. As at 31 December 2016, the carrying

amount of investment was EUR 4,705 thousand. In the opinion of the Company's management, the carrying amount of investment does not exceed the potential sale price, less transaction costs.

Impairment of investments in subsidiaries (reversals)

Based on results of impairment test of investments, performed in 2016, following impairment losses (reversal of impairment losses) were recognized in year 2016:

Subsidiary	Carrying value 31 December 2016	Carrying value 31 December 2015	Impairment (loss) reversal	Acquired shares from NCI	Covered losses
NT Valdos UAB	80,337	89,373	(9,036)	-	-
Energijos Skirstymo Operatorius AB ¹	710,921	673,616	37,305	-	-
Energetikos Paslaugų ir Rangos Organizacija UAB ²	1,817	9,137	(7,320)	-	-
LITGAS UAB	11,856	7,597	307	3,952	-
VšĮ Energetikų mokymo centras	123	309	(186)	-	-
VAE SPB UAB	90	164	(201)	-	131
Total			20,869	3,952	131

Based on results of impairment test of investments, performed in 2015, following impairment losses (reversal of impairment losses) were recognized in year 2015:

Subsidiary	Carrying value 31 December 2015	Carrying value 31 December 2014	Impairment (loss) reversal	Acquired shares from NCI	Covered losses
LESTO AB	522,005	483,093	38,912	-	-
AB „Lietuvos dujos“	151,611	172,047	(20,436)	-	-
UAB LITGAS	7,597	8,689	(1,092)	-	-
UAB VAE SPB	164	297	(1,168)	-	725
Iš viso			16,216	-	725



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The Group's structure as at 31 December 2016:

Company name	Country of business	Company type	Group's effective ownership interest, % (equal to percentage of voting rights)	Non-controlling interest's effective ownership interest, % (equal to percentage of voting rights)	Profile of activities
Lietuvos Energija UAB	Lithuania	Parent company	-	-	Holding company
Energijos Skirstymo Operatorius AB	Lithuania	Subsidiary	94.98	5.02	Supply and distribution of electricity and natural gas, operation, maintenance and management of distribution networks and assurance of their security and reliability.
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.75	3.25	Electricity generation, supply, import, export and trade.
EURAKRAS UAB	Lithuania	Subsidiary	75.00	25.00	Development of wind power plants.
Lietuvos Dujų Tiekimas UAB	Lithuania	Subsidiary	100.00	-	Gas supply.
NT Valdos UAB	Lithuania	Subsidiary	100.00	-	Operation of real estate, other related activities and provision of services.
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.80	2.20	Provision of IT, telecommunication and other services.
Energetikos Paslaugų ir Rangos Organizacija UAB	Lithuania	Subsidiary	100.00	-	Transfer of electricity voltage, technical maintenance and operation of electric equipment of distribution network.
Tuuleenergia OU	Estonia	Subsidiary	100.00	-	Development and construction of wind farms, and electricity generation.
Energijos tiekimas UAB	Lithuania	Subsidiary	100.00	-	Supply of electricity and natural gas.
LITGAS UAB	Lithuania	Subsidiary	100.00	-	Supply of liquefied natural gas via the terminal and trade in natural gas.
Energetikų Mokymo Centras VŠĮ	Lithuania	Subsidiary	100.00	-	Professional development and continuing training of energy specialists.
Elektroninių Mokėjimų Agentūra UAB (former Gotlitas UAB)	Lithuania	Subsidiary	100.00	-	Provision of payment collection services.
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	97.00	3.00	Organisation and execution of public procurement, accounting, legal, personnel administration and customer support services.
VAE SPB UAB	Lithuania	Subsidiary	100.00	-	Business consulting and other management activities.
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.00	-	Modernisation of district heating supply in Vilnius city.
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.60	20.40	Provision of IT and telecommunication support services
Energijos Sprendimų Centras UAB	Lithuania	Subsidiary	100.00	-	Provision of energy saving services, implementation of development of renewable energy sources and other related works.
Geton Energy OÜ	Estonia	Indirectly controlled subsidiary	100.00	-	Electricity supply.
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.00	-	Electricity supply.
Lietuvos Energija Support Fund	Lithuania	Subsidiary	100.00	-	Provision of support for projects, initiatives and activities of public interest.
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.00	49.00	Modernisation of district heating supply in Kaunas city.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The Group's structure as at 31 December 2015:

Company name	Country of business	Company type	Group's effective ownership interest, % (equal to percentage of voting rights)	Non-controlling interest's effective ownership interest, % (equal to percentage of voting rights)	Profile of activities
Lietuvos Energija UAB	Lithuania	Parent company	-	-	Holding company
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.13	3.87	Electricity generation, supply, import, export and trade
LESTO AB	Lithuania	Subsidiary	94.39	5.61	Electricity supply and distribution to end users
Lietuvos Dujos AB	Lithuania	Subsidiary	96.64	3.36	Provision of natural gas distribution services, rational development of natural gas distribution infrastructure
NT Valdos UAB	Lithuania	Subsidiary	100.00	-	Disposition of real estate, other related activities and provision of related services; lease of motor vehicles and provision of related services
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.64	20.36	IT and telecommunication support services
Elektros Tinklo Paslaugos UAB	Lithuania	Subsidiary	100.00	-	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid
Kauno Energetikos Remontas UAB	Lithuania	Subsidiary	100.00	-	Repairs of energy equipment, manufacturing of metal structures
LITGAS UAB	Lithuania	Subsidiary	66.67*	33.33*	Supply of liquefied natural gas via terminal and trade in natural gas
Elektroninių Mokėjimų Agentūra UAB (formerly Gotlitas UAB)	Lithuania	Subsidiary	100.00	-	Provision of payment collection services
Energijos Tiekimas UAB	Lithuania	Subsidiary	100.00	-	Supply of electricity and natural gas
Energetikų Mokymo Centras VŠĮ	Lithuania	Subsidiary	100.00	-	Professional training and development of energy specialists
Geton Energy OU	Estonia	Indirectly controlled subsidiary	100.00	-	Electricity supply
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.00	-	Electricity supply
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.80	2.20	IT and telecommunication support services
VAE SPB UAB	Lithuania	Subsidiary	100.00	-	Business and other management consultations; development of a new nuclear power plant project in Visaginas
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	97.00	3.00	Public procurement, accounting and employment relations administration services
Lietuvos Dujų Tiekimas UAB	Lithuania	Subsidiary	100.00	-	Purchase (import) of natural gas and sales to end users
Lithuanian Energy Support Fund	Lithuania	Subsidiary	100.00	-	Provision of support for projects, initiatives and activities of public interest
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.00	-	Modernisation of district heating sector in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.00	-	Modernisation of district heating sector in Kaunas city

* The Group's effective ownership interest in all companies as at 31 December 2015 was equal to the percentage of voting rights held, except for LITGAS UAB, in which the Group holds 100% of voting rights.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

As at 31 December 2016, the Company held ownership interest in the following Group companies:

Group company	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Ownership interest (%)
Subsidiaries:					
Energijos Skirstymo Operatorius AB ¹	710,921	-	-	710,921	94.98
Lietuvos Energijos Gamyba AB	299,935	-	-	299,935	96.75
EURAKRAS UAB	17,058	-	-	17,058	75.00
Lietuvos Dujų Tiekimas UAB	8,369	-	-	8,369	100.00
NT Valdosa UAB	89,373	(9,036)	-	80,337	100.00
Technologijų ir Inovacijų Centras UAB	3,218	-	-	3,218	50.00
Energetikos Paslaugų ir Rangos Organizacija UAB ²	9,137	(7,320)	-	1,817	100.00
Tuuleenergia OU	6,659	-	-	6,659	100.00
Energijos Tiekimas UAB	23,906	-	-	23,906	100.00
LITGAS UAB	12,641	(785)	-	11,856	100.00
Energetikų Mokymų Centras VšĮ	309	(186)	-	123	100.00
Elektroninių Mokėjimų Agentūra UAB	758	-	-	758	100.00
Verslo Aptarnavimo Centras UAB	295	-	-	295	51.00
VAE SPB UAB	1,018	(1,369)	445	94	100.00
Vilniaus Kogeneracinė Jėgainė UAB	1,003	-	-	1,003	100.00
Energijos Sprendimų Centras UAB	348	-	-	348	100.00
Kauno Kogeneracinė Jėgainė UAB	5,487	-	-	5,487	51.00
Lietuvos Energija Support Fund	3	-	-	3	100.00
	1,190,438	(18,696)	445	1,172,187	

As at 31 December 2015, the Company held ownership interest in the following Group companies:

Group company	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Ownership interest (%)
Subsidiaries:					
LESTO AB	538,874	(16,869)	-	522,005	94.39
Lietuvos Energijos Gamyba AB	294,832	-	-	294,832	96.13
Lietuvos Dujos AB	172,047	(20,436)	-	151,611	96.64
NT Valdosa UAB	89,373	-	-	89,373	100.00
Energijos Tiekimas UAB	16,666	-	-	16,666	100.00
LITGAS UAB	8,689	(1,092)	-	7,597	66.67
ELEKTROS TINKLO PASLAUGOS UAB	4,795	-	-	4,795	100.00
Kauno Energetikos Remontas UAB	4,342	-	-	4,342	100.00
Duomenų Logistikos Centras UAB	7,268	(2,563)	-	4,705	79.64
Technologijų ir Inovacijų Centras UAB	3,218	-	-	3,218	50.00
VAE SPB UAB	1,018	(1,168)	314	164	100.00
Lietuvos Dujų Tiekimas UAB	869	-	-	869	100.00
Elektroninių Mokėjimų Agentūra UAB	495	-	-	495	100.00
Energetikų Mokymo Centras VšĮ	309	-	-	309	100.00
Verslo Aptarnavimo Centras UAB	295	-	-	295	51.00
Lietuvos Energija Support Fund	3	-	-	3	100.00
Vilniaus Kogeneracinė Jėgainė UAB	1,004	-	-	1,004	100.00
Kauno Kogeneracinė Jėgainė UAB	3	-	-	3	100.00
	1,144,100	(42,128)	314	1,102,286	



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The Group's investments in associates and joint ventures as at 31 December 2016 and 2015 were as follows:

Group	2016		2015	
	Carrying amount	Group's interest held (%)	Carrying amount	Group's interest held (%)
Geoterma UAB	2,142	23.44	2,142	23.44
Total	2,142		2,142	
Group's share of loss of associates	(2,142)		(2,142)	
Carrying amount	-		-	

As at 31 December 2016, the Group did not account for its share of loss of associate Geoterma UAB, because amount of loss exceeded the Group's cost of investment. The share of loss not recognised amounted to EUR 438 thousand (2015: EUR 331 thousand).

The table below presents the financial position and financial performance results of associates as at and for the year ended 31 December 2016 (unaudited):

	Assets	Liabilities	Sales revenue	Net profit/(loss) for the year
Geoterma UAB	6,042	7,390	1,228	(456)

The table below presents the financial position and financial performance results of associates as at and for the year ended 31 December 2015 (unaudited):

	Assets	Liabilities	Sales revenue	Net profit/(loss) for the year
Geoterma UAB	7,037	7,782	1,252	(329)



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Summarized statement of financial position of the Group companies that has non-controlling interests as at 31 December 2016 and 2015:

Company name	Current assets and liabilities			Non-current assets and liabilities			Net assets
	Year	Assets	Liabilities	Total net current assets	Assets	Liabilities	
AB Energijos Skirstymo Operatorius ¹							
31 December 2016	80,886	(182,514)	(101,628)	995,392	(243,716)	751,676	650,048
31 December 2015	137,423	(211,443)	(74,020)	903,427	(227,001)	676,426	602,406
Lietuvos Energijos Gamyba AB							
31 December 2016	150,910	(47,334)	103,576	668,520	(416,530)	251,990	355,566
31 December 2015	129,658	(54,741)	74,917	703,816	(435,833)	267,983	342,900
UAB EURAKRAS							
31 December 2016	4,657	(2,696)	1,961	44,905	(25,544)	19,361	21,322
31 December 2015	-	-	-	-	-	-	-
Technologijų ir Inovacijų Centras UAB							
31 December 2016	2,979	(3,221)	(242)	7,180	(47)	7,133	6,891
31 December 2015	4,397	(2,936)	1,461	5,262	(39)	5,223	6,684
Duomenų Logistikos Centras UAB							
31 December 2016	995	(1,353)	(358)	5,278	(335)	4,943	4,585
31 December 2015	2,534	(3,576)	(1,042)	5,837	(408)	5,429	4,387
LITGAS UAB							
31 December 2016	48,397	(23,697)	24,700	30	-	30	24,730
31 December 2015	46,358	(29,331)	17,027	33	-	33	17,060
Verslo Aptarnavimo Centras UAB							
31 December 2016	2,443	(1,788)	655	72	-	72	727
31 December 2015	1,067	(637)	430	35	-	35	465
Kauno Kogeneracinė Jėgainė UAB							
31 December 2016	6,248	(328)	5,920	4,703	-	4,703	10,623
31 December 2015	2	-	2	-	-	-	2

(1) Data as at 31 December 2015 cover the items from the statements of financial positions of LESTO AB and Lietuvos Dujos AB.

(2) Data as at 31 December 2015 cover the items from the statements of financial positions of ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB.

The table above is prepared based on the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Summarized statement of profit or loss and other comprehensive income of the Group companies that has non-controlling interests for 2016 and 2015:

<i>Company name/ Year</i>	<i>Revenue</i>	<i>Profit (loss) before income tax</i>	<i>Income tax expense (benefit)</i>	<i>Net profit (loss) from continuing operations</i>	<i>Other comprehensive income (loss)</i>	<i>Total comprehensive income (loss) for the year</i>	<i>Profit (loss) attributable to non-controlling interest</i>	<i>Dividends paid to non-controlling interest</i>
Energijos Skirstymo Operatorius AB ¹								
2016	647,425	105,400	(14,638)	90,762	-	90,762	4,554	2,164
2015	635,966	99,266	(14,805)	84,461	443	84,904	4,421	3,184
Lietuvos Energijos Gamyba AB								
2016	172,922	48,330	(8,355)	39,975	-	39,975	1,396	887
2015	214,395	3,889	(4,120)	(231)	-	(231)	(9)	943
EURAKRAS UAB								
2016	4,984	1,584	80	1,664	-	1,493	373	-
2015	-	-	-	-	-	-	-	-
Technologijų ir Inovacijų Centras UAB								
2016	14,500	311	95	406	-	406	9	-
2015	14,362	531	(74)	457	-	457	10	-
Duomenų Logistikos Centras UAB								
2016	4,359	166	(7)	159	-	159	41	-
2015	4,893	(149)	(12)	(161)	-	(161)	(33)	63
LITGAS UAB								
2016	101,781	10,415	(1,551)	8,864	-	8,864	-	398
2015	209,294	5,796	(873)	4,923	-	4,923	1,641	-
Verslo Aptarnavimo Centras UAB								
2016	9,724	314	(52)	262	-	262	8	-
2015	3,826	53	12	65	-	65	2	-
Kauno Kogeneracinė Jėgainė UAB								
2016	-	(157)	22	(135)	-	(135)	-	-
2015	-	(2)	-	(2)	-	(2)	-	-

(1) Data as at 31 December 2015 cover the items from the statements of financial positions of LESTO AB and Lietuvos Dujos AB.

(2) Data as at 31 December 2015 cover the items from the statements of financial positions of ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB.

The table above is prepared based on the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Summarized statement of cash flows of the Group companies that has non-controlling interests for the years 2016 and 2015:

Company name/ Year	Cash flows from operating activities	Income tax (paid) recovered	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase (decrease) in cash flows	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of the year
Energijos Skirstymo Operatorius AB								
2016	180,180	(36)	180,144	(123,794)	(51,524)	4,826	5,836	10,662
2015	148,149	(9,765)	138,384	(86,132)	(57,466)	(5,214)	11,050	5,836
Lietuvos Energijos Gamyba AB								
2016	60,513	-	60,513	14,499	(42,143)	32,869	66,176	99,045
2015	27,193	(1,829)	25,364	8,597	(43,535)	(9,574)	75,750	66,176
EURAKRAS UAB								
2016	2,828	-	2,828	(1,766)	680	1,742	580	2,322
2015	-	-	-	-	-	-	-	-
Technologijų ir Inovacijų Centras UAB								
2016	2,782	(162)	2,620	(2,982)	(202)	(564)	862	298
2015	2,649	(377)	2,272	(1,677)	478	1,073	(211)	862
Duomenų Logistikos Centras UAB								
2016	1,495	-	1,495	(227)	(2,391)	(1,123)	1,474	351
2015	1,216	-	1,216	(2)	(632)	582	892	1,474
LITGAS UAB								
2016	29,778	(896)	28,882	1	(2,436)	26,447	(16,636)	9,811
2015	(19,367)	-	(19,367)	-	(2,105)	(21,472)	4,836	(16,636)
Verslo Aptarnavimo Centras UAB								
2016	175	(25)	150	-	(2)	148	379	527
2015	57	-	57	(3)	31	85	294	379
Kauno Kogeneracinė Jėgainė UAB								
2016	(150)	-	(150)	(524)	6,802	6,128	2	6,130
2015	(1)	-	(1)	-	3	2	-	2

(1) Data as at 31 December 2015 cover the items from the statements of financial positions of LESTO AB and Lietuvos Dujos AB.

(2) Data as at 31 December 2015 cover the items from the statements of financial positions of ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB.

The table above is prepared based on the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

9 Amounts receivable after one year

Amounts receivable after one year consist of as follows:

	Group		Company	
	2016	2015	2016	2015
Amount receivable on disposal of Litgrid AB (Notes 4,13,39)	193,571	209,975	193,571	209,975
Financial lease (Note 14)	7,600	1,938	-	-
Deposited guarantees	943	941	-	-
Unbilled accrued revenue from electricity-related sales (Note 4)	246	533	-	-
Amounts receivable on emission allowances lent	157	214	-	-
Loan granted	599	29,738	2,900	29,000
Other non-current receivables	1,388	2,176	40	-
Total	204,500	245,515	196,511	238,975
Less: impairment allowance	(922)	(1,089)	-	-
Carrying amount	203,582	244,426	196,511	238,975

Information on the fair value of amount receivable from EPSO-G on disposal of Litgrid AB is presented in Note 3.1. The key terms of the amount receivable from EPSO-G on disposal of Litgrid AB were reviewed in 2014 and 2016 in relation to repayment terms and variable part of interest rate. Interest rate is based on 1 year EURIBOR.

According to agreement between the Company and EPSO-G during 2017-2021 period EPSO-G will pay EUR 79,607 thousand and final repayment of EUR 130,368 thousand (subject to final recalculation of the price premium) will take place in 2022. The non-current amount receivable is presented net of Contingent consideration (Note 4) which had negative value of EUR 4,182 thousand as at 31 December 2016 (zero as at 31 December 2015)

During 2016 the Company extended repayment term of loan provided to subsidiary UAB "Energetikos paslaugų ir rangos organizacija" with the carrying value at 31 December 2016 of EUR 2,940 thousand including EUR 40 thousand accrued interest receivable.

At 31 December 2015 the Company and the Group accounted for EUR 29,000 thousand of loan receivable from EPSO-G UAB that was scheduled for repayment at 31 May 2018. Interest rate of loan was based on 1 year EURIBOR. During first half of 2016, UAB "EPSO-G" prematurely repaid the EUR 29,000 thousand loan, and received proceeds are accounted for as "Loan repayments received" in statement of cash flows.

Movements on the impairment allowance of amounts receivable during the years ended 31 December 2016 and 2015.

	Group		Company	
	2016	2015	2016	2015
At 1 January	1,089	1,242	-	-
Impairment	11	-	-	-
Reversal of impairment	(178)	(153)	-	-
At 31 December	922	1,089	-	-

10 Other non-current assets

Other non-current assets consist of as follows:

	Group		Company	
	2016	2015	2016	2015
Right to receive emission allowances in future	3,288	5,087	-	-
Less: impairment	(668)	(1,799)	-	-
Carrying amount	2,620	3,288	-	-

As at 31 December 2011, 400,000 emission allowances were lent under the terms of a lending agreement concluded on 1 December 2009 with STX Services BV. The agreement expires in 2021. On 16 April 2012, additional 650,000 emission allowances were lent under the terms of a lending agreement signed on 13 April 2012 with CF partners (UK) LLP. On 7 April 2015, CF Partners (UK) LLP returned 650,000 emission allowances. Impairment of emission allowances was estimated with reference to the market prices of emission allowances as at 31 December 2016 and 2015.

11 Inventories

	Group		Company	
	2016	2015	2016	2015
Natural gas	28,514	29,471	-	-
Consumables, raw materials and spare parts	6,772	5,979	-	-
Electricity and gas meters	-	775	-	-
Heavy fuel oil	5,025	5,519	-	-
Other	961	1,110	-	-
Total	41,272	42,854	-	-
Less: write-down allowance	(3,155)	(2,880)	-	-
Carrying amount	38,117	39,974	-	-

As from 2016 the Group classifies electricity and gas meters in the category of property, plant and equipment. As a result, the electricity meters that were classified in the category of inventories as at 31 December 2015 were reclassified to property, plant and equipment.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The Group's inventories expensed during the year ended 31 December 2016 were as follows:

	Group		Company	
	2016	2015	2016	2015
Natural gas	250,735	355,471	-	-
Heavy fuel oil	494	1,916	-	-
Other inventories	17,650	16,500	-	-
Total	268,879	373,887	-	-

Inventories expensed in 2016 decreased compared to 2015 as a result of re-negotiated agreement with Statoil ASA leading to lower annual LNG acquisition and realization volumes and lower prices.

Movements on the account of inventory write-down to net realisable value during 2016 and 2015 were as follows:

	Group		Company	
	2016	2015	2015	2014
Carrying amount at 1 January	2,880	3,957	-	-
Additional impairment	400	106	-	-
Reversal of impairment	(125)	(1,183)	-	-
Carrying amount at 31 December	3,155	2,880	-	-

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2016 amounted to EUR 4,436 thousand (31 December 2015: EUR 16,964 thousand).

Movements on the account of inventory write-down to net realisable value were recognised in the statement of comprehensive income within 'Other expenses'.

As at 31 December 2016, no inventories had been pledged by the Company and the Group. As at 31 December 2015, the Company's subsidiary LITGAS UAB had pledged to Swedbank AB all its current inventories of goods and all rights of claim arising from sale of liquefied natural gas, as an asset complex. As at 31 December 2015, the Group's inventories pledged as collateral amounted to EUR 20,000 thousand (Note 19).

The Group's and the Company's prepayments as at 31 December 2016 and 2015 were as follows:

	Group		Company	
	2016	2015	2016	2015
Prepayments for natural gas	101	28,200	-	-
Deposits related to power exchange	4,539	8,669	-	-
Prepaid expenses	901	1,154	4	1
Prepayments for services	1,110	249	7	5
Payment for share capital issue of Vilniaus Kogeneracinė Jėgainė UAB (Note 8)	-	-	5,000	-
Other prepayments	316	1,898	-	-
Total	6,967	40,170	5,011	6

As at 31 December 2015, the Group's prepayments mostly consisted of prepayments for natural gas of subsidiary Lietuvos Dujų Tiekimas UAB in amount of EUR 26,9 million relating to the minimum quantity of natural gas not consumed during 2014. This quantity of natural gas was consumed by

Lietuvos Dujų Tiekimas UAB during 2016, thereby leading to significantly lower amount of prepayments for natural gas as at 31 December 2016.

12 Trade receivables

	Group		Company	
	2016	2015	2016	2015
Receivables on sales of electricity in Lithuania	76,941	69,706	-	-
Receivables on sales of gas from non-household users	30,907	30,577	-	-
Receivables on sales of gas from household users	2,887	2,563	-	-
Receivables on contract works	1,960	4,320	-	-
Receivable for the sales of heat	1,574	1,689	-	-
Receivable for rent of property	1,508	1,245	-	-
Receivables on exports of electricity and electricity manufactured abroad	1,228	253	-	-
Receivables for information technology and telecommunications services	735	868	-	-
Other trade receivables	5,219	8,823	-	-
Total	122,959	120,044	-	-
Less: impairment of trade receivables	(11,075)	(12,978)	-	-
Carrying amount	111,884	107,066	-	-

As at 31 December 2016, Lietuvos Dujų Tiekimas UAB had a credit agreement with AB SEB bank for the maximum credit amount of EUR 30 million. As at 31 December 2016, amount of EUR 1,207 thousand was withdrawn as a security under the agreement performance guarantee issued by AB SEB bank. Deadline for the repayment of credit is 31 December 2017. To secure the repayment of credit, Lietuvos Dujų Tiekimas UAB pledged to the bank – all claim rights against amounts receivable under the agreement on supply of natural gas. The maximum amount that can be pledged is EUR 9.0 million.

Movements on the account of provision for impairment during 2016 and 2015 were as follows:

	Group		Company	
	2016	2015	2016	2015
At 1 January	12,978	14,391	-	-
Impairment charge for the year	1,381	2,009	-	-
(Reversal) of impairment	(3,284)	(3,422)	-	-
At 31 December	11,075	12,978	-	-

Impairment of receivables was recognised in the statement of comprehensive income within 'Other expenses'.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The table below presents the ageing analysis of trade receivables that were not identified as doubtful:

	Group		Company	
	2016	2015	2016	2015
Not past due	99,703	89,896	-	-
Up to 30 days	5,034	7,923	-	-
30-60 days	1,635	2,186	-	-
60-90 days	614	954	-	-
90-120 days	306	381	-	-
Over 120 days	4,592	5,726	-	-
Carrying amount	111,884	107,066	-	-

The fair values of trade receivables as at 31 December 2016 and 2015 approximated their carrying amount.

13 Other amounts receivable

	Group		Company	
	2016	2015	2016	2015
Value added tax	5,412	5,611	-	211
Unbilled accrued revenue from electricity sales (including related VAT)	6,121	5,286	-	-
Accrued revenue for gas	-	5,061	-	-
Current portion of finance lease	1,990	1,324	-	-
Amount receivable on disposal of Litgrid AB (Notes 4,9,39)	12,222	-	12,222	-
Amount receivable on revision of Kauno energetikos remontas UAB shares price (Notes 4,31)	-	-	1,056	-
Other amounts receivable	3,905	3,944	1,016	4,549
Total	29,650	21,226	14,294	4,760
Less: impairment for other amounts receivable	(287)	(249)	-	-
Carrying amount	29,363	20,977	14,294	4,760

The fair value of other amounts receivable as at 31 December 2016 and 2015 approximated their carrying amount.

14 Finance lease

The table below presents analysis of the Group's financial lease receivables :

	Group		Company	
	2015	2016	2015	2015
Minimal lease payments				
The next year	2,582	1,473	-	-
Years 2 through 5 combined	5,789	2,092	-	-
Beyond five years	3,954	-	-	-
Total	12,325	3,565	-	-
Unearned finance income				
The next year	(592)	(149)	-	-
Years 2 through 5 combined	(1,457)	(154)	-	-
Beyond five years	(686)	-	-	-
Total	(2,735)	(303)	-	-
Total	9,590	3,262	-	-

Group during 2015 and 2016 entered into vehicles repurchase agreements, that specify repurchase consideration for vehicles used by the Group for long-term rental services. Repurchase amount of vehicle at 31 December 2016 is EUR 3,472 thousand (31 December 2015 is EUR 1,691 thousand). Periods for execution of vehicles repurchase agreements are in range from 1 to 5 years.

With respect to (1) assessment of income from long-term lease (2) the leased asset residual values at the end of the lease term (3) the consideration that will be received on repurchase of vehicles, in 2016 reclassification of tangible assets to the long-term financial leasing amounted to EUR 7,617 thousand. Eur (2015 - EUR 1,957 thousand).

The Group do not earns any contingent rent revenue related to financial lease agreements.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

15 Investments

As at 31 December 2016, the Group and the Company had no long-term investments.

As at 31 December 2016 and 2015, the Group's and the Company's short-term investments comprised as follows:

	Group		Company	
	2016	2015	2016	2015
Available-for-sale financial assets	-	4,534	-	4,534
Loan receivables	-	-	4,702	-
Interest receivable	-	27	200	27
Carrying amount	-	4,561	4,902	4,561

As at 31 December 2015, the Group's and the Company's available-for-sale financial assets consisted of LTL-denominated Lithuanian Government bond that were redeemed in 2016. As at 31 December 2015, the weighted average annual interest rate on bonds was 1.67%.

During 2016 the Company has provided a loan to the subsidiary Tuuleenergia OU (note 33), its repayment date was set as 31 December 2016 and in 2017 the loan was prolonged (note 39).

Fair value of investments

As at 31 December 2015, Lithuanian Government bonds were stated at fair value. The fair value of debt securities was attributed to Level 1 in the fair value hierarchy and it was determined with reference to the highest bid price (including interest accrued thereon) offered for the respective debt securities by one of three commercial banks in Lithuania, available as at 31 December 2015.

The Available-for-sale investment was redeemed in 2016.

16 Cash and cash equivalents

	Group		Company	
	2016	2015	2015	2015
Cash at bank and on hand	178,565	164,341	73	13,179
Carrying amount	178,565	164,341	73	13,179

For the purpose of cash flow statement, cash and cash equivalents, and bank overdrafts were as follows:

	Group		Company	
	2016	2015	2016	2015
Cash and cash equivalents	178,565	164,341	73	13,179
Bank overdrafts	-	(41,531)	-	-
Carrying amount	178,565	122,810	73	13,179

The fair value of cash and cash equivalents as at 31 December 2016 and 2015 approximated their carrying amount.

Under the loan agreements signed with the banks, the Group has pledged current and future cash inflows to bank accounts (Note 19). As at 31 December 2016, the balance of cash pledged amounted to EUR 139 thousand (31 December 2015: EUR 2,400 thousand).

17 Equity

As at 31 December 2016 and 2015, the Company's share capital amounted to EUR 1,212,156 thousand. As at 31 December 2015, the Company's share capital was divided into 4,179,849,289 ordinary registered shares with the nominal value of EUR 0.29 each.

As at 31 December 2016 and 2015, all the shares were fully paid up.

Pursuant to the Lithuanian Law on Adoption of the Euro and the provisions of the Procedure for Conversion of Share Capital to Euros of the Central Securities Depository of Lithuania (Lietuvos Centrinis Vertybinių Popierių Depozitoriumas AB), on 1 January 2015 the Company's share capital was converted to euros. The difference on conversion of the nominal value of shares from LTL to EUR amounted to EUR 1,588 thousand, which was accounted for by the Company in profit or loss of the statement of comprehensive income. The difference on conversion was reported within finance costs in the statement of comprehensive income.

18 Reserves

Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Companies in Lithuania are required to transfer 5% of net profit from distributable profit until the total reserve reaches 10% of the share capital. The legal reserve cannot be used for the payment of dividends and it is formed to cover future losses only.

As at 31 December 2016, the Group's legal reserve amounted to EUR 34,696 thousand (31 December 2015: EUR 28,777 thousand).

In 2016, the Company transferred EUR 5,551 thousand (2015: EUR 4,207 thousand) to the legal reserve. The Company's legal reserve as at 31 December 2016 did not reach 10% of the share capital.

Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment due to increase in value. The revaluation cannot be used to cover losses.

As at 31 December 2016, the Group's revaluation reserve amounted to EUR 57,475 thousand (31 December 2015: EUR 62,323 thousand).

This reserve was not formed by the Company as company's property, plant and equipment is carried at cost.

Other reserves

Other reserves are formed on the decision of shareholders and can be redistributed on appropriation of next year profits. No other reserves were formed by the Group as at 31 December 2016. As at 31 December 2015, the Group's other reserves included the change in fair value of available-for-sale financial assets amounting to EUR 48 thousand.

The Company accounts for the changes in fair value of available-for-sale financial assets within other reserves. No other reserves were formed by the Company as at 31 December 2016 (31 December 2015: EUR 48 thousand).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

19 Borrowings

	Group		Company	
	2016	2015	2016	2015
Non-current				
Bank borrowings	364,957	277,805	23,440	-
Current				
Current portion of non-current borrowings	90,008	99,023	2,131	-
Current borrowings	38,948	1,490	64,759	-
Letters of credit	-	206	-	-
Bank overdrafts	-	41,531	-	-
Accrued interest	5	5	-	-
Total borrowings	493,918	420,060	90,330	-

All borrowings of the Group bear variable interest rates with repricing intervals of up to 6 months.

In 2016 the Company has obtained a loan from SEB for the Company's business development funding - the acquisition of wind farms. The loan is set to a variable interest rate, the review period is 3 months. The loan balance at 31 December 2016 is EUR 25,571 thousand.

The Company's current borrowings include:

- Loan payable to SEB bank under credit line agreement in amount of EUR 38,948 thousand.
- Funds borrowed under an intercompany borrowing and lending agreement (Note 36) in amount of Eur 25,811 thousand.

Non-current borrowings grouped by maturity:

	Group		Company	
	2016	2015	2016	2015
Between 1 and 2 years	112,341	57,138	2,131	-
Between 2 and 5 years	181,793	161,052	6,393	-
After 5 years	70,823	59,615	14,916	-
Total	364,957	277,805	23,440	-

The carrying amounts of the Group and the Company borrowings are denominated in Euros.

As at 31 December 2016 and 2015, the fair value of borrowings approximated their carrying amount, except for borrowings of Lietuvos Energijos Gamyba AB with the carrying amounts of EUR 132,459 thousand and EUR 145,674 thousand, respectively. The fair value of these borrowings was approx. EUR 127,743 thousand as at 31 December 2016 (31 December 2015: EUR 137,590 thousand). The fair value was measured as present value of discounted cash flows at 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 loan agreements contain financial and non-financial covenants that the individual Group companies are obliged to comply with. All Group companies complied with the covenants as at 31 December 2016 and 2015.

To secure the repayment of certain borrowings, the Group has pledged its property, plant and equipment (Note 6), inventories (Note 11) and cash balances (Note 16).

As at 31 December 2016, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 180,412 thousand (31 December 2015: EUR 135,955 thousand).

As at 31 December 2016, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 71,052 thousand.

In 2016 the Company and the Group entered into credit agreement with European investment bank (Note 36) and entered into equity obligations. The Company is committed to:

- The State of Lithuania, directly or indirectly, will retain control over the Company;
- the Company's financial commitments that are not secured with collateral (a pledge or guarantee) will not exceed EUR 300,000 thousand

The Group is committed to:

- Group net debt-to-equity ratio will not exceed one;
- Net debt and EBITDA ratio will not exceed four;
- the Group's borrowing's and Property, plant and equipment ratio will not exceed the rate of 0.40.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

20 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax relates to the same fiscal authority. Movements on the accounts of deferred income tax assets and liabilities during the reporting period were as follows:

Group	At 31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2015	Recognised in profit or loss	Recognised in other comprehensive income	Increase on acquisition of subsidiary	At 31 December 2016
Deferred income tax assets								
Difference on recognition of revenue from new customer connection services	349	(183)	-	166	(182)	-	-	(16)
Deferred income	6,143	(1,692)	-	4,451	(2,267)	-	-	2,184
Accrued expenses	634	1,349	-	1,983	(1,487)	-	-	496
Impairment of assets	5,460	(203)	-	5,257	(146)	-	-	5,111
Tax losses not utilised	4,080	1,130	-	5,210	3,694	-	52	8,956
Difference of financial and tax value of assets identified in business combination	-	-	-	-	2,785	-	-	2,785
Other expenses	-	-	-	-	(649)	-	72	(577)
Deferred income tax assets before write-down to net realisable value	16,666	401	-	17,067	1,748	-	124	18,939
Less: write-down to net realisable value	-	(3,241)	-	(3,241)	(5,019)	-	-	(8,260)
Deferred income tax assets, net	16,666	(2,840)	-	13,826	(3,271)	-	124	10,679
Deferred income tax liabilities								
Valuation of PP&E (increase/decrease in value) and differences in depreciation rates	17,241	5,178	191	22,610	9,354	67	49	32,080
Tax relief on acquisition of PP&E	3,732	(1,023)	-	2,709	(533)	-	-	2,176
Increase in value of assets	14	-	(4)	10	(1)	(9)	-	-
Accrued expenses	(1)	1	-	-	(166)	-	-	(166)
Difference on recognition of revenue from new customer connection services	2,825	(37)	-	2,788	(39)	-	-	2,749
Effects from revaluation of financial assets,	-	-	-	-	689	-	-	689
Difference of financial and tax value of assets identified in business combination	-	-	-	-	(171)	-	2,235	2,064
Other	6,088	(219)	-	5,869	-	-	-	5,869
Deferred income tax liability, net	29,899	3,900	187	33,986	9,133	58	2,284	45,461
Deferred income tax, net	(13,233)	(6,740)	(187)	(20,160)	(12,404)	(58)	(2,160)	(34,782)

Group statement of financial position presented separately deferred tax assets (EUR 5,699 thousand) and deferred tax liabilities (EUR 40,481 thousand) if they relate to different subsidiaries, the net balance of deferred tax is liability of EUR 34,782 thousand.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Company	At 31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2015	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2016
Deferred income tax assets							
Accrued expenses	45	14	-	59	34	-	93
Deferred income tax assets, net	45	14	-	59	34	-	93
Deferred income tax liabilities							
Valuation result of financial assets	13	-	(4)	9	-	(9)	-
Deferred income tax liability, net	13	-	(4)	9	-	(9)	-
Deferred income tax, net	32	14	4	50	34	9	93

As at 31 December 2016, the Group did not recognise deferred income tax on accumulated tax loss from operations of EUR 55,067 thousand (31 December 2015: EUR 21,607 thousand).

21 Grants and subsidies

The balance of grants comprises grants to finance acquisition of assets, funds received from the International Fund for Support of Decommissioning of Ignalina Nuclear Power Plant, from the EU structural funds, and property, plant and equipment and intangible assets received in return for no consideration from the Government of the Republic of Lithuania. Movements on the account of grants in 2016 and 2015 were as follows:

Group	Asset-related grants			Total
	Other projects of the Group	Projects for renovation, improvement of environmental and security standards	Grants for emission allowances	
Balance at 31 December 2014	35,386	269,063	-	304,449
Depreciation of property, plant and equipment	(1,539)	(10,663)	-	(12,202)
Grants received	10,656	-	2,139	12,795
Emission allowances utilised	-	-	(2,108)	(2,108)
Grants reversed	(38)	(6,459)	-	(6,497)
Balance at 31 December 2015	44,465	251,941	31	296,437
Depreciation of property, plant and equipment	(1,609)	(10,798)	-	(12,407)
Grants received	424	-	1,733	2,157
Emission allowances utilised	-	-	(1,257)	(1,257)
Grants reversed	(1)	-	-	(1)
Balance at 31 December 2016	43,279	241,143	507	284,929

Amortisation of grants is included to profit and loss and charged against the depreciation expenses of the related property, plant and equipment. Grants reversed are reported within revaluation/impairment of assets and these expenses are presented net of grants reversed.

As described in Note 4, the Group made a decision on dismantling of Units 5 and 6 of the Reserve Power Plant, therefore at 31 December 2015 the Group recognised impairment loss of the long term assets "Property, plant and equipment" in the amount of EUR 36.7 million, and deferred income from the grant related to the item of "Property, plant and equipment" was recognised in income in full amount

of EUR 6,459 thousand. Net result of recognized impairment and income from reversed grants was included to profit and loss.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

22 Deferred revenue

	Group		Company	
	2016	2015	2016	2015
At 1 January	53,602	53,973	-	-
Received during the period	1,156	2,136	-	-
Utilised during the period	(2,544)	(2,507)	-	-
At 31 December	52,214	53,602	-	-

Deferred revenue represents income from connection of new customers to natural gas system and to the electricity grid.

Income from connection of new customers to natural gas system is recognised over the average useful life of related items of property, plant and equipment.

As from 1 July 2009, all income from connection of new customers to the electricity grid and from relocation of electricity network facilities is recognised in the period when the works are performed. Until 1 July 2009, deferred revenue was recognised over the average useful life of related items of property, plant and equipment (see Notes 2.21 and 4).

Income from connection of customers is included to revenue line in profit and loss.

23 Provisions

	Group		Company	
	2016	2015	2016	2015
Non-current	3,254	5,084	-	-
Current	12,883	23,333	-	-
Carrying amount	16,137	28,417	-	-

Group	Provisions for onerous contracts	Emission allowance liabilities*	Provisions for employee benefits	Other provisions	Total
At 31 December 2014	8,105	2,839	3,397	86	14,427
Increase during the period	13,263	3,888	807	38	17,996
Utilised during the period (Note 5)	-	(2,992)	(1,094)	30	(4,056)
Decrease/increase on change of assumptions	-	-	79	(29)	50
At 31 December 2015	21,368	3,735	3,189	125	28,417
Increase during the period	8,100	580	839	-	9,519
Utilised during the period (Note 5)	(19,176)	(2,999)	(32)	-	(22,207)
Decrease/increase on change of assumptions	-	-	533	(125)	408
At 31 December 2016	10,292	1,316	4,529	-	16,137

Provisions for employee benefits include a statutory retirement benefit payable to the Group's employees. The balance of provisions at the reporting date is reviewed with reference to actuarial calculations to ensure that estimation of retirement benefit liabilities is as much accurate as possible. The liabilities are recognised at discounted value using the market interest rate.

Provisions for onerous contracts include provisions for gas supply contracts under which the gas sale price will be lower compared to gas acquisition cost. At the end of 2016, these provisions amounted to EUR 10,262 thousand (2015: EUR 21,368 thousand). Upon acquisition of natural gas supply operations, the Group company Lietuvos Dujų Tiekimas UAB assumed an obligation to transfer the discount, which was received retrospectively on natural gas import price during January 2013–April 2014, to the end users in future periods. As at 31 December 2016 and 2015, the Group has calculated the provision in respect of onerous part of contracts for household and non-household users, by taking into account the prerequisites for the execution of the contracts at the financial reporting date. Key assumptions used in estimating provisions for onerous contracts were as follows:

- Provisions for onerous contracts with household users were accounted for with reference to forecast sales volumes and prices agreed with the NCC for the first half of 2017;
- Provisions for onerous contracts with non-household users were accounted for with reference to forecast sales volumes under the contracts signed with individual non-household users at the end of 2016. No discount rate is used in estimating the provisions for non-household users due to a relatively short period of realization of provisions.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

24 Other non-current amounts payable and liabilities

	Group		Company	
	2016	2015	2016	2015
PSO services fees received in advance	9,219	7,018	-	-
Non-current trade payables	813	1,529	-	-
Non-current amounts payable for the acquired shares of subsidiaries	-	61	9,272	17,819
Derivative financial instruments (Note 26)	851	-	-	-
Other	897	425	86	54
Carrying amount	11,780	9,033	9,358	17,873

The current portion of PSO service fees received in advance was classified as advance amounts received (EUR 177 thousand as at 31 December 2016 and EUR 14,633 thousand as at 31 December 2015).

As of 31 December 2016 the Company has accounted for reversal of contingent consideration payable for acquisition of NT Valdos, UAB in amount EUR 9,036 thousand (Note 31), as in the opinion of management there is indication, that maximum financial results, set in the agreement will not be achieved. The contingent consideration is based on normalized EBITDA for 2018, while forecasting its level the Company considered actual results of NT Valdos, UAB in 2016, forecasts for 2017 and projected growth of Lithuanian GDP.

25 Trade payables

	Group		Company	
	2016	2015	2016	2015
Amounts payable for electricity and heavy fuel oil	48,600	43,353	-	-
Amounts payable for construction works, services	10,113	11,874	-	-
Amounts payable for gas	28,046	30,817	-	-
Other amounts payable	9,359	6,075	343	443
Carrying amount	96,118	92,119	343	443

26 Other current amounts payable and liabilities

	Group		Company	
	2016	2015	2016	2015
Employment-related liabilities	6,561	7,615	612	-
Accrued expenses and deferred revenue for electricity and gas	1,666	470	-	-
Amounts payable for property, plant and equipment	34,149	31,994	45	-
Taxes (other than income tax)	9,224	14,066	11	-
Accrued expenses and deferred revenue	16,283	9,405	-	-
Derivative financial instruments	2,907	-	-	-
Current amounts payable for acquired shares of subsidiaries	-	126	-	45,552
Put option redemption liability	4,481	-	-	-
Other amounts payable and liabilities	4,293	3,425	49	361
Carrying amount	79,564	67,101	717	45,913

Derivative financial instruments

The Group's and the Company's assets and liabilities, related to derivative financial instruments are:

	Group		Company	
	2016	2015	2016	2015
Other current assets				
Derivative financial instruments linked to the market price of electricity	4,593	-	-	-
Derivative financial instrument linked to the market price of gas	13	-	-	-
Total	4,606	-	-	-
Other non-current amounts payable and liabilities				
Interest rate swaps (Note 24)	851	-	15	-
Other current amounts payable and liabilities				
Interest rate swaps	493	-	-	-
Derivative financial instruments linked to the market price of electricity	2,414	-	-	-
Total	3,758	-	15	-



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Profit (loss) related to sales and revaluation of derivative financial instruments are summarized as follows:

	Group		Company	
	2016	2015	2016	2015
Profit earned on sale of derivative financial instruments	2,686	-	-	-
Loss incurred on sale of derivative financial instruments	(1,797)	-	-	-
Realized profit (loss) on sales of derivative financial instruments	889	-	-	-
Revaluation of derivative financial instruments	2,036	-	(15)	-
profit (loss) on revaluation of derivative financial instruments	2,036	-	(15)	-
Net result	2,925	-	(15)	-

At 1 January 2016 The Company's subsidiary Energijos tiekimas UAB joined the electricity derivatives exchange NASDAQ Commodities. Energijos tiekimas UAB is currently the only Lithuanian electricity provider, active in the stock market. Trading of derivative products can reduce electricity price fluctuation risks, as well as to carry out commercial activities, making use of fluctuations in market prices. Energijos tiekimas UAB performs the market maker functions in respect of financial instruments linked to Latvian electricity market prices (EPAD Riga).

Derivative financial instruments fair value determination

The Group and the Company accounts for derivative financial instruments at fair value. At 31 December 2016. The Group accounted for EUR 4,606 thousand of derivatives assets and EUR 3,758 thousand. of derivative liabilities. Derivative assets and liabilities breakdown of the fair value hierarchy levels as at 31 December 2016 are:

Group	1 level	2 level	3 level	Total
	Prices quoted in active markets	Inputs observable either directly or indirectly,	Unobservable inputs	
Assets:				
Derivative financial instruments linked to the market price of electricity	3,822	771	-	4,593
Derivative financial instrument linked to the market price of gas	-	13	-	13
Liabilities:				
Derivative financial instruments linked to the market price of electricity	(1,142)	(1,272)	-	(2,414)
Interest rate swaps	-	(1,344)	-	(1,344)
	2,680	(1,832)	-	848

Group attributes to 1 fair value hierarchy level those derivative financial instruments that are purchased in the Nasdaq Commodities Exchange and are linked to the market price of electricity. Value of these derivative financial instruments is assessed according to prices published by Nasdaq Commodities Exchange.

Group attributes to 2 fair value hierarchy level those derivative financial instruments linked to Lithuania – Latvia and Estonia – Finland trade area prices. Derivative financial instruments purchased directly from other market participants (Over-the-counter contracts) and acquired Physical Transmission Rights are evaluated on the basis of the Nasdaq stock exchange Commodities prices adjusting with impact of trade areas potential risks determined by experts.

The interest swap fair value is determined using the discounted cash flow method and corresponds to 2 level of the fair value hierarchy.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

27 Sales revenue

	Group		Company	
	2016	2015	2016	2015
Revenue from sale of electricity	773,344	719,523	-	-
Revenue from sale of gas	282,040	314,685	-	-
Other sales revenue	15,158	13,813	1,802	1,992
Total	1,070,542	1,048,021	1,802	1,992

28 Other revenue

	Group		Company	
	2016	2015	2016	2015
Repair services	8,960	25,128	-	-
IT and communication services	5,090	5,476	-	-
Lease income	7,242	6,254	-	-
Financial lease interest revenue (Note 14)	402	114	-	-
Other	9,394	10,773	2	2
Total	31,088	47,745	2	2

The Group companies provide repair services that comprise maintenance, operation, repair and construction of electricity voltage transmission and distribution network electricity equipment.

The Group provides motor vehicle and real estate operating leases under contracts concluded for definite period, which may be extended for additional period ranging from several hours to several years. Income from lease of motor vehicles and real estate is recognised as income in profit or loss on a proportionate basis over the lease period.

29 Purchase of electricity, gas for trade and related services

	Group		Company	
	2016	2015	2016	2015
Costs of purchases of gas for trade	236,159	345,504	-	-
Purchases of electricity and related services	446,887	396,156	-	-
Purchases of subcontract services	8,692	19,830	-	-
Total	691,738	761,490	-	-

30 Other expenses

	Group		Company	
	2016	2015	2016	2015
Taxes	6,684	6,528	53	45
Telecommunications and IT services	3,622	3,725	232	222
Customer service	3,399	2,745	-	-
Write-offs of PP&E (Notes 5,6)	3,393	2,790	-	-
Expenses on revaluation and provisions for emission allowances	3,278	(382)	-	-
Utility services	2,310	1,667	71	55
Lease	2,107	2,351	180	159
Write-down allowance for inventories (reversal) (Note 11)	275	(1,077)	-	-
Expenses (income) on impairment of other non-current assets (Note 10)	(1,131)	(329)	-	-
Impairment allowance for amounts receivable (reversal) (Notes 9,12,13)	2,189	(1,807)	4,181	-
Impairment of goodwill (Note 33)	296	-	-	-
Other expenses	12,852	13,913	1,256	1,290
Carrying amount	39,274	30,124	5,973	1,771

31 Finance income

	Group		Company	
	2016	2015	2016	2015
Interest income	2,858	4,957	3,871	6,060
Late payment interest income	470	-	-	-
Derivative financial instruments revaluation result (Note 26)	136	-	-	-
Other finance income (Note 24)	256	675	9,655	-
Total	3,720	5,632	13,526	6,060

The Company's interest income mostly relates to a loan granted to EPSO-G UAB.

As disclosed in Note 4:

- After the year-end adjustment of the estimate of the Contingent consideration related to the acquisition of shares of subsidiary NT Valdos UAB, the Company recognised revenue of EUR 9,036 in other financing activities;
- Implementation of the Biofuel Boiler House Project resulted with incurred loss that triggered renegotiation of price the Company paid for UAB „Kauno energetikos remontas“ shares results of which enabled the Company recognised EUR 619 thousand of Other finance income and corresponding receivable from seller (Notes 4,13).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

32 Finance costs

	Group		Company	
	2016	2015	2016	2015
Interest expenses	5,760	4,456	732	419
Share capital conversion expenses	-	1,588	-	1,588
Derivative financial instruments revaluation result (Note 26)	370	-	-	-
Other finance costs	726	505	500	314
Total	6,856	6,549	1,232	2,321

33 Business combinations

One of the Group development areas is considered to be investments in renewable energy, therefore in 2016 the Group has acquired two wind parks.

On 18 January 2016, the Company acquired 209,662 ordinary registered shares of EURAKRAS UAB representing 75% of the share capital of EURAKRAS UAB and 75% of voting rights during the General Meeting of Shareholders. The cost of acquisition of shares amounted to EUR 17,058 thousand. EURAKRAS UAB, a Lithuanian company acquired, operates a park of 8 wind turbines with the overall capacity of 24 MW, located in Geišiai and Rotuliai II villages, Jurbarkas district.

On 20 January 2016, the Company acquired 100% of ordinary registered shares of Estonian company HOB OU and 43.28% of ordinary registered shares of Estonian company Tuuleenergia OU for the total amount of EUR 11,350 thousand (including redeemed current borrowings of EUR 4,691 thousand from shareholders). HOB OU owns 56.72% of shares of Tuuleenergia OU, therefore, following this transaction the Company holds 100% of shares of Tuuleenergia OU. Tuuleenergia OU operates a park of 6 wind turbines with the overall capacity of 18.3 MW, located in Mali and Tamba, Estonia.

Intangible assets have been identified in the acquired EURAKRAS UAB, namely tie right to produce electricity at a higher tariff, which under the Group assessment amount to EUR 14,900 thousand.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The Group had 12 months from the date of the acquisition of the businesses of EURAKRAS UAB, HOB OU and Tuuleenergia OU, during which it had to review and determine fair values of assets and liabilities. On business combination, assets and liabilities of EURAKRAS UAB, HOB OU and Tuuleenergia OU were identified with the following fair values at the date of acquisition .

	EURAKRAS UAB	HOB OU and Tuuleenergia OU	Total
Intangible assets	14,900	-	14,900
Property, plant, and equipment	32,363	30,636	62,999
Other non-current amounts receivable	-	605	605
Deferred tax assets	75	-	75
Inventories and prepayments	13	-	13
Amounts receivable within one year	320	499	819
Cash and cash equivalents	580	154	734
Non-current liabilities	(24,001)	(18,586)	(42,587)
Deferred income tax liability	(2,235)	-	(2,235)
Current liabilities	(1,219)	(6,945)	(8,164)
Net assets	20,796	6,363	27,159
Non-controlling interest	5,199	-	5,199
Goodwill arising on business combination	1,461	296	1,757
Write-off of goodwill	-	(296)	(296)
Purchase consideration paid	17,058	6,659	23,717
Net cash outflow on acquisition of subsidiaries:			
Cash paid for shares to selling shareholders	(17,058)	(6,659)	(23,717)
Repayment of company loans to shareholders	-	(4,691)	(4,691)
Cash and cash equivalents at acquired companies	580	154	734
Net cash flow	(16,478)	(11,196)	(27,674)

The value of non-controlling interest (25 per cent of UAB EURAKRAS shares) was determined as proportionate share in the fair value of net assets acquired.

The group accounted for net result (profit) for UAB Eurakras and Tuuleenergia OU amounting to EUR 493 thousand and EUR 801 thousand appropriately in its consolidated statement of comprehensive income for 2016. Revenue of Eurakras and Tuuleenergia OU in the consolidated statement of comprehensive income amounted to EUR 4,984 thousand and EUR 3,319 thousand EUR appropriately.

On 22 July 2016 subsidiaries HOB OU and Tuuleenergia OU were reorganised by way of merger. HOB OU was merged with Tuuleenergia OU and ceased its activities as a legal entity.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

34 Income tax expenses

Income tax expenses for the period comprise year period income tax and deferred income tax.

Profit for 2016 was subject to income tax at a rate of 15% (similarly as in 2015) in accordance with the Lithuanian regulatory legislation on taxation.

	Group		Company	
	2016	2015	2016	2015
Current year income tax expenses	13,373	2,140	23	262
Deferred income tax expenses (benefit)	12,404	6,740	(34)	(14)
Income tax expenses (benefit) recognised in profit or loss	25,777	8,880	(11)	248

Income tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Company:

	Group		Company	
	2016	2015	2016	2015
Profit (loss) before tax	148,113	64,176	99,326	111,265
Income tax expenses (benefit) at tax rate of 15%	22,217	9,626	14,899	16,690
Expenses not deductible for tax purposes	7,010	6,664	1,161	3,469
Income not subject to tax	(4,489)	(1,846)	(16,071)	(19,911)
Adjustment of income tax on disposal of part of business*	-	(8,539)	-	-
Income tax relief for the investment project	(4,098)	(863)	-	-
Adjustments in respect of prior years	48	21	-	-
Tax losses utilised	70	19	-	-
Urecognised deferred tax on tax losses	5,019	3,798	-	-
Income tax expense (benefit)	25,777	8,880	(11)	248

*Restatement of income tax is related to acquisition of natural gas supply operations by Lietuvos Dujų Tiekimas UAB from Lietuvos Dujos AB in 2014 (see Note 4 *Change in treatment of tax goodwill*).

Adjustment of income tax on disposal of part of business

Natural gas supply business was transferred between Group subsidiaries at market value as determined by independent valuers - EUR 17,510 thousand, whereas the carrying amount of net assets of the supply activity was equal to EUR 74,434 thousand at the date of business acquisition. The difference between of EUR 74,434 thousand was treated by the acquirer as a negative goodwill and was taxed with current income tax in 2014. In 2015 the acquirer received the binding decision of the Tax Authorities, whereby the difference should not be treated as negative tax goodwill, and

accordingly, no income tax should be assessed thereon. Since the tax effects of the business acquisition transaction (amounting to EUR 8,539 thousand in 2014) was recognised by the Group within profit or loss in the statement of comprehensive income, the adjusted income tax amount in 2015 (based on the binding decision of the Tax Authorities) was also recognised as adjustment to profit or loss.

35 Dividends

Dividends declared by the Company in 2016 and 2015:

Dividends declared by	2016		2015	
	EUR thousands	Dividends per share	EUR thousands	Dividends per share
Lietuvos energija, UAB	97,194	0.0233	57,844	0.0138
Number of shares	4,179,849,289		4,179,849,289	

Dividends declared by the Group companies in 2016:

Dividends declared by	Dividends received by		
	Lietuvos Energija UAB Group	Non-controlling interest	Total
Lietuvos Energijos Gamyba AB	26,422	887	27,309
Energijos Skirstymo Operatorius AB	40,957	2,164	43,121
NT Valdosa UAB	1,250	-	1,250
LITGAS UAB	796	398	1,194
Technologijų ir Inovacijų Centras UAB	196	4	200
Total	69,621	3,453	73,074

Dividends declared by the Group companies in 2015:

Dividends declared by	Dividends received by		
	Lietuvos Energija UAB Group	Non-controlling interest	Total
Lietuvos Energijos Gamyba AB	23,444	943	24,387
LESTO AB	31,924	1,898	33,822
Lietuvos Dujos AB	37,054	1,287	38,341
Energijos Tiekimas UAB	1,155	-	1,155
Duomenų Logistikos Centras UAB	248	63	311
Total	93,825	4,191	98,016



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Representation of comparative information for 2015

In 2016 the Company has changed presentation of dividend income in the statement of comprehensive income and has reclassified accordingly comparative information for 2015. Impact of reclassification on Company's statement of comprehensive income in 2015:

	2015 (reported)	Reclassification	2015 (reclassified)
Revenue			
Revenue	1,992	-	1,992
Other revenue	2	-	2
Dividends	-	93,825	93,825
Total revenue	1,994	93,825	95,819
Total operating expenses	11,707	-	11,707
Finance income	99,885	(93,825)	6,060
Finance costs	(2,321)	-	(2,321)
Profit (loss) before tax	111,265	-	111,265
Income tax and deferred income tax expense	(248)	-	(248)
Net profit	111,017	-	111,017
Other comprehensive income	(26)	-	(26)
Total comprehensive income for the period	110,991	-	110,991

36 Contingent liabilities and off-balance sheet commitments

Guarantees issued and received by the Company

Name of subsidiary	Note	Issued to	Issue date	Maturity	Max. amount of guarantee	Exposure on 2016.12.31	Exposure on 2017.12.31
UAB „EURAKRAS“		AB SEB bank	2016.04.05	-	-	24,929	-
UAB „EURAKRAS“		AB SEB bank	2016.04.05	-	-	836	-
UAB „Energijos tiekimas“		Eesti Energia Aktsiaselts	2016.08.25	-	2,000	-	-
UAB Vilniaus kogeneracinė jėgainė	a	European investment bank	2016.12.05	-	-	-	-
„Lietuvos energija“, UAB Group companies	b	companies Suppliers of liquefied natural gas terminal	2016	2017.12.31	-	10,065	-
UAB LITGAS			2014.10.03	2015.12.31	100,000	-	67,430
					112,065	35,830	67,430

- (a) On 5 December 2016, the Company and the European Investment Bank (Luxembourg) signed a guarantee and indemnity agreement under which the Company secured fulfilment of all current and future obligations of subsidiary Vilniaus Kogeneracinė Jėgainė in amount of EUR 190,000 thousand under the credit agreement signed on 5 December 2016 with the European Investment Bank for the term of 17 years. Guarantee cover all kinds of payables related to utilization of provided loan. Maximal amount of guarantee is not defined. As at 31 December 2016, no amount was withdrawn by Vilniaus Kogeneracinė Jėgainė UAB from the credit of the European Investment Bank.
- (b) During 2016 The Company and the Group companies entered intercompany borrowing and lending agreement (cash pool). Under the agreement, part of a group company agree to lend each other their funds, which are virtually transferred to the Group's corporate account, and that consideration be provided to each the Group's member using peer lending platform. Peer lending platform services provided by the commercial bank Swedbank AB with whom the Group entered group account agreement. According to the intercompany borrowing and lending agreement members of the group can borrow for periods not longer than one year, and determined interest rate is equal to the lowest of proposed commercial bank interest rate. As at 31 December 2016 total amount of lend and borrowed cash inside the Group was EUR 35,890 thousand, including EUR 25,825 thousand borrowed by the Company.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Contractual commitments

Under the provisions of the natural gas supply agreement with Gazprom OAO (the agreement was taken over on business acquisition), in 2015 Lietuvos Dujų Tiekimas UAB did not consume 59 million m³ of gas compared to the established minimum natural gas consumption volume of 960 million m³ (2014: 128.3 million m³ compared to 1 billion m³). Under the provisions of the agreement, Lietuvos Dujų Tiekimas UAB can further consume it over the next 3 years, provided the contractual payment and natural gas consumption commitments have been fulfilled. In 2015 Lietuvos Dujų Tiekimas UAB made a prepayment of EUR 26.9 million for part of natural gas not consumed in 2014 (Note 11). The prepaid quantity of natural gas was fully used in 2016.

In May 2014, Lietuvos Dujos AB and Gazprom OAO signed an agreement regarding the reduction of the price for natural gas imported by Lietuvos Dujos AB for the period from 1 January 2013 to 31 December 2015. Natural gas import price reduction effects for the period from 1 January 2013 to 30 April 2014 relates to household and non-household natural gas users. Natural gas import price difference effect on non-household users is expected to be transferred to the users during 2015-2016 or beyond, the difference effect to household users is expected to be transferred during 2015-2016-2017. The unused balance of price difference amounted to EUR 19.0 million as at 31 December 2016. In respect of this amount a provision for onerous contracts is recognized (note 23)

On 3 August 2015, Lietuvos Dujų Tiekimas UAB, Lietuvos Dujos AB and Gazprom OAO signed a trilateral agreement, under which all rights and obligations pertaining to the natural gas supply agreement (which was concluded on 16 December 1999 between Gazprom OAO and Lietuvos Dujos AB) were officially passed to Lietuvos Dujų Tiekimas UAB.

In December 2016, Lietuvos Dujų Tiekimas UAB and PAO Gazprom agreed on supply of natural gas in 2017. The agreement contains 'take-or-pay' clause under which Lietuvos Dujų Tiekimas UAB has a commitment to purchase the agreed minimum quantity of natural gas. Based on forecast consumption data, Lietuvos Dujų Tiekimas UAB plans to purchase all agreed quantity of natural gas during 2017.

Based on its Resolution No O3-305 of 14 October 2016 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2017*, the Commission set the price cap for the distribution service for 2017 on the basis of Report No O5-258 of 13 October 2016 where it also stated that in the period 2014–2015 Energijos Skirstymo Operatorius AB earned additional return on investments amounting to EUR 84,961.6 thousand, which exceeded the level of profit permitted by the Commission. The Commission decided to adjust the price caps for the distribution services for 2017 by 1/3 of the 2014–2015 return on investments presented in excess of the level of profit permitted by the Commission. Consequently, the Commission established the level of revenue from distribution activities for 2017, which was lower by EUR 28,320.5 thousand. It was decided that the remaining amount of 2014–2015 return on investments in excess of the level of profit permitted by the Commission will be reflected by adjusting the price caps of the electricity distribution services to be set for the Company for the upcoming year of the regulatory period, but not later than by the end of the regulatory period. In the opinion of management of Energijos Skirstymo Operatorius AB, an excess profit was earned in 2016, the exact amount of which and its impact on future tariffs will be known later.

Legal disputes

Legal dispute between Energijos Skirstymo Operatorius AB and the NCC

In November 2014 and January 2015 Energijos Skirstymo Operatorius AB filed a complaint to Vilnius Regional Administrative Court with request to annul certain resolutions of the Commission and to oblige the Commission to eliminate the violations committed determining the price caps for electricity distribution through medium and low voltage networks. Violations committed determining the price caps for electricity distribution resulted in lower revenue earned. Vilnius Regional Administrative Court rejected complaint in its entirety. Energijos Skirstymo Operatorius AB filed an appeal in 2016. The favorable resolution of the dispute would result in higher price caps and higher revenue in future periods.

In July 2015, Energijos Skirstymo Operatorius AB filed a complaint to Vilnius Regional Administrative Court with request to annul the Commission's resolution regarding the breach of the terms of regulated activities by Energijos Skirstymo Operatorius AB, whereby it was concluded that Energijos Skirstymo Operatorius AB breached the terms of licensed activities, namely, that expenses allocated by Energijos Skirstymo Operatorius AB to regulated distribution and public supply services were on no valid grounds higher than Energijos Skirstymo Operatorius AB was actually allowed to allocate. In its complaint, Energijos Skirstymo Operatorius AB also requested that the Court recognise the penalty of EUR 300 thousand as ungrounded. The favorable resolution of the dispute would result in higher price caps and higher revenue in future periods.

Legal dispute between Energijos Skirstymo Operatorius AB and Vilniaus Energija UAB

Vilniaus Energija UAB (the claimant) filed a claim to Vilnius County Court, whereby it requested to award damages of EUR 9,284 million from Energijos Skirstymo Operatorius AB. According to the claimant, it incurred losses of EUR 9,284 million, because in 2014 Energijos Skirstymo Operatorius AB purchased only that volume of supported electricity, which was produced under the technical minimum mode at the thermal power plants owned by the claimant. The Group does not account for provision in respect of claim because Description of PSO Services do not stipulate that the respondent is obliged to purchase full volume of electricity produced at thermal power plants. At 17 March 2017 plaintiff revised scope of the claim and applies for EUR 10,712 thousand damage compensation award. Closest court hearing will be held at 29 May 2017.

Legal dispute between Lietuvos Dujos AB and the Lithuanian Ministry of Energy

On 25 March 2011, the Lithuanian Ministry of Energy demanded Vilnius Regional Court initiate investigation of operations of Lietuvos Dujos AB and investigate if operations of Lietuvos Dujos AB, Board Members and/or the Managing Director were inappropriate. On 3 September 2012 Vilnius Regional Court ruled in favor of the claimant to initiate investigation of operations of Lietuvos Dujos AB. In 2016 The Lithuanian Ministry of Energy, Lietuvos Energija and Energijos Skirstymo Operatorius AB (which took over rights and obligations of Lietuvos Dujos AB) signed peaceful court settlement agreement, as well as the request on waiver of the claim. On 30 March 2016, the Lithuanian Supreme Court accepted the waiver of claim, approved the peaceful settlement agreement and terminated the civil case.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Legal dispute between Lietuvos Dujų Tiekimas UAB and Vilniaus Energija UAB

On 23 January 2015, Vilniaus Energija UAB filed EUR 15,200 thousand claim to Lietuvos Dujų Tiekimas UAB regarding the amendment to the pricing rules and awarding of the overpaid amount for natural gas acquired. On 21 January 2016, the court of first instance passed the ruling whereby the claim of Vilniaus Energija UAB was dismissed. On 19 February 2016, Vilniaus Energija UAB filed an appeal. Based on its decision of 17 November 2016, the court of appeal left the ruling of the court of first instance unchanged, i.e. the claim was dismissed.

Legal dispute between Lietuvos Dujų Tiekimas UAB and Amilina UAB

In 2015, Lietuvos Dujų Tiekimas UAB customer Amilina AB filed a claim regarding the amendment to the pricing rules established in the natural gas supply agreements and award of overpaid amount for the acquired natural gas. On 7 October 2016, Vilnius County Court resolved to reject the claim of Amilina AB, whereby it requested the court to award amount of EUR 1,038 thousand from the Company. On 4 November 2016, Amilina AB filed an appeal of EUR 1,038 thousand to the Court of Appeal of Lithuania.

Legal disputes between Lietuvos Energijos Gamyba AB and the Commission

Lietuvos Energijos Gamyba AB appealed the Commission's Resolution No O3-757 of 7 August 2014 *On survey results of electricity generation market*. The Commission's Resolution, stated that Lietuvos Energijos Gamyba AB is an undertaking having significant power in the market of electricity generation services. On 17 October 2016, the Lithuanian Supreme Administrative Court adopted a decision to accept the Lietuvos Energijos Gamyba AB's appeal and to repeal the disputed provisions of the Commission's Resolution. No further remedy exists against the court's decision and Lietuvos Energijos Gamyba AB shall not further be regarded as an undertaking having significant power in the market of electricity generation.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court with request to annul the Commission's Resolution No O3-818 of 30 September 2014. On 21 September 2015, Vilnius Regional Administrative Court made a decision to reject Lietuvos Energijos Gamyba AB's complaint. Based on the above-mentioned Resolution, Lietuvos Energijos Gamyba AB's revenue from PSO service fees for the year 2015 was reduced by EUR 6.14 million, and its revenue from capacity reserve services was reduced by EUR 3.72 million. On 20 December 2016, the Lithuanian Supreme Administrative Court adopted a decision to reject Lietuvos Energijos Gamyba AB's appeal. The case was closed and no further remedy exists against the court's decision. The management of Lietuvos Energijos Gamyba AB intends to refer to the court with request to renew the proceedings.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions No O3-852 of 17 October 2014 and No O3-866 of 30 October 2014. Adopted by the Commission resolution required to reduce revenue from supported electricity produced by EUR 6.14 million, and to reduce revenue from capacity reserve services by EUR 7.44 million during 2015 – 2016 period. The Group does not account for any provision in respect of decisions adopted by Resolutions because estimates of return on investments given in the resolutions are inaccurate and incorrect.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions *No O3-840 of 19 December 2014 No O3-866 of 30 October 2014* and No O3-939 of 19 December 2014. Adopting those resolutions the Commission reduced the budget of PSO services fees allocated to Lietuvos Energijos Gamyba AB for the year 2015 by EUR 5,440

thousand. The Group management then decided to account for the above-mentioned reduction of revenue in the Group's consolidated financial statements for 2015. On 5 December 2016, Vilnius Regional Administrative Court accepted the Company's appeal and repealed the disputed provisions of the Resolution. The Group will account for decision of court after the Commission will adopt request to implement the court's decision.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolution No O3-875 of 30 October 2014, Resolution No O3-934 of 11 December 2014 and Resolution No O3-875 of 30 October 2014. The above mentioned resolutions of the Commission had unilaterally established price components for heat produced by the Lietuvos Energijos Gamyba AB using inaccurate calculations of the return on investment. At 17 November 2015 Vilnius Regional Administrative Court made a decision not favorable to Lietuvos Energijos Gamyba AB. At 7 March, 2017 Supreme Administrative Court of Lithuania rejected Company's appeal. Whereas the Lietuvos Energijos Gamyba AB has applied the price unilaterally set by the Commission, therefore the decision of the Supreme Administrative Court of Lithuania will not have a direct impact on the Company's financial results.

Legal disputes of Tuuleenergia

In 2006 Varbla municipal government issued occupancy permits to Tuuleenergia OU to erect two Tamba wind turbines. In 2013 appeal was presented to Tallinn Administrative Court to annul occupancy permits issued by Varbla municipal government at the reason of erected wind turbines are not in accordance with detailed spatial plan and also the noise was not in satisfactory conditions. Appeal was not satisfied by Tallinn Administrative Court and also by Tallinn Circuit Court in the second instance in 2015. Cassation appeal was satisfied by Supreme Court in 2016. As a result occupancy permits were annulled and at the moment the Company has no any occupancy permits until all procedures will be filled for receiving new occupancy permits. Although court ruling is negative, it is important to note that the ruling itself does not entail an instruction to dismantle the windmills. The judgement emphasis that there is a need for a new proceeding in order to issue lawful permits for the turbines. The Court found that all the arguments relating to discrepancies regarding the geographical positioning of the turbines are not founded. Thus, it can be derived from judgement that the turbines can be positioned where they stand at the moment, however the question remains how the windmills affect neighboring properties and whether there should be restrictions imposed on operating of the turbines.

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 assess additional taxes or fines. The Group's management is not aware of any circumstances that might result in a potential material liability in this respect.

Commitment to pay for share capital increase of the subsidiary

On 19 December 2016, the Company, being a sole shareholder, passed a decision to increase the share capital of Vilniaus Kogeneracinė Jėgainė UAB by EUR 20,000 thousand through the issue of 68,965,518 new ordinary registered shares with the nominal value of EUR 0.29 each. The initial contribution, i.e. ¼ of the subscribed value of shares, amounting to EUR 5,000 thousand was paid by Lietuvos Energija UAB on 27 December 2016. The remaining part of the price for subscribed shares will be paid by the Company within 12 months from the date on which the share subscription agreement was signed (Note 8).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

37 Related-party transactions

As at 31 December 2016 and 2015, the sole shareholder was the Republic of Lithuania represented by the Lithuanian Ministry of Finance. For the purposes of disclosure of related parties, the Republic of Lithuania excludes central and local government authorities. The disclosures comprise transactions and balances of these transactions with the shareholder, subsidiaries (the Company's transactions), associates and all entities controlled by or under significant influence of the state (transactions with these entities are disclosed only if they are material), and key management and their close family members.

The Group's transactions with related parties during 2016 and year-end balances arising on these transactions as at 31 December 2016 are presented below:

Related parties	Finance income (costs)	Amounts payable	Amounts receivable	Sales	Purchases
EPSO-G UAB	2,653	-	210,414	32	-
Litgrid AB	(79)	11,429	5,058	50,987	102,436
BALTPOOL UAB	-	14,945	3,941	66,494	91,143
TETAS UAB	66	4,132	337	1,597	14,690
Amber Grid AB	-	5,669	3,430	36,658	35,130
LITGRID Power Link Service UAB	-	-	19	175	-
GET Baltic	-	745	2,538	3,735	3,228
Associates and other related parties of the Group	-	-	295	884	-
Total	2,640	36,920	226,032	160,562	246,627

The Group's transactions with related parties during 2015 and year-end balances arising on these transactions as at 31 December 2015 are presented below:

Related parties	Finance income (costs)	Amounts payable	Amounts receivable	Sales	Purchases
EPSO-G UAB	3,919	-	239,959	6	-
Litgrid AB	(2)	6,997	2,370	21,638	64,395
BALTPOOL UAB	-	15,253	10,700	82,939	92,458
TETAS UAB	110	4,042	183	1,693	15,382
Amber Grid AB	-	77	34	316	8,594
Associates and other related parties of the Group	-	232	138	304	1,483
Total	4,027	26,601	253,384	106,896	182,312

The major sale and purchase transactions with related parties in 2016 and 2015 comprised transactions with the entities controlled by the Lithuanian Ministry of Finance: Litgrid AB and BALTPOOL UAB. The Group's purchases from these entities mainly included purchases of electricity, capacity, transmission, PSO services and gas. Sales transactions included sales of electricity, capacity and PSO services.

Amount receivable from EPSO-G UAB represents unpaid amount on disposal of Litgrid AB, the outstanding balance of the loan granted and interest accrued thereon. Finance costs include interest charged during the year.

Transactions with other state-owned entities included regular business transactions and therefore they are not disclosed.

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

Related parties	Finance income	Finance costs	Amounts payable	Amounts receivable	Sales	Purchases
Subsidiaries						
Energijos Skirstymo Operatorius AB	5,180	401	5,823	235	750	-
Lietuvos Energijos Gamyba AB	4,391	353	17,202	1,099	219	-
EURAKRAS UAB	94	3	1,067	14	5	-
Lietuvos Dujų Tiekimas UAB	-	37	6,008	24	108	-
NT Valdosa UAB	3	2	4,946	33	118	342
Technologijų ir Inovacijų Centras UAB	-	-	62	20	39	225
Duomenų Logistikos Centras UAB	53	4	54	7	29	-
Energetikos Paslaugų ir Rangos Organizacija UAB	28	-	-	2,967	127	-
Tuuleenergia OU	211	-	-	4,902	-	-
Energijos Tiekimas UAB	3	2	-	28	69	-
LITGAS UAB	816	-	-	18	37	-
Public Institution Training Centre for Energy Specialists	-	-	-	2	10	-
Elektroninių Mokėjimų Agentūra UAB	-	-	-	11	43	-
Verslo Aptarnavimo Centras UAB	2	-	79	26	118	275
VAE SPB UAB	-	-	-	1	2	-
Vilniaus Kogeneracinė Jėgainė UAB	-	-	-	5,011	114	-
Kauno Kogeneracinė Jėgainė UAB	-	-	-	80	66	-
Other related parties						
EPSO-G UAB	2,653	-	-	210,410	-	-
Total	13,434	802	35,241	224,888	1,854	842

The company's sales to related parties during 2016 amounts to EUR 1,854 thousand. EUR, while sales revenue in 2016 is EUR 1,802 thousand. The difference of EUR 52 thousand comprise compensated expenses for goods and services purchased on behalf of the Company but actually used to benefit related parties.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

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

Related parties	Finance income	Finance costs	Amounts payable	Amounts receivable	Sales	Purchases
Subsidiaries						
LESTO AB	-	402	34,682	144	645	58,906
Lietuvos Energijos Gamyba AB	-	324	28,253	-	350	48,520
Lietuvos Dujos AB	-	-	-	119	369	-
Lietuvos Dujų Tiekimas UAB	-	-	-	47	160	-
LITGAS UAB	2,003	-	-	170	30	-
NT Valdos UAB	-	-	35	39	109	294
Kauno Energetikos Remontas UAB	-	-	-	102	85	61
Verslo Aptarnavimo Centras UAB	-	-	-	3	199	35
Energijos Tiekimas UAB	-	-	-	20	48	-
ELEKTROS TINKLO PASLAUGOS UAB	-	-	-	2,939	78	-
Technologijų ir Inovacijų Centras UAB	-	-	8	26	215	44
VAE SPB UAB	-	-	-	4	22	-
Energetikų mokymų centras VšĮ	-	-	-	13	26	11
Duomenų Logistikos Centras UAB	-	2	321	-	29	529
Other related parties						
EPSO-G UAB	3,919	-	-	239,957	6	-
Litgrid AB	-	2	188	-	-	312
Total	5,922	730	63,487	243,583	2,371	108,712

In 2015, sales included sales of management services that the Company started rendering to the Group entities.

The dividends declared in 2016 and 2015 are disclosed in Note 35.

Compensation to key management:

	Group		Company	
	2016	2015	2016	2015
Salaries and other short-term benefits to management personnel	3,615	4,517	711	700
Whereof: Termination benefits and benefits to Board Members	360	733	73	92
Number of management staff	66	71	11	10

Management in the table above includes heads of administration and their deputies of all the subsidiaries.

38 Segment reporting

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

In the opinion of the Management, the Group has three operating segments:

- Supply and distribution of electricity, gas distribution (running by Energijos Skirstymo Operatorius, AB);
- Electricity generation (running by Lietuvos Energijos Gamyba AB, Eurakras UAB, Tuuleenergia OU);
- Electricity and gas trade (running by Lietuvos Dujų Tiekimas UAB, Energijos Tiekimas UAB, Litgas UAB).

To Other segments are allocated:

- support services (NT Valdos UAB, Energetikos paslaugų ir rangos organizacija UAB, Technologijų ir Inovacijų centras UAB, Verslo aptarnavimo centras UAB);
- other non-core activities (UAB Energetikos paslaugų ir rangos organizacija, Duomenų logistikos centras, UAB, VšĮ Energetikų mokymo centras);
- special purpose entities which are responsible for implementation of assigned projects and construction of new cogeneration plants (VAE SPB UAB, Kauno Kogeneracinė Jėgainė UAB and Vilniaus Kogeneracinė jėgainė);
- service entities (Elektroninių mokėjimų agentūra, UAB, UAB Energijos sprendimų centras);
- also parent company Lietuvos Energija UAB, which does not constitute separate operating segment, however is disclosed separately, as its net profit exceeds 10% of net profit of all profit reporting segments. Support service entities and special purpose entities are aggregated as none of them individually meet criteria of an operating segment.

The Group has single geographical segment – Republic of Lithuania, electricity sales in Latvia and Estonia are considered not significant. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of revenue and expenses. The primary performance measure is EBIDTA, which is calculated based on the financial statements in accordance with IFRS and adjusted to selected items which are not recognized under IFRS. The Board of the group does not monitor assets and liabilities of the segments.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Group information about operating segments in 2016 is provided below:

2016	Supply and distribution of electricity, gas distribution	Electricity generation	Electricity and gas trade	Other segments		Elimination of intercompany transactions and consolidation eliminations	Total
				Parent Company	Other segments		
Revenue from external customers	599,137	161,362	352,141	-	25,265	(36,275)	1,101,630
Revenue from other segments	50,926	19,863	36,850	71,329	56,938	(235,906)	-
Total revenue	650,063	181,225	388,991	71,329	82,203	(272,181)	1,101,630
Expenses	(542,077)	(127,873)	(379,885)	11,521	(85,181)	169,216	(954,279)
<i>Thereof: depreciation and amortization</i>	<i>(46,028)</i>	<i>(23,488)</i>	<i>(1,100)</i>	<i>(3)</i>	<i>(8,201)</i>	<i>302</i>	<i>(78,518)</i>
<i>Thereof: impairments and write-offs</i>	<i>(9,129)</i>	<i>(3,853)</i>	<i>(144)</i>	<i>16,688</i>	<i>142</i>	<i>(15,386)</i>	<i>(11,682)</i>
<i>Thereof: unrealized gain (loss) on revaluation of derivatives</i>	-	-	2,036	-	-	-	2,036
<i>Management adjustments*</i>	-	-	19,000	-	-	-	19,000
EBITDA	163,143	80,693	27,314	66,165	5,081	(87,881)	254,515
Operating profit (loss)	107,986	53,352	9,106	82,850	(2,978)	(102,965)	147,351
Interest income	176	208	151	3,871	9	(1,557)	2,858
Interest (expenses)	(1,739)	(3,201)	(1,295)	(732)	(353)	1,560	(5,760)
Other financial income (expenses)	1,002	356	34	9,155	(210)	(10,571)	(234)
Profit (loss) before income tax	107,425	50,715	7,996	95,144	(3,532)	(113,533)	144,215
Income tax	(14,923)	(8,446)	(5,209)	11	(452)	3,242	(25,777)
Net profit (loss)	92,502	42,269	2,787	95,155	(3,984)	(110,291)	118,438
Total assets	1,113,186	886,118	150,814	1,398,361	188,864	(1,305,191)	2,432,152

*Management adjustments applied while arriving at EBITDA are related to Gazprom gas price reduction and excessive profits from regulated activities recognition (Electricity and gas trade segment).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Group information about operating segments in 2015 is provided below:

2015	Supply and distribution of electricity, gas distribution	Electricity generation	Electricity and gas trade	Other segments		Elimination of intercompany transactions and consolidation eliminations	Total
				Parent Company	Other segments		
Revenue from external customers	595,447	143,271	375,658	(4)	40,098	(58,704)	1,095,766
Revenue from other segments	42,778	71,124	138,071	95,823	61,640	(409,436)	-
Total revenue	638,225	214,395	513,729	95,819	101,738	(468,140)	1,095,766
Expenses	(536,167)	(208,634)	(540,434)	11,707	(103,379)	346,234	(1,030,673)
<i>Thereof: depreciation and amortization</i>	<i>(43,848)</i>	<i>(22,443)</i>	<i>(109)</i>	<i>(3)</i>	<i>(8,107)</i>	<i>273</i>	<i>(74,237)</i>
<i>Thereof: impairments and write-offs</i>	<i>(3,473)</i>	<i>(29,956)</i>	<i>345</i>	<i>16,216</i>	<i>1,491</i>	<i>(15,010)</i>	<i>(30,387)</i>
<i>Thereof: unrealized gain (loss) on revaluation of derivatives</i>	-	-	-	-	-	-	-
<i>Management adjustments*</i>	-	-	46,000	-	-	-	46,000
EBITDA	149,379	58,160	19,059	91,313	4,975	(107,169)	215,717
Operating profit (loss)	102,058	5,761	(26,705)	107,526	(1,641)	(121,906)	65,093
Interest income	268	193	281	6,060	14	(1,859)	4,957
Interest (expenses)	(2,049)	(1,984)	(2,285)	(419)	(162)	2,443	(4,456)
Other financial income (expenses)	295	(81)	213	(1,902)	16	41	(1,417)
Profit (loss) before income tax	100,572	3,889	(28,496)	111,265	(1,773)	(121,281)	64,177
Income tax	(15,090)	(4,120)	648	(248)	194	9,736	(8,880)
Net profit (loss)	85,482	(231)	(27,848)	111,017	(1,579)	(111,545)	55,297
Total assets	1,078,800	833,474	165,419	1,364,180	160,429	(1,263,072)	2,339,230

*Management adjustments applied while arriving at EBITDA are related to Gazprom gas price reduction and excessive profits from regulated activities recognition (Electricity and gas trade segment).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

39 Events after the reporting period

Increase of the authorised share capital of Vilniaus Kogeneracinė Jėgainė UAB

On 19 January 2017, a new version of the Articles of Association of Vilniaus Kogeneracinė Jėgainė UAB related to the increase in authorised share capital up to EUR 20,000 thousand by issuing 68,965,518 new registered shares with the nominal value of EUR 0.29 per share was registered with the Register of Legal Entities.

Bank borrowing

On 27 January 2017, the Company's subsidiary Energijos Skirstymo Operatorius AB and SEB Bankas AB signed the agreement for a long-term loan of EUR 77 million. The loan will be used to refinance financial liabilities of Energijos Skirstymo Operatorius AB and finance its working capital. The loan repayment term is 10 years and it is subject to a variable interest rate of 3 months EURIBOR.

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. 03-391 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 costs of Lietuvos Energijos Gamyba AB are compensated only in respect of 400 MW capacity. In the opinion of Lietuvos Energijos Gamyba AB, the above-mentioned paragraph 1 of the NCC's Resolution is ungrounded.

Guarantees issued

On 18 January 2017, the Company and SEB PANK AS, which represents the creditors' consortium consisting of SEB PANK AS and Nordea Bank AB Estonia Branch, signed the guarantee agreement, under which the fulfilment of obligations of Tuuleenergia OU assumed by the credit agreement signed with the consortium was secured. As at 31 December 2016, liabilities of Tuuleenergia OU, the fulfilment of which is secured by the guarantee issued by the Company, amounted to EUR 18,842 thousand.

Early repayment

On 1 March 2017 the Company received EUR 4,300 thousand early repayment from EPSO-G UAB which paid for Litgrid AB shares (Notes 4,9,13).

Loans provided

On 25 January 2017 the Company provided EUR 4,000 thousand loan to its subsidiary Energetikos paslaugų ir rangos organizacija UAB to refinance its current debts. Loan is scheduled for final repayment at 31 December 2019.

On 13 February 2017 the Company has prolonged the EUR 4,927 thousand loan to its subsidiary Tuuleenergia OU. Loan is scheduled for final repayment at 13 February 2028.

Distribution of dividends

The ordinary general meeting of shareholders of AB „Energijos skirstymo operatorius“ was held on 24 March 2017 where it was decided to approve the profit appropriation for 2016 and to allocate EUR 0,05786 per share in dividends, in total EUR 51,765 thousand in dividends.

The ordinary general meeting of shareholders of „Lietuvos energijos gamyba“, AB was held on 24 March 2017 where it was decided to approve the profit appropriation for 2016 and to allocate EUR 0,02 per share in dividends, in total EUR 12,702 thousand in dividends.

Bonds placement plans

At 1 March 2017 the Group announced a plan to issue EUR 200,000 thousand bonds emission. Obtained funds will be utilized in development of green energy projects. Currently, there is launched screening of bonds' distributor, who will be responsible for planning of placement and distribution of bond emission. It is planned that the first placement of bonds, under favorable market conditions, will take place in 2017.

