



INTERIM REPORT 1st HALF 2018

CONSOLIDATED INTERIM REPORT OF THE COMPANY AND OF THE GROUP

1 January 2018 – 30 June 2018

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Key Financial Indicators of the Lietuvos Energija Group

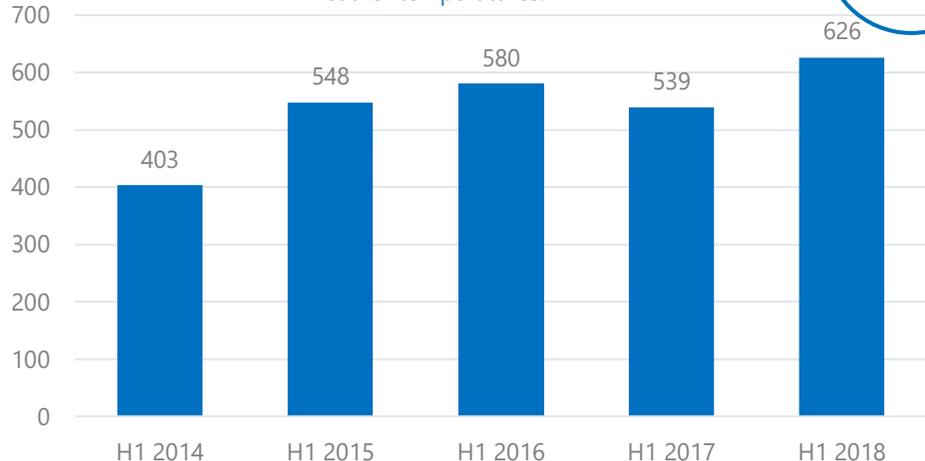
		1st half 2018	1st half 2017*	Δ, million EUR	Δ, %
Revenue	million EUR	626.0	539.0	87.0	16.1%
Purchase of electricity, gas, fuel, and related services	million EUR	457.9	373.6	84.3	22.6%
Operating expenses	million EUR	61.5	61.2	0.3	0.4%
EBITDA	million EUR	105.9	105.1	0.8	0.7%
EBITDA margin	%	16.9%	19.5%		
Adjusted EBITDA	million EUR	123.6	120.2	3.4	2.8%
Adjusted EBITDA margin	%	19.8%	22.3%		
Net profit	million EUR	58.3	52.1	6.2	12.0%
Net profit margin	%	9.3%	9.7%		
Adjusted net profit	million EUR	85.0	64.8	20.2	31.1%
Adjusted net profit margin	%	13.6%	12.0%		
Investments	million EUR	147.9	82.4	65.5	79.5%
		At 30 Jun 2018	At 30 Jun 2017	Δ, million EUR	Δ, %
Total assets	million EUR	2 552.3	2 505.1	47.2	1.9%
Equity	million EUR	1 266.0	1 343.6	-77.6	-5.8%
Borrowings	million EUR	688.5	614.1	74.4	12.1%
Net debt	million EUR	557.7	442.3	115.4	26.1%
Return on equity (ROE)	%	7.8%	7.0%		
Adjusted return on equity (ROE)	%	11.7%	9.8%		
Return on assets (ROA)	%	3,9%	3,8%		
Equity ratio	%	49.6%	53.6%		
Net debt / 12-month EBITDA	times	2.43	1.95		
Net debt / 12-month adjusted EBITDA	times	2.30	1.85		
Net debt / Equity	%	44.1%	32.9%		
12-month FFO / Adjusted net debt	%	39.8%	47.8%		
Assets turnover ratio	times	0.465	0.439		
Current liquidity	times	1.462	1.285		
Working capital	million EUR	-2.8	-8.8	6.0	68.4%
Working capital / Revenue	%	-0.3%	-0.8%		

* Financial indicators presented in the table for H1 of 2017 include amounts from discontinued operations. Discontinued operations include Group's companies Duomenų Logistikos centras and Energetikų mokymo centras related with Group's non-core activities that are going to be transferred/ were transferred. The net result of such activities is presented in statements of comprehensive income of the consolidated and company's condensed interim financial information.



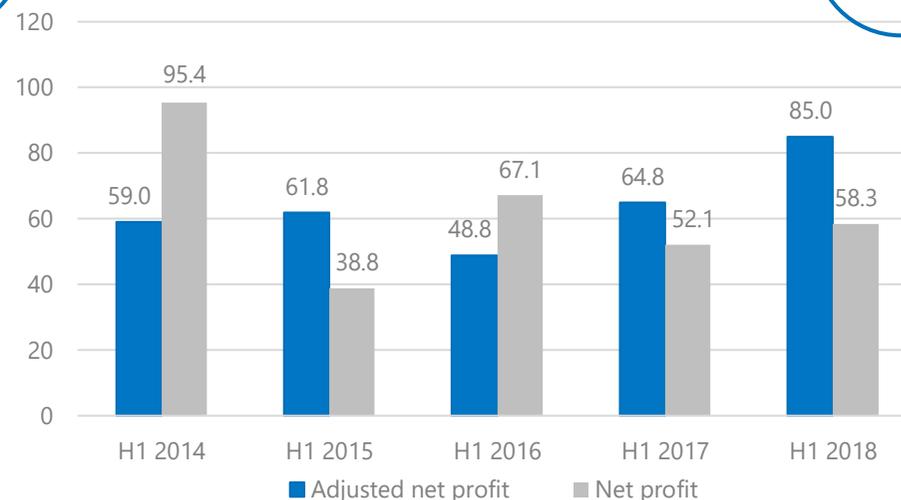
The growth in **revenues** of Lietuvos Energija was determined by growing demand for electricity and gas upon prevalence of low weather temperatures.

↑116%



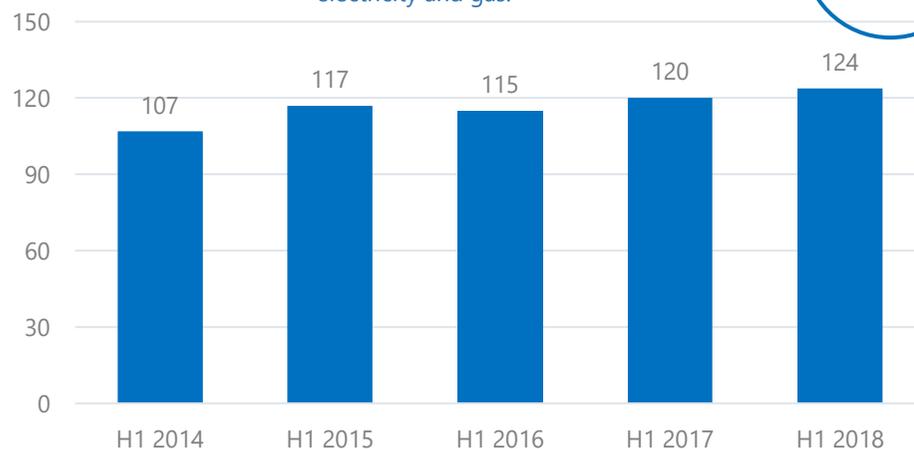
Net profit of Lietuvos Energija Group increased by 12% to 58.3 million EUR. Adjusted **return on equity** reached 11.7%.

↑112%



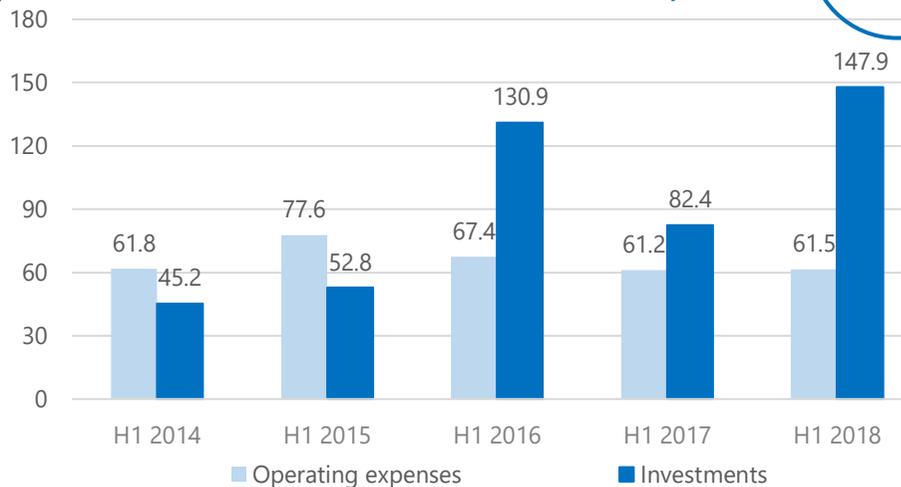
Adjusted **EBITDA** of the Lietuvos Energija Group grew by 3%. The growth was determined by a better result from distribution of electricity and gas.

↑13%



Operating expenses of Lietuvos Energija remained at the same level as in previous year. Upon gaining the momentum of the construction of CHPs, the **investments** increased by 80%.

↑180%



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



Report of the Chairman of the Board

Dear Customers, Partners, Employees, Shareholders,



During the 1st half year 2018, Lietuvos Energija announced its strategy LE 2030. We understand in the group that future belongs to renewing and smart energy and international cooperation; therefore, we have set ambitious goals. Lietuvos Energija will pay out to the State, i.e., all of us, not only EUR 1.6 billion in dividends, but will also implement innovations that will improve the life of all of us, as well as will accelerate the development of foreign markets.

Trust in the strategy of Lietuvos Energija has been also expressed by international investors. We have placed a EUR 300 million issue of green bonds with a 10-year term to maturity which demand exceeded the supply even four times. Irrespective of fact that the situation in financial markets was poorer than last year, we borrowed funds cheaper than in 2017, when the first, also a EUR 300 million issue was placed. This shows that international partners appreciate our determination to become a modern group focused on green energy.

This year we have not only published the strategy, but have also made clear steps in implementing it. By fostering innovations, the Smart Energy Orientated Venture Capital Fund set up by Lietuvos Energija invested for the first time EUR 350 thousand into two starters in June and approximately EUR 280 thousand in July together with the British energy giant BP. We also expand the green generation in seeking the goals set. In August, we concluded share sale-purchase agreements for the acquisition of three wind power farms and will become the second largest producer in the Baltic States.

This year, companies of Lietuvos Energija Group have make a step into a new quality stage of operation during which it will further improve the services provided. Lietuvos Dujų Tiekimas takes over the activity of power supply from Energijos Skirstymo Operatorius. ESO will devote attention to its core activity – distribution of electricity and gas, also maintenance of the grids, whereas Lietuvos Energijos Tiekimas that will become operational from October will work under the one-stop-shop principle, thus enabling customers to acquire gas and electricity more conveniently.

There was no shortage of challenges during the first half year. This year, the price of electricity that has reduced for the last five years changed the direction for the first time and started to grow. This was determined by growing oil and gas prices, increasing demand for electricity, small amount of precipitation in Scandinavia, and an increasing price of emission allowances. This will have an increasingly bigger effect on Lithuanian corporate and domestic customers, however, Lietuvos Energija Group will seek to ensure the best possible price to consumers further.

This year we have started major changes in Lietuvos Energija in pursuit of our ambition to become a green and innovative company that would bring real benefit to each resident of Lithuania.

Darius Maikštėnas
Chairman of the Board and CEO of Lietuvos Energija Group



An aerial photograph of a city, likely London, with a white grid overlay. The grid lines are spaced evenly across the image. The city buildings and streets are visible in a light blue tone. A white rectangular box is centered over the city, containing the text 'THE COMPANY AND THE GROUP'.

THE COMPANY AND THE GROUP

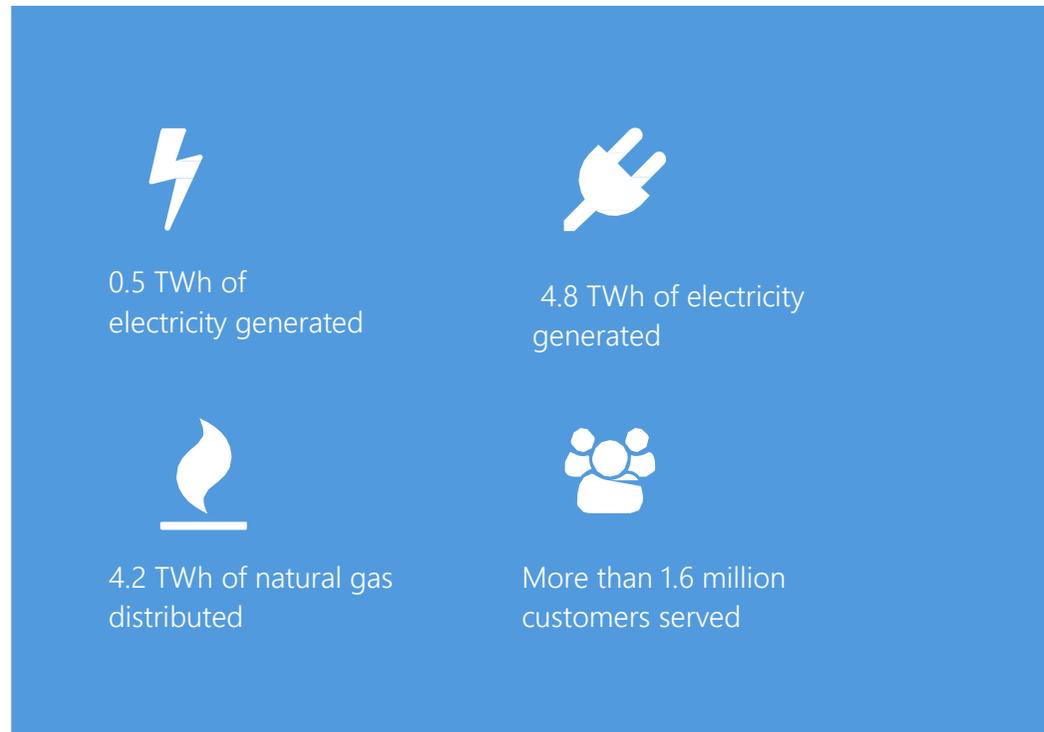


About the Group and the Company

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

The Lietuvos Energija Group implements energy projects of strategic importance for Lithuania and pursues the objectives set forth in the National Energy Strategy. The Group employing about 4,000 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. The Group provides services to more than 1.6 million of consumers across Lithuania, offers electricity supply services to consumers abroad, supplies gas to 570 thousand consumers. During 1st half 2018, 0.5 TWh of electricity was generated and distributed to consumers and 4.8 TWh of electricity, and 4.2 TWh of natural gas was transported via gas distribution pipelines.

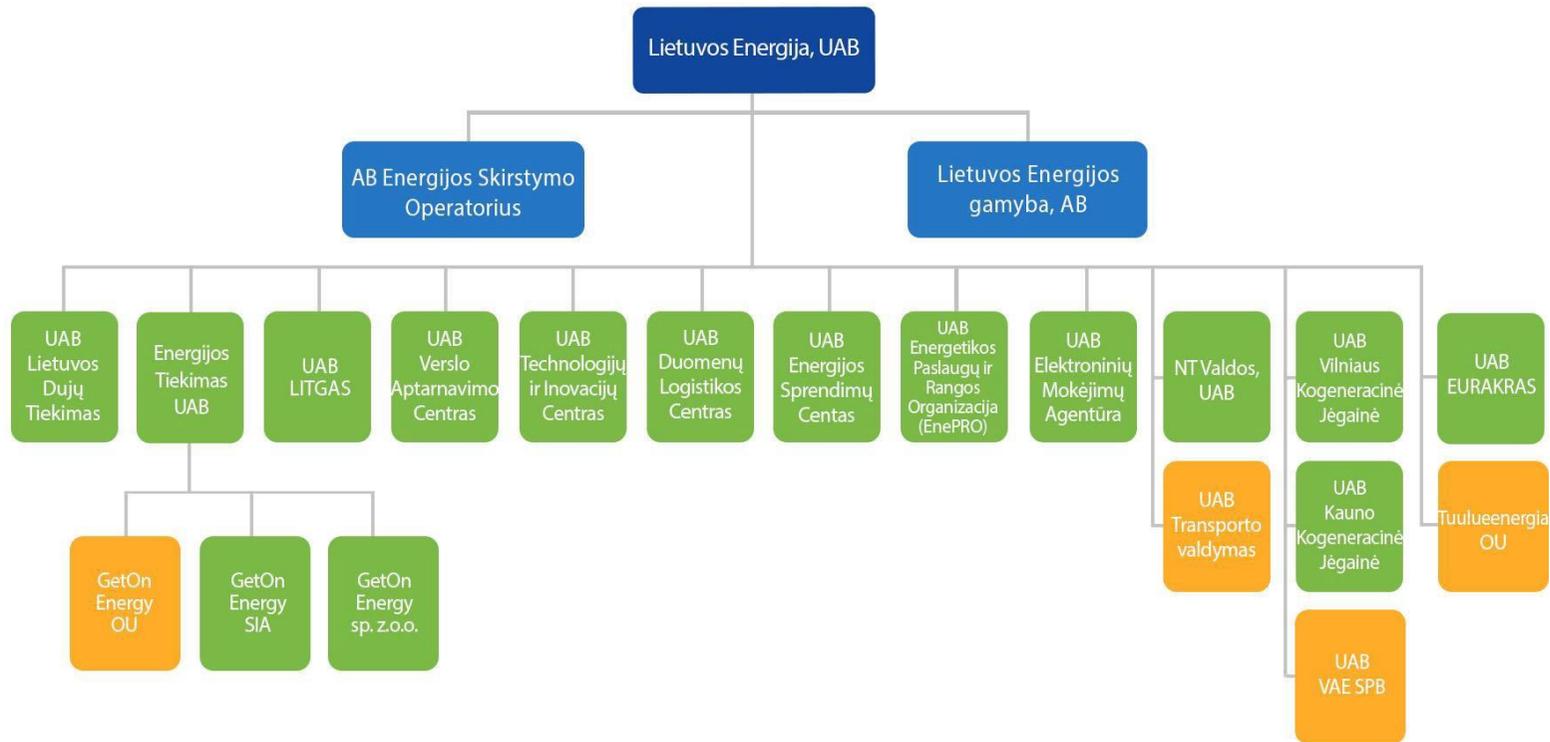
The parent company of the Group – Lietuvos Energija UAB (hereinafter – Lietuvos Energija or the Company) is responsible for transparent management and coordination of activities of the whole Group, improvement of the efficiency in order to ensure competitive services for consumers and for socially responsible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



Structure of the Group

At the end of the reporting period, the Lietuvos Energija Group consisted of 22 companies: the parent Company and 21 directly and indirectly controlled companies. The main business activities of the Group are the generation of electricity and heat, electricity trading, distribution and supply, and trade in natural gas and its distribution.

Activities of the Group's companies servicing these main types of business activities comprise ITT, real estate, transport, repair and construction of energy facilities, professional development of employees, public procurement, accounting, administration of employment relationships, and other services.



Supervisory Board (5 members, 3 of them are independent) Executive Board (5 members (employees)) CEO – Chairman of the Board	Supervisory Board (3 members, 1 of them is independent) Board (5 members (employees)) CEO – Chairman of the Board	Board (3 members, 2 shareholder representatives and 1 independent)* CEO – not a member of the Board	CEO Board not formed
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*The structure of the Board is different across companies; the Board is not formed in special purpose companies until active operation thereof; the Board of service providers is formed ensuring the representation of all shareholders.



Major events during 1st half 2018 and the post-balance period

January 2018

4 January. For the fourth year in a row Lietuvos Energija was recognised the most progressive state-owned company. In the good governance index of state-owned enterprises (SOE) published by the Governance Coordination Centre, Lietuvos Energija the only one of SOE received the highest A+ rating.

17 January. The European Commission approved support to Vilnius CHP plant.

26 January. The European Commission approved the financing of infrastructure research of Kruonis PSP in preparing for the development of the plant

February 2018

1 February. A new board of Lietuvos Energija Group and CEO Darius Maikštėnas were elected.

2 February. Gilė simplified cash payment of fees for services provided at the places of payment acceptance.

12 February. Construction of Vilnius cogeneration plant was commenced. Lietuvos Dujų Tiekimas employed a robot for the service of corporate customers.

20 February. Due to poor condition, a decision was taken to destroy no longer used chimneys in Elektrėnai complex.

March 2018

3 March. The Board of Lietuvos Energija adopted a decision to transfer Vilnius Third CHP (TE-3) as a non-monetary contribution to the authorised capital of daughter company Lietuvos Energijos Gamyba.

7 March. LITGAS plans to reduce maintenance costs of LNG terminal by approximately EUR 0.5 million in 2018.

14 March. Ovidijus Martinonis became a Board member supervising the field of grids development of Energijos Skirstymo Operatorius (ESO)

March 2018

21 March. Lietuvos Energija announced planning to separate the of public electricity supply from Energijos Skirstymo Operatorius (ESO) and to transfer it to another Group's company– Lietuvos Dujų Tiekimas that supplies natural gas to residents and business.

23 March. Lietuvos Energija received a prestigious award of financial markets for the issue of green bonds.



April 2018

4 April. Lietuvos Dujų Tiekimas, by strengthening relationships with the USA signed an arrangement with yet another supplier of American LNG.

13 April. Lietuvos Energija announced abandoning the contractor activity pursued by the Group's company EnePRO.

18 April. Lietuvos Energija adopted a decision to wind up VAE SPB company belonging to the Group and no longer engaged in commercial activity

23 April. Energijos Tiekimas in Latvia will offer both, electricity and natural gas.

April 2018

24 April. CEO of the Group's company LITGAS became Tadas Adomaitis, whereas NT Valdosa are under the management of Martynas Nenėnas.

27 April. Since now the electricity and gas distribution company Energijos Skirstymo Operatorius (ESO) will provide the majority of its services by instalment. Not only the persons who install electricity or gas up to the boundary of their land plot will be able to use leasing, but also those who install an electricity or gas internal grid, solar power plant or have ordered an increase of power.

May 2018

02 May. At the General Meeting of Shareholders of Lietuvos Energija the amount of dividends 78.3 mln. EUR earmarked for the state budget

23 May. A general meeting of Lietuvos Energija shareholders approved the Group's strategy until 2030. It provides for paying EUR 1.6 billion in dividends during 12 years.

24 May. Lietuvos Energija Group won in the European Business Awards the award Company of the Year within the category of achieving a turnover of EUR 150 million or higher.

May 2018

30 May. S&P Global Ratings approved the valid BBB+ credit rating with a stable perspective for Lietuvos Energija Group. This is the highest rating among analogous energy countries in the Baltic States and the second best among Eastern European analogous energy enterprises.



June 2018

7 June. Smart Energy Fund powered by Lietuvos energija, managed by Venture Capital allocated the first investments - invested EUR 350 thousand into two start-ups.

July 2018

3 July. Lietuvos Energija placed a EUR 300 million issue of green bonds with a 10-year term to maturity. An annual interest of 1.875 percent is paid for the bonds.

10 July. Smart Energy Fund powered by Lietuvos Energija, invested 250 thousand pounds into the energy technology start-up Voltaware operating in the United Kingdom.

17 July. ESO announced an investment plan that foresees to make investments of EUR 2.1 billion during 2018-2027.

July 2018

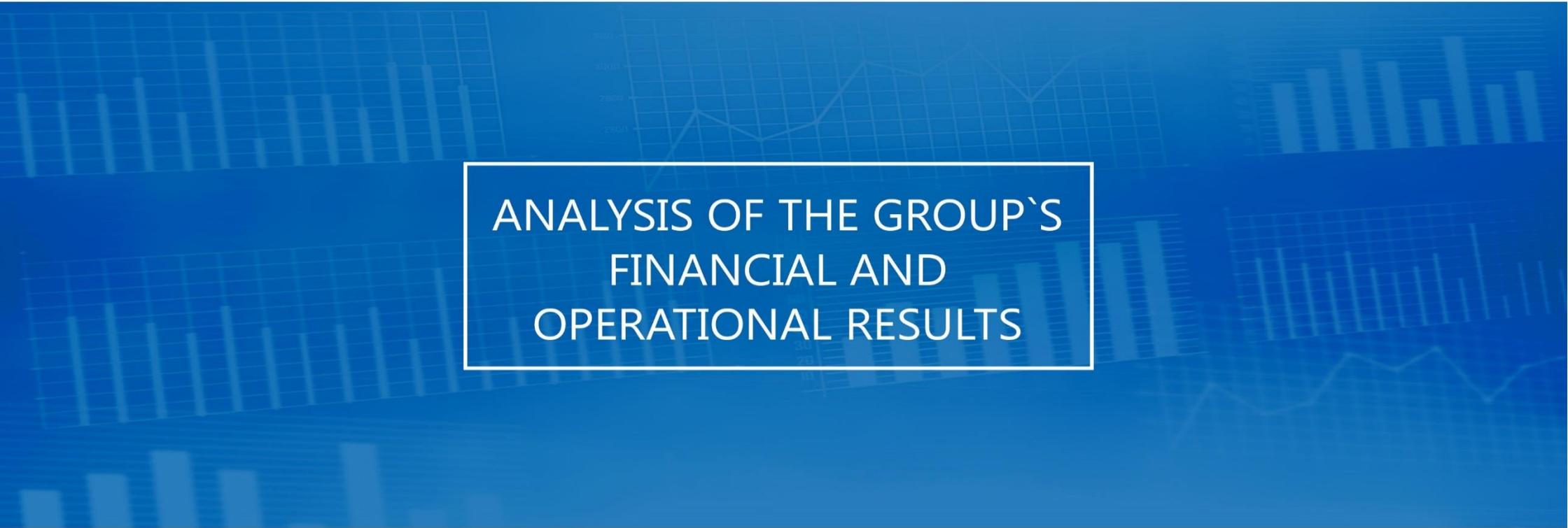
31 July. Lietuvos Dujų Tiekimas was granted a public supply licence. From 1 October, the company will start providing not only gas but also electricity. It is planned that the name of the company will be Lietuvos Energijos Tiekimas.

August 2018

10 August. Dalia Andriulionienė withdrew from the position of the Chairperson of the Board and CEO of Energijos Skirstymo Operatorius upon mutual agreement of the parties.

10 August. Lietuvos Energija signed a share purchase-sale agreement for the acquisition of three wind power plants with a capacity of 34 MW run by Vėjo Vatas and Vėjo Gūsis.





ANALYSIS OF THE GROUP'S FINANCIAL AND OPERATIONAL RESULTS



Analysis of Financial and Operational Results

Key operating indicators		1st half 2018	1st half 2017	Δ, +/-	Δ, %
Electricity					
Distributed electricity:	TWh	4.78	4.62	0.16	3.5%
Distributed to customers of independent suppliers	TWh	3.13	2.99	0.14	4.7%
Public and guaranteed supply	TWh	1.65	1.63	0.02	0.9%
Generated electricity	TWh	0.50	0.61	-0.11	-17.8%
Generated electricity using renewable energy sources	TWh	0.29	0.30	-0.01	-4.3%
Sold electricity:	TWh	2.88	2.73	0.15	5.5%
Public and guaranteed supply	TWh	1.65	1.63	0.02	0.9%
Sales in retail market	TWh	1.23	1.10	0.13	10.9%
Number of newlyconnected customers	units	13,803	12,884	919	7.1%
Duration of connection of new customers (average)	calendar days	53.79	50.83	2.96	5.8%
Quality indicators of electricity supply					
SAIDI, min. (with force majeure)	min.	31.29	63.79	-32.50	-50.9%
SAIFI, units (with force majeure)	vnt.	0.49	0.60	-0.11	-18.3%
Technological costs in the distribution network	%	6.36%	5.44%		16.8%
Gas					
Volume of gas distributed	TWh	4.21	4.00	0.21	5.3%
Volume of gas sold	TWh	6.21	5.76	0.45	7.8%
Volume of gas purchased:	TWh	5.22	5.09	0.13	2.6%
Volume of LNG purchased	TWh	2.07	1.66	0.41	24.8%
Volume of natural gas purchased	TWh	3.15	3.43	-0.28	-8.2%
Number of newlyconnected customers	units	4,782	5,633	-851	-15.1%
Duration of connection of new customers (average)	calendar days	92.23	177.41	-85.18	-48.0%
Quality indicators of gas supply					
SAIDI, min. (with force majeure)	min.	0.261	0.195	0.067	34.2%
SAIFI, units (with force majeure)	vnt.	0.003	0.002	0.001	59.2%
Technological costs in the distribution network	%	1.84%	1.98%		-7.2%



During 1st half of 2018, as compared with 1st half of 2017, the distributed volume of electricity insignificantly increased and amounted to 4.78 TWh (+3.4 per cent, +0.16 TWh, as compared with the previous year). Distribution of electricity to independent consumers also increased and amounted to 3.13 TWh (+4.7 per cent, +0.14 TWh as compared with previous year), meanwhile volumes of the public and guaranteed supply remained at the similar level – 1.65 TWh (+0.9 per cent).

During 1st half of 2018, as compared with the same period in 2017, electricity generation volumes at Kaunas Algirdas Brazauskas Hydroelectric Power Plant reduced insignificantly (-3.9 per cent) due to smaller quantity of water in the Nemunas River and amounted to 0.23 TWh. Electricity generation volumes at Kruonis Pumped Storage Hydroelectric Plant also reduced due to prolonged repairs (-10.7 per cent) and amounted to 0.20 TWh.

In March suitable conditions for production at the combined cycle unit of Elektrėnai complex have formed due to cold weather conditions in whole Scandinavia and Baltic states which led to an increase in electricity consumption as well as decrease of production of wind farms. During 1st half of 2018 Elektrėnai complex produced 0,008 TWh of electricity (0,079 TWh during 1st half of 2017). Due to the influence of the temperature in the warm season, the Combined cycle unit's residual power becomes too small, so the production of this block is not offered to the market. The volume of electricity generated by the wind farms operating in Estonia and Lithuania totalled 0.058 TWh, which is - 0.004 TWh or 6.2 per cent less, as compared to the same period in previous year. Lower than average weather temperature in February resulted in unfavourable meteorological conditions for the operation of wind farms. The portion of electricity generated from renewable energy sources accounted for 58 per cent of the Group's total electricity generation volume during 1st half of 2018 (during 1st half of 2017 – 50 per cent).

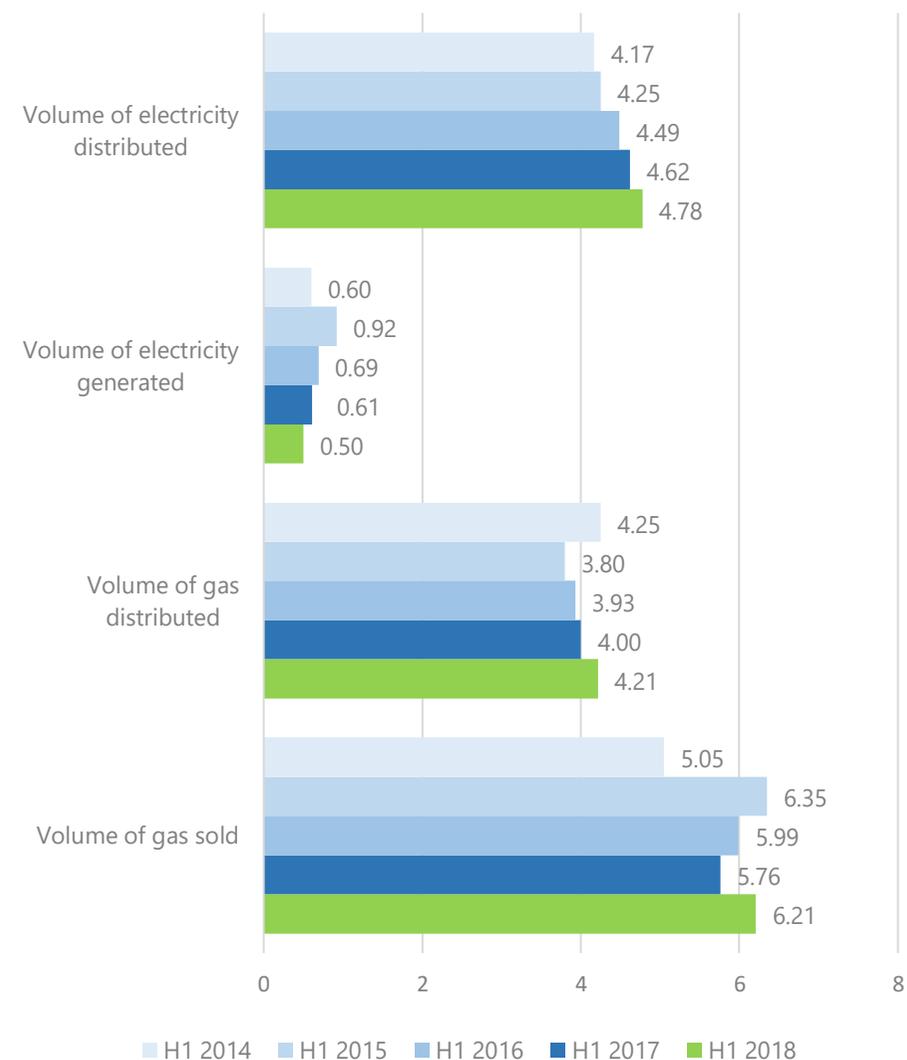
During 1st half of 2018, technological costs in the electricity distribution network increased up to 6.36 per cent (5.44 per cent during 1st half of 2017). SAIDI ratio, with the effect of force majeure circumstances, declined during the comparative period to 31.29 min. (63.79 min during 1st half of 2017). SAIFI ratio amounted to 0.46 times during 1st half of 2018 (0.57 times during 1st half of 2017). The positive change in this ratio was influenced by increasing investments to the underground grid more resistant to natural disasters.

The volume of gas distributed by the Group companies during 1st half of 2018 increased by +5.3 per cent or +0.21 TWh. The volume of gas sold increased by +7.8 per cent or 0.45 TWh during 1st half of 2018. This was mostly affected by colder weather at the beginning of the year and an increased number of gas consumers.

During 1st half of 2018, technological costs in the gas distribution network declined from 1.98 per cent to 1.84 per cent. Gas distribution SAIDI ratio, with the effect of force majeure circumstances, increased insignificantly during 1st half of 2018 and was 0.26 minutes (0.19 minutes during 1st half of 2017) and SAIFI ratio was approximately 0.003 unit (approx. 0.002 unit during 1st half of 2017).

During 1st half of 2018, 13,803 new electricity customers were connected (+7.12 per cent more as compared with the same period last year). During 1st half of 2018, 4,782 new customers were connected to the natural gas distribution network (-15.1 per cent less as compared with the same period last year).

Electricity distribution and generation, gas distribution and sale, TWh



Key financial indicators

The financial data are presented in million EUR, unless indicated otherwise.

Revenue

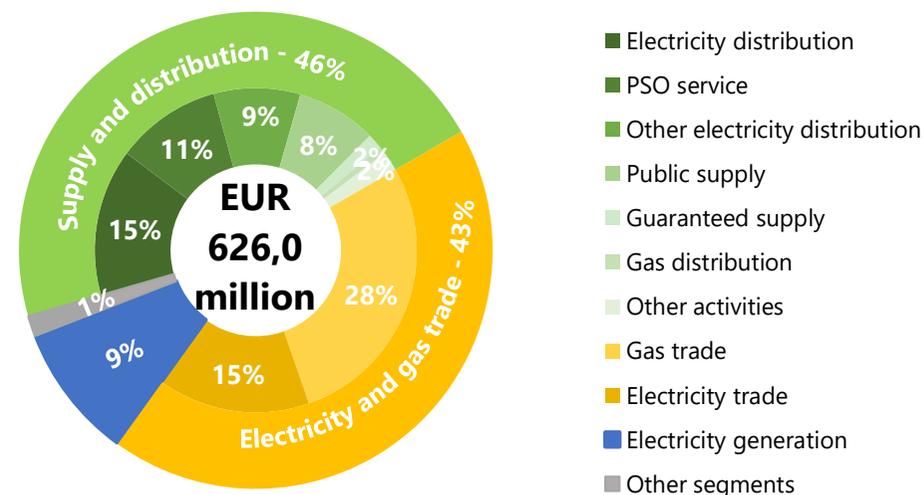
Revenue of the Lietuvos Energija Group grew by +16.1% (EUR +87.0 million) in 1st half of 2018, as compared to the same period last year and totaled EUR 626.0 million. The main reasons causing revenue changes were as follows:

1. Higher revenues from trade in electricity. The Group's consolidated revenues from sales of electricity increased by EUR +46.0 million. The effect on growth in revenues in this segment was influenced by an increased price in the electricity market. An average electricity price in the Nord Pool exchange during 1st half of 2018 amounted to 43.68 EUR/MWh, higher by 26.7 per cent as compared with the respective period last year. The growth in the market price is influenced by repairs of nuclear power plants in Scandinavia and reduced generation by hydroelectric plants. Revenue increased also due to greater electricity sale quantities +11.2 percent that rose due to a greater number of customers in Lithuania and colder weather at the beginning of the year. Besides, in 2018, the Group has received income from the subsidiary of Energijos Tiekimas in Poland that has been operational since the end of 2017.

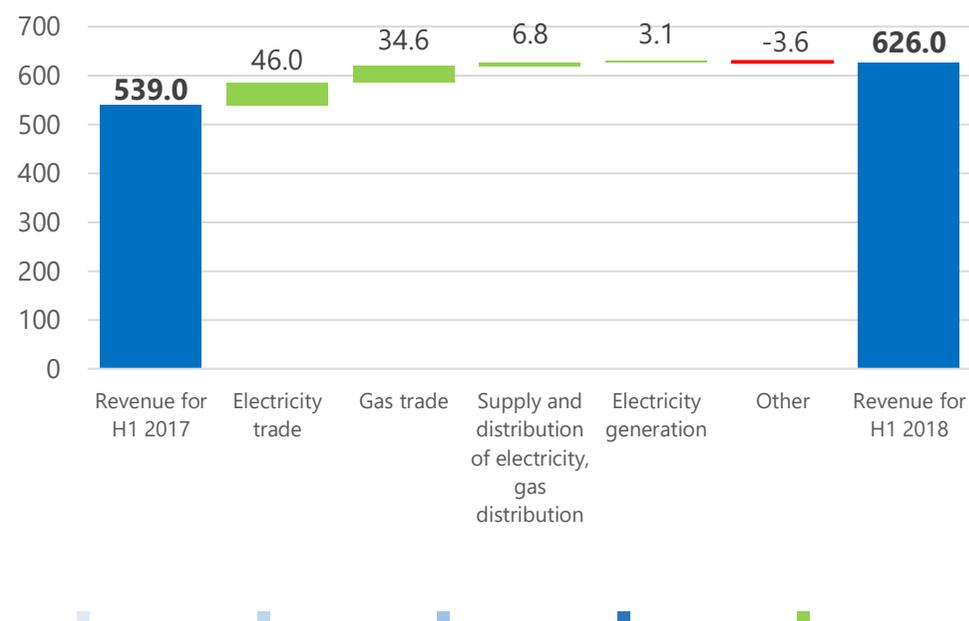
2. Higher income from trade in gas. Consolidated revenues of the Group from trade in gas increased by EUR +34.6 million; the main reasons of this is increased price for the sale of gas that has grown due to full utilisation of the Gazprom discount to the gas price in the middle of 2017, also bigger quantities of gas sold. The quantity of gas sold has grown by 7.8 per cent (6.21 TWh – during 1st half of 2018; 5.76 TWh – during 1st half of 2017). The growth in the volume of gas was affected by colder weather at the beginning of the year and an increased number in domestic consumers.

The main sources of the Group's revenues: revenues of the electricity supply and distribution and gas distributions segment from trading in electricity and gas segment (EUR 289.0 million during 1st half of 2018) constitutes 46 per cent (during 1st half of 2017 – 52 per cent). Revenues from the segments of trade in electricity and gas (EUR 270.8 million during 1st half of 2018) represents 43 per cent of the Group's total revenues (during 1st half of 2017 – 35 per cent). The share of electricity production in the total revenues structure accounts for 9 per cent (during 1st half of 2017 – 10 per cent).

The Group's revenue structure in H1 2018



Dynamics of the Group's revenue by operating segment



Operating expenses

During 1st half of 2018, the Group's operating expenses amounted to EUR 61.5 million. As compared to 1st half of 2017 it increased slightly by +0.4 per cent (EUR +0.3 million). The main factors that caused increase in operating expenses were the following:

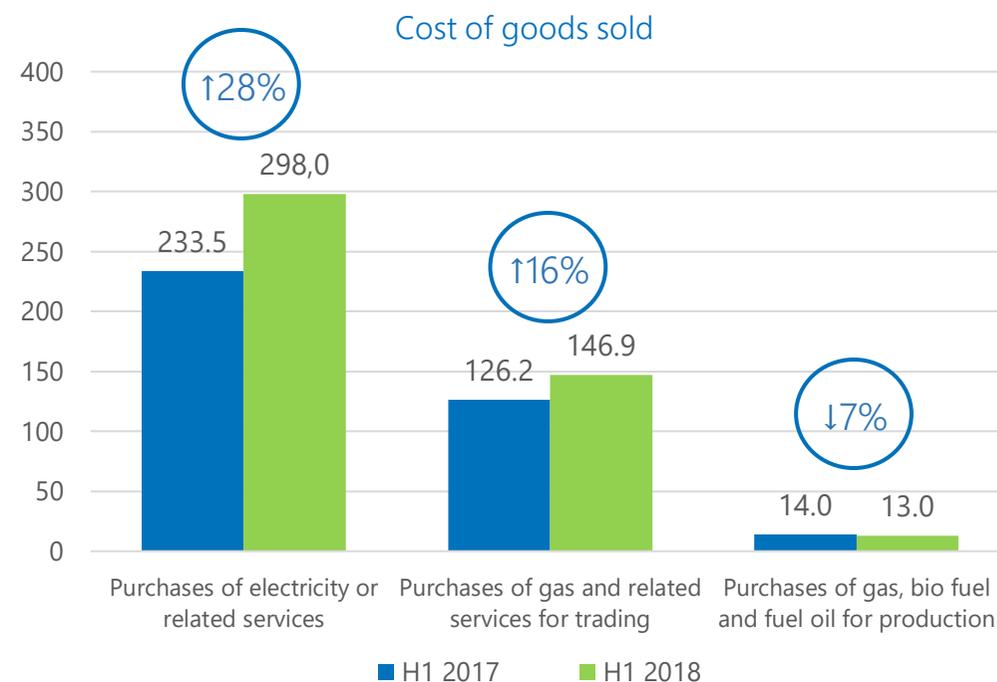
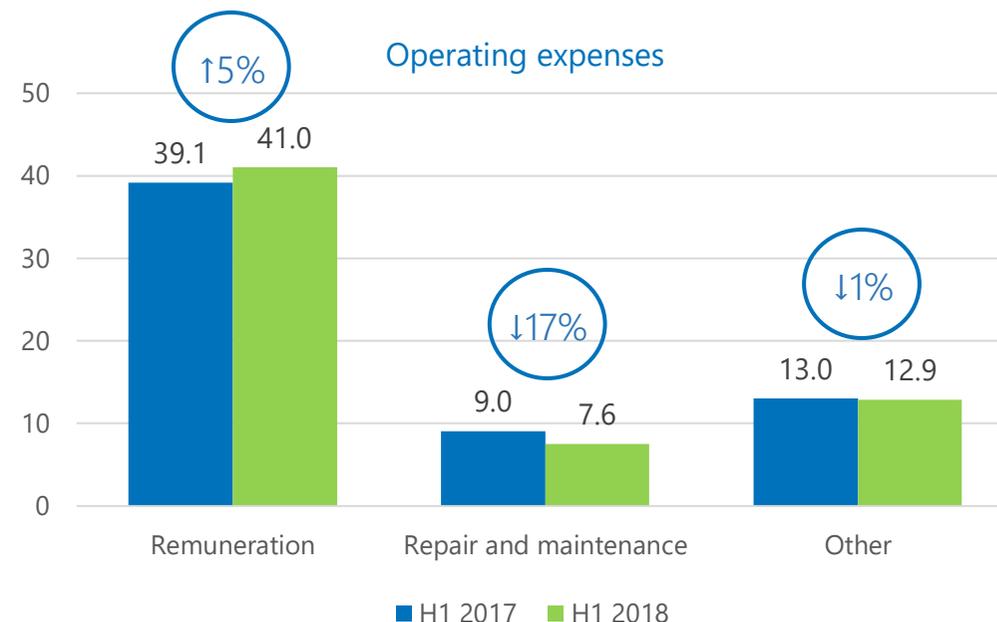
1. **Higher remuneration expenses.** Due to an increased average remuneration and severance compensations to employees of the Group's entity Energetikos Paslaugu ir Rangos Organizacija, remuneration expenses have increased (EUR +1.9 million).
2. **Lower repair and maintenance expenses.** During 1st half of 2018, as compared with the respective period last year, repair and maintenance expenses for the electricity network and electricity production facilities, natural gas systems, etc. have reduced by EUR -1.4 million. The main reason of that is higher investments into the electricity and gas network.

Cost of goods sold

During the reporting period, the Group's purchasing costs of electricity, gas, fuel, and associated services amounted to EUR 457.9 million (during 1st half of 2017 – EUR 373.6 million). As compared with 1st half of 2017, these costs increased by +22.6 per cent.

As compared with a respective period in 2017, the purchase of electricity or associated services significantly increased up to EUR 64.5 million (by +27.6 per cent) and amounted to EUR 298.0 million. The growth was affected by increased electricity acquisition prices and higher volumes of sale, and, like the growth in revenues, by the activities of the Group's entity's Energijos Tiekimas subsidiary in Poland which started its operations at the end of 2017.

Purchases of gas and associated services increased by EUR +20.7 million or +16.4 per cent, as compared with 1st half of 2017. This was determined by an increased volumes of gas sold and an increased prices for the acquisition of gas.

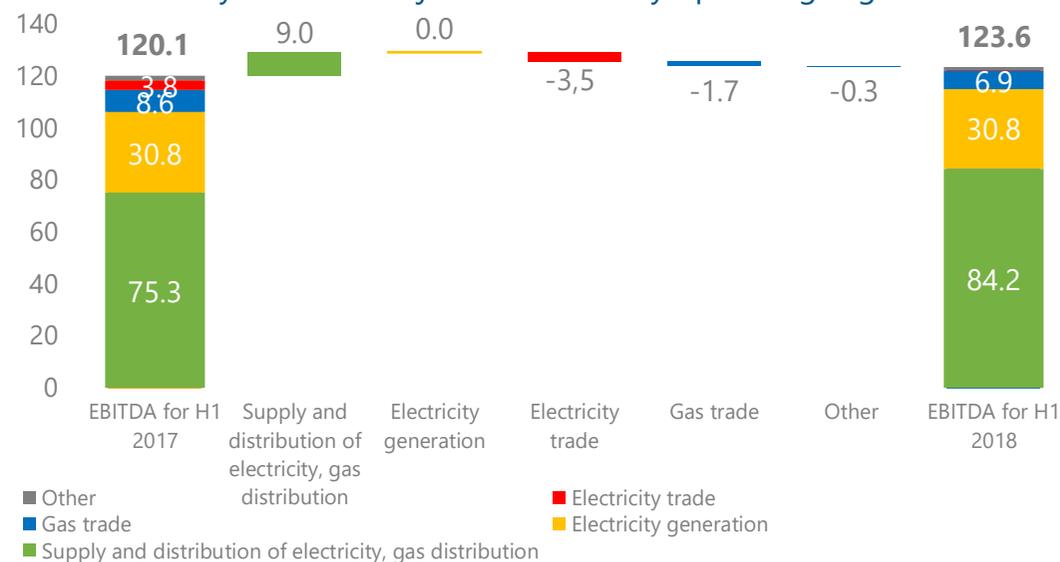


EBITDA

During 1st half of 2018, the Group's adjusted EBITDA amounted to EUR 123.6 million, which is higher by +2.8 per cent or EUR +3.4 million than adjusted EBITDA during 1st half of 2017 which was equal to EUR 120.2 million. The adjusted EBITDA margin reached 19.7 per cent (during 1st half of 2017 – 22.3 per cent). The main reasons for the changes of Groups adjusted EBITDA were:

1. **Higher EBITDA of electricity and gas distribution activity.** The growth of the Group's adjusted EBITDA was determined by a positive (EUR +9.0 million) change in the results of the activity of electricity and gas distribution. The increase resulted from improved operational efficiency, lower operating expenses, and higher investments in modernisation and development of the networks. In accordance with the new electricity sector regulations that became effective from 2016, Energijos Skirstymo Operatorius is encouraged to save costs and a part of such savings remains with the company.
2. **Lower EBITDA of the electricity trading segment.** Results of electricity trading activity for 1st half of 2018 were lower by EUR – 3.5 million as compared to 1st half of 2017. This was determined by unusually high prices of the Nord Pool exchange. Increased electricity demand at high electricity acquisition prices, but with fixed sale prices have had a negative effect on the EBITDA results of this segment.

Dynamics of adjusted EBITDA by operating segment



	1st half 2018	1st half 2017	Δ, +/-
Operating profit	69.3	56.3	13.0
Depreciation and amortization expenses	42.7	43.1	-0.4
Impairment expenses and write off's of PPE	2.3	2.7	-0.4
Revaluation expenses of emission allowances	-8.4	3.0	-11.4
EBITDA	105.9	105.1	0.8
Management's adjustments*			
Recalculation of regulated revenue of ESO (1)	33.3	-1.3	34.6
Write-offs of inventories and receivables	0.8	-1.0	1.8
Gas price discount provided by Gazprom (2)	-	8.6	-8.6
Recalculation of regulated revenue of LDT (3)	-0.4	0.1	-0.5
Recalculation of regulated revenue of LITGAS (4)	-1.6	7.7	-9.3
Change in market value of open financial derivative instruments	-14.3	1.0	-15.3
Total of management's adjustments	17.7	15.1	2.6
Adjusted EBITDA	123.6	120.2	3.4

*Adjusted EBITDA indicator is based on management adjustments that are not presented in the financial statements. A more detailed description of the management adjustments is presented in Consolidated and Company Financial statements, Note 24 "Operating segments".

(1) elimination of the effect of the recalculation of the return on investment of the reporting period made by the National Commission for Energy Control and Prices, related to the profit earned in preceding periods and exceeding the return on investment permitted by the Commission, and of the profit earned in the reporting period exceeding the return permitted by the Commission.

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

(3) elimination of deviation between the gas supply actual and regulated revenue, by which the company's future financial results will be adjusted.

(4) elimination of deviation between the designated supplier's actual and regulated revenue, by which the company's future financial results will be adjusted.



Net profit

During 1st half of 2018, the Group earned net profit of EUR 58.3 million, which is EUR +6.2 million more than during 1st half of 2017. The major impact on net profit during 1st half of 2018 was due to the following effects:

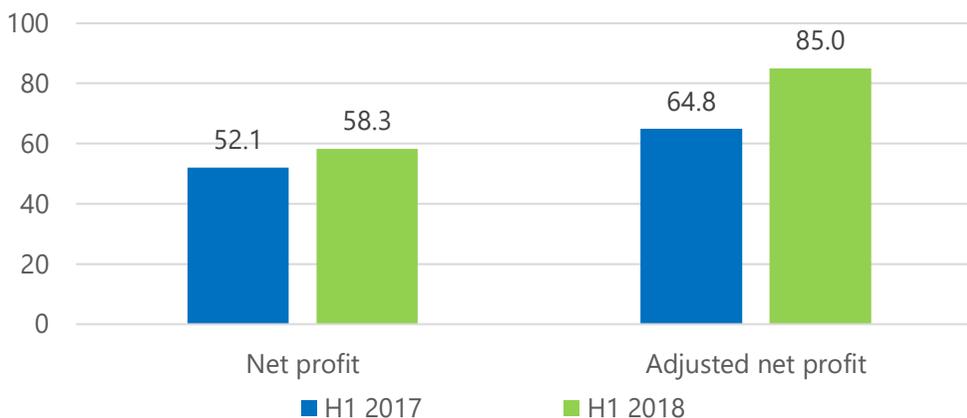
1. Change in the value of derivative financial instruments due to increased electricity prices EUR +12.2 million.
2. Positive change in the revaluation of Lietuvos Energijos Gamyba emission allowances EUR +11.4 million.
3. The result of the Group's entity LITGAS was higher during 1st half of 2018 – EUR +7.9 million, as the security constituent collected during 1st half of 2017 was reduced by the amount recollectd in 2016 which major share was formed at the beginning of 2016, when the security constituent was collected according to conditions of the old agreement with Statoil ASA.
4. Net profit of Energijos Skirstymo Operatorius reduced by EUR -28.3 million. This was mostly affected by increased costs due to bigger electricity acquisition prices on the market.

Upon assessing (eliminating) a positive/negative effect of the recalculation of the regulated income, the Group's adjusted net profit increased by EUR +20.2 million or +31.1 per cent. This was mostly affected by the already mentioned effect due to revaluation of allowances of Lietuvos Energijos Gamyba and change in the value of derivative financial instruments.

Equity

The equity of Lietuvos Energija Group reduced during 1st half of 2018 by -5.8 per cent or EUR 77.6 million and on 30 June 2018 it was equal to EUR 1,266.0 million. The Group's equity reduced due to dividends paid to the shareholder. During the reporting period, the Group allocated and paid to the shareholder EUR 78.3 million in dividends for 2017. The Group's equity also decreased EUR -62.7 million due to the change in ESO accounting policy after the adoption of new IFRSs. The Group's equity ratio reduced during the reporting period and on 30 June 2018 amounted to 49.6 per cent (on 31 December 2017, it amounted to 53.6 per cent).

The Group's net profit and adjusted net profit



Net profit adjustments	1st half 2018	1st half 2017	Δ, +/-
Net profit for the reporting	58.3	52.1	6.2
Recalculation of regulated revenue of ESO	28.3	-1.1	29.5
Gas price discount provided by Gazprom	-	7.3	-7.3
Recalculation of regulated revenue of LDT	-0.4	0.1	-0.5
Recalculation of regulated revenue of LITGAS	-1.4	6.5	-7.9
Adjusted net profit	85.0	64.8	20.2



Investments

The Group's investments during 1st half of 2018 amounted to EUR 147.9 million or more by +79.5 per cent than during the same period last year. The major investments were allocated for the electricity distribution network renewal (38 per cent) and development (24 per cent); also, investments to Vilnius and Kaunas CHP plants increased significantly (20 per cent).

As compared to the same period last year, during 1st half of 2018, investments into the renewal of the electricity distribution network increased by EUR +18.1 million. In 1st half of 2018 ESO's investments in the renewal of the electricity distribution network amounted to EUR 56.7 million. During 1st half 2018, ESO investments into development of the electricity distribution grid amounted to EUR 35.1 million. During the first half of 2018, ESO connected to the electricity distribution network 13.8 thousand new consumers – 7.1 per cent more than during 1st half 2017, when this number amounted to 12.9 thousand consumers. The allowable power of new connected consumers during January-June 2018 amounted to 177 thousand kW and was bigger by 10.0 per cent than during January-June 2017, when it amounted to 161 thousand kW.

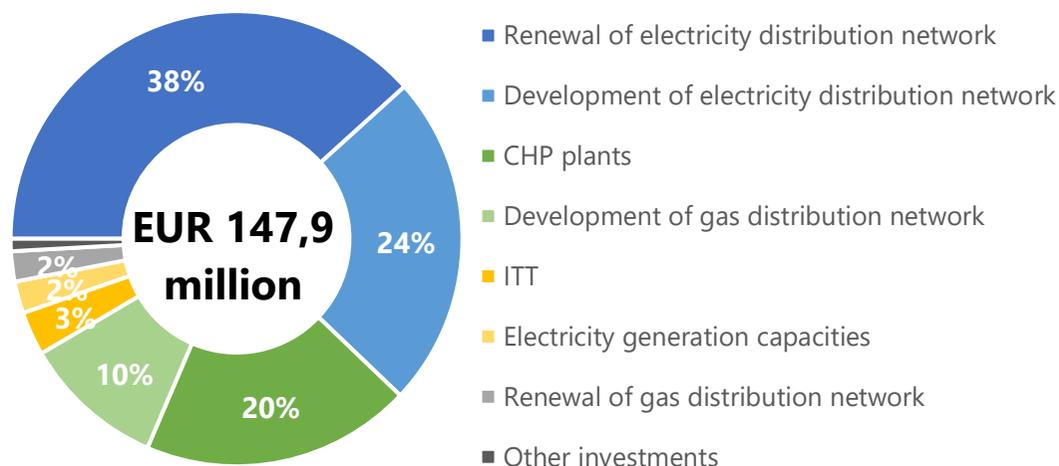
During 1st half 2018, construction works of Vilnius and Kaunas combined heat and power plants gained momentum. Investments into these projects amounted to EUR 28.6 million during the first six months of 2018.

During the first six months of 2018, ESO investments into the development of gas distribution network amounted to EUR 15.0 million and were 59 per cent bigger than during 1st half of 2017 (EUR 9.4 million). During six months of 2018, to connect new customers to the gas grid ESO built 156.7 kilometers of the distribution pipelines. During six months of 2017, ESO connected to the natural gas distribution pipelines 4.8 thousand new customers – 0.15 time less than during the same period in 2017 (5.6 thousand customers).

On 31 December 2017, the Group's assets amounted to EUR 2,505.1 million. During 1st half of 2018, the Group's assets increased by +1.9 per cent (or EUR +47.2 million) and on 30 June 2018 amounted to EUR 2,552.3 million. The biggest effect on the Group's assets was made by the increased fixed tangible assets due to investments made by the Group's entities.

During August Lietuvos energija signed a share purchase agreement for the acquisition of two entities „Vėjo vatas“ and „Vėjo gūsis“ operating three 34 MW power wind farms.

Group's investment structure in H1 2018, %



Dynamics of the Group's investments by sector	1st half 2018	1st half 2017	Δ, +/-	Δ, %
Renewal of electricity distribution network	56.7	38.6	18.1	47.0%
Development of electricity distribution network	35.1	20.6	14.5	70.7%
CHP plants	28.6	2.0	26.6	1308.1%
Development of gas distribution network	15.0	9.4	5.6	59.0%
ITT	4.6	5.1	-0.6	-10.8%
Electricity generation capacities	3.4	0.6	2.8	506.6%
Renewal of gas distribution network	3.2	2.0	1.2	59.0%
Other investments	1.3	4.1	-2.8	-67.9%
Total	147.9	82.4	65.5	79.5%



Financing

On 30 June 2018, the Group's net debt amounted to EUR 557.7 million. As compared to the net debt at the end of 2017, the amount increased by +26.1 per cent or EUR +115.4 million. The increase in the net debt was mostly determined by investments made by the Group's companies.

The level of the Group's borrowings during 1st half of 2018 increased by 12.1 per cent (or EUR 74.4 million), and on 30 June 2018 amounted to EUR 688.5 million (at the end of 2017 – EUR 614.1 million). Borrowings amounting to EUR 300 million were subject to a fixed interest rate (43.6 per cent from total borrowings) and the remaining amount of borrowings was subject to a variable interest rate. The amount of the Group's cash balances and short-term investments as at 30 June 2018 amounted to EUR 130.8 million, i.e., EUR 41.0 million or less by 23.8 per cent than at the end of 2017 (EUR 171.80 million). The decrease was mostly due to investments made by the Group's entities.

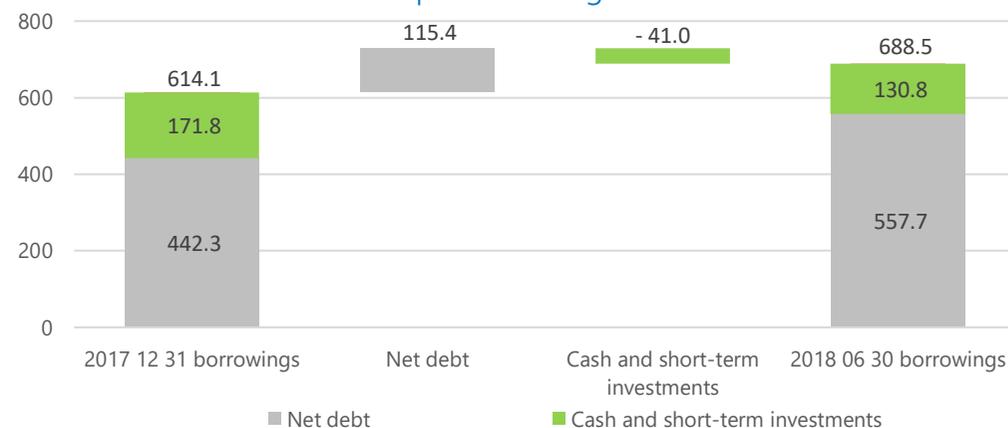
The Group's net debt to the last 12-months adjusted EBITDA ratio increased from 1.85 times at the end of 2017 up to 2.30 times on 30 June 2018. This increase resulted from an increased net debt of the Group. The average repayment term of borrowings on 30 June 2018 was 5.9 years (on 31 December 2017: 6.2 years).

The ratio of the Group's net debt and the Group's equity increased from 32.9 per cent at the end of 2017 up to 44.1 per cent on 30 June 2018. The Group's current liquidity rate on 30 June 2018 was 1.46 (1.29 on 31 December 2017). The Group manages liquidity by entering into the credit line agreements with banks. On 30 June 2018, The Group's unwithdrawn credit line facilities amounted to EUR 79.9 million. All the credit lines facilities are committed, i.e., funds are paid by the bank upon demand,

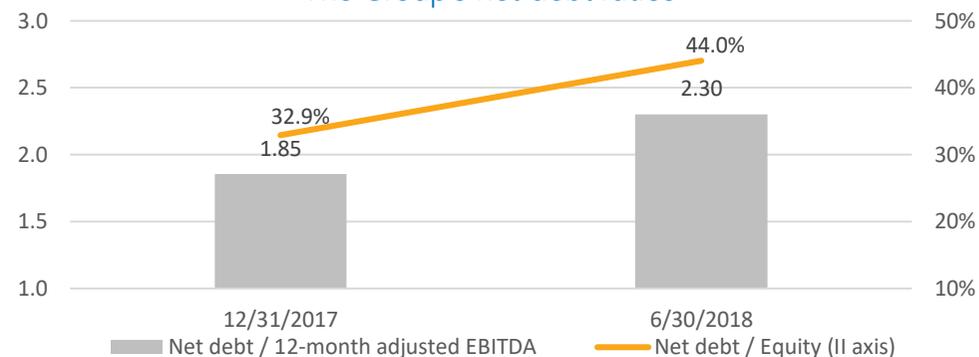
In July Lietuvos Energija placed a EUR 300 million issue of green bonds with a 10-year term to maturity. An annual interest of 1.875 percent is paid for the bonds.

A low level of the Group's borrowings and a high level of its equity, profitability of the operating activity indicate a solid and stable financial position of the Group, as well as the Group's financial capacities to implement investments required for the provision of the current services, to implement and finance the acquisition and development of new wind power parks, construction of CHP plants, other projects, as well as to ensure a sustainable development of the Group in the future. In May, the international credit rating agency Standard and Poor's extended the BBB+ rating to Lietuvos Energija with a stable perspective. Such assessment among analogous energy companies in the Baltic States is the highest and one of the best in the sector of analogous energy companies in Europe.

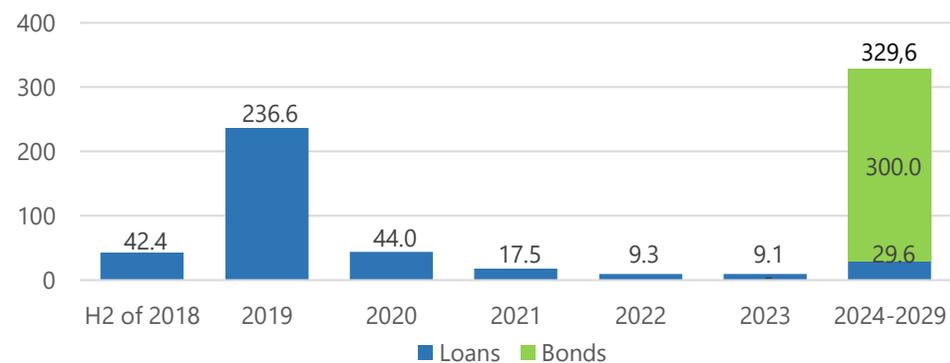
The Group's borrowings and net debt



The Group's net debt ratios



Repayment schedule of the Group's borrowings



Definitions

Working capital	Current assets (excl. non-current assets held for sale) - cash and cash equivalents - short-term investments and term deposits - current liabilities (excluding current portion of financial liabilities)
EA	Emission allowances
Current liquidity	Current assets at the end of the period / current liabilities at the end of the period
EBITDA	Operating profit (loss) + depreciation and amortisation expenses + expenses on revaluation and provisions for emission allowances + impairment expenses of non-current assets + write-off expenses of non-current assets
EBITDA margin	EBITDA / Revenue
FFO	EBITDA + interest income - interest expenses - current year income tax expenses
Guaranteed supply	Electricity supply to ensure that customers who have not chosen an independent supplier or whose independent supplier fails to fulfill their obligations, discontinues operations or electricity supply contract are provided with electricity
Net debt	Borrowings - cash and cash equivalents - short-term investments and term deposits - a portion of other non-current financial assets representing investments in debt securities
Net profit margin	Net profit / Revenue
Adjusted net profit	Net profit + effect of the gas price discount to consumers +/- recalculation of regulated revenue from liquefied natural gas +/- recalculation of regulated revenue from electricity and gas transmission/distribution
Adjusted net profit margin	Adjusted net profit / Revenue
Adjusted net debt	Net debt adjusted for the put option execution obligation of Kauno Kogeneracinė Jėgainė UAB, provision for pensions to employees and a cash balance not available for immediate use in the ordinary course of business
Adjusted EBITDA	EBITDA + management's adjustments
Adjusted EBITDA margin	Adjusted EBITDA / Revenue
Customers of independent suppliers	Electricity consumers who have chosen an independent electricity supplier
Return on equity (ROE)	Net profit (loss) of a respective reporting period restated at an annual value / average amount of equity during the reporting period
Adjusted Return on equity (ROE)	Net adjusted profit (loss) of a respective reporting period restated at an 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
SAIDI	Average duration of unplanned interruptions in electricity or gas transmission
SAIFI	Average number of unplanned long interruptions per customer
Return on assets (ROA)	Net profit (loss) of a respective reporting period restated at an annual value / average amount of total assets during the reporting period
Operating expenses	Expenses, excluding purchase expenses of electricity and related services, gas and fuel oil for production, depreciation and amortisation, impairment expenses (non-current assets, construction in progress, amounts receivable, etc.), expenses of revaluation of property, plant and equipment, write-offs of non-current assets, inventories and amounts receivable and EA revaluation expenses.
Public supply	Electricity supply activity performed by an entity who holds a public supply license in accordance with the procedure and conditions established by law



RESULTS OF OPERATIONS OF THE GROUP'S COMPANIES



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

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

Creation of value for Lithuania

Approved strategy of Lietuvos Energija up to 2030

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

Successful second issue of green bonds

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

Improvement of strategic infrastructure

Preparation for the development of Kruonis Pumped Storage Plant

The European Commission approved co-financing of a field of poles and infrastructure research for Kruonis Pumped Storage Plant (Kruonis PSP) under the management of Lietuvos Energijos Gamyba. This research is another step in preparing for the development of the plant by installing the 5th hydro-aggregate. It will be aimed to assess whether the condition of the field of poles on which a new pipeline would be built meets the design requirements. It is intended that the 5th hydro-aggregate would be launched within the shortest possible time span from taking a decision; therefore, already today all possible preparatory works are carried out, including this research. The field of poles on which the pipeline of the 5th hydro-aggregate would be built was installed in 1985. During 2018 it has been planned to investigate the strength of concrete in the poles, evaluate the properties of concrete. Geology of the field of poles, firmness of the ground, also the condition of concrete in the main part of the plant building in which the new generator-turbine will be placed will be investigated in the uphill slope of the Kruonis PSP. It has been planned that according to the Connecting Europe Facility, up to EUR 62.5 thousand will be allocated for financing the research. The remaining part of funds necessary for the research will be allocated by the enterprise managing the plant. The development of Kruonis PSP has been included into the List of Projects of Common Interest, as well as into the draft National Energy Strategy.

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

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

ESO opens electricity transmission grids to innovation developers

Energijos Skirstymo Operatorius (ESO) opens the infrastructure of the electricity distribution grid for testing innovative solutions. Innovation developers may, under real conditions and free of charge, test technological solutions and equipment, whereas successful innovations would be considered by ESO for the application on a broader scope. All companies creating innovative solutions in the energy field, technology start-ups, universities and research centres may participate in the Sandbox project. ESO will grant access to the infrastructure



free of charge. The testing of equipment will be free, whereas the project participants will have a possibility to discuss the test results with ESO specialists. This ESO initiative reflects a general approach of Lietuvos Energija Group to implement actively the development of innovations by establishing possibilities to test and implement novelties contributing to the development of services, improvement of quality and growth in customer satisfaction. ESO will grant access to the distribution grid or data for equipment and technological solutions that would enable to systemise the grid, enhance its reliability, efficiency, integrate renewable energy resources and electricity producing consumers. Applications to experiment with micro-grids, regulation loan, energy storage, environmental protection technologies are welcome.

ESO plans investing during the decade up to 2.1 billion euros

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

New services to customers

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

Electricity rate has reduced for the fifth year in a row

In 2018, electricity rates have further reduced in Lithuania. It has been estimated that since 2013 the average electricity price for residents has reduced by as many as 23 %. The price of the most popular in the country, the standard one-time zone tariff plan, has reduced down to 11.3 cent per kWh since February 2018. Residents who have chosen the Standard two-time zone tariff plan now pay 12.2 cent (during the day-time on

working days) and 9.1 cent per kWh (during the night time and on weekends). Based on Eurostat, electricity prices for residents are among the smallest in Europe; last year cheaper electricity in the entire EU was only in Bulgaria and Hungary. However, in international markets, a growth in electricity prices has been noticeable that currently has already been felt by corporate customers, whereas in 2020, domestic consumers could also expect higher prices. The growth in prices is determined by the fact that oil and gas have increased in price in international markets, less precipitation fell in Scandinavia this year, besides, prices of emission allowances have risen.

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

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

Customers are also offered gas condense boilers

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

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

Residents will be able to acquire electricity and gas more conveniently – from one supplier

By purifying activities, since 1 October Lietuvos Energija is planning to separate the activity of energy supply to residents from Energijos Skirstymo Operatorius (ESO) under its management and to transfer it to another company of the Group – Lietuvos Dujų Tiekimas (LDT). This has already been approved by the National Commission for Energy Prices and Control by granting a public supplier's licence to LDT at the end of July. It has been estimated that since October the company that will cover the activities of electricity and gas supply to residents will be called Lietuvos Energijos Tiekimas. It is expected that the biggest benefit of this change will be felt by the clients who currently purchase electricity from ESO and gas – from LDT. After this change they will have to communicate with only one company on all issues associated with electricity or gas supply. Therefore, the acquisition of energy will become cheaper and more convenient. The premises of separating these activities and



concentrating the supply of gas and electricity at one company emerged upon approval of the amendment to the Law on Electricity prepared by the Ministry of Energy by the Seimas on 30 June 2018.

More convenient service and faster connection

ESO agreed with road-builders to organise common works faster

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

LDT employed a robot for customer consulting

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

Gilė simplified cash payments

Gilė belonging to Lietuvos Energija Group and taking care of the service of electricity and gas customers simplifies the services of paying fees with cash for provided services at the places of payment acceptance. Since 1 February, customers who pay fees for electricity and gas with cash at the places of payment acceptance – Lithuanian post

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

ESO abolished a part of permanent positions

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

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

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

ESO will resolve faults even faster or it will pay compensations

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



malfunction. Last year this took 3.5 hours on average.

Diversification of activities

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

Construction of Vilnius Co-Generation Power Plant has been started

On 12 February, by commemorating the beginning of construction works of the new Vilnius co-generation power plant, a memo capsule was embedded in the land plot of the plant on Jočiočių St. It contains a letter to future generations on ambitions of the current society to create a cleaner environment in the capital and the entire Lithuania. It has been planned to launch the plant at the end of 2019. It is expected that the new Vilnius Co-Generation Power Plant, using biofuel and municipal waste, will produce nearly half of the heat centrally supplied to the capital and such an amount of electricity that would suffice to procure approximately 80 % of Vilnius households. The plant will cut down annual expenses for heat to Vilnius residents by EUR 13 million and for waste management – by EUR 10 million. By following examples of the most modern power plants operating in centres of European cities, modern smoke cleaning equipment will be installed in the Vilnius Co-Generation Power Plant that will ensure a completely safe and pollution-free generation of energy. Upon completing the construction, the Vilnius Co-Generation Power Plant will be one of the most modern in the whole Europe in terms of environmental protection and energy generation technologies.

Implementation of the biggest transaction on supplying LNG by land was finished

At the end of February 2018, the biggest up to now, transaction on supplying liquefied natural gas (LNG) by land was successfully implemented. From the beginning the December of 2017 up to 27 February, companies of Lietuvos Energija Group trading in natural gas - LITGAS and Lietuvos Dujų Tiekimas - supplied to buyers approximately 4000 m³ of LNG. This conforms to nearly 2.3 million m³ in the degasified form or approximately 27 GWh by calculating in energy terms. So much natural gas is consumed a year for heating and hot water by approximately 1,700 housings. They were transported from the LNG distribution station under the management of Klaipėdos Nafta to Druskininkai, Poland and Estonia by nearly 100 special gas carriers. In this transaction LITGAS and Lietuvos Dujų Tiekimas proved the necessity of their role as supply partners in the region:

by accumulating the needs of several smaller buyers, the companies were able to offer LNG at much more favourable prices and conditions than these buyers would be able to receive by purchasing LNG separately. Last year, Lietuvos Dujų Tiekimas and LITGAS together implemented also six small-scale transactions on transshipping LNG from the Independence storage facility to small vessels-gas carriers

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

The appointed supplier of liquefied natural gas (LNG), LITGAS company, belonging to Lietuvos Energija Group, optimises a schedule of the prescribed supply of goods and this way expects to cut down maintenance costs of the LNG terminal by approximately EUR 0.5 million in 2018. Due to non-typically cold weather prevailing during recent weeks and limited supply of natural gas in the Western Europe market of natural gas, prices of natural gas of the short-term period have considerably grown. At the same time, the demand for LNG increased, since the major part of LNG consignments are shipped under short-term and immediate transactions to Asia that has increased fast the consumption of natural gas. Therefore, in the middle of March, another part of the LNG cargo was delivered to Lithuania – sold to buyers paying for gas more.

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

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

Development abroad

Lietuvos Energija Group has been paying greater attention to the Latvian market. Since May, the secondary enterprise in Latvia - Geton Energy belonging to Group Company Energijos Tiekimas - will offer its corporate customers a general package of natural gas and electricity supply services. In this market Geton Energy will cooperate with another



company of Lietuvos Energija Group – Lietuvos Dujų Tiekimas

Investments made into three start-ups

Smart Energy Orientated Venture Capital Fund set up by Lietuvos Energija under the management of Contrarian Ventures invested this year into three start-ups. The Lithuanian capital start-up Aerodiagnostika that creates a pilot-free aircraft platform and the start-up Switchee operating in Great Britain that has developed the first smart thermostat intended for large managers and owners of social housing received investments in the amount of EUR 350 thousand. Besides, the fund has invested more by about EUR 280 thousand to the Great Britain start-up Voltaware creating an electricity consumption and control platform. Investments into the latter start-up have been made with the British energy giant BP. It is planned that solutions of the start-ups will be applied in Lithuania and will contribute to the goal of Lietuvos Energija to become one of the most innovative companies.

Agreements for the acquisition of 3 wind farms have been signed

Lietuvos Energija signed a share purchase-sale agreement for the acquisition of two companies. The company seeks to acquire from Stemma Group 100 per cent shares of companies Vėjo Vatas and Vėjo Gūsis. Vėjo Vatas runs 14.9 MW wind farms and Vėjo Gūsis runs 10 MW and 9.1 MW farms, whereas the total capacity of all three farms exceeds 34 MW. For the acquisition, an appeal has been made to the Competition Council and the transaction will be finished upon getting the approval thereof. By this transaction a specific step towards implementing the Group's strategy of increasing the portfolio of the green generation was made. After this transaction Lietuvos Energija will be the second one by size wind power generator in the Baltic countries occupying 9 per cent of the market.

Enhancement of operational efficiency

Non-core activities are abandoned

The Board of Lietuvos Energija Group adopted a decision on the abandonment of yet another non-core activity. During the nearest months, consistent actions will be taken in abandoning contractor activity pursued by one of the Group's company – energy services and contraction organisation (EnePRO) - providing the services of construction, reconstruction, repair, and maintenance of energy equipment. It has been planned that a project on the abandonment of contractor activity will be implemented as soon as possible. EnePRO will complete the available contracts and will not take new orders, also will settle accounts with suppliers. By reducing the volumes of operation up to the minimum, the company will implement the most important projects it has commenced.

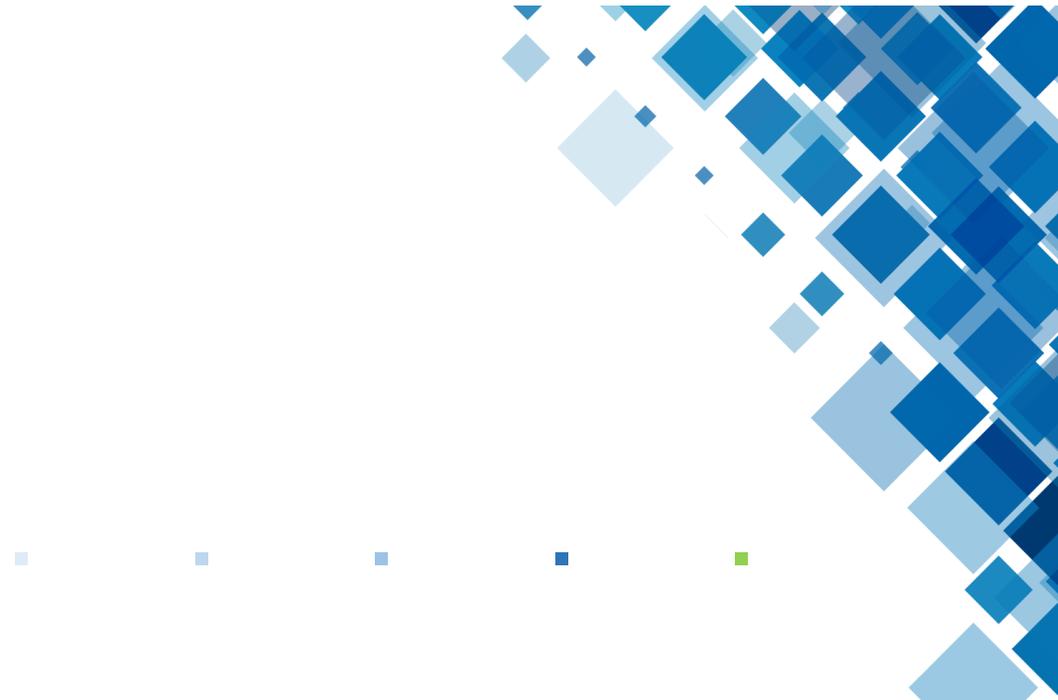
Lietuvos Energija also adopted a decision to wind up VAE SPB Company belonging to the

Group no longer engaged in commercial activity. By taking the decision to terminate operation of the company, consideration has been made to the draft of the National Energy Independence Strategy (NEIS). The draft offers giving priority to the development of renewable energy resources and does not foresee provisions and objectives associated with the implementation of a project on a new nuclear power plant. The decision to liquidate VAE SPB has been approved by the shareholder of Lietuvos Energija – the Ministry of Finance. The winding up of the company has also been approved by the Ministry of Energy.

Seeking to increase its operational efficiency, Lietuvos Energija and the Group's company managing real estate NT Valdos have sold in public auctions or has concluded preliminary purchase-sale agreements for 59 real estate objects not used in the Group's activity for EUR 25 million, including VAT, since the beginning of 2016, whereas estimated profit from implemented transactions will reach more than EUR 3.5 million.

On June 7 of the current year, a public competition for the sale of an office complex on A. Juozapavičiaus St. 13/Žvejų St. 14, Vilnius, took place during which the winner was announced who offered for the object nearly EUR 24 million, including VAT. The sale transaction of this object was finished on 31 July.

NT Valdos have also implemented a project on the separation of activities. After Lietuvos Energija approved conditions for the separation of NT Valdos, a new company of the Group, Transporto Valdymas, was set up which transport management activity was delegated to. Lietuvos Energija owns 100 % of Transporto Valdymas shares. Currently, a sale process of Transporto Valdymas is taking place.



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 has 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 (BICG). The corporate governance model of the power generation companies' group was implemented in accordance with the Corporate Governance Guidelines approved by the Ministry of Finance of the Republic of Lithuania on 7 June 2013 and renewed on 1 June 2017 (the Guidelines are available at www.le.lt).

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

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

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



Supervisory Bodies

Supervisory Board

On 1 June 2017, the Minister of Finance approved the updated Corporate Management Guidelines replacing the former procedure for the formation of the Supervisory Board.

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



Darius Daubaras
Chairman, Independent member
(since 20/04/2018)



Daiva Lubinskaitė-Trainauskienė
Independent member
(since 30/08/2017)



Andrius Prancėvičius
Independent member
(since 22/11/2017)



Aušra Vičkačienė
Member
(since 30/08/2017)



Ramūnas Dilba
Member
(since 22/11/2017)

Education	University of Cambridge, Master's degree in International Relations; University of Pennsylvania, USA, Business Administration Master's Degree in the field of finance and business management; University of Denver, USA, Bachelor's Degree in Business Administration with a major in finance and management	ISM University of Management and Economics, Master's Degree; Public Relations Professional Studies at Vilnius University; Vilnius University, Diploma of a Specialist in Philology	Kaunas University of Technology, Bachelor's degree in Business Administration and Master's degree in Marketing Management; Harvard Business School, Leadership Development	Vilnius University, Master's degree in Management and Business Administration; Vilnius University, Bachelor's degree in Management and Business Administration	Vilnius University Institute of International Relations and Political Science, Bachelor's degree in Political Science and Master's degree in European Studies
Place of employment, position	SAUDI ARAMCO Finance and Development Project Division, Project Manager; member of the Supervisory Board of "Smart Energy Fund powered by Lietuvos Energija" (from 27/07/2018)	Thermo Fisher Scientific Baltics UAB, Personnel Director; Association of Personnel Management Professionals (PVOA), Board Member; ISM Masters Club, Member	Linas Agro Group AB, Deputy Chief Executive Officer, Member of the Board; Kekava PF, Chief Executive Officer and Chairman of the Board	Assets Management Department of the Ministry of Finance, Director; Turto bankas, VĮ, Board Member (till 29/01/2018) Būsto Paskolų Draudimas UAB, Board Member	Ministry of Finance, European Union Investment Department, Director



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

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

Committees of the Supervisory Board

For the purpose of effective fulfilment of its functions and obligations, the Supervisory Board forms the committees. The committees of the Supervisory Board provide their conclusions, opinions and proposals to the Supervisory Board within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Board and at least one member is an independent member. Members of the committees are elected for 4 years term.

The following committees have been established at Lietuvos Energija:

- **Risk Management and Ethics Monitoring Committee** is responsible for the submission of conclusions or proposals to the Supervisory Board on the functioning of management and control system in the Group and/or main risk factors and implementation of risk management or prevention measures, for overseeing compliance with ethical conduct and periodic delivery of information on bribery and corruption risks to Supervisory Board;
- **Audit Committee** is responsible for the submission of the objective and impartial conclusions or proposals to the Supervisory Board 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 Board, also for the assessment of activities of the Board and its members and for issuing the respective opinion. The functions of the committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc.

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

On the date of publishing the report, the Committees of Risk Management and Ethics Monitoring, Audit and Appointment and Remuneration operated at Lietuvos Energija.

Risk Management and Ethics Monitoring Committee consist of:

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
Andrius Pranskevičius Committee Chairman (since 20/04/2018)	-	Linas Agro Group AB, Deputy Chief Executive Officer, Member of the Board; Kekava PF, Chief Executive Officer and Chairman of the Board
Darius Daubaras Independent member (since 20/04/2018)	-	SAUDI ARAMCO Finance and Development Project Division, Project Manager
Šarūnas Rameikis Independent member (since 20/04/2018)	-	Law Firm R. Mištautas ir T. Milickis, Attorney-at-law

The term of current Risk Management and Ethics Monitoring Committee is from 20 April 2018 to 20 April 2022.

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 identified risks;
- to assess the implementation status of risk management measures;
- to monitor an implementation of the 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 a regular risk identification and assessment cycle;
- to control the establishment of risk registers, analyse their data and provide proposals;
- to monitor the drafting of internal documents on risk management;
- to assess adequacy of internal documents on prevention of bribery and corruption and to perform periodic implementation and compliance monitoring;



- to monitor the information related to operational ethics, resolved and unresolved incidents in order to ensure transparency, bribery prevention, corruption risk management / prevention, etc.;
- to perform other functions attributed to the competence of the Committee by the Supervisory Board.

On the date of publishing the report, the Audit Committee consists of:

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
Irena Petruškevičienė Committee Chairperson Independent member (since 13/10/2017)	-	Audit Development Committee of the European Commission, Member
Danielius Merkinas Independent Member (since 13/10/2017)	-	Nordnet UAB, Director General; AB Lietuvos pastas, Member of the Board
Aušra Vičkačkienė Member (since 13/10/2017)	-	Assets Management Department of the Ministry of Finance, Director
Ingrida Muckutė Member (since 23/03/2018)	-	Audit, and Accounting Insolvency Management Department of the Ministry of Finance
Šarūnas Radavičius Independent member (since 23/03/2018)	-	Rodl & Partner UAB, Manager

The term of current Audit Committee is from 13 October 2017 to 13 October 2021.

Main functions of the Audit 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;

- to monitor the effectiveness of companies' internal control and risks 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, 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, 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, analyse the need for and relevance of this function, 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 Board;
- 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.



On the date of publishing the report, Appointment and Remuneration Committee consist of:

Member of the Committee	Number of shares of the Company and the Group companies held	Place of employment
Daiva Lubinskaitė-Trainauskienė Committee Chairperson (since 24/11/2017)	-	Thermo Fisher Scientific Baltics, UAB, Director of Personnel; Association of Personnel Management Professionals (PVOA), Board Member
Aušra Vičkačkienė Member (since 13/09/2017)	-	Assets Management Department of the Ministry of Finance, Director
Lēda Turai-Petrauskienė Member (since 23/03/2018)	-	L-CON Global UAB, leadership training Partner, shareholder; ISM University of Management and Economics, Head of the Executive MBA programme leadership module
Ramūnas Dilba Member (from 24/11/2017)	-	Ministry of Finance, European Union Investment Department, Director

The term of current Appointment and Remuneration Committee is from 13 September 2017 to 13 September 2021.

Main functions of the Appointment and Remuneration 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 Board.



Management bodies

Board

At the date of publication of the report, the Board of Lietuvos Energija (with the term of office from 01/02/2018 to 01/02/2022) comprised the following members:



Darius Maikštėnas

Chairman of the Board, CEO



Vidmantas Salietis

Member of the Board, Director of
Commerce and Services



Darius Kašauskas

Member of the Board, Director of
Finance and Treasury



Dominykas Tučkus

Member of the Board, Director of
Infrastructure and Development



Živilė Skibarkienė

Member of the Board, Director of
Organisational Development

	Darius Maikštėnas	Vidmantas Salietis	Darius Kašauskas	Dominykas Tučkus	Živilė Skibarkienė
Education	Harvard Business School, General Management Program; Baltic Management Institute, Executive MBA degree; Kaunas University of Technology, Bachelor's degree in Business Administration	Stockholm School of Economics in Riga (SSE Riga), Bachelor's degree in Economics and Business	ISM University of Management and Economics, Doctoral studies of Social Sciences in the field of Economics; ISM University of management and Economics, BI Norwegian Business School, Master's degree in Management; Vilnius University, Master's degree in Economics	L. Bocconi University (Italy), Master's degree in Finance; L. Bocconi University (Italy), Bachelor's degree in Business Management and Administration	Mykolas Romeris University, Faculty of Law, Doctoral degree in Social Sciences, Field of Law; Vilnius University, Faculty of Law, Master's degree in Law
Place of employment, position	AB Energijos skirstymo operatorius, Chairman of the Supervisory Board.	Energijos tiekimas UAB, CEO (till 02/04/2018); Geton Energy SIA, Member of the Board; Geton Energy OÜ, Chairman of the Board; Energijos tiekimas UAB, Member of the Board (since 23/04/2018), Chairman of the board (since 14/06/2018); UAB LITGAS, Member of the Board; UAB Lietuvos dujų tiekimas, Member of the Board (until 28/08/2018); Chairman of the Board (since 28/08/2018); UAB Energijos sprendimų centras, Chairman of the Board (since 28/06/2018).	UAB Elektroninių mokėjimų agentūra, Member of the Supervisory Board (till 23/03/2018); UAB Duomenų logistikos centras, Chairman of the Board; Lithuanian Energy Support Foundation, Member of the Board; 288th DNSB Vingis, Member of the Revision Commission; UAB Energetikos paslaugų ir rangos organizacija, Chairman of the Board (Member since 19/03/2018, Chairman since 22/03/2018); AB Energijos skirstymo operatorius, Member of the Supervisory Board.	„Lietuvos energijos gamyba, AB, Chairman of the Supervisory Board; UAB LITGAS, Chairman of the Board; UAB Lietuvos dujų tiekimas, Chairman of the Board (until 28/08/2018), Member of the Board (since 28/08/2018); Energijos tiekimas UAB, Chairman of the Board (till 14/06/2018); UAB Elektroninių mokėjimų agentūra, Chairman of the Supervisory Board (till 14/06/2018), Member of the board (since 14/06/2018) Tuuleenergia OÜ, Member of the Board; UAB EURAKRAS, Chairman of the Board; UAB Vilniaus kogeneracinė jėgainė, Member of the Board; KŪB Smart Energy Fund powered by Lietuvos Energija, Member of the Advisory Committee	UAB Elektroninių mokėjimų agentūra, Member of the Supervisory Board (since 23/03/2018); UAB Verslo aptarnavimo centras, Chairperson of the Board (Member since 04/04/2018, Chairperson since 25/4/2018); Technologijų ir Inovacijų Centras UAB, Chairperson of the Board (Member since 11/04/2018, Chairwoman since 26/04/2018); Lietuvos energijos gamyba, AB, Member of the Supervisory Board.



The Board is a collegial management body provided for in the Articles of Association of the Company. Board members are elected by the proposal of the Committee of the Appointment and Remuneration for a 4-year term. The Board consists of 5 members and elects the Chairman - Director General of the Company from among its members. Board members have to ensure the appropriate performance of Company activities/mentoring of the respective areas at Group level in the field of its competences. None of the Board members has any interest in the capital of the Company or Group enterprises. Remuneration for the activities in the Board is paid in accordance with the guidelines established by the shareholder of the Company.

Organisational Culture and Employees

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

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

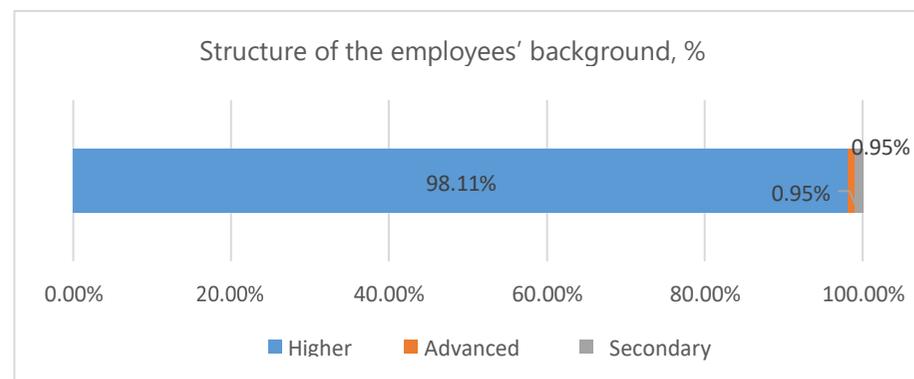
On 30 June 2018, the Group had 4048¹ employees.

Company	Total number of employees
Lietuvos Energija, UAB	111
Energijos Skirstymo Operatorius AB	2,454
Lietuvos energijos gamyba AB	375
Energetikos paslaugų ir rangos organizacija UAB	176
Technologijų ir inovacijų centras UAB	166
Duomenų logistikos centras UAB	14
Energijos tiekimas UAB	32
Elektroninių mokėjimų agentūra UAB	4
NT Valdosa UAB	89
Transporto valdymas, UAB	74
LITGAS UAB	16
VAE SPB UAB	3
Verslo aptarnavimo centras UAB	454
Lietuvos dujų tiekimas UAB	34
Vilniaus kogeneracinė jėgainė UAB	25
Kauno kogeneracinė jėgainė UAB	6
Energijos sprendimų centras UAB	13
Eurakras UAB	2

¹ Number of valid contracts.

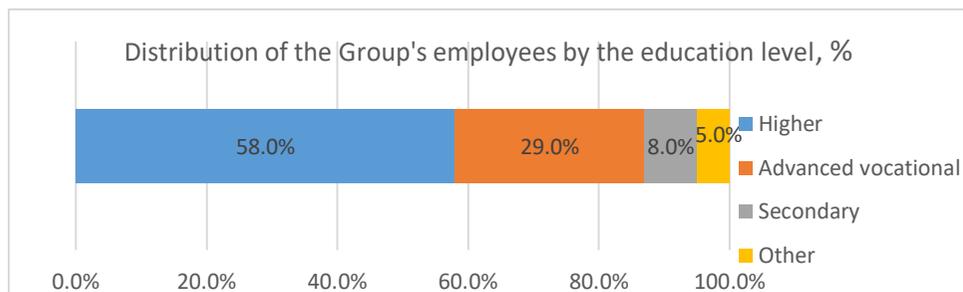
In total **4,048**

On 30 June 2018, the Company had 111 employees. The total of 98.11% of the Company's employees have higher university education, of whom 3 have PhD degrees. 2 employees are certified professional project managers (PRINCE2 and PMP), 1 certified financial analyst (CFA), 1 certified internal auditor (CIA), 1 certified fraud examiner (CFE), 2 certified risk management assurance experts (CRMA), 1 certified risk management expert (ISO 31000:2009), 4 employees have professional Board Member's qualification of the Baltic Institute of Corporate Governance. The Company's employees are active members of the associations, unions and academic communities (Scientific Board of the Lithuanian Energy Institute; the Supervisory Board of the Lithuanian Energy Institute; Technological Development Committee of the Agency for Science, Innovation and Technology, Risk Management Professionals Association Board).



58 per cent of employees working in the Group hold a higher education degree, of which 20 have PhD degrees, 29 per cent have advanced vocational education, 8 per cent – secondary education.





The biggest part of Group employees consisted of men – 72.57%, women comprised 27.43 %. Among the executives, the gender breakdown was very similar: 71% of the executives were men, and 29% – women.

The total wage bill of the Company for January – June 2018 was EUR 808,803.

Average monthly contractual remuneration of the Company's employees in 2018 before taxes:

Employee category	Average contractual remuneration, EUR
Head of the company	5,630
Top level executives	5,442
Middle level managers	3,447
Experts, specialists	2,172

On 30 June, the Group employed 4,048 employees. The total wage bill of the Group for January-June 2018 was EUR 16.78 million.

Average monthly contractual remuneration of the Company's employees in 2018 before taxes:

Employee category	Average contractual remuneration, EUR
Head of the company	5,164
Top level executives	4,588
Middle level managers	2,261
Experts, specialists	1,246

Development of the Organisation and its Culture

During Q2 2018, strategic initiatives aimed at coordinated development of the organization, human resource management, formation of the organisational culture, increasing of operational efficiency, training of new employees, strengthening and preservation of competences were continued.

Together with the renewed strategy of Lietuvos Energija, UAB Group, we renewed the strategic directions in the field of human resource management, and the basic principles. Guided by the renewed principles, we will further increase the pace of employee self-education and will enable teams to work in a flexible and fast way. Seeking to ensure the new Labour Code, elections to the works councils took place during Q1 of the current year. After elections to the works councils, meetings with employee representatives regarding common work principles and cooperation possibilities took place.

After the survey on employee engagement conducted at the end of last year, we worked on the plan of improving employee engagement factors. Together with staff members we named priority fields requiring improvement that would enable us to work faster, more effectively and even more involved.

The career management, rotation system structuration processes are further successfully continued (during 1st half 2018, 52 employees rotated within the Group enterprises and 257 employees made their career inside the enterprise).

Development of Skills

Lietuvos Energija Group is consistently taking care of employees' skill development. It ensures that employees have all compulsory attestations provided for by the laws, improve the skills necessary for their work. Companies of the Group have organised different trainings for employees, such as leadership, team building, change management, communications, project management, management of business processes, etc.

During Q2 2018, quarterly newcomer days took place during which novices were introduced the renewed strategy of Lietuvos Energija UAB, as well as any other relevant information of the Group. Besides, this quarter a project on the renewal of adaptation process was initiated after which the familiarisation of newcomers with work would become faster and more effective.

Internship Opportunities

Lietuvos Energija Group provides opportunities for high school and vocational school students to apply their theoretical knowledge and gain practical skills. During 1st half 2018, 30 students did internship within the Group.



Supervisory and Management Bodies of the Listed Companies of the Group

On 30 June 2018, the Supervisory Board of Energijos Skirstymo Operatorius consisted of the following members (term of office till 30 March 2022):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
Darius Maikštėnas Chairman	-	30/03/2018- 30/03/2022	Lietuvos Energija UAB, Chief Executive Officer
Darius Kašauskas Member	-	30/03/2018- 30/03/2022	Lietuvos Energija UAB, Director of Finance and Treasury
Kęstutis Betingis Independent Member	-	28/05/2018- 30/03/2022	Law firm Advokatų Betingio ir Ragaišio kontora, Attorney

As at 30 June 2018, the Board of Energijos Skirstymo Operatorius consisted of the following members (term of office till 3 December 2019):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
Dalia Andrulionienė (until 10/08/2018)	-	03/12/2015- December 2019	Energijos Skirstymo Operatorius AB, Chief Executive Officer
Rytis Borkys Member	-	03/12/2015- 24/1/2018	Energijos Skirstymo Operatorius AB, Director of the Network Operation Service
Saulius Vaičekauskas	-	26/04/2017- December 2019	Energijos Skirstymo Operatorius AB, Director of the Network Development Service
Augustas Dragūnas Chairman (since 10/08/2018)	-	February 2016 – December 2019	Energijos Skirstymo Operatorius AB, Director of the Finance and Administration Service

On 30 June 2018, the Supervisory Board of Lietuvos Energijos Gamyba consisted of the following members (term of office till 26 March 2022):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
Dominykas Tučkus Chairman	-	26/03/2018- 26/03/2022	Director of Infrastructure and Development of Lietuvos Energija UAB
Živilė Skibarkienė Member	-	26/03/2018- 26/03/2022	Director of Organisational Development
Rimgaudas Kalvaitis Independent Member	-	26/03/2018- 26/03/2022	Technology Competence Center, UAB, CEO. Lietuvos Radijo ir Televizijos Centras AB, Board member, - Luno, UAB, consultant.

The supervisory Board of Lietuvos Energijos Gamyba, AB, with the term of office from 10/08/2017 to 26/03/2018: Mindaugas Keizeris (Chairman of the Supervisory Board), Dominykas Tučkus.

Ignas Pranskevičius Member	-	20/01/2017 – December 2019	Energijos Skirstymo Operatorius AB, Director of the Services Service
Ovidijus Martinonis Member	-	14/03/2018- December 2019	Energijos Skirstymo Operatorius AB Network Operations Director

Head: Dalia Andrulionienė, Energijos Skirstymo Operatorius AB, Chief Executive Officer and Chairman of the Board until 10/08/2018. Augustas Dragūnas became Chief Executive Officer and Chairman of the Board since 10/08/2018 after the resignation of Dalia Andriulionienė.



As at 30 June 2018, the Board of Lietuvos Energijos Gamyba (consisted of the following members (term of office till 22 September 2021):

Full name	Participation in the capital of the Company and Group companies, %	Term of office	Place of employment
Eglė Čiužaitė Chairperson since 25/9/2017	-	22/09/2017-03/04/2018	Lietuvos Energijos Gamyba, AB, Chief Executive Officer
Nerijus Rasburskis Member	-	22/9/2017-03/04/2018	Lietuvos Energijos Gamyba, AB, Project Manager; Lietuvos Energija UAB Head of CHP Department; Vilniaus Kogeneracinė Jėgainė UAB, Board Member Kauno Kogeneracinė Jėgainė UAB, Board Member
Darius Kucinas Member	-	22/9/2017-03/04/2018	Lietuvos Energijos Gamyba, AB, Director of Power Generation Department
Mindaugas Kvekšas Member	-	22/9/2017-03/04/2018	Lietuvos Energijos Gamyba, AB, Director of Finance and Administration

Head: Eglė Čiužaitė, Lietuvos Energijos Gamyba AB, Chief Executive Officer.

After the reporting period, on 3 April 2018, the first meeting of the new Supervisory Board of the Company passed a decision to recall the Company's Board of 4 (four) members in corpore, and to elect for a term of office of 4 (four) years 3 (three) members – the current members of the Board: Ms. Eglė Čiužaitė, Mr. Darius Kucinas, and Mr. Mindaugas Kvekšas. The term of office of the new Board is from 03/04/2018 until 03/04/2022.



Main Information about the Company and the Group

The annual report of Lietuvos Energija and its subsidiaries is prepared in compliance with Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 On the Approval of the Guidelines for Ensuring the Transparency of Activities of 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 str. 14, LT-09310, Vilnius, Lithuania
Telephone	(+370 5) 278 2998
Fax	(+370 5) 278 2115
Email	biuras@le.lt
Website	www.le.lt
Legal form	Private limited liability company
Date and place of registration	28 August 2008, Register of Legal Entities
Register accumulating and storing data about the	Register of Legal Entities, State Enterprise the Centre of Registers

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

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

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

As of 30 June 2018, the authorised share capital was divided into ordinary registered shares with the nominal value of EUR 0.29 each. All the shares are fully paid.

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

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

Year	Auditor	Opinion
2017	PricewaterhouseCoopers, UAB	Unqualified
2016	PricewaterhouseCoopers, UAB	Unqualified
2015	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 statement for 2013.



Information on Subsidiaries, Branches and Representative Offices

At the reporting date, companies directly or indirectly controlled by Lietuvos Energija UAB are as follows:

Company	Registered office address	Effective ownership interest (%)	Share capital (EUR '000)	Profile of activities
Lietuvos Energijos Gamyba AB	Elektrinės g. 21, Elektrėnai	96.82	187,921	Production, supply and trade in electricity
Energijos Skirstymo Operatorius	Aguonų g. 24, Vilnius	94.98	259,443	Supply and distribution of electricity to consumers; distribution of natural gas
NT Valdosa, UAB	Geologų g. 16, Vilnius	100	37,295	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	Motorų g. 2, Vilnius	100	1,100	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	100	13,050	Supply of liquid natural gas via the terminal and trade in natural gas
Elektroninių Mokėjimų Agentūra UAB	Žvejų g. 14, Vilnius	100	1,370	Provision of payment collection services
Energijos Tiekimas UAB	Žvejų g. 14 Vilnius	100	17,240	Electricity power supply, import, export, balancing services
Energetikų Mokymo Centras VšĮ (until 11.08. 2017)	Jeruzalės g. 21, Vilnius	100	85	Professional development and continued professional training of energy sector specialists
Geton Energy OÜ	Narva mnt 5, 10117 Tallinn	100	35	Electricity supply
Geton Energy SIA	Darziema g. 60, LV-1048, Riga	100	500	Electricity supply
Geton Energy, sp. Z.o.o.	Puławska 2-B, PL-02-566, Warsaw	100	10 M zloty	Electricity supply
Technologijų ir Inovacijų Centras UAB	A. Juozapavičiaus g. 13, Vilnius	100	6,440	IT and telecommunication, and other services
„VAE SPB“ UAB	Žvejų g. 14, Vilnius	100	100	Business and other management consultations
Verslo Aptarnavimo Centras UAB	P. Lukšio g. 5 b, Vilnius	100	580	Public procurement organisation and implementation, accounting, personnel administration services
Lietuvos Dujų Tiekimas UAB	Žvejų g. 14, Vilnius	100	8,370	Gas supply
Lietuvos Energija Support Foundation	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	21,003	Modernisation of the district heating sector in the city of Vilnius
Kauno kogeneracinė jėgainė UAB	Žvejų g. 14, Vilnius	51	24,000	Modernisation of the district heating sector in the city of Kaunas
Tuuleenergia OU	Keskus, Parnu (Estonia)	100	499	Generation of electricity from renewable energy sources
Eurakras UAB	Žvejų g. 14, Vilnius	100	4,621	Generation of electricity from renewable energy sources
Energijos Sprendimų Centras UAB	Žvejų g. 14, Vilnius	100	1,230	Provision of electricity saving services



Transporto Valdymas UAB
(from 15.02. 2018)

Smolensko g. 5, Vilnius

100

2,359

Rental of vehicles, leasing, repair, maintenance, restoring, servicing

Information on Securities of the Group Companies

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

Structure of the authorised share capital and shareholders owning more than 5 per cent of the issuer's authorised share capital as at 30/06/2018:

Company	Total nominal share value	ISIN code	Securities abbr.	Trade list	Shareholder's name, surname (company name)	Share of votes carried by the shares owned, per cent
Lietuvos Energijos Gamyba AB	187,920,762.41	LT0000128571	LNR1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	96.82%
Energijos Skirstymo Operatorius AB	259,442,796.57	LT0000130023	ESO1L	BALTIC MAIN LIST	Lietuvos Energija, UAB	94.98%



Information about agreements with securities intermediaries

Lietuvos Energija has issued an issue of green bonds with the value of EUR 300 million listed in the Stock Exchanges of Luxemburg and NASDAQ Vilnius. The amount of Bond Programme is EUR 1 billion.

Company	Total nominal issue value, EUR	ISIN code	Redemption date
„Lietuvos energija“ UAB	300 000 000,00	XS1646530565	2027.07.14

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

Group companies:

Lietuvos Energijos Gamyba AB

As at 30 June 2018, the company had issued 648,002,629 ordinary registered shares with the nominal value of EUR 0.29. Shares of Lietuvos Energijos Gamyba have been listed on the main list of NASDAQ OMX Vilnius stock exchange. ISIN code of the issue is LT0000128571.

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

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

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

After the reporting period, on 3rd July 2018 Lietuvos Energija issued second EUR 300 million green bond issue, listed in the Stock exchanges of Luxembourg and NASDAQ Vilnius. The amount of Bond Programme is EUR 1.5 billion.

Energijos Skirstymo Operatorius AB

As at 30 June 2018, 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 an agreement on the accounting of securities issued by the company and the management of personal securities accounts with SEB Bankas AB.

Lietuvos Energija UAB

CEO



Darius Maikštėnas

Significant events during 1st half 2018

January 2018:

10/01/2018 Resignation of a member of the Board of Energijos Skirstymo Operatorius AB R. Borkys

31/01/2018 2018 calendar for publishing the operational results

31/01/2018 Preliminary results for 12 months of 2017 of ESO: the company's revenues amounted to EUR 612.3 million, adjusted EBITDA – EUR 151 million

31/03/2018 Preliminary financial results for 12 months of 2017 of Lietuvos Energijos Gamyba AB

February 2018:

01/02/2018 Election of the board, chairman of the board the CEO of Lietuvos Energija

13/02/2018 Separation of NT Valdys UAB and establishment of Transporto Valdymas UAB

28/02/2018 Preliminary results for one-month of 2018 of ESO: the company's income amounted to EUR 57.2 million, adjusted EBITDA – 18.7 million

28/02/2018 The second year of ESO: record-breaking investments and continued reduction in the prices of services

28/02/2018 Interim information for twelve months of 2017 of Lietuvos Energijos Gamyba AB: more electricity from water and sustainable profitability indicators

28/02/2018 Convention of an ordinary general meeting of Lietuvos Energijos Gamyba shareholders, agenda and draft decisions on issues included into the agenda

28/02/2018 Preliminary financial data for one-month of 2018 of Lietuvos Energijos Gamyba AB

28/02/2018 Amendment to the agreement on proportional transfer of obligations on the green bonds

28/02/2018 Having retained stable financial results, Lietuvos Energija starts a new stage of activities

March 2018:

02/03/2018 Preliminary financial data for one-month of 2018 of Lietuvos Energija

06/03/2018 On depositing a non-monetary contribution to the authorised capital of Lietuvos Energijos Gamyba AB

03/06/2018 Convention of an ordinary meeting of shareholders of Energijos Skirstymo Operatorius AB

06/03/2018 Supplementation of agenda of an ordinary general meeting of Lietuvos Energijos Gamyba shareholders, agenda and draft decisions on issues included into the agenda

14/03/2018 Election of a member of the board of Energijos Skirstymo Operatorius AB O. Martinonis

21/03/2018 On the planned transfer of public electricity supply activity pursued by Energijos Skirstymo Operatorius AB to Lietuvos Dujų tiekimas

22/03/2018 Agreement of the investment plan of ESO for 2017

30/03/2018 Preliminary financial results for 2 months of 2018 by Lietuvos Energija

30/03/2018 On depositing a non-monetary contribution to the authorised capital of Lietuvos Energijos Gamyba AB



30/03/2018 Approval of audited operational results of ESO for 2017

30/03/2018 Preliminary results for two months of 2018 of ESO: the company's revenues amounted to EUR 111.2 million, adjusted EBITDA – EUR 34.3 million

30/03/2018 Preliminary financial results for 2 months of 2018 by Lietuvos Energijos Gamyba AB

After the reporting period:

2018 April:

03/04/2018 Election of the Supervisory Board chairman and Board members of Lietuvos Energijos Gamyba AB

10/04/2018 Procedure for the payment of Lietuvos Energijos Gamyba dividends for a 6-month period ended on 31 December 2017

11/04/2018 Registration of the amended articles of association of Lietuvos Energijos Gamyba AB with an increased authorised capital

12/04/2018 E. Čiužaitė elected as a chairperson of the Board of Lietuvos Energijos Gamyba AB

13/04/2018 Consistent abandonment of contractor activities by Lietuvos Energija

18/04/2018 On winding up of VAE SPB UAB, subsidiary of Lietuvos Energija

May 2018:

02/05/2018 Lietuvos Energija's General Shareholder Meeting approved the dividend amount of 78.3 million dedicated to the State budget

07/05/2018 Lietuvos Energija revenues increased due to 16-per cent increased demand for gas and electricity

28/05/2018 Kęstutis Betingis was elected as an independent member of Energijos Skirstymo Operatorius AB Supervisory Board until the end of term of the operating Supervisory Board

31/05/2018 Lietuvos Energijos Gamyba AB, preliminary financial data for 4 months 2018: income from sale EUR 41.5 million, adjusted EBITDA – EUR 18.9 million

31/05/2018 ESO preliminary results for 4 months 2018: revenues totalled EUR 215.8 million, adjusted EBITDA – EUR 64.3 million

31/05/2018 Lietuvos Energija preliminary financial data for 4 months 2018: revenues amounted to EUR 452.9 Million, adjusted EBITDA – EUR 96.3 million

June 2018:

14/06/2018 On the share transaction of the secondary company UAB Duomenų Logistikos Centras of Lietuvos Energija UAB

21/06/2018 Lietuvos Energija, UAB plans issuing the second issue of the green bonds

26/06/2018 On the letter of Lietuvos Energija to investors

27/06/2018 On the transaction of vehicle lease services

29/06/2018 Lietuvos Energija preliminary financial results for 5 months 2018

29/06/2018 ESO preliminary results for 5 months 2018



29/06/2018 Lietuvos Energijos Gamyba AB, preliminary financial data for 5 months 2018

29/06/2018 Lietuvos Energijos Gamyba AB Social Responsibility Report for 2017

Post-balance events

July 2018:

03/07/2018 Lietuvos Energija placed the second issue of the green bonds

03/07/2018 On the establishment of a limited partnership

10/07/2018 On convention of the extraordinary shareholder meeting and decision to refuse of the public electricity supply licence

17/07/2018 10-year investment plan for Energijos Skirstymo Operatoriaus was approved

18/07/2018 In case of inactivity of NordBalt, the combined cycle unit in Elektrėnai will be able to generate energy

August 2018:

01/08/2018 On resignation of ESO Chairwoman of the Board and CEO Dalia Andrulionienė by agreement of the parties

10/08/2018 Chairman of the Board of Energijos Skirstymo Operatorius AB was elected

10/08/2018 On acquisition of 100 per cent of Vėjo Vatas UAB and Vėjo Gūsis UAB shares and the rights to claim.

