Lietuvos energija | GAMYBA

2019-03-15 No. SD-219

CERTIFICATION STATEMENT

Referring to the provisions of the Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuania, we, the undersigned Darius Kucinas, Director of Production Acting Chief Executive Officer, Mindaugas Kvekšas, Director of Finance and Administration, and Joana Venclovienė, Head of Accounting Consulting Division of Verslo aptarnavimo centras UAB, hereby confirm that, to the best of our knowledge, Lietuvos energijos gamyba, AB financial statements for the financial year 2018 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, give a true and fair view of Lietuvos energijos gamyba, AB assets, liabilities, financial position, profit or loss for the period and cash flows, the Annual Report for the financial year 2018 includes a fair review of the activities business development as well as the condition of Lietuvos energijos gamyba, AB and with the description of the principle risk and uncertainties it faces.

Director of Production Acting Chief Executive Officer	Darius Kucinas
Finance and Administration Director	Mindaugas Kvekšas
UAB Verslo aptarnavimo centras, Head of Accounting Consulting Division, acting under Order No. IS18-77 (signed 2018 08 13)	Joana Venclovienė

"Lietuvos energijos gamyba", AB

Registered address:
Elektrinės g. 21, LT-26108 Elektrėnai, Lithuania

Tel. +370 5 278 2907
Fax +370 5 278 2906
E-mail info@le.lt
www.gamyba.le.lt

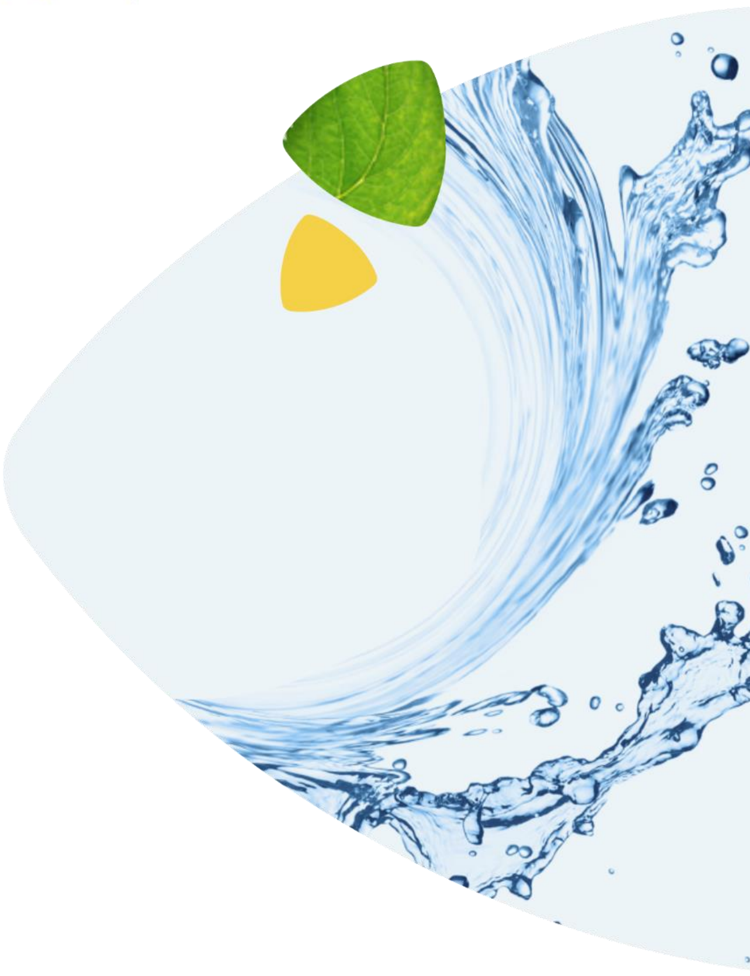
Company code – 302648707
VAT code – LT100006256115
Data collected and stored in the Register of Legal Entities

Settlement account:
LT40 7044 0600 0020 3369
Bank – AB SEB bankas
SWIFT – CBVILT2X

2018

LIETUVOS ENERGIJOS GAMYBA, AB

COMPANY’S FINANCIAL STATEMENS PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND ANNAUL REPORT FOR THE YEAR 2018, PRESENTED TOGETHER WITH INDEPENDENT AUDITOR’S REPORT



Group of energy companies

www.le.lt

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

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The financial statements of Lietuvos Energijos Gamyba AB were approved on 15 March 2019 by the Director of Production Acting Chief Executive Officer, Finance and Administration Director, and Head of Accounting Consulting Division of Verslo Aptarnavimo Centras UAB (acting under Order No IS18-77 of 13 August 2018):

Darius Kucinas Director of Production Acting Chief Executive Officer	Mindaugas Kvekšas Director of Finance and Administration	Joana Venclovienė Head of Accounting Consulting Division of Verslo Aptarnavimo Centras UAB, acting under Order No IS18-77 of 13 August 2018

Independent auditor's report

To the shareholders of Lietuvos energijos gamyba AB

Report on the audit of the financial statements

Our opinion

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

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

What we have audited
The Company's financial statements comprise:
- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

The non-audit services that we have provided to the Company in the period from 1 January 2018 to 31 December 2018 are disclosed in Note 34 to the financial statements.

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

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Our audit approach

Overview

Materiality	Overall materiality for the Company: EUR 1,835 thousand, which represents 5% of adjusted profit before tax.
Key audit matters	• Assessment of impairment indicators for property, plant and equipment • Recognition of revenue from regulated activities

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

Materiality

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

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

Overall Company materiality	EUR 1,835 thousand (2017: EUR 1,570 thousand).
How we determined it	5% of profit before tax adjusted for one-off provisions.
Rationale for the materiality benchmark applied	We chose profit before tax adjusted for one-off items as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by the users of the financial statements, and it is a generally accepted benchmark. These one-off items reflect isolated events. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 92 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment indicators for property, plant and equipment *Refer to pages 95-96 (Note 3), pages 100-103 (Note 6).* As at 31 December 2018, the Company had property, plant and equipment with the carrying amount of EUR 476,271 thousand, the majority of which related to Kruonis Pumped Storage Power Plant, Kaunas Algirdas Brazauskas Hydroelectric Power Plant and Elektrėnai Complex (which comprised units 7 and 8, and the Combined-Cycle Unit together with the Biofuel and Steam Boiler Plants). We focused on property, plant and equipment because the assessment of impairment indicators for the Company's cash generating units (CGUs) requires significant judgements and estimates by the Company's management in respect of determining the level of CGU and future results of the business. Management focused on the assessment of the internal and external impairment indicators for CGUs of Kruonis Pumped Storage Power Plant and Elektrėnai Complex, as these are the largest CGUs. Moreover, a significant impairment loss of EUR 31,384 thousand was recognised in respect of Elektrėnai Complex in the previous year. The assessment of the Company's impairment indicators demonstrated that none of them existed, and therefore, there was no need to perform an impairment testing at the reporting date.	We obtained, understood and evaluated management's process for the assessment of impairment indicators. We evaluated the Company's budgeting procedures, based on which the cash flow forecasts for the upcoming years are made, as these forecasts are an important source of justification for assessing the future economic performance of assets. We compared each CGU's actual earnings before interest, taxes, depreciation and amortisation in the current year against the FY18 budget made in the previous year, to consider whether any forecasts had been optimistic. In the current year, the actual performance of Elektrėnai Complex did not differ materially from the budgeted performance, while the actual performance of other CGUs was better than budgeted. We assessed and examined the following other possible impairment indicators: - we analysed actual and expected use of assets considering the provision of capacity reserve services; - we examined changes in regulatory environment with reference to the latest decisions of the National Commission for Energy Control and Prices (the NCC). We found that the management's judgement not to perform impairment tests in respect of the Company's CGUs due to the lack of impairment indicators based on their analysis was supportable and appropriate in light of the evidence obtained.

Recognition of revenue from regulated activities

Refer to pages 92–93 (Note 2.13), page 96 (Note 3) and pages 116-118 (Notes 27- 28).

The Company earns revenue from both commercial and regulated activities. In 2018, out of total revenue of EUR 130,651 thousand, revenue from regulated activities amounted to EUR 65,748 thousand.

Based on the Company's estimates, the application of IFRS 15 *Revenue from contracts with customers* had no impact on the recognition of revenue from regulated activities.

Regulated revenue from public service obligation (PSO) and capacity reserve services is governed by a number of the NCC's regulations and decisions, which are complex. Some of them have been disputed by the Company in courts, and require significant judgement in the process of recognising revenue under IFRS.

The amount of PSO service fees and the capacity reserve service fees for a calendar year is determined in the previous year by taking into account the Company's expenditure forecasts, and subsequently it is adjusted based on the actually incurred expenditure approved by the NCC. The Company recognises revenue from these services on an accrual basis and based on the actually incurred expenditure using an established methodology. While estimating accrued revenue and revenue to be refunded, the Company also takes into account the legally disputed decisions of the NCC in respect of the regulated revenue, as well as the results of the latest audits of regulated activities performed by the NCC.

Considering the favourable decisions made by courts in 2016, in the current year estimation, i.e. when determining the amount of accrued revenue, the Company does not recognise regulated revenue in respect of those amounts where the NCC has to approve the scheme of their compensation to the Company.

We analysed the principles of IFRS 15 *Revenue from contracts with customers* and did not establish any differences compared to the accounting policies applied by the Company.

We evaluated the design and tested operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over the electricity quantities and prices. As a result of these tests, we found no material issues that would impact our audit approach.

We tested on a sample basis the billed regulated revenue against the amounts confirmed by customers, and we did not note any material exceptions.

In respect of accrued or to be refunded revenue from PSO and capacity reserve services:

- we selected individual transactions to check if they were appropriately recorded as revenue in the correct period;
- we checked whether the Company applied the tariffs and regulated revenue amounts approved by the NCC;
- we recalculated the management's calculations in relation to actually incurred expenditures by agreeing them to actual data;
- finally, we checked if adjustments to prior year estimates of revenue from PSO and capacity reserve services that were made in the current year agreed to the respective adjustment amounts approved by the NCC's decisions.

We found that the recognised amount of accrued and to be refunded regulated revenue from PSO and the timing of its recognition were supported appropriately, in view of the obtained evidence.

Reporting on other information including the annual report

Management is responsible for the other information. The other information comprises the annual report, including the corporate governance report and the social responsibility report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the annual report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we considered whether the annual report includes the disclosures required by Law of the Republic of Lithuania on Financial Reporting by Undertakings implementing Article 19 of Directive 2013/34/EU.

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

Appointment

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

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

On behalf of PricewaterhouseCoopers UAB

Radzevičienė

Rasa Radzevičienė
Partner
Auditor's Certificate No.000377

Vilnius, Republic of Lithuania
15 March 2019

2018

LIETUVOS ENERGIJOS GAMYBA, AB ANNUAL REPORT

FOR THE TWELVE-MONTH PERIOD ENDED 31 DECEMBER 2018

Lietuvos energija | GAMYBA

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Reporting period covered by the Annual Report

The Annual Report provides information to the shareholders, creditors and other stakeholders of Lietuvos Energijos Gamyba AB ("the Company") about the Company's operations for the twelve-month period ended 31 December 2018.

Legal basis for preparation of the Annual Report

The Annual Report of Lietuvos Energijos Gamyba AB has been prepared by the Company's Administration in accordance with the Lithuanian Law on Securities, the Lithuanian Law on Companies, the Rules for Disclosure of Information and the updated version of the Guidelines for Disclosure of Information approved by the Board of the Bank of Lithuania, the Lithuanian Government's Resolution *On the approval of the guidelines for ensuring transparency of operations of state-owned entities* and other legal acts.

Individuals responsible for the information contained in the Annual Report

Job title	Full name	Telephone number
Lietuvos Energijos Gamyba AB, Director of Production, Acting CEO	Darius Kucinas	+370 5 278 2907
Lietuvos Energijos Gamyba AB, Director of Finance and Administration	Mindaugas Kvekšas	+370 5 278 2907

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

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

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

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

KEY OPERATING AND FINANCIAL INDICATORS OF LIETUVOS ENERGIJOS GAMYBA

A detailed description of the Company's alternative performance indicators and the methodology for their calculation is provided in the section “Financial Reports” (link) of the section “For Investors” of the Company's website.

		2018	2017	Change	
				+/-	%
KEY OPERATING INDICATORS					
Electricity generation volume	*TWh*	0.88	1.15	-0.26	-22.97
KEY FINANCIAL INDICATORS					
Revenues	*EUR`000*	130,651	149,815	-19,164	-12.79
Costs of purchase of electricity, fuel and related services	*EUR`000*	61,894	58,505	3,389	5.79
Operating expenses[1]	*EUR`000*	23,413	19,973	3,440	17.22
EBITDA[2]	*EUR`000*	44,816	70,538	-25,722	-36.47
EBITDA margin[3]	*%*	34.4	47.3	-12.9 p. p.	
Adjusted EBITDA[4]	*EUR`000*	44,816	53,733	-8,917	-16.60
Adjusted EBITDA margin[5]	*%*	34.4	36.1	-1.6 p. p.	
Net profit (loss)	*EUR`000*	29,644	20,521	9,123	44.46
		At 31/12/2018	**At 31/12/2017**	**Change**	
				+/-	**%**
Total assets	*EUR`000*	656,714	636,288	20,426	3.21
Equity	*EUR`000*	386,636	353,874	32,762	9.26
Financial debts	*EUR`000*	38,208	55,557	-17,349	-31.23
Net debt[6]	*EUR`000*	-9,677	-5,143	-4,534	88.16
Return on equity (ROE)[7]	*%*	7.7	5.8	1.9 p. p.	
Equity level[8]	*%*	58.9	55.6	3.3 p. p.	
Net debt / 12-month EBITDA	*%*	-21.6	-7.3	-14.3 p. p.	
Net debt / Equity	*%*	-2.5	-1.5	-1 p. p.	
Asset turnover[9]	*%*	19.9	23.5	-3.7 p. p.	
Current ratio[10]	*%*	394.8	255.0	139.8 p. p.	

[1] Operating expenses less costs of purchase of electricity and related services, costs of fuel used for production, depreciation and amortisation costs, impairment losses, revenues/expenses of revaluation of emission allowances and costs of write-offs of property, plant and equipment.
[2] Profit (loss) before tax + financial activities costs – financial activities income – dividends received + depreciation and amortisation costs + impairment losses + revenues/expenses of revaluation of emission allowances + write-offs of property, plant and equipment.
[3] EBITDA / Revenues.
[4] EBITDA result is reported after the adjustments made by management by eliminating the impact of one-off factors. These adjustments are made aiming to disclose the results of the Company's operating activities after the elimination of the impact of non-typical, one-off factors or factors that are not directly related to the current reporting period. All adjustments made by management are disclosed in the Company's interim and annual reports.
[5] Adjusted EBITDA / Revenues.
[6] Financial debts – Cash and cash equivalents – Short-term investments and term deposits – Share of non-current other financial assets consisting of investments in debt securities.
[7] Net profit (loss), restated annual value / Equity at the end of the period.
[8] Equity at the end of the period / Total assets at the end of the period.
[9] Revenue / Total assets at the end of the period.
[10] Short-term assets at the end of the period / short-term financial liabilities at the end of the period.

MANAGEMENT'S FOREWORD

Dear customers, shareholders, partners and employees,

In 2018, the results of Lietuvos Energijos Gamyba were significantly affected by natural conditions, pre-planned important works, and the situation of electricity prices formed in the market.

The summer of 2018 was especially dry. We felt this intensively at the Kaunas A. Brazauskas' Hydroelectric Power Plant, where production volumes have been rapidly decreasing since May as a result of a low water inflow. The amount of water did not increase at the end of the year. The total volume of electricity produced at Kaunas A. Brazauskas' Hydroelectric Power Plant declined by 1/4 in 2018 compared to 2017. However, the financial results of this power plant improved due to higher price of electricity in the exchange this year.

The major repairs were carried out in Kruonis PSHP for the first time in its history, leading to one of four units being unavailable for six months. Despite this, the power plant was providing reliably power regulation and secondary reserve services. The demand for power regulation service nearly doubled compared to the last year, and the secondary reserve was activated much more frequently.

The year 2018 was also very active in the Elektrėnai Complex. After the transmission system operator agreed to provide the tertiary active power reserve service using Unit 8 of the Elektrėnai Complex at the time of repairs of the NordBalt interconnection with Sweden, the combined cycle unit was providing reliably electricity system reserve (the so-called strategic reserve) service during this period, and increased the supply of electricity in the market. In August 2018, we completed successfully the monitoring tests of emissions in the operating units of the Elektrėnai Complex . The test of the tertiary emergency power reserve performed at the end of the year was also successful. We made sure that we are ready to provide reliably the services necessary for the system.

The total volume of electricity produced at the power plants of the Company was 23% less in 2018 compared to 2017. However, high wholesale electricity prices were forming throughout this period in the exchange, and therefore, the Company's financial indicators remained good.

The Company's net profit in 2018 was EUR 29.6 million, which is almost 45% higher compared to 2017. More detailed information of the Company's financial and performance indicators is presented further herein.

After the parent company Lietuvos Energija had announced the group's operations strategy LE 2030 in May 2018, we updated our own strategy at the end of this year.

We foresee that in order to achieve the goals of growth of the entire group, the strategic generation will have to be the main activity of the Company for the next 12 years. The main objective set for the Company is to contribute to successful synchronization of the Baltic States with the network system of continental Europe, to preserve capacities of reliable local electricity production and to develop new capacities in Lithuania. It is also foreseen in the strategy that while playing its major role, i.e. ensuring a reliable and effective strategic generation, the Company will contribute significantly to the implementation of the LE 2030 strategy in the area of green generation and implantation of innovations.

All the above is already being implemented – in September 2018, we announced about the initiated project for the installation of the experimental solar power plant in the upper reservoir of Kruonis PSHP, and in the beginning of 2019, we started the project of battery energy storage system in Kaunas A. Brazauskas' Hydroelectric Power Plant. If the project of synergy of the hydroelectric power plant and the battery energy storage were implemented successfully, it would be the first innovation of such type, and the battery energy storage would be one of the biggest across the Baltic States. As the battery energy storage would operate on the basis of a unique algorithm, it would allow maintaining stable frequency of the electric network and balancing short-term shifts in the capacity of hydro-unit.

Reliable and efficient provision of the services necessary for the system remains among our key priorities looking into 2019 and subsequent years.

Darius Kucinas
Director of Production,
Acting CEO,
Lietuvos Energijos Gamyba AB

MOST SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

The exploitation of Unit 7 of the Elektrėnai Complex has been terminated since 1 January 2018. The unit is put into conservation mode. The decision was taken by the Board of the Company on 11 December 2017, after having assessed the scope of services to be provided by the Elektrėnai Complex in 2018, the situation in the market of electricity production and system services, the changes in the regulatory environment and the prospects, as well as by taking into account the opinion of the Company's Supervisory Board. In 2018, the tertiary power reserve services (in the scope of 260 MW) are ensured by the combined cycle unit (hereinafter – CCU), whereas the strategic reserve (in the scope of 212 MW) is ensured by Unit 8.

On 25 January 2018, **the European Commission approved partial financing of the pole field and infrastructure research of the Kruonis Pumped Storage Hydroelectric Plant** (hereinafter referred to as the Kruonis PSHP), which is managed by the Company. This is a further step in preparing for the expansion of the power plant by installing the fifth hydropower unit. The goal of the research is to evaluate whether the current condition of the pole field, where the new piping system would be built, complies with the design requirements.

On 20 February 2018 **the Company announced about the initiation of dismantling project of the two disused chimneys of the Elektrėnai Complex**. This decision was made after taking into consideration the actual condition of the chimneys: the tests that were carried out last year showed that two out of three chimneys of the power plant were too much affected by damaging environmental factors and could no longer be considered as safe.

On 1 March 2018, as a result of very cold weather and low production of wind power stations the electricity price at the exchange increased dramatically and **the CCU managed by the Company was switched on**. The unit produced electricity for almost two days non-stop. In 2018, the CCU operates commercially by using only residual capacity (the capacity left from the capacity allocated for the tertiary reserve service).

On 23 March 2018, at the convention of the Latvian Association for the Owners and Managers of Small Hydropower Plants, **the Company presented the possibility of providing the service of maintenance of small hydropower plants**. The first contract on such work has already been concluded in Lithuania.

The annual report, the set of audited annual financial statements of the Company and the proposed profit distribution of the Company for 2017 were approved in the Ordinary General Meeting of Shareholders of the Company held on 26 March 2018. **Shareholders also approved the proposal to increase the authorised share capital of the Company by issuing new shares** to be paid by Lietuvos Energija, UAB, as the subscriber of shares, by making in-kind contribution, i.e. by transferring the complex of assets of Vilnius Third Combined Heat and Power Plant into the Company's ownership. In addition, a decision was made to approve the new version of the Articles of Association of the Company, to recall the Supervisory Board and to elect the following new members to the Supervisory Board for a 4-year term of office: Dominykas Tučkus, Živilė Skibarkienė, Rimgaudas Kalvaitis.

On 30 March 2018 the Company and Lietuvos Energija, UAB, concluded the Share Subscription Agreement, which stipulates that the **ownership of the complex of assets of Vilnius Third Combined Heat and Power Plant will be transferred to the Company** with effect from 31 March 2018, 00:00 AM.

During the first sitting of the newly formed Supervisory Board of the Company, which was held on 3 April 2018, it was decided to **elect Dominykas Tučkus as the Chairman of the Supervisory Board**. **During the same sitting, in accordance with the new version of the Articles of Association, the following Board members**, who previously served as the Company's Board members, **were elected for the new term of office**: Eglė Čiužaitė (in charge of strategy and management), Darius Kucinas (in charge of production and system services management), Mindaugas Kvekšas (in charge of finances and administration).

On 11 April 2018, **the Company's Articles of Association containing the amendment on the increase in the Company's authorised share capital up to EUR 187,920,762.41** were registered with the Register of Legal Entities.

On 11 April 2018, the Company's Board, in view of the opinion of the Supervisory Board, **elected the Company's Board member Eglė Čiužaitė as the Chairwoman of the Company's Board** and passed a decision that the elected Chairwoman of the Board would continue serving as the Company's Chief Executive Officer.

On 27 April 2018, **the Company announced that reserve heavy fuel oil will no longer be used in the facilities of the Elektrėnai Complex**. Reserve fuel will be replaced with natural gas and the currently stored heavy fuel oil is planned to be sold. The Company estimates that it could save around EUR 0.5 million per year.

On 23 May 2018, the group's **parent company Lietuvos Energija announced its updated strategy LE2030**. The state-owned group of energy companies Lietuvos Energija plans to undergo substantial transformation over the upcoming twelve years: increase production capacities in green energy, expand to international markets, develop and implement innovations in the energy sector. The implementation of these plans will ensure a stable return, which is expected to reach EUR 1.6 billion in 2018-2030, and will retain the best price and quality to the clients.

On 14 June 2018, with the aim of further strengthening the implementation of the transparency principle across the group companies, a decision of the Board of Lietuvos Energija was announced on the discontinuance of the provision of support and on the **initiation of the termination of the activities of the Sponsorship Fund of Lietuvos Energija**. This Fund was also used to distribute the support provided by the Company.

On 29 June 2018, **the Company published the social corporate responsibility progress report**. The report reviews the Company's activities in 2017 and progress in the field of social responsibility. The report focuses on relationship with employees and their involvement in the Company's activities, cooperation with local communities and the society, environmental protection and activities in the market.

After LEG obtained the approval of transmission system operator Litgrid (hereinafter – TSO) to have tertiary active power reserve services provided by Unit 8 of Elektrėnai Complex during the repair of NordBalt,(intersystem power link connecting the Lithuanian and Swedish power transmission systems), **electricity reserve (the so called "strategic reserve") services were provided by the CCU**.

In July 2018 the Company completed major repair works of the second hydro unit of Kruonis PSHP, which were started in February 2018. Such repair works were carried out for the first time in the history of the power plant, which is unique in the Baltic States. The repair works will not only help to prevent major failures of the unit, but will also allow to extend safe operation of the unit for more than 15 years.

In August 2018, the Company **successfully conducted emissions monitoring tests in the operating units** of the Elekrėnai Complex.

During the Extraordinary General Meeting of Shareholders held on 27 September 2018, a decision was adopted to allocate dividends for January-June 2018 .

On 28 September 2018, the Company announced about the initiation of its project to build an **experimental floating photovoltaic solar power plant in the upper reservoir of Kruonis PSHP**.

On 17 November 2018, the **test of the restoration of Lithuanian electric energy system after complete failure was successfully performed in Kruonis PSHP**. The situation when the entire domestic electric energy system is turned off (the so-called black out happens) was simulated. In suchcase, the supply of electricity is restored from Kruonis PSHP. The service of the system's restoration after complete failure to the operator of transmission system is provided by Kaunas A. Brazauskas' Hydroelectric Power Plant (hereinafter – Kaunas A. Brazausko HPP) and Kruonis PSHP. Similar tests of restoration of electric energy system are carried out every year in smaller or bigger scope.

On 20 November 2018, the Company's management decided to discontinue operation of one out of four units in Kruonis PSHP with effect from 1 January 2019 because according to the valid legal acts two units of Kruonis PSHP engaged in commercial activities would operate at a loss in 2019. **As the legal acts changed, the Board's decision to conserve one of the units in Kruonis PSHP was revoked on 31 December 2018.** In 2019, two units of Kruonis HPP provide systemic service (secondary emergency power reserve) to the transmission system operator. The remaining two units are used commercially and electricity produced by them is sold on the exchange.

As the strategic reserve will not be ordered in 2019, **the Company's Board passed a decision on 11 December 2018 to suspend exploitation of Unit 8 from 1 January 2019 and to conserve it**. Similarly to Unit 7, which has been conserved since 1 January 2018, Unit 8 is conserved in a way that allows resuming its exploitation expeditiously, if needed. It means that both units will be able to produce electricity when it is needed by the transmission system operator according to the pre-scheduled testing programme of isolated work of the electricity systems of the Baltic States. In 2018, Unit 8 was providing the service of assuring electricity system reserves in the specified power plants necessary to ensure national energy security (so-called strategic reserve).

On 20 December 2018, the Company announced its updated operational strategy. It highlights that the Company's key activity is strategic generation, which forms the basis for achieving the goals of growth of the entire Lietuvos Energija group. The Company's strategy was updated in accordance with the strategic directions defined for the entire group in the strategy LE 2030 presented by Lietuvos Energija in May 2018. The Company's updated strategy is available via this link.

On 29 December 2018, the successful test was carried out, when CCU at a certain time had to achieve the capacity, which is required to provide the tertiary power reserve service. The Company is providing this service in the scope of 260 megawatts (MW) in 2019 on the grounds of the contract signed with LITGRID (the TSO) on 20 December 2018. The service is intended to control voltages in the transmission network of 330 kilovolts (kV) and to restore the secondary emergency power reserve.

Further details on the events above and other events significant to the Company are given in other sections of this report and are available on the Company's website www.gamyba.le.lt.

ANALYSIS OF PERFORMANCE AND FINANCIAL INDICATORS

A detailed description of the Company's alternative performance indicators and the methodology for their calculation is provided in the section “Financial Reports” (link) of the section “For Investors” of the Company's website.

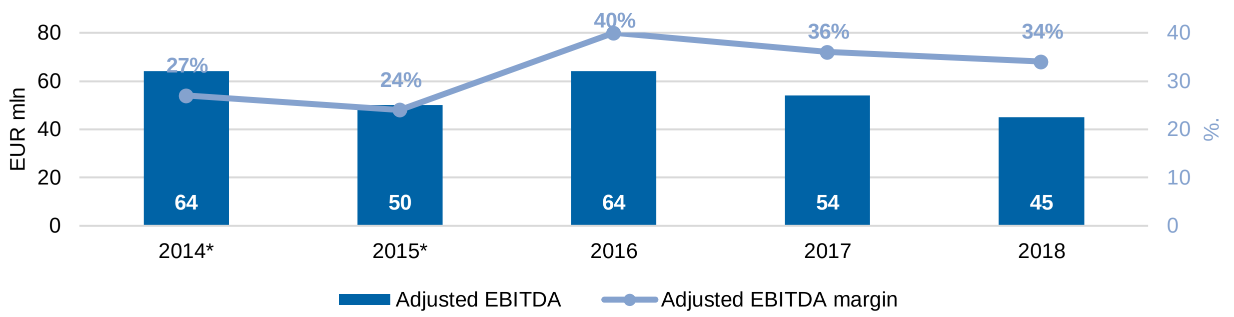
		2018	2017	2016	2015[1]	2014[1]
FINANCIAL INDICATORS						
Sales revenue	EUR`000	125,877	147,199	151,758	203,097	231,084
Other operating income	EUR`000	4,774	2,616	21,164	11,298	2,116
EBITDA	EUR`000	44,816	70,538	58,054	50,272	64,023
Adjusted EBITDA	EUR`000	44,816	53,733	63,652	50,272	64,023
Operating profit	EUR`000	36,484	16,236	49,030	5,761	39,366
Net profit (loss)	EUR`000	29,644	20,521	39,975	-231	33,407
Profit before tax	EUR`000	35,207	15,695	48,330	3,889	37,987
Cash flows from operations	EUR`000	61,140	59,993	60,513	25,364	86,572
Financial debts	EUR`000	38,208	55,557	132,907	146,260	162,886
RATIOS						
Liabilities / equity		0.70	0.80	1.30	1.43	1.49
Financial debts / equity		0.10	0.16	0.37	0.43	0.44
Financial debts / assets		0.06	0.09	0.16	0.18	0.18
LOAN COVERAGE RATIO						
Loan coverage ratio (EBITDA / (interest costs + loans repaid in the reporting period))		0.98	0.90	3.95	2.62	4.56
PROFITABILITY RATIOS						
Operating profit margin	%	27.92	10.84	28.35	2.69	16.88
Profit before tax margin	%	26.95	10.48	27.95	1.81	16.29
Net profit margin	%	22.69	13.70	23.12	-0.11	14.33
Return on equity	%	7.67	5.80	11.24	-0.07	9.10
Return on assets	%	4.51	3.23	4.88	-0.03	3.65
Return On Capital Employed (ROCE)	%	6.98	5.01	8.18	-0.05	6.30
Earnings per share	EUR	0.046	0.032	0.063	0.000	0.053
P/E (share price / earnings)		10.93	19.28	9.95	-1844.77	14.83

[1] Comparative indicators were not recalculated.

In 2018, the Company’s adjusted EBITDA and adjusted EBITDA margin decreased compared to 2017. This change is illustrated by Figure 1 which presents EBITDA dynamics during 2014-2018. Other profitability ratios of the Company (operating profit margin, profit before tax margin, net profit margin, return on equity) are significantly higher in 2018 compared to 2017 due to higher operating profit that resulted from lower depreciation expenses and a positive result of the revaluation of emission allowances. Operating profit in 2017 was also affected adversely by the impairment recognised at the end of 2017 in relation to assets of units 7 and 8 of Elektrėnai Complex (EUR 31.4 million).

The adjusted EBITDA of the Company in 2018 decreased if compared to 2017 due to the lower EBITDA of the Elektrėnai Complex, which was determined by the decreased volume of the provided regulated services as well as by lower income received from these services. It was partly compensated by higher sales revenue of Kaunas A. Brazauskas’ HPP, better commercial results of Kruonis PSHP, and lower costs of the dismantling projects at the Elektrėnai Complex.

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



* Comparative indicators were not recalculated.

In 2017, the EBITDA was adjusted for the impact of reconciliation of the profit from commercial activities and for the impact of recalculation of regulated one-off revenues of the previous periods. These management's adjustments are detailed in the Annual Report of 2017 (p. 18). No adjustments were made to EBITDA in 2018.

Statement of financial position

The Company's liabilities to financial institutions amounted to EUR 38.2 million as at 31 December 2018. They included liabilities under long-term loan agreements.

Statement of comprehensive income

Revenue

The Company's sales revenue totalled EUR 125.9 million in 2018. Income from electricity trading, balancing power, regulation power, power reserve and public service obligation (PSO) services as well as income from sale of heat energy accounted for the largest part of sales revenue. The Company's sales revenue decreased by 14.5% in 2018 compared to 2017. Such decrease was mostly caused by decrease in electricity production volumes at the Elektrėnai Complex and decrease in revenue from regulated activities of the Elektrėnai Complex

The Company's regulated revenue for 2018, i.e. electricity and heat energy generation at Elektrėnai Complex and power reserve services provided at Elektrėnai Complex and Kruonis PSHP, accounted for 50% of the Company's total revenue (2017: 65%).

Expenses

In 2018, expenses incurred by the Company totalled EUR 94.2 million (EUR 105.0 million before revenue from revaluation of emission allowances). Expenses of purchasing electricity and related services as well as expenses of purchasing fuel for electricity generation accounted for the major part of the Company's expenses (EUR 61.9 million or 65.7%). In 2017, these expenses amounted to EUR 58.5 million and made up 43.8% of total expenses. In 2018, the Company's depreciation and amortisation expenses amounted to EUR 19.0 million (2017: EUR 25.0 million).

Operating expenses (excluding expenses of purchasing electricity and related services, expenses of fuel for electricity generation, depreciation and amortisation expenses, expenses of revaluation of emission allowances and impairment expenses (also excluding the cost of fuel oil sold, which was reflected in expenses of 2018) amounted to EUR 21.0 million in 2018, i.e. increased by 5.4% or EUR 1.14 million compared to 2017. This was mainly due to higher expenses of the CCU maintenance contract.

Profit

In 2018, the Company's adjusted EBITDA decreased by EUR 8.9 million compared 2017, and adjusted EBITDA margin reached 34.4% in 2018 (2017: 36.1%).

In 2018, the Company's profit before tax totalled EUR 35.2 million, and net profit totalled EUR 29.6 million, i.e. 44.5% higher compared to 2017, when net profit totalled EUR 20.5 million.

The Company's net profit increased in 2018 due to lower depreciation and amortisation expenses and the positive revaluation result of emission allowances. In 2017, net profit was affected by one-off items, which are described in detail in the Annual Report of 2017 (p. 19).

Statement of cash flows

In 2018, the Company's net cash flows from operating activities amounted to EUR 61.1 million compared to EUR 60.0 million in 2017.

In 2018 the Company's cash flows from financing activities were negative similarly as in 2017 and amounted to EUR 41.6 million, compared to EUR 102.0 million in 2017. As it was reported by the Company on power exchange on 22 May 2017, in first half of 2017 the Company made early repayment of EUR 60.0 million of its long-term loan.

Investments in non-current assets

In 2018, the Company's investments in property, plant and equipment and non-current intangible assets (CAPEX) totalled EUR 5.0 million compared to EUR 1.9 million in 2017. In 2018, investments were mainly allocated for major repair works of the second unit of Kruonis PSHP.

Overview of activities of the Company's power plants

The Company brings together the state-owned electricity generating facilities, namely, the reserve power plant and the combined cycle unit in Elektrėnai Complex, Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP), Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas HPP) and Vilnius Third Combined Heat and Power Plant (Vilnius PP-3), which was taken over from Lietuvos Energija UAB since 31 March 2018. The Company's main objective is to contribute to ensuring the country's energy security by consolidating production capacity.

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

As from 1 January 2016, trade in electricity produced by the Company is conducted under the agreement by Energijos Tiekimas UAB (since 1 January 2019 the operations where disposed to Gamybos Optimizavimas UAB). Before that date, the Company used to conduct trading on the wholesale electricity market (i.e. the environment of communication between the producers and suppliers of electricity) on its own. (

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

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

Elektrėnai Complex Reserve power plant and combined cycle unit	**Kruonis Pumped Storage Hydroelectric Plant**	**Kaunas Algirdas Brazauskas Hydroelectric Power Plant**	**Vilnius Third Combined Heat and Power Plant**
			
Capacity – 1055 MW* The power plant assures tertiary and strategic reserves to ensure safe electricity supply and reserves of the energy system. Units 1–4 of the reserve power plant have been dismantled (with total capacity of 150 MW each). Dismantling of units 5 and 6 (300 MW each) was started in 2017. The most effective –combined cycle unit (455 MW) – provided tertiary reserve service in the scope of 260 MW, unit 8 (300 MW) provided strategic reserve service in the scope of 212 MW in 2018. Unit 7 (300 MW) is conserved. Heat is produced in steam and biofuel boiler houses.	**Capacity – 900 MW** Kruonis PSHP is intended for the balancing of electricity generation and consumption, as well as for the prevention of emergency incidents within the power system and elimination of consequences thereof. Kruonis PSHP secures the larger part of the entire emergency reserve required for the Lithuanian energy system. As the need for regulation increases, and on completion of the power links with Sweden and Poland, the power plant provides more system services. In 2018, the power plant provided secondary power reserve (emergency) services in the scope of 400 MW. Two units are reserved for these services. The remaining two units are used to produce electricity for commercial purposes.	**Capacity – 100.8 MW** Kaunas A. Brazauskas HPP is the largest power plant in Lithuania that uses renewable energy sources. Depending on natural conditions, the plant produces green energy and provides system services. Kaunas A. Brazauskas HPP contributes to the balancing of electricity generation and consumption, and levels out the power system. It is one of the power plants in the Lithuanian energy system that can start an autonomous operation in case of the total system failure.	**Electricity capacity – 360 MW** **Heat capacity – 603 MW** The operations of the power plant were discontinued with effect from 31 December 2015.

Electricity trading

As from 2016, trading in electricity produced by the Company is conducted under the agreement on the wholesale electricity market by Energijos Tiekimas UAB.
On completion of the power links with Sweden and Poland, trading becomes more active due to wider opportunities for trading in electricity and system services in the interconnected systems.

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

Provision of system services

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

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

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

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

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

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

Noteworthy events during the reporting period

In July-October 2018, during the repair of NordBalt intersystem power link with Sweden, electricity reserve services (the so called “strategic reserve” services) were provided by the CCU. The possibility to offer electricity generated by the CCU to the market occurred after the Company obtained the approval of TSO to have tertiary active power reserve services provided by Unit 8 of Elektrėnai Complex during the repair of NordBalt. It is important to note that after the auction which was held in autumn 2017, in 2018, by means of the CCU (with 260 MW capacity), the Company provided the services of the tertiary active power reserve intended for the control of voltages in the transmission network of 330 kV and for the restoration of the secondary emergency power reserve. Meanwhile, public interest services (Lith. VIAP) –electrical energy system reserve with the capacity of 212 MW – was ensured by the Company in 2018 by means of Unit 8 by decision of the Government. The Company initiated the substitution of facilities during the period of repair of NordBalt intersystem power link by taking into consideration the fact that with the 700 MW connection inoperative, a considerable amount of electrical power from the fourth price area (SE 4) of Sweden in Nord Pool power exchange is unable to reach Lithuania and there occurs a decline in energy supply.

Key performance indicators

Electricity generation and system service indicators for 2018

The Company has permits for indefinite term to engage in electricity generation activities. Electricity production volumes at the power plants controlled by the Company decreased in 2018 compared to 2017 (see Figure 3). In total, 0.883 TWh of electricity produced at the power plants controlled by the Company was sold during 2018, i.e. 23% less compared to 1.147 TWh in 2017.

A large amount of water was accumulating in the Nemunas river in the beginning of 2018. This allowed improving electricity generation conditions at **Kaunas A. Brazauskas HPP**. In January-February 2018, the volumes of electricity produced at Kaunas A. Brazauskas HPP increased by even 32% compared to January-February 2017. However, very cold weather that prevailed in the country in March 2018 caused a 29% decline in the hydroelectric power plant’s production volumes compared to March 2017.

Due to heavy rainfall the volumes of electricity produced at Kaunas A. Brazauskas HPP increased by 16% in April 2018 compared to the same month of 2017. With the start of hot and dry weather conditions in Lithuania in May, the water level in the Nemunas river began to decline and in May-June 2018, compared to the same months of 2017, the electricity production volumes at Kaunas A. Brazauskas HPP dropped by 28%. In July-September 2018 the weather remained very dry, so the production of the power plant during these months, compared with the same months in 2017, decreased by 34%. At the end of the year, in October-December, electricity production volumes decreased even more. In 2018 Kaunas A. Brazauskas HPP produced 24.5% less electricity than in 2017 (0.346 TWh and 0.459 respectively).

Due to planned repair works of the second hydro unit of **Kruonis PSHP** that were started in February and continued until July, the volumes of electricity produced and sold at this power plant decreased by 14.4% in 2018 compared to 2017 and totalled 0.470 TWh (2017: 0.549 TWh).

In 2018, the volumes of regulation power produced and sold at Kruonis PSHP (a service necessary to balance electricity surplus/shortage in the energy system) increased almost twice, compared to 2017. In 2018 the Company sold 0.075 TWh and bought 0.035 TWh of regulation power compared to 0.039 TWh and 0.022 TWh, respectively, in 2017.

Another type of system services provided at Kruonis PSHP is the secondary active power reserve, i.e. the power maintained by the producer at installations or hydro units, which is activated within 15 minutes. This type of system services were used 29 times during 2018. Whereas in 2017, this type of services designated to ensure the safety of electricity supply were activated 17 times. The TSO usually activates this reserve (the provision of which was assigned to two units of Kruonis PSHP (400 MW) in 2018) only when it is necessary to compensate a sudden drop in electricity supplied to Lithuania. In 2018, the Company sold approx. 3.50 TWh of secondary power reserve – the same amount as in 2017.

In 2018, the most efficient facility of the **Elektrėnai Complex** – the CCU – provided the tertiary active power reserve service (260 MW), i.e. power maintained by the producer at power generating sources, which is activated within 12 hours. This reserve is activated by the TSO. The unit is always ready to be brought into operation in order to contribute significantly to ensuring the security of the energy system. In 2018, the Company sold approx. 2.28 TWh of tertiary power reserve compared to 4.24 TWh in 2017.

Commercial production at the CCU is possible with the use of the residual capacity (which remains after the allocation of capacity for tertiary reserve service), however not at the lower capacity than the unit's technological minimal level, i.e. 160 MW. Conditions suitable for such production at the CCU occurred in March when cold weather entered all Scandinavian and Baltic countries and caused rise in electricity consumption. Moreover, the production volumes at wind power plants declined significantly. In the warm seasons of the year the residual capacity of the CCU became too low due to the impact of temperature, therefore offers for electricity production at this unit were not placed in the market.

In 2018, Unit 8 of the reserve power plant ensured the electricity system reserve, the so-called strategic reserve.

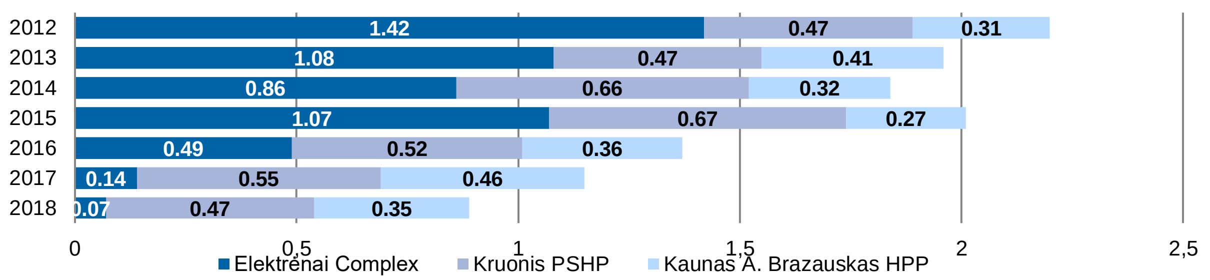
In July-October 2018, during the planned repair of NordBalt intersystem power link with Sweden, the CCU substituted Unit 8 and provided the strategic reserve service. During July-October 2018 the CCU was activated 8 times for the commercial production. After the completion of repair of NordBalt, the CCU again started providing the tertiary reserve service, whereas Unit 8 started providing the strategic reserve service.

In 2018, 0.067 TWh of electricity was produced at the Elektrėnai Complex compared to 0.139 TWh produced in 2017.

In 2018 all power plants of the Company achieved their availability objectives. Plants are considered available when they produce electricity or are fully prepared for production.

Figure 3

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



Planned activities of the power plants in the forthcoming period

It became clear in the end of 2018 that the tertiary reserve in the scope of 260 MW will be guaranteed by the CCU in 2019, whereas the strategic reserve will not be ordered. Therefore, the decision was made to conserve the unit 8 of Elektrėnai Complex as from the beginning of 2019, too (the unit 7 has been conserved since 1 January 2018). The periodical short-term technological tests of equipment are planned in the Elektrėnai Complex.

Kruonis PSHP is providing 400 MW secondary reserve service of (by means of two units) since 2019. The profitability of the commercial activities by means of two remaining units and the production volumes will depend mostly on the market conditions. i.e. difference in the prices of electricity in peak and nonpeak periods.

The production volumes of Kaunas A. Brazauskas HPP will depend mostly on the Neman yield. The power plant is affected a lot by seasonality, i.e. the major part of electricity is produced at times of spring flood, whereas the smallest part of electricity is produced in cold winter and hot summer. The efforts will be put to make use of the flexible production in the power plant during those hours when the highest price is reached in the exchange.

It is not planned to produce energy in Vilnius TPP-3 in 2019.

The Company sets availability goals for the power plants. The devices are considered accessible when they are producing electricity or when they are completely ready to produce it. It is planned that the average annual availability indicators in 2019 will be at least 97.8% for the CCU, 90.2% for Kruonis PSHP, – and 92.5% for Kaunas A. Brazauskas HPP.

The efforts will also be put for the power plants to participate reliably in isolated network tests according to the TSO's pre-scheduled testing programme.

FACTORS DETERMINING THE FINANCIAL INDICATORS OF THE COMPANY

Business environment

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

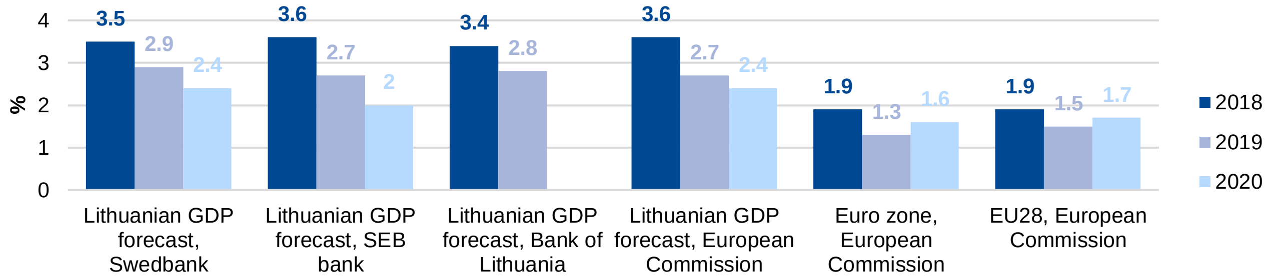
The Company operates in Lithuania, but as it sells electricity via the exchange, it also participates in the regional market of Nordic countries.

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

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

Figure 4

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



As the energy consumption is closely related to the growth of general domestic product, the changes in economic growth rates in Lithuania and neighbouring countries may also affect the Company's performance results.

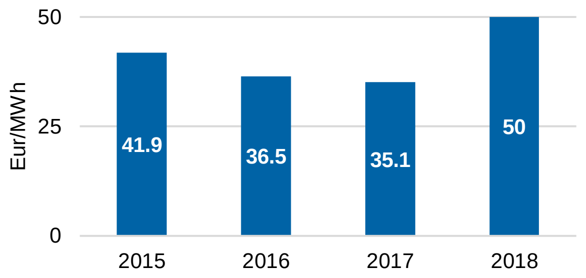
The most important events determining (actually or potentially) the Company's performance and financial indicators:

- **Further trend of development of electricity generation from renewable sources may provide basis for the implementation of the Company's development projects**. This enables the Company to take part in the development process, as well as increases the need for balancing services and increases purchases/sales of regulation power from/to the producers.
- **Intersystem power links with Sweden and Poland have both positive and negative effects on the Company's performance**. As a result of interconnection of electricity transportation systems and integration of power trade markets, the electricity prices in the Baltic States, Poland and Northern Europe gradually assimilate. As a result of integration of several power markets, the price charged in the larger markets starts to prevail (i.e. the price charged in the smaller markets changes to the level of price charged in the larger markets).
  On one hand, the launching of these power links results in a higher demand for the power reserve services provided by the power plants of the Company. On the other hand, over the last years it reduced the difference between the peak and off-peak prices on the electricity exchange, which in turn impacts the production at Kruonis PSHP. A lower electricity price worsened the possibilities to remain competitive while producing electricity using the gas facilities. In 2018, the price of electricity in the price area of Lithuania on Nord Pool electricity exchange increased compared to 2017 (see Figure 5). It is expected that this trend will continue. This

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

will have a positive impact on the Company's performance as the produced energy will be sold at a higher price.

Figure 5
Electricity prices as per Lithuania price area on NP electricity exchange
(source: Nord Pool)



- **The Company's performance is affected by fluctuations in prices of emission allowances (EA).** At the end of 2017, the EA price was equal to EUR 8.09 compared to EUR 24.63 at the end of 2018. A positive impact of EA revaluation had a significant positive effect on the Company's net profit for 2018.
- **The Company's performance might be affected by uncertainties in the market of power reserves**. Along with the discussions on the level of production capacity that is necessary to ensure in the country, the Company aims at ensuring that the Elektrėnai Complex will remain as the most useful and effective local source of strategic reserve.
  To achieve this objective (in agreement with other services provided at the Elektrėnai Complex), the Company plans to keep three units of the Elektrėnai Complex untill the end of 2023: combined cycle unit (455 MW) and units 7 and 8 (300 MW each) which burn heavy fuel and comply with EU pollution requirements. The assessment of further maintenance and investments necessary beyond the year 2023 is expected to be carried out in 2020.
  However, in view of the scope of services expected to be provided by the units of the Elektrėnai Complex, situation in the market of electricity production and system services, changes and prospects in the regulatory environment, the Company's Board adopted a decision to discontinue the operation of units 7 and 8 and conserve it.
  In seeking solutions to reduce the cost of electricity and heat energy produced at the Elektrėnai Complex and the price of services rendered, the Company decided to discontinue the use of reserve heavy fuel oil at the facilities of the Elektrėnai Complex. It will be fully replaced with natural gas.

Company's strategy and objectives

In 2018 the Company was acting in accordance with the Company's operational strategy approved by the Company's Board for 2016-2020. This document defines the long-term operational strategy of the Company: strategic directions, objectives and indicators measuring the strategy's implementation.

The Company was seeking to earn income from new activities and at the same time to reduce the expenses of the main activities.

As the group's parent company Lietuvos Energija announced the updated operations strategy LE 2030 on 23 May 2018, the Company's strategy was reviewed and updated at the end of 2018.

The Company's mission and vision were not changed, but were made more specific in terms of the strategic directions and actions planned for their implementation (see Fig. 6).

It is emphasized in the updated strategy that the main activity of the Company is strategic generation as a basis for growth of the entire group. The main objective set for the Company is to contribute to successful synchronization of the Baltic States with the network system of continental Europe, to preserve capacities of reliable local electricity production and to develop new capacities in Lithuania.

It is also foreseen in the strategy that while playing its major role, i.e. ensuring a reliable and effective strategic generation, the Company will contribute significantly to the implementation of the LE 2030 strategy in the area of green generation and implantation of innovations.

10 strategic solutions are provided in the Company's strategy – specific projects and operation areas planned for the period 2019-2030. In order to provide services of good quality, they include cooperation in the synchronization project, which is of major importance for Lithuania, and preparation for participation in the foreign markets of power reserves.

The Company intends to contribute to development of green generation by using the current capacities of hydroelectric power plants, by developing and offering the services of maintenance of renewable energy production capacities.

In the area of innovations, the pilot projects of solar power plants and battery energy storage facilities are already being planned in the current infrastructure .

The implementation of the program of cleaning works in Elektrėnai Complex remains important for the Company – the old and ineffective devices are disposed and unused chimneys are dismantled.

The Company will further support the LEAN management system and culture of continuous improvement, digitization of the processes, reinforcement of cyber security, and will take care about training of the employees to ensure they have the competences relevant for implementation of the LE 2030 strategy.

It is planned that the Company's investments will represent a significant share of total amount of investments (EUR 600 million) that the Lietuvos Energija Group is planning to invest into the production facilities at both currently existing and new production bases before 2030. The financial outcome of strategic generation (EBITDA) is expected to reach up to EUR 60 million.

The document of the Company's operational strategy for 2019–2030 is available on the Company's website (link).

Figure 6
The Company's strategic directions for 2019–2030

MISSION We are a reliable and advanced energy generation company providing services required for energy system security.			
Quality services (the TSO, suppliers, consumers, shareholders)	**Improvement of operating efficiency**	**Business development**	**Self-development, team and staff performance**
VISION We seek to become a competitive international excellence centre for energy generation.			

Achievement of the Company's objectives

According to the preliminary evaluation, the Company succeeded in implementation of 5 out of 7 annual objectives of the Company: the operating profit margin in the year 2018 exceeded the set limit; the operating expenses were controlled successfully and were lower than planned; the availability and reliable work of the power plants was ensured; the achieved level of excellence of operations was higher than planned (according to the methodology of the group of "Lietuvos Energija"); and Vilnius TPP-3 was taken over smoothly. The Company achieved the remaining two objectives partially: income from new activities was slightly lower than planned, and 3 minor accidents happened (tolerance limit – 1).

In 2019, the Company will seek to satisfy the shareholders' expectations and to ensure profitable activities of the Company (objective 1) and to ensure effective control of expenses (objective 2). Similarly as every year, ensuring the reliable work of power plants is relevant (objective 3). The Company is providing systemic services important to the country, so it has to be ready to produce electricity when needed. Besides, efforts are put to make use of all the opportunities to produce on the commercial grounds as much as possible. Another important objective is a reliable participation in the isolated network testing program (objective 4). The fifth objective of the Company for 2019 is to improve experience of the employees – it will be measured in the entire group of Lietuvos Energija according to the unified methodology. The sixth objective is operation without accidents (tolerance limit – 1 minor accident a year).

Research & development projects

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

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

- major repairs of the second hydro unit at Kruonis PSHP (finished in July 2018);
- clearing-up works at the Obeniai ash site at Elektrėnai Complex (finished in 2018);
- installation of unit 5 at Kruonis PSHP (if market conditions appear to be favourable);
- dismantling of chimneys 1 and 2 in Elektrėnai.

The following R&D projects were under implementation during 2018, which resulted in major changes and achievements:

Major repairs of the second hydro unit of Kruonis PSHP

The second hydro unit of Kruonis PSHP was installed and launched in 1992, thus the unit has been operated for about 25 years now. In the beginning of 2014, during a diagnostic repair of the hydro unit, the inspection of the generator was conducted with the participation of representatives of the manufacturer of the power plant. It was established that causes of identified deficiencies could be eliminated only by replacing some parts in the course of major repairs. A contract with a general contractor was signed in May 2017. All planned works were completed until 23 July 2018. The unit was tested successfully, and the remaining reserve of its operation was extended for upcoming 12-25 years.

Installation of hydro unit 5 at Kruonis PSHP

The Company is assessing the possibilities for the expansion of Kruonis PSHP with the installation of the fifth hydro unit. The results of the analysis show that under current market conditions the existing 900 MW capacity is sufficient for the operation of the power plant, but its expansion is important for assuring sufficient electricity capacity and competitive power system in Lithuania in future.
A large part of preparatory works for the expansion project of Kruonis PSHP has been already performed. The implementation of the project is expected to continue for about four years.
In January 2018, the European Commission approved of a partial funding of studies on the power plant's poles site and infrastructure. The aim of these studies is to assess whether the current condition of the poles site, on which the new pipeline would be constructed, meets the requirements established in the design. Partial funding of the feasibility study of the fifth unit of Kruonis PSHP was also approved by the European Commission in October 2018. This study will aim to select the best technological solution of the unit that will be suitable for today's market conditions and will meet the ever-changing needs in the context of network synchronization with continental Europe. It will also cover a socio-economic analysis of the project.
The National Energy Independence Strategy as approved by the Seimas of the Republic of Lithuania on 21 June 2018 presents the expansion project of Kruonis PSHP in the list of

the main works in.electricity sector. The project will be continued having resolved the issues relating to the projected demand for power reserve when operating in the isolated network during the preparation for synchronisation and after synchronization, as well as technical requirements established for the facility ensuring such a power reserve.

Dismantling of units 5 and 6 of the reserve power plant

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

Dismantling of chimneys 1 and 2 in Elektrėnai

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

Discontinuation of usage of heavy fuel at Elektrėnai Complex

The Company adopted a decision to discontinue the use of reserve heavy fuel oil in the facilities of the Elektrėnai Complex. The need for the reserve fuel during cold seasons of the year will be assured by means of natural gas. The Company has already concluded the agreement on uninterrupted supply of gas and its storage at the Inčukalns natural gas storage facility. The Company estimates that it could save around EUR 0.5 million per year.
In December2018, a contract for the sale of the available heavy fuel oil was concluded, which is expected to be completed by February 2019. The remaining heavy fuel oil storage and reserve infrastructure will be arranged and, if necessary, offered to customers whose activities in the area would bring value to the entire region.

Solar power plant in the reservoir of Kruonis PSHP

In cooperation with scientists of Kaunas University of Technology (KTU), the Company plans to build an experimental solar power plant floating on the water.
In the first stage of the project, it is planned to build an experimental power plant of small capacity (approx. 60 kW) and to create an algorithm that would control independently the solar power plant and battery energy storage with regard to incessantly registered network and other physical parameters and working modes of units of Kruonis PSHP. Such system would allow the power plant to provide, for example, a reliable service of primary electricity reserve. We plan to carry out these works until the end of 2021. We have applied for the support necessary to turn this innovative idea into reality from the European Union's funds. The application submitted to the National Paying Agency of Lithuania is expected to be assessed by January 2019.
When the performance data on the experimental power plant are collected and evaluated, it will be possible to consider an opportunity to cover the whole reservoir by floating construction of solar modules. The floating solar power station in Kruonis PSHP would be the first such power plant in this region and it would be distinguished by its technical solutions. More than 300 ha area of upper reservoir of Kruonis PSHP could be used to build it. The power plant's construction would adjust to the changing water level in the reservoir, would resistant to waves and ice. The capacity of the solar power plant covering the reservoir of Kruonis PSHP could reach 200–250 MW. Such amount would increase the capacity of the solar power plants operating in Lithuania now by almost three times. The amount of electricity produced by this power plant per year would be sufficient to provide more than 120 thousand of households with electricity.

Battery energy storage system in Kaunas A. Brazauskas' Hydroelectric Power Plant

The Company plans to install the battery energy storage system with capacity of one megawatt in Kaunas A. Brazauskas' Hydroelectric Power Plant. If the project of synergy of the hydroelectric power plant and the battery energy storage system was implemented successfully, it would be the first innovation of such type and the battery energy storage system would be among the biggest in the Baltic States. The battery energy storage system would use unique algorithm to maintain stable frequency of the electric network and to balance short-term changes in the capacity of hydro-unit.
At present, the service of frequency regulation in the Baltic States is usually provided by the Russian power plants functioning in the post-Soviet ring BRELL of energy system. The battery energy storage system project is a solid step for Lithuania in guaranteeing independent service of frequency regulation inside the country – this service will become of major importance to Lithuania after 2025, when the Baltic States will get disconnected from the ring BRELL and will get connected to the networks of continental Europe. The successfully implemented project of synergy of the hydroelectric power plant and the battery energy storage system could serve as an excellent source of primary reserve and would allow offering high quality service to transmission system operator.
Although installation of battery energy storage system with the capacity of one megawatt would be a pilot project in our region, the battery energy storage systems of lithium ions with bigger capacity (20 megawatts and above) have already become popular in the USA, Australia and part of the Western European countries. As the need for systemic services is growing in the Baltic States, the technology of battery energy storage systems could be adjusted to much more powerful units of Kruonis PSHP in the future.
The Company is going to announce the competition of public procurement for equipment of the battery energy storage system in the beginning of the year 2019.

Operational excellence, innovative activities

In order to implement one of the strategic directions – to increase operational effectiveness – the Company is moving on the path of continuous improvement based on optimization of performed functions, technological progress, implantation of innovations, and improvement of operational processes. The Company is implementing the Operational Excellence Program based on the best performance management practices (LEAN, Six Sigma etc.).

In the beginning of 2018, the Company set a goal to optimize technical maintenance of the facilities as one of the constituents of the energy's price. In order to achieve these goals, the systemic analysis of the technical maintenance processes of the devices was organized. The processes were subordinated with regard to each other in the course of this initiative. They were connected into the logic of continuous improvement and distributed into the groups of planning, supply, execution and analysis. The processes were coordinated in such a way so that it would be possible to optimize purposefully the expenses of technical maintenance (man-hours). The set goals and coordinated processes allowed spending more time on new activities (external services, maintenance of new energy objects (Vilnius TPP-3)). When compared to the year 2017, the expenses of technical maintenance of the energy production facilities belonging to the Company (man-hours) were optimized by more than 17 percent in 2018. This allowed providing some 13 thousand hours of new services in the market.

Besides the improvements provided in the performance plans, the improvements suggested by the employees are also induced and implemented in the Company. The Company's employees made 746 suggestions on improvement of operations in 2018. The experts and managers are assessing the suggested ideas with regard to the aspects of financial buying-off, time saving, work safety, quality, pollution reduction, cherishing of the company's values, and improvement of ergonomics of work places. The employees are granted the possibility to implement own ideas and thus to contribute to the Company's operational development and achievement of objectives. More than 714 improvements were implemented in 2018. It is calculated that they helped to save EUR 1.16 million and 10.8 thousand of work hours.

All the units of the Company continue practicing visual management of daily activities with the cascade-like system of meetings, objectives and indicators (daily accountability). The tools of LEAN and other performance management systems are used to remove wastefulness that does not create any value, to tidy up and make permanent the premises and work places (the premises of 2573 sq. m area were vacated in 2018), and to solve the problems more effectively and quickly.

New services

The Company continued providing services to external clients in 2018. The Company offers services of wide range: automation, operation of electric and mechanical devices, hydrotechnical buildings and equipment, various power objects, rents out the buildings not used for own activities, warehousing areas and territories, offers chemical products and other services.

The Company continues cooperation with fitters of solar power plants and seeks to get strong position in the areas of their installation and maintenance, as well as in the area of maintenance of hydro structures (dams). Two long-term contracts for shunting services were signed in 2018 (provision of services in the Elektrėnai Complex), while developing successfully and adjusting railway services of the Company. The Company won two competitions of provision of operational management services in the junction of years 2018–2019.

In total in 2018, the Company provided services to 25 clients, 9 of which were new clients. Almost 13.1 thousand of work hours were granted for these services.

While assessing expansion possibilities of new services and implementing the operational strategy, the Company attempts to offer its experience and competences not only to Lithuanian, but also to Latvian, Estonian, Swedish and Finnish companies.

Risk factors and their management

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

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

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

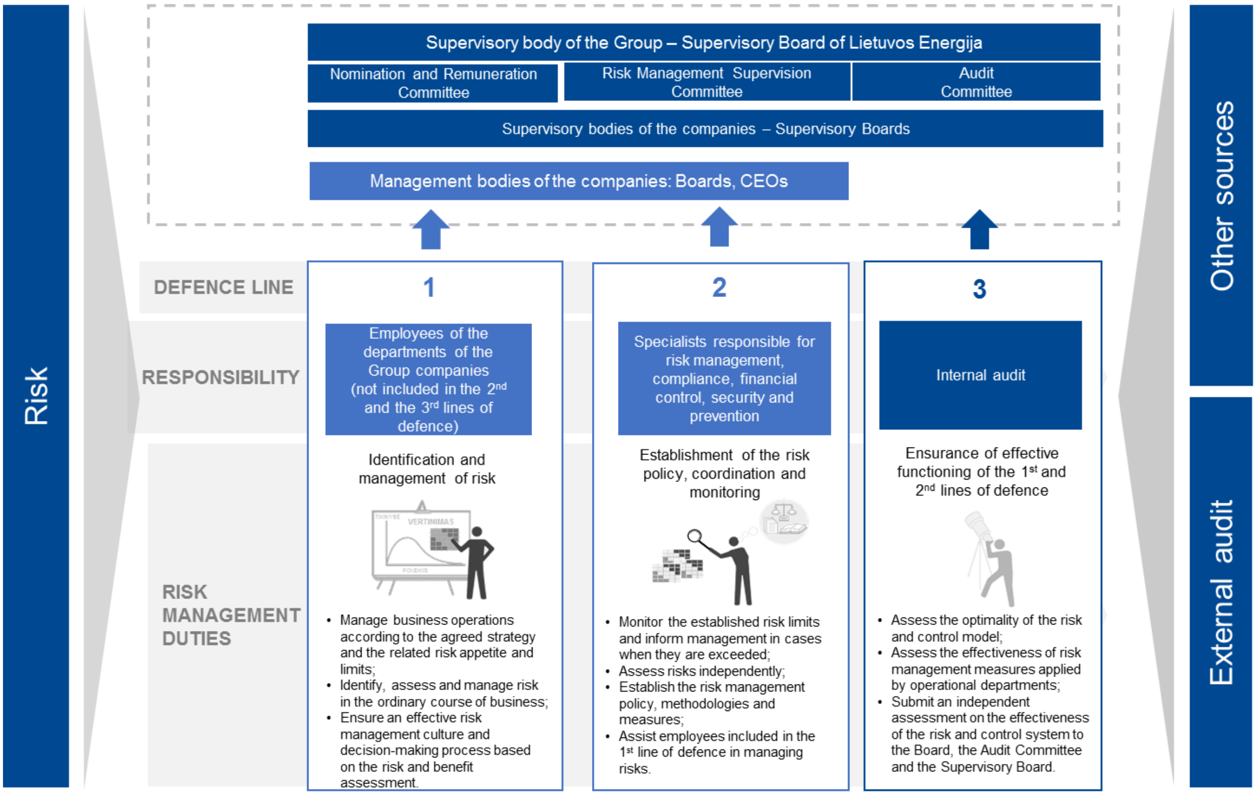
The risk management principles established by Lietuvos Energija are consistently applied throughout the whole Lietuvos Energija group. The uniform risk management principles ensure that the management personnel of the Lietuvos Energija group receive risk management information covering all areas of activities.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

Aiming to ensure that risk management information and decisions correspond to recent developments and changes in the Company's activities, the Company's risk level is re-assessed each year during a specified time period and risk management actions are established. In addition, the Company monitors new risk factors on a quarterly basis and defines additional actions, if needed.

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

In order to effectively manage risks arising from its activities, the Company applies the three lines of defence principle by establishing a clear segregation of duties for risk management and control between the Company's management and supervisory bodies, structural departments or functions (see Fig. 7).

Figure 7
Risk management and control model



The risk factor "Regulation and compliance" was manifested on several occasions in 2018. The regulator National Commission for Energy Control and Prices and/or Company made these cases public. Besides, several minor cases of the risk factor "Safety and health of employees and contractors" were manifested in the Company. They are described below in the column "Social responsibility".

As is the case each year, in 2018 the Company performed risk assessment for the year 2019 which included the determination of the areas where the Company's main risk management measures and initiatives are concentrated and coordinated. The list of the main risk factors for 2019 and their management policies is presented below:

Risk factors for 2019 and their management policies

Risk factor	Sources of risk	Main risk management policies	Risk level
Regulation and compliance	Regulation risk at the Company is associated with a complicated planning of cash flows and a risk of reputational damage. The NCC remains the main regulatory authority making the largest impact on the prices of services provided by the Company and its revenue by establishing ceilings for them.	• Efforts are made to fulfil the requirements of the regulatory authority in as specific manner as possible; • To ensure compliance with new requirements, projects are organised at the Lietuvos Energija group level that engage the best specialists of the Lietuvos Energija group with regard to the issue concerned; • The compliance function is strengthened and formed;	Very high

		• Active participation in the process of public coordination of legal acts; • The long-term strategy of the Company provides for a consistent reduction of costs of regulated activities and diversification of activities; • The management reviews regularly relevant regulation risks.	
Market changes and competitiveness	Market changes that range from fluctuations in prices of raw materials to strategic initiatives is an inherent risk of the energy sector. The major risk currently faced by the Company arises from changes occurring in the reserve services supply market. Traditional external risk sources also remain relevant, i.e. the country's macroeconomic indicators that determine the level of consumption of electricity, heat and gas, changes in prices of raw materials as well as new markets that emerged after the launch of the NordBalt and LitPolink interconnections.	• The long-term strategy of the Company provides for a consistent increase of operational efficiency through reduction of costs for the provision of services, diversification and expansion of activities aiming to ensure the long-term stability of the Company's activities; • Abandonment of out-of-service production facilities; • Bringing into use new production facilities (biofuel and steam boiler houses); • Modernisation of CCU on purpose to increase its competitiveness in the markets of reserve services and electricity generation.	Very high
Information security (cyber security)	By observing external factors, geopolitical situation the Company understands its strategic importance for the country's security and by cooperating with external establishments and by introducing internal measures it aims to ensure that both the Company's strategic information and the main management systems are protected from the impact of any external/internal crime.	• Improvement of resistance through tests/trainings/training courses for employees; • Periodical updating of work stations of management system and software; • Ensuring the continuity of the Company's critical systems; • Enhancement of detection/suspension of cyber-attacks; • Cooperation with external institutions.	High
Technical faults	The Company's electricity production process involves the use of a large variety specialised equipment due to which a risk of technical faults always exists that arises from general sources of risk, such as obsolescence or hidden defects. In addition to general risk sources, risk of technical faults at the Company is increased by the infrequent use of equipment providing the reserve service.	• Continuous and timely performance of technical maintenance; • Renewal of equipment; • Ensuring the continuity of knowledge and retention of skills of operations personnel; • Development, renewal and testing of business continuity plans; • Implementation of the integrated asset management system of energy facilities.	Medium
Safety and health of employees and contractors	Due to a specific character of the Company's activities and nature of works performed there exists an inherent risk of failure to ensure safety of employees and contractors due to the use of open flame sources, flammable and explosive materials, steam, hot water in the production process, temporary and short-term working places for specific works, and complex working conditions. This risk remains a priority area for a number of years and the main causes of this risk, in addition to high-risk working environment, include the lack of awareness or experience/knowledge.	• Implementation of occupational safety and health management system (OHSAS 18001:2007); • Regular control and supervision of safety of employees and contractors; • Ensuring occupational safety linked with the annual objectives of the Company and management personnel; • Standardization and increase of control of complex works performed by several companies, and reduction of uncertainties in the area of occupational safety and health.	Medium

INFORMATION ON THE COMPANY'S AUTHORISED SHARE CAPITAL AND SECURITIES

Structure of authorised share capital and securities in issue

The authorised share capital of the Company amounted to EUR 187,920,762.41 as at the end of the reporting period (30 September 2018) and it was divided into 648,002,629 ordinary registered shares with par value of EUR 0.29 each. All the shares have been fully paid.

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

The Company neither acquired, nor transferred its own shares during the reporting period. The Company had not acquired its own shares.

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

ISIN code LT0000128571. Ticker - LNR1L.

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

Structure of authorised share capital (as per reporting period data)

Class of shares	Number of shares	Par value per share, EUR	Total par value, EUR	% of authorised share capital
Ordinary registered shares	648,002,629	0.29	187,920,762.41	100.00

The Company's share price and turnover dynamics

Statistics on trade in the Company's shares

		2014	2015	2016	2017	2018
Last trading session price, EUR		0.780	0.671	0.626	0.623	0.5
Maximum price, EUR		0.854	0.940	0.713	0.665	0.64
Minimum price, EUR		0.395	0.650	0.610	0.6	0.5
Average price, EUR		0.639	0.805	0.654	0.656	0.587
Turnover, shares		1,545,602	642,148	929,940	920,892	772,323
Turnover, EUR MLN		0.99	0.52	0.61	0.58	0.45
Capitalisation, EUR MLN	Company	495.37	426.14	397.56	395.66	324.0
	Baltic Main List	4,438.23	4,885.76	5,043.31	5,853.81	5,281.28

Figure 8
The Company's share price and turnover dynamics during the reporting period

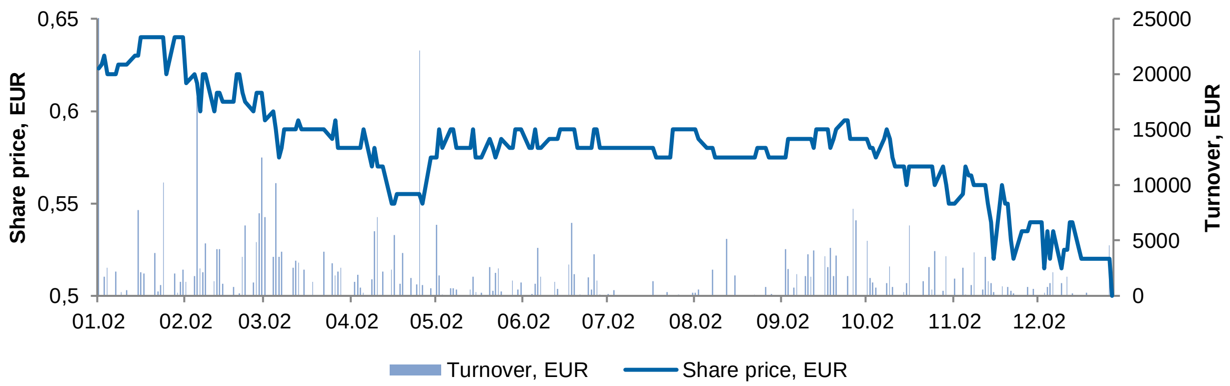


Figure 9

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

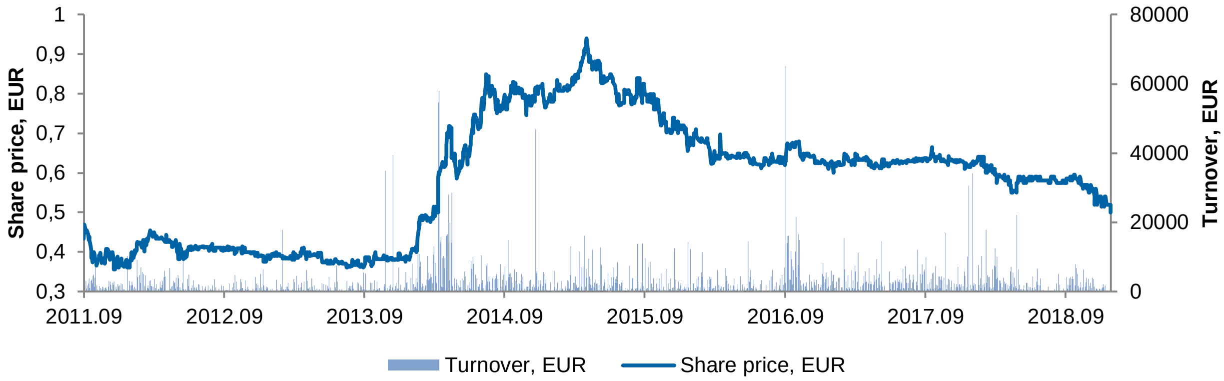
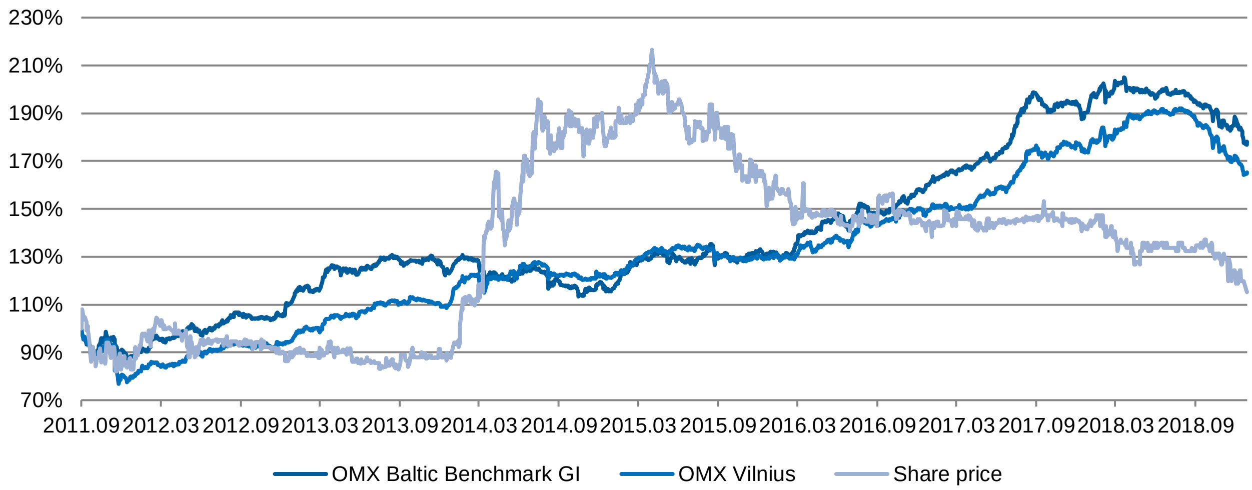


Figure 10

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



Shareholder structure

As at 31 December 2017, the Company had in total 5,904 shareholders.
As at 31 December 2018, the Company had in total 5,964 shareholders.

Shareholders holding more than 5% of the Company's shares (as at 31 December 2018)*

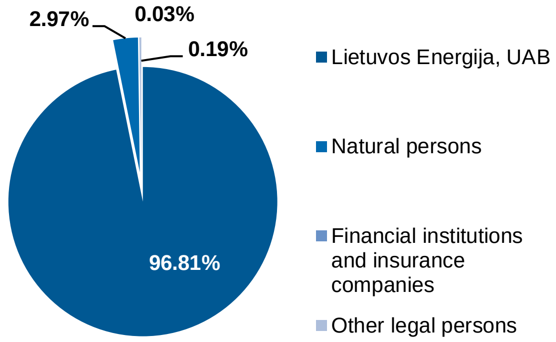
Name	Class of shares	Number of shares	% of authorised share capital	% of shares with voting rights
Lietuvos Energija UAB Company code – 301844044 Žvejų g. 14, 09310 Vilnius	Ordinary registered shares	627,372,769	96.82	96.82
Other shareholders	Ordinary registered shares	20,629,860	3.18	3.18
TOTAL	Ordinary registered shares	648,002,629	100	100

* On 26 March 2018, the Ordinary General Meeting of Shareholders adopted a decision to increase authorised capital of the Company by issuing new shares, to be paid up by in-kind contribution by the subscriber for the shares (Lietuvos Energija, UAB). The Company issued 12,919,014 (twelve million, nine hundred nineteen thousand and fourteen) new shares with the nominal value of EUR 0.29 (twenty nine euro cents) each, the issueprice of EUR 0.624 (sixty two and four tenths of euro cent) each. The right to acquire (subscribe for) all the new shares was granted to Lietuvos Energija,UAB. At the date of publishing this report, Lietuvos Energija, UAB owned 627,372,769 (six hundred and twenty-seven million, three hundred and seventy-two thousand, seven hundred and sixty-nine) shares (96.82% of authorised share capital).

Breakdown of the Company's shareholders by country

Country	Number of shareholders, %
Lithuania	96.5
Russia	0.8
Estonia	1.0
Belarus	0.6
Latvia	0.4
USA	0.2
Other	0.5

Breakdown of the Company's shares by shareholder



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

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

The shareholders have the following property rights:

- to receive a part of the Company's profit (dividend);
- to receive the Company's funds when the authorised share capital of the Company is reduced with a view to paying out the Company's funds to the shareholders;
- to receive shares without payment if the authorised share capital is increased out of the funds of the Company, except for the cases stipulated in the Lithuanian Law on Companies;
- to have the pre-emption right in acquiring shares or convertible debentures issued by the Company, except for the case when the General Meeting of Shareholders decides to withdraw the pre-emption right for all shareholders in accordance with the procedure defined in the Lithuanian Law on Companies;
- to lend funds to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the Company borrows from its shareholder, the interest rate may not be higher than the average interest rate offered by commercial banks operating in the lender's place of residence or business, which was in effect at the time of entering into loan agreement. In such case, the Company and the shareholders are prohibited from negotiating a higher interest rate;
- to receive a part of assets of the company in liquidation;
- to transfer all shares or a part thereof to the possession of other persons;
- other property rights prescribed by law.

The shareholders have the following non-property rights:

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

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

Restrictions on voting rights

There were no restrictions on voting rights.

Restrictions on transfer of securities

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

Information on agreement with intermediary of public trading in securities

AB SEB bankas is authorised to keep and manage the Company's securities accounts.
AB SEB bankas contact details:
Gedimino pr. 12, LT-01103 Vilnius,
Tel. 1528 or +370 5 268 2800.

Dividends and dividend policy

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

On 26 March 2018, the Ordinary General Meeting of Shareholders of the Company approved the distribution of the Company's profit (loss) of 2017. The plan is to pay almost EUR 8.9 million in dividends for the six-month period ended on 31 December 2017. EUR 0.014 in dividends per share is paid for this period. Persons, who were shareholders of the Company at the end of the 10th working day following the decision on the payment of dividends adopted by the Extraordinary General Meeting of Shareholders, i.e. at the end of the working day of 10 April 2018, received dividends.

The dividends were also paid on the basis of the decision of the Extraordinary General Meeting of Shareholders of the Company held on 29 September 2017, whereby they decided on the allocation of dividends to the shareholders of the Company for a period shorter than the financial year. Dividends of EUR 0.017 per share (EUR 10.8 million in total) were allocated for the six-month period ended on 30 June 2017.

The Company's net profit from continuing operations for 2017 was EUR 20.52 million, and accordingly the indicator of dividends paid for 2017 / net profit was 0.96.

A decision to allocate EUR 0.023 dividends per share for the six-month period ended 30 June 2018 (EUR 14.9 million in total) was adopted in the Extraordinary General Meeting of Shareholders of the Company held on **27 September 2018**. Persons, who were shareholders of the Company at the end of the 10th working day following the decision on the payment of dividends adopted by the General Meeting of Shareholder, i.e. at the end of the working day of 11 October 2018, received dividends.

The Company's net profit from continuing operations for January-June 2018 was EUR 21.9 million, and accordingly the indicator of dividends paid for this period/ net profit was 0.68.

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

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

About the UN Global Compact

The United Nations initiative Global Compact is the biggest voluntary initiative to encourage businesses to adopt sustainable and socially responsible policies which are supported not only by business companies but also other organisations, trade unions, public and civil society organisations all over the world.

The aim of this international agreement is to help organisations adopt the principles laid down in the agreement in organisations' operational strategies, to promote cooperation and partnership among different sectors within a country and beyond its borders so as to achieve the universal global development goals.

The Global Compact is based on human rights, labour power and environmental protection principles established in the following international documents:

- The Universal Declaration of Human Rights;
- The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work;
- The Rio Declaration on Environment and Development;
- The United Nations Convention Against Corruption.

The key principles of the Global Compact:

Human Rights

Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2:	make sure that they are not complicit in human rights abuses.

Labour

Principle 3:	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,
Principle 4:	the elimination of all forms of forced and compulsory labour,
Principle 5:	the effective abolition of child labour; and
Principle 6:	the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7:	Businesses should support a precautionary approach to environmental challenges,
Principle 8:	undertake initiatives to promote greater environmental responsibility; and
Principle 9:	encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10:	Businesses should work against corruption in all its forms, including extortion and bribery.

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

A comprehensive integrated Lietuvos Energija Group social responsibility report for the year 2018, which will also present the progress achieved in this field by the Company, will be prepared and published separately.

Human rights

As the Company carries out its activities and provides its services in various communities, it respects the principles of the human rights' protection, supports the international human rights protection within the sphere of its operations, makes sure that it is not part of any violations of the human rights and speaks out against any such violations.

During 2018, no discrimination or other incidents of violation of human rights were recorded in Lietuvos Energijos Gamyba.

Relationship with employees

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

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

The Company has created opportunities for people of different age and having different experience to successfully find employment and work. At the end of 2018, men accounted for 86 percent of the Company's employees and women - for 14 percent. There are more men working in the Company because of specifics of its activities - women choose technologic works and related specialties less frequently. There are no women in the Supervisory Board of the Company. However, in 2018, one of the members of the Company's Board effective in 2018 (top management category) was female woman, who was also holding the position of CEO.

Occupational health and safety at work

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

Open flame sources, flammable and explosive substances, steam and hot water are used in the production process; together with the temporary nature of specific workplaces and complicated conditions for the performance of the works this creates health and safety at work risks for the employees of both the Company and its contractors.

Prevention of accidents is in the focus of attention of the Company: an OHSAS 18001:2007 certificate is maintained in order to ensure health and safety at works, workplaces and the quality of organised work are regularly inspected, the employees are regularly briefed and provided with personal protective equipment.

The Company takes care of its employees' health. A free medical check for all employees of the Company for whom such checks are mandatory was organised, free vaccination against flu and tick-borne encephalitis, as well as training on hygiene and first aid at work were conducted.

Using the e-training platform, a periodic briefing on safety requirements was organised to the Company's employees.

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

Occupational safety and health indicators (2018)

Employee injuries (minor health disorders and fatalities)	18 minor injuries (eye contamination, high blood pressure, heart rhythm disorders, contusion bruises) and 3 - minor accidents. Deaths - 0. The main reason for minor injuries is careless behavior of employees at work place. All injuries were investigated, plans for prevention were made.
Occupational safety and health violations by contractors' employees in the Company's objects, and their nature	16 (including 4 times of work suspension) Nature: failure to use of personal protective equipment, non-compliance with occupational safety and health rules, inappropriate registration of works, performance of work with fire, etc.
Indicator of time lost as a result of occupational safety and health violations, injuries	201 working days were lost as a result of accidents at work, and 3,795 working days were lost due to sickness.

Society Relationships

Educational activities

The Company demonstrates willingness and invites the members of public to participate in free-of-charge excursions at its objects: the combined cycle unit, Kruonis PSHP, Kaunas A. Brazauskas HPP. Thereby, the Company contributes to increasing awareness of the public, especially the younger generation, about the energy.

During 2018, the power plants of the Company had in total over 2,500 visitors from various companies, schools and other institutions, as well as delegations from abroad. Kruonis PSHP had the highest number of visitors in 2018.

Provision of Support

Up to 2017, the Company provided support via the support foundation of Lietuvos Energija set up in 2014. The Foundation united and coordinated support of the Group to significant public projects, programmes and actions. Currently the Company provides no support.

Environmental protection

The Company is committed to protecting the environment in its operations, sparingly using the natural resources, introducing advanced, efficient and environmentally friendly technologies, complying with the environmental laws and regulations, and implementing preventive measures to reduce the adverse impact upon the environment in a professional manner.
The most important environmental protection issues include the safe operation of facilities, safe use of substances dangerous to the environment, waste management, ensuring that the water level fluctuations in the Kaunas Lagoon and the Nemunas River downstream the Kaunas A. Brazauskas HPP are within the permissible limits etc.

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

According to the company's approved resource saving plan, actions are being taken to reduce the need for self-managed resources.

Environmental management standard

The Company complies with environmental management standard ISO 14001. This globally recognized certificate indicates that the Company meets the requirements for the identification, monitoring, management and improvement of the main environmental protection aspects. The certificate is valid for the products and services provided by the Company's power plants in Elektrėnai, Kruonis and Kaunas. This means that the strict global environmental requirements are fulfilled by all the power plant operations: the electricity and thermal energy generation and the operation of the power, heat, turbine, natural gas, oil and petroleum product facilities at the Elektrėnai Complex, electricity generation and supply, operation of facilities and power reserving at the Kruonis PSHP, and the electricity generation and supply as well as operation of facilities at the Kaunas A. Brazauskas HPP. In November 2018, SGS Klaipėda UAB performed the supervisory audit of the standard ISO 14001:2015. No instances of non-compliance were noted during the audit, and the standard was re-certified until 30 December 2019.

The requirements for the monitoring and protection of the air, surface water, ground water and soil specified in the Integrated Pollution Prevention and Control Permits are fulfilled.

Investments into environmental protection

The Company invested EUR 1.04 million into the environmental protection in 2018. The investments cover protection of water resources, protection of soil and underground water, waste management, and protection of biological variety and landscape. The funds were attributed to put the Obeniai land lot in order and to renew the chemical water treatment equipment and equipment of control measurements of hydrotechnical buildings.

Waste sorting

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

In 2018, at the power plants of the Company 65 tons of hazardous waste and 6,638 tons of non-hazardous waste were transferred, 5,275 tons of ferrous and almost 67 tons of non-ferrous metals were sold, 81 tons of household waste was collected.

Activities in market

Energy efficiency

The Company signed the Agreement on Education and Consultation of Energy Users in March 2018 with the Ministry of Energy of the Republic of Lithuania. In such a way, the Company joined the initiative to induce energy efficiency in Lithuania, the purpose of which is to teach and consult the users on effective usage of energy and to help the user to reduce costs of energy consumption and to contribute to improvement of energy efficiency.

The efficiency of energy usage is becoming more and more important for all the energy users. The challenge of more sparing usage of energy resources has become a strategic goal in the European Union. The Energy Efficiency Directive of December 2012 provides that the EU Member States are going to reduce energy usage by 20 percent until 2020. The Law on Increase of Energy Efficiency of the Republic of Lithuania of 3 November 2016 provides national objectives of energy efficiency and tools, how Lithuania is going to contribute to this goal.

The Company contributes to the initiatives of energy efficiency by informing its clients and society about a possibility to use energy more economically.

Zero tolerance to corruption

In accordance with the principle of “Global Compact” in terms of anti-corruption, the Company is paying all the taxes transparently, ensures transparency of procurements that it organizes and demands that its potential and present suppliers would act fairly and transparently. The Company conducts trade in electricity on electricity exchange following the principle of transparency and does not take part in any transactions, where bribes are requested or where non-transparent behaviour is proposed. The Company submits observations and recommendations to the competent authorities about new or amended relevant legal acts, and assesses their transparency.

The Company and its employees act in compliance with the provisions and principles of zero tolerance to corruption. The Company is intolerant to any forms of corruption (direct or indirect). The policy of zero tolerance to corruption is available on the Company’s website. All the employees of the Lietuvos Energija group have to report any violations or suspected violations of the policy of zero tolerance to corruption to the employee, who performs preventive functions in the Company, or they may call the **Trust Line, tel. +370 640 88889 or e-mail to pasitikejimolinija@le.lt.** All other parties are also encouraged to report any violations or suspected violations of the policy of zero tolerance to corruption using these contacts. The anonymity is guaranteed.

Transparent procurements

According to the Law on Public Procurements, the tools of central information system of public procurements are used to announce all the draft technical specifications of the Company’s procurements, save for the low-value procurements. The reports on procurement procedures and information on the procurements under implementation are also published. The Company is implementing all the procurement and sale procedures with maximal correctness and transparency.

433 procurements initiated by the Company were finished in 2018. 15 claims regarding the Company’s procurements were received during 2018. 5 of them were recognized as justified and were satisfied.

THE COMPANY AND ITS MANAGEMENT BODIES

Information about the Company and its contact details

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

The Company's main business activity

The Company's business objective is effective energy generation and supply in contribution to assurance of energy security. The Company's business object is energy generation and supply, as well as import, export and trade in electricity. The Company may engage in other activities that are not in conflict with its objectives and laws of the Republic of Lithuania.

The Company operates the following power generation facilities:

- Elektrėnai Complex with a reserve power plant (the former Lietuvos Elektrinė) and a combined cycle unit (CCU),
- Kruonis Pumped Storage Hydroelectric Plant (Kruonis PSHP),
- Kaunas Algirdas Brazauskas Hydroelectric Power Plant (Kaunas HPP),
- Vilnius Third Combined Heat and Power Plant (Vilnius PP-3) (since March 31, 2018).

The Company's geographic market is Lithuania. Its electricity is traded on the Nordic exchange Nord Pool.

Information about the Company's branches and representative offices

The Company has no branches or representative offices.

Information about ownership interest in other entities

The Company belongs to Lietuvos Energija state-owned group of companies, which is one of the biggest group of energy companies in Baltic countries. The group's parent company Lietuvos Energija UAB holds 96.82% of the Company's shares.

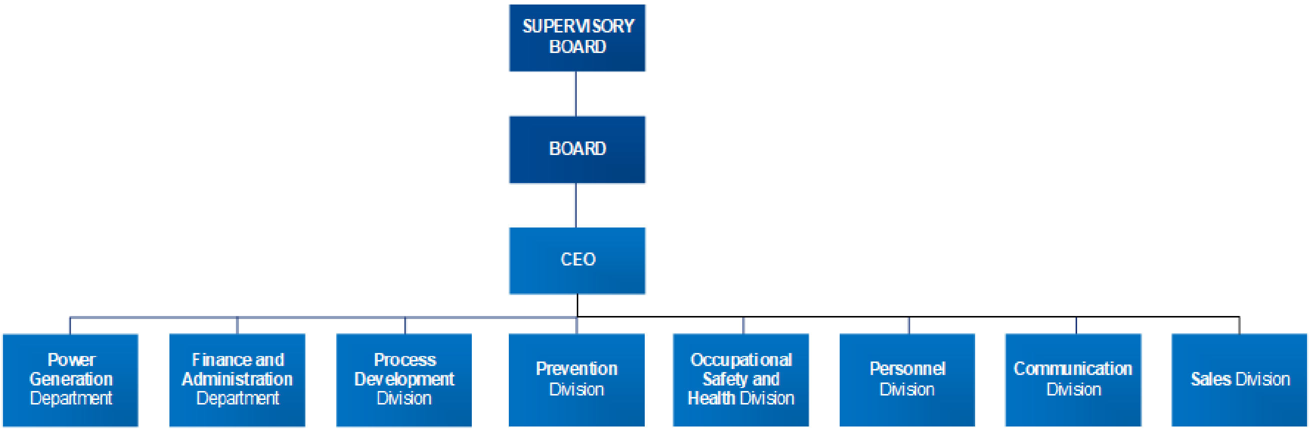
As at the date of signing the report, the Company had no subsidiaries and had ownership interest jointly with other entities in the following entities: Geoterma UAB, Technologijų ir Inovacijų Centras UAB, Verslo Aptarnavimo Centras UAB (see below).

	Technologijų ir Inovacijų Centras UAB	Verslo Aptarnavimo Centras UAB	Geoterma UAB
Name	A. Juozapavičiaus g. 13, Vilnius, Lithuania	P. Lukšio g. 5B, Vilnius, Lithuania	Lypkių g. 17, Klaipėda, Lithuania
Registration date	4 December 2013	30 July 2014	1 March 1996
Company code	303200016	303359627	123540818
Contacts	+370 5 278 2272, info@etic.lt	+370 5 259 4400, vac@le.lt	+370 46 326 163, info@geoterma.lt
Website	www.etic.lt	http://vac.le.lt	www.geoterma.lt
Ownership interest	20.01%	15%	23.44%
Main activities	Provision of information technology and telecommunication services to energy companies.	Organization and execution of public procurement, provision of accounting, labor relations administration, customer service, human resources administration, legal services, operational efficiency consulting and training.	Gheotermal heating plant.

Information on major related party transactions

Information on related party transactions is available in the notes to the Annual Financial Statements of 2018.

Figure 11
Structure of the Company (as at 31 December 2018*)



** From 1 January 2019, after the integration of the communication function in Lietuvos Energija Group, no Communication Division was left in the Company and this service is provided by the company Verslo Aptarnavimo Centras UAB.*

Information about the Company's management bodies

Based on the Articles of Association effective as at 31 December 2018, the management bodies of the Company include as follows:

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

The Articles of Association of the Company are available on the Company's website under section "Company Management". The Company's Articles of Association can be amended solely by the General Meeting of Shareholders.

Information on election of management bodies and compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius is made available together with the Annual Report. Changes adopted during the reporting period in relation to management bodies of the Company are described in detail below.

The General Meeting of Shareholders

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

Two General Meetings of Shareholders of the Company were held in 2018:

1. The annual report for 2017, the set of audited financial statements for 2017 and the proposed distribution of the Company's profit for 2017 were approved in the Ordinary General Meeting of Shareholders of the Company held on 26 March 2018. It was planned to pay dividends for the six-month period ended 31 December 2017. During the same Ordinary General Meeting of Shareholders, the decision was adopted to increase authorised capital of the Company by issuing new shares to be paid by the subscriber of shares by way of in-kind contribution, i.e. by transferring the complex of assets of Vilnius Third Combined Heat and Power Plant into the Company's ownership. It is planned to approve the new version of the Articles of Association, to recall the Supervisory Board and to elect new members of the Supervisory Board. The following individuals were elected for a 4-year term of offici at the Supervisory Board: Dominykas Tučkus, Živilė Skibarkienė and independent member Rimgaudas Kalvaitis.
2. The Extraordinary General Meeting of Shareholders of the Company held on 27 September 2018 made a decision to allocate dividends for shareholders of the Company for the six-month period ended 30 June 2018.

All General Meetings of Shareholders convened by the Company in 2018 were attended by the Company's CEO (chairperson of the Board) and/or Director of Finance and Administration (member of the Board).

Information on voting results of the Company's shareholders during the above-mentioned and previous General Meetings of Shareholders is available on the Company's website under section "For Investors".

The Company's Supervisory Board

The Company's Supervisory Board is a collegial supervisory body. Its competence, procedures of decision making, election and recalling of the members are established in laws, other legal acts and the Company's Articles of Association.

The Company's Supervisory Board has three members elected for the term of office of four years by the General Meeting of Shareholders. At least one third of the Supervisory Board should be formed from independent members. The Chairman of the Supervisory Board is elected by the members of the Supervisory Board from among themselves.

Every candidate to the position of the Supervisory Board member must inform the Supervisory Board in writing about qualification of each candidate, experience in managing position, and suitability to act as a member of the Supervisory Board. The CEO, the Board member, the member of management body of a subsidiary, the member of supervisory body, management body or administration of the legal entity that is engaged in transmission of electricity or gas, an auditor or employee of an audit company cannot be a member of the Supervisor Board. The same applies to the person who does not have a right to take this position in accordance with the legal acts.

If a member of the Supervisory Board is removed from office, resigns or discontinues the performance of his duties for other reasons and the shareholders whose shares carry at least 1/10 of all votes object to the election of individual members of the Supervisory Board, the Supervisory Board shall lose its powers, and the entire Supervisory Board shall be subject to election. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

The main competences of the Company's Supervisory Board are the following:

- To consider and approve the strategy of the Company, to analyse and evaluate information on the implementation of the Company's strategy, and to submit this information to the General Meeting of Shareholders;
- To elect the members of the Board and to remove them from office;
- To supervise the activities of the Board and the CEO of the Company;
- To submit its comments and proposals to the General Meeting of Shareholders on the Company's set of annual financial statements, proposed profit/loss distribution and the annual report of the Company as well as the activities of the Board and the CEO of the Company;
- To submit to the General Meeting of Shareholders its comments and proposals regarding a draft decision on the allocation of dividends for a period shorter than the financial year and the set of interim financial statements and the interim report drawn up for the purpose of adoption of the decision;
- With regard to the report of the Company's Audit Committee, to submit opinion about the transactions planned by the Company with the related party (if they satisfy the criteria discussed in the Company's Articles of Association);
- To submit proposals to the Board and the CEO of the Company to revoke their decisions which are in conflict with laws and other legal acts, the Articles of Association of the Company or the decisions of the |General Meeting of Shareholders;
- To address other issues assigned to the powers of the Supervisory Board by the Articles of Association of the Company as well as by the decisions of the General Meeting of Shareholders regarding the supervision of the Company's management bodies.

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

- On 26 March 2018, at the Ordinary General Meeting of Shareholders of the Company, the Company's Supervisory Board (with Mindaugas Keizeris as chairman and Dominykas Tučkus as a member) was recalled and new Supervisory Board was elected for a 4-year term of office: Dominykas Tučkus, Živilė Skibarkienė, Rimgaudas Kalvaitis (independent member).
- On 3 April 2018, at the first meeting of the newly formed Supervisory Board, Dominykas Tučkus was elected as its chairman.

The expected end of term of office of the current Supervisory Board of the Company is 25 March 2022.

Overall 14 meetings of the Supervisory Board were held in 2018. All of them were attended by all members of the Supervisory Board who were elected at that time.

More details about the members of the Company's Supervisory Board are available in the table below. Description of their education and professional experience is available on the Company's website under section "Company Management".

Members of the Supervisory Board (during the reporting period)

Name	Term of office	Shareholding in the Company	Participation in other companies and organisations	Ownership interest in other companies (>5%)
Dominykas Tučkus Chairman	10 August 2017 – 26 March 2018 26 March 2018 – 25 March 2022		- Lietuvos Energija UAB, Member of the Board, Director for Infrastructure and Development. - LITGAS UAB, Chairman of the Board (until 1 January 2019). - Lietuvos Energijos Tiekimas UAB, Chairman of the Board (until August 28, 2018), Member of the Board (from August 28, 2018). - Energijos Tiekimas UAB, Chairman of the Board (until June 14, 2018), Member of the Board (from June 14, 2018). - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board. - Eurakras UAB, Chairman of the Board - Tuulueenergia OU, Chairman of the Board - Vilnius Third Combined Heat and Power Plant, Member of the Board (from March 19, 2018).	–

			- Lietuvos Energija Renewables UAB, Member of the Board (since January 3, 2019). - KŪB Smart Energy Fund powered by Lietuvos Energija, Member of the Advisory Committee.	
Mindaugas Keizeris Chairman	10 August 2017 – 26 March 2018	-	- Lietuvos Energija UAB, Member of the Board, Director for Strategy and Development (untill February 1, 2018), Acting Director (untill February 11, 2018). - Energetikos Paslaugų ir Rangos Organizacija UAB, Member of the Board. - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board (untill April 24, 2017). - Vilniaus Kogeneracinė Jėgainė UAB, Chairman of the Board (untill March 19, 2018). - Sponsorship Foundation of Lietuvos Energija UAB, Chairman of the Board. - NT Valdos, UAB, Chairman of the Board. - Lietuvos Energija, UAB, Director of Corporative Management (from February till October 2018). - Energijos Skirstymo Operatorius AB, Chairman of the Board (since October 2, 2018), CEO (since October 8, 2018).	–
Živilė Skibarkienė Member	26 March 2018 – 25 March 2022	–	- Lietuvos Energija, UAB, Member of the Board, Director for Organizational Development. - Verslo Aptarnavimo Centras, UAB, Member of the Board (since April 4, 2018, Chairwoman since September 26, 2018). - Technologijų Ir Inovacijų Centras, UAB, Chairwoman of the Board (until September 26, 2018). - Elektroninių Mokėjimų Agentūra UAB, Member of the Supervisory Board (from December 10, 2018).	–
Rimgaudas Kalvaitis Independent Member	26 March2018 – 25 March 2022	–	- Technology Competence Center, UAB, Director. - Lietuvos Radijo ir Televizijos Centras, UAB, Independent Member of the Board. - Luno, UAB, consultant.	–

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

Based on Articles 21 and 25 of the Company's Articles of Association, at least 1/3 (one third) of members of the Supervisory Board must be independent members. Remuneration for work at the Supervisory Board can be paid only to the independent members of the Supervisory Board and upon the decision of the General Meeting of Shareholders.
The terms and conditions of the agreements with the members of the Supervisory Board, including the independence criteria, are established at the General Meeting of Shareholders in accordance with the requirements set forth in the relevant legal acts and based on the best corporate governance practices.

During the period between 4 August 2017 and 26 March 2018, the Supervisory Board of the Company had no independent member, and accordingly, no payments were made during this period.

An independent member of the Supervisory Board of the Company was elected during the Extraordinary General Meeting of Shareholders held on 26 March 2018. As from this date until the end of the reporting period, independent member received a remuneration of EUR 9,285 for the activities carried out in the Supervisory Board.

The Company's Board

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

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

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

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

The Board adopts decisions on:

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

In certain cases, prior to adopting a decision the Board is required to seek for comments from the Supervisory Board and obtain approval from the General Meeting of Shareholders.
In view of the opinion of the Supervisory Board, the Board elects and recalls the Chief Executive Officer, decides on his/her remuneration and other terms of employment contract, approves his/her job regulations, provides incentives and imposes penalties.

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

- On 26 March 2018, at the Ordinary General Meeting of Shareholders of the Company, the new version of the Articles of Association of the Company was approved. It is stated in the new version of the Articles of Association of the Company, inter alia, that the Board of the Company is composed of 3 members elected for a 4- year term of office (it was composed of 5 members until then).

- On 3 April 2018, the first meeting of the newly formed Supervisory Board of the Company passed a decision to recall the Company's Board of four members *in corpore*, and to elect for a term of office of four years three members, i.e. the current members of the Board: Ms. Eglė Čiužaitė (the area under supervision – strategy and management), Mr. Darius Kucinas (production and system service management), and Mr. Mindaugas Kvekšas (finance and administration). The newly elected Board of the Company started its operations as from the end of the meeting of the Company's Supervisory Board, which elected that Board. The expected end of term of office of the current Supervisory Board of the Company is 26 March 2022.
- On 11 April 2018, the Board of the Company taking into account the opinion of the Supervisory Board elected Ms. Eglė Čiužaitė as the Chairwoman of the Board and adopted a decision that the elected Chairwoman of the Board shall pursue the position of the Chief Executive Officer of the Company onwards.

The end of term of office of the current Board of the Company expected as at the date of publication of this report is 2 April 2022.

Overall 42 meetings of the Board were held in 2018. All of them were attended by all elected members of the Board.

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

Members of the Board (during the reporting period)

Name	Term of office	Shareholding in the Company	Participation in other companies and organisations	Ownership interest in other companies (>5%)	Payment for the activities as the member of the Board, EUR
Eglė Čiužaitė Chairperson of the Board, CEO	22 September 2017 – 3 April 2018 3 April 2018 - 21 January 2019*	–	- Geoterma UAB (Lypkių str. 53, Klaipėda, Lithuania, c. c. 123540818), Member of the Board (until 23 March 2018) - Sponsorship Foundation of Lietuvos Energija (Žvejų str. 14, Vilnius, Lithuania, c. c. 303416124), Member of the Board. - Technologijų ir Inovacijų Centras UAB (A. Juozapavičiaus str. 13, Vilnius, Lithuania, c. c. 303200016), Member of the Board. (until January 21, 2019).	–	17,376
Darius Kucinas Member of the Board, Director of Production Department	22 September 2017 – 3 April 2018 3 April 2018 – 2 April 2022	–	–	–	10,428

Mindaugas Kvekšas Member of the Board, Director of Finance and Administration	22 September 2017 – 3 April 2018 3 April 2018 – 2 April 2022	–	- Verslo Aptarnavimo Centras UAB (P. Lukšio str. 5B, Vilnius, Lithuania, c. c. 303359627), Member of the Board	–	10,428
Nerijus Rasburskis Born in 1977 Member of the Board, Project Manager at Business Development Department	22 September 2017 – 3 April 2018	–	- Lietuvos Energija, UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 301844044), Head of Cogeneration Power Plants Division - Vilniaus Kogeneracinė Jėgainė UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 303782367), Member of the Board - Kauno Kogeneracinė Jėgainė UAB (Žvejų str. 14, Vilnius, Lithuania, c. c. 303792888), Member of the Board	–	2,694

* The Company's Board and the Supervisory Board received the notice of E. Čiužaitė regarding her resignation from the office of CEO and therefore on 7 January 2019 adopted a decision to remove E. Čiužaitė from the office of the Company's CEO with effect from 21 January 2019. E. Čiužaitė also resigned from the office of the Company's Board member and chairwoman of the Board with effect from 21 January 2019. The Production Director and the Company's Board member Darius Kucinas has been holding the position of acting CEO pf the Company since 22 January 2019. The Company initiated public election of a new CEO. As at the date of this report, the CEO has not been elected yet.

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

	Remuneration in 2018, EUR	Other payments in 2018, EUR	Total in 2018, EUR
All members of the Board, total	189,569	40,926	230,495
Per member of the Board, average	58,329	12,593	70,922

The Company's Management

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

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

	Remuneration in 2018, EUR	Other payments in 2018, EUR	Total in 2018, EUR
To the CEO:			
Eglė Čiužaitė	56,691	16,577	73,268
To the Chief Financier*	–	–	–

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

The Company has neither transferred management of assets nor issued guarantees to the members of the bodies. During 2018, the Company did not grant any loans to the members of the management bodies, nor provided any guarantees or sureties to secure the fulfilment of their obligations.

Information about the Committees

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

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

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

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

As at the date of publication of this report, the committees of Risk management and business ethics supervision, Audit, and Nomination and remuneration were operating in Lietuvos Energija.

Audit Committee

Main functions of the committee:

- To supervise the preparation process of financial statements of Lietuvos Energija and Lietuvos Energija group companies and to pay special attention to assessment of appropriateness and consistency of applied accounting methods;
- To supervise effectiveness of internal controls and risk management systems of Lietuvos Energija and Lietuvos Energija group companies that have impact on the financial reporting of the audited company;
- To supervise independence and objectivity of auditors and audit companies, and to submit recommendations regarding selected audit company;
- To supervise audit processes of Lietuvos Energija Lietuvos Energija group companies, to check audit's effectiveness and response of the administration to the recommendations submitted in the management letter presented by the audit company ;
- To supervise effectiveness of internal audit function of Lietuvos Energija and Lietuvos Energija group companies , to submit recommendations to the Supervisory Board regarding selection, appointment and dismissal of a head of the Company's Internal Audit Service, to coordinate and evaluate periodically the work of the Company's Internal Audit Service, to discuss the inspection results, removal of defects and implementation of internal audit plans;
- To approve regulations of the Company's Internal Audit Service and plan of internal audit;
- To supervise whether the activities of Lietuvos Energija and Lietuvos Energija group companies are in compliance with the laws of the Republic of Lithuania, other legal acts, Articles of Association and operational strategy;
- To submit opinion to the Company's enterprises, whose shares are allowed to be traded in the regulated market, regarding transactions with the related party, as provided in paragraph 5 of article 372 of the Law on Companies of the Republic of Lithuania;
- To access and analyse other issues assigned to the Committee by the Supervisory Board;
- To perform other functions related to the committee's functions and provided in the legal acts of the Republic of Lithuania and the Corporate Governance Code for the Companies listed on Nasdaq Vilnius.

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

Members of the Audit Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Irena Petruškevičienė Chairperson Independent member	–	October 2017 – October 2021	- ISM University of Management and Economics, Head of Master's Study module "Finance Strategy and Management". - The Authority of Audit, Accounting, Property Valuation and Insolvency Management, Member of Audit Supervision Committee. - European Stability Mechanism (ESM), Member of Auditors Board.

Danielius Merkinas Independent member	–	October 2017– October 2021	- NNT Termo, UAB, CEO, Chairman of the Board. - Nordnet, UAB, Head of Commerce, Chairman of the Board. - Mercado prekyba, UAB, CEO. - Litcargo, UAB, Chairman of the Board - Lietuvos Paštas AB, Member of the Board
Aušra Vičkačkienė Member	–	October 2017– October 2021	- Lithuanian Ministry of Finance, Asset Management Department, Director
Ingrida Muckutė Member (since 23 March, 2018)	–	March 2018– October 2021	- The Ministry of Finance of the Republic of Lithuania, Head of Reporting, Audit, Property Valuation and Insolvency Management Division
Šarūnas Radavičius Independent member (since 23 March, 2018)	–	March 2018– October 2021	- Rodl & Partner, UAB, CEO

The term of office of the incumbent Audit Committee will end on 12 October 2021.

Overall 24 meetings of the Audit Committee were held in 2018.

Risk Management and Business Ethics Supervision Committee

Main functions of the committee:

- To monitor the way the risks relevant for the achievement of the targets set for Lietuvos Energija and its group entities are identified, assessed and managed;
- To assess the adequacy of internal control procedures and risk management measures in view of the risks identified;
- To assess the progress achieved in the implementation of risk management measures;
- To monitor the process of risk management;
- To analyse the financial possibilities for the implementation of risk management measures;
- To assess the risks and the risk management plan for Lietuvos Energija and its group entities;
- To assess the periodic cycle of risk identification and assessment;
- To monitor availability of risk registers, analyse their data, provide recommendations;
- To monitor the availability of internal documentation pertaining to risk management;
- To assess the completeness and adequacy of internal documents that regulate anti-bribery and anti-corruption activities of the group companies, and to monitor periodically their implementation/ compliance;
- To monitor periodically information related to business ethics compliance management actions, events and unsolved incidents (assurance of transparency, prevention of bribery, corruption risk management/ prevention , etc.);
- To perform other functions assigned to the Committee based on the decision of the Supervisory Board of Lietuvos Energija.

Members of the Risk Management and Business Ethics Supervision Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Andrius Pranckevičius Chairperson Independent member	–	April 2018– April 2020	- AB „Linas Agro Group“ Deputy General Manager and Member of the Board; - PF Kekava CEO and Member of the Board
Darius Daubaras Independent member	–	April 2018– April 2020	- Saudi Aramco (oil and gas industry company), Finance and Project Development Department, Senior Adviser
Šarūnas Rameikis Independent member	–	April 2018– April 2020	- R.Mištauto ir T.Milickio Law Firm „Konsus“, Lawyer

The term of office of the incumbent Risk Management and Business Ethics Supervision Committee will end on 19 April 2022.

Overall 6 meetings of the Risk Management and Business Ethics Supervision Committee were held in 2018.

Nomination and Remuneration Committee

Main functions of the committee:

- To provide suggestions in relation to the long-term remuneration policy of Lietuvos Energija and its group entities (fixed pay, performance-based pay, pension insurance, other guarantees and remuneration forms, compensations, severance pay, other items of the remuneration package), and the principles of compensation for expenses related to the person’s activities;
- To make assessments and provide suggestions in relation to the bonus (tantieme) policy of Lietuvos Energija and its group entities;
- To monitor compliance of the remuneration and bonus (tantieme) policies of Lietuvos Energija and its group entities with international practice and good governance practice guidelines, and provide suggestions for their improvement;

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

Members of the Nomination and Remuneration Committee at the end of the reporting period

Committee member	Number of shares held at the Company (%)	Term of office	Name of employer, job position
Daiva Lubinskaitė-Trainauskienė Chairperson Independent Member	–	September 2017 - September 2021	- UAB „Thermo Fisher Scientific Baltics“ Director of Human Resources - Personnel Management Professionals Association, Member of the Management Board
Aušra Vičkačkienė Member	–	September 2017 - September 2021	- Lithuanian Ministry of Finance, State Asset Management Department, Director
Ramūnas Dilba Member (until 7 November, 2018)	–	October 2017 - November 2018	- Lithuanian Ministry of Finance, European Union Investment Department, Director
Lėda Turai-Petrauskienė Independent Member (from 23 March 2018)	–	March 2018 - September 2021	- L-CON Global UAB, leadership training partner, shareholder, - ISM University of Management and Economics, Head of Leadership Module of „Executive MBA“ programme

The term of office of the incumbent Nomination and Remuneration Committee will end on 21 September 2021.

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

The Company's employees

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

Headcount and composition of employees

As at 31 December 2018, the Company had 372 employees (including those on child care leave) In the beginning of 2018, the Company had 392 employees. The Company's headcount decreased due to lower production volumes in Elektrėnai Complex and process optimization, as well as due to retirement of a number of employees or termination of employment with the Company for other reasons.

Men account for 86% and women account for 14% of the Company's employees. Most of the Company's employees are aged between 35 and 54 years with a ten-year or longer record of service at the Company. These are highly qualified and experienced specialists who form the foundation at the production units of the Company, where knowledge and expertise of employees are highly valued. Employees of this age accounted for 50% of all employees of the Company. About 12% of the Company's employees are aged between 25 and 34 years. Average age of the employees of the Company is almost 48 years, average experience at the Company – 20 years.

62% of Company's employees were specialists and middle-level managers, 37% were workers, and 1% were top level managers.

Almost 55% of the Company's employees have higher education, 37% have vocational education, and 8% have secondary education. Composition of employees by different aspects is illustrated in Figure 12.

Work pay and performance management

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

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

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

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

In 2018, The Company's work pay fund amounted to EUR 6,4 million.

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

	Breakdown of headcount by category of employees	Average work pay*, EUR
CEO	1	6,074
Top level management	3	4,566
Middle-level management	34	2,348
Experts, specialists	202	1,483
Workers	132	1,008
Total	**372**	**1,435**

* Compared to data on average work pay published in the previous interim reports in 2018, an increase in average work pay can be observed in all categories of employees. Such increase was driven by payment of annual variable part. The Company's workers receive variable pay on a monthly basis, whereas employees of other categories receive variable pay on a quarterly or annual basis. A similar trend of average work pay statistics is observed at the Company on a year-by-year basis.

Professional career, adaptation of new joiners and possibilities of internship

Turnover of employees s quite low at the Company – less than 3.3%. When there occurs a vacancy, the potential candidates are firstly selected by internal recruitment procedures. When no potential candidates are available at the Company or the group for the vacant position, the recruitment process is continued outside the Company. 30% of vacancy announcements in 2018 were won by candidates selected through internal recruitment procedures, i.e. the Company's employees. Search for employees on the basis of internal rotation principle during 2018 resulted in promotion of 16 employees (vertical career) and movement of 9 employees to similar job positions in the same or other divisions (horizontal career). As a result of improvement of career opportunities for employees and encouragement of their mobility between the Lietuvos Energija group entities, 5 employees moved to other group entities, 2 employees came to the Company.

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

Seeking to attract young qualified specialists, the Company is actively involved in cooperation with educational institutions, and provides opportunities for higher education and vocational students to apply their theoretical knowledge and acquire practical skills during the internships. In 2018, the Company attended the Career Days events organised by Kaunas University of Technology, and had meetings with target groups of students from Kaunas University of Technology and Kaunas Technical College in order to attract them to have internship at the Company. During 2018, 5 students from different universities and other schools of Lithuania had long-term (six month) internship at the Company: 4 from Kaunas University of Technology and 1 from Kaunas Technical College. After the internship, 4 of them were employed at the Company.

Organisational culture, development of competences, professional training

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

In 2018, 163 employees of the Company attended compulsory technical training. Seminars, internal and external training courses and conferences were attendend by 170 employess 2018 during which they found out about the latest developments, innovations and best practices in their respective fields of work. 41 employees attended internal trainings at Lietuvos Energija Academy. Trainings were attended by in total 348 unique employees (i.e. when the same employee attends several trainings, such employee is counted as one). The Company further focused its efforts on intensive development of leadership competencies of management. Many internal training courses, which were attended by all employees of the Company who also completed the tests thereon, were conducted as e-learning. The ones that are worth mentioning include anti-corruption, occupational safety, fire prevention and civil safety, personal data protection, new labour code and many more.

In 2018, the Company continued a programme intended for the development of management competences of masters, shift supervisors and other employees in management functions. The participants of this programme were learning management skills in view of excellence of the subordinate staff, also about delegation, feedback provision, motivation, and use of performance excellence tools.

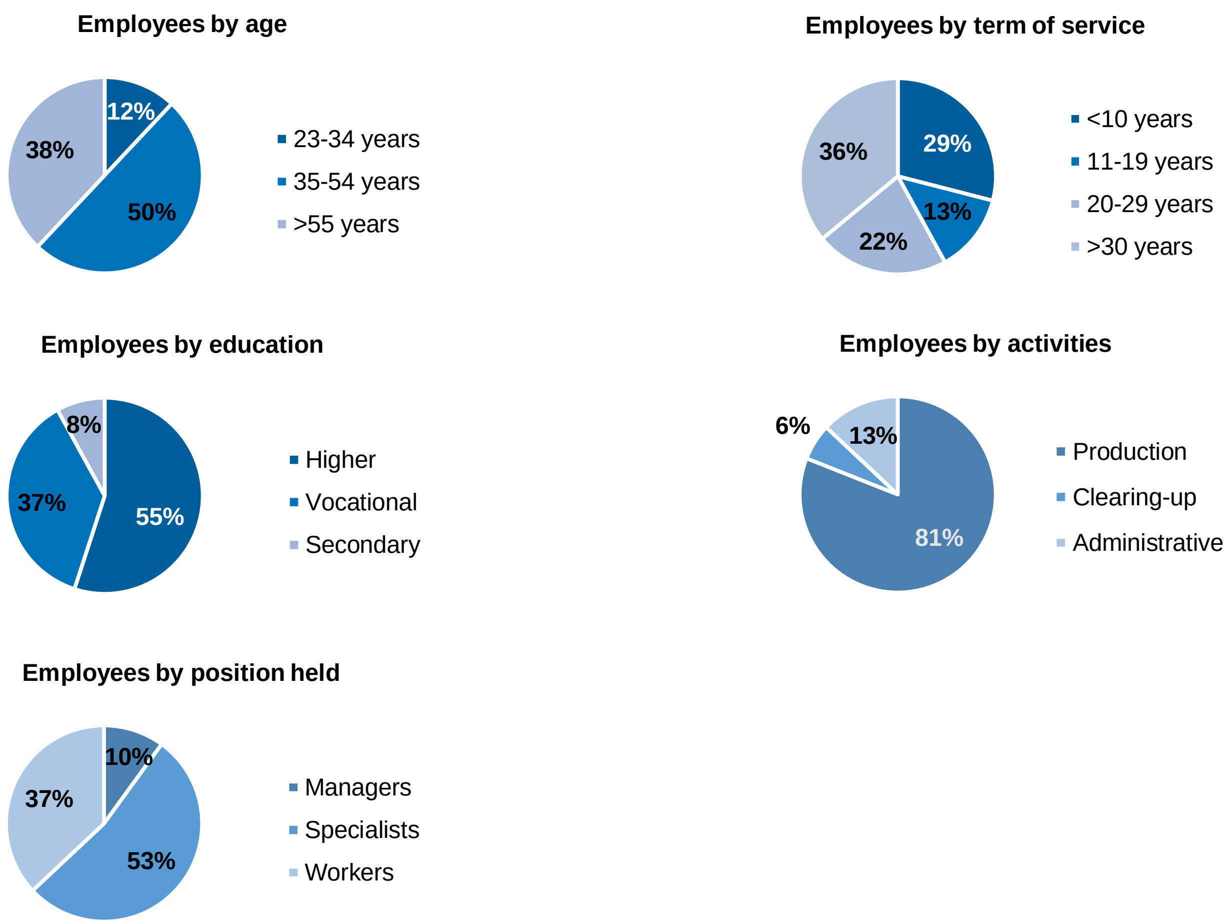
The Company also focuses on ensuring employee substitution possibilities. The main purpose of this programme is to ensure availability of employees at the Company with the required qualification. Under this programme, the substitute employees are trained consistently so that they could substitute employees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

Collective agreement, trade unions

There are four trade unions at the Company, which are joined by 220 employees of the Company.

The Company has a collective agreement, which ensures a more favourable package of social benefits for the Company's employees compared to that prescribed by the Lithuanian Labour Code. Based on the collective agreement, the Company's employees are paid allowances in the event of accident, illness, death of close family members, also additional benefits in the event of birth of child or families raising many children, also provides additional paid leave in the event of birth of child, marriage, death of a close relative and in other cases. From 2018, a new joint package of additional benefits for the entire Lietuvos Energija group came into force.

Figure 12
The Company's employees



MATERIAL EVENTS AT THE COMPANY

Notifications on materials events during the reporting period

31/1/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 12 months of 2017
28/2/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 1 month of 2018
28/2/2018	Regarding convention, agenda and draft resolutions of Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
6/3/2018	Regarding the supplement of the agenda and draft resolutions of Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
14/3/2018	Regarding the resolutions of Lietuvos Energijos Gamyba, AB, Supervisory Board
26/3/2018	Regarding the resolutions of Ordinary General Meeting of Lietuvos Energijos Gamyba, AB Shareholders
30/3/2018	Regarding the non-monetary contribution to the authorized capital of Lietuvos Energijos Gamyba, AB
30/3/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 2 months of 2018
3/4/2018	Chairman of the Supervisory Board and members of the Board of Lietuvos Energijos Gamyba, AB, were elected
11/4/2018	The amended Articles of Association with the increased authorized capital of Lietuvos Energijos Gamyba, AB has been registered
12/4/2018	The Chairwoman of the Board of Lietuvos Energijos Gamyba, AB, has been elected
30/4/2018	Information regarding shares and authorized capital
30/4/2018	Results of Lietuvos Energijos Gamyba for 3 months of 2018 - 3 percent increase in generation of electricity and revenue
31/5/2018	Lietuvos Energijos Gamyba, AB, preliminary financial results for 4 months of 2018
29/6/2018	Lietuvos Energijos Gamyba preliminary financial results for 5 months of 2018
31/7/2018	Lietuvos Energijos Gamyba preliminary financial results for 6 months of 2018
31/8/2018	Lietuvos Energijos Gamyba preliminary financial results for 7 months of 2018
4/9/2018	Regarding the agenda and draft resolutions of Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
12/9/2018	Regarding the resolutions of the Supervisory Board of Lietuvos Energijos Gamyba, AB
27/9/2018	Regarding the resolutions of Extraordinary General Meeting of Lietuvos Energijos Gamyba, AB, Shareholders
28/9/2018	Lietuvos Energijos Gamyba preliminary financial results for 8 months of 2018
29/10/2018	Regarding the Adopted Resolution on the Public Service Obligation Funds and the Setting of the Price for 2019
29/10/2018	Regarding the Decision Adopted by National Commission for Energy Control and Prices
31/10/2018	On adopted Resolutions of the Court
11/12/2018	Regarding the termination of exploitation and conservation of Unit 8 of Lithuanian Power Plant owned by Lietuvos Energijos Gamyba
20/11/2018	Regarding loan refinancing
20/11/2018	Regarding the discontinuing of the exploitation of the first unit of Kruonis Pumped Storage Hydroelectric Power Plant
30/11/2018	Lietuvos Energijos Gamyba preliminary financial results for 10 months of 2018
20/12/2018	Regarding the agreement on tertiary active power reserve
28/12/2018	Lietuvos Energijos Gamyba preliminary financial results for 11 months of 2018
31/12/2018	Regarding revocation of the Board decision

Other events during the reporting period

13/2/2018	CORRECTION: Reporting dates in 2018
28/2/2018	Interim information of Lietuvos Energijos Gamyba for the twelve-month period of 2017: more electricity from water and sustainable profitability indicators
2/3/2018	Summary of Lietuvos Energijos Gamyba, AB, webinar on the results of 2017
26/3/2018	Lietuvos Energijos Gamyba, AB, Annual Information 2017
10/4/2018	Procedure for the payment of dividends for the 6 months period, ended 31 December 2017

29/6/2018	The Report on Social Responsibility of 2017 of Lietuvos Energijos Gamyba
20/7/2018	CORRECTION: Reporting dates in 2018
31/8/2018	Lietuvos Energijos Gamyba, AB, audited interim financial information for the first six months of 2018
30/10/2018	Results of Lietuvos Energijos Gamyba for 9 months of 2018: the Company ensured the stability of its performance and financial indicators and started implementing new ideas
20/12/2018	Lietuvos Energijos Gamyba has updated its business strategy: the key direction until 2030 – strategic power generation
31/12/2018	Reporting dates of Lietuvos Energijos Gamyba in 2019

Notifications on materials events after the end of the reporting period

7/01/2019	Regarding the resignation of Eglė Čiužaitė, Chairwoman of the Board and CEO of Lietuvos Energijos Gamyba
11/01/2019	On adopted Resolution of the Court
31/01/2019	Regarding the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba, AB
31/01/2019	Lietuvos Energijos Gamyba preliminary financial results for 12 months of 2018
12/02/2019	Regarding the financial reparation received by Lietuvos Energijos Gamyba
25/02/2019	Regarding the decisions of the Extraordinary General Meeting of shareholders of Lietuvos Energijos Gamyba, AB
28/02/2019	Interim information of Lietuvos Energijos Gamyba for the twelve-month period of 2018: good financial results and a new strategy
28/02/2019	Lietuvos Energijos Gamyba preliminary financial results for the 1st month of 2019
12/03/2019	Regarding the nomination of the Chief Executive Officer of Lietuvos Energijos Gamyba, AB

OTHER IMPORTANT INFORMATION

Significant arrangements

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

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

Detrimental transactions

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

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

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

The employees of the company from which the Company outsources the accounting functions, make sure that the financial statements are prepared properly and that all data are collected in a timely and accurate manner. The preparation of the Company's financial statements, internal control and financial risk management systems, legal acts governing compilation of the financial statements are monitored and managed.

Information about audit

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

Other agreements with auditors

The Company concluded an agreement with a company which conducted the audit of its financial statements on the audit of statements of regulated activity.

Annex 1. Notice on the compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius

Pursuant to Article 21(3) of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of the Nasdaq Vilnius AB (hereinafter – Nasdaq Vilnius), the public company Lietuvos Energijos Gamyba AB, discloses its compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius and its specific provisions. In the event of non-compliance with the Code or with certain provisions or recommendations thereof, it must be specified which provisions are not complied with and the reasons for non-compliance, as well as any other explanatory information as specified herein.

Summary of the Corporate Governance Report:

Lietuvos Energijos Gamyba AB is a part of Lietuvos Energija group, the shareholder of which is the State of Lithuania. The LE Group aims at ensuring efficiency and transparency of its operations. For this purpose, governance restructuring was started back in 2013, which resulted in transformation and consolidation of the Lietuvos Energija group's corporate governance.

The new governance structure and model of the Lietuvos Energija group was developed with reference to up-to-date global and national practice, recommendations published by the Organization for Economic Co-operation and Development, Corporate Governance Code for Companies Listed on Nasdaq Vilnius Stock Exchange and governance guidelines recommended by the Baltic Institute of Corporate Governance for state-owned enterprises. The corporate governance model for the group of energy companies was implemented following the corporate governance guidelines approved by the Lithuanian Ministry of Finance on 7 June 2013. The guidelines were updated on 1 June 2017.

Corporate governance activities are concentrated at the level of the parent company of the Lietuvos Energija group – Lietuvos Energija UAB – the responsibilities of which involve coordination of such areas as finance, law, planning and monitoring, human resources, risk management, audit, technology, communication and other common areas of the Lietuvos Energija group entities.

Activities of the Lietuvos Energija group entities in these areas are based on mutual agreement, i.e. cooperation with a focus on achievement of common result, and they are coordinated by policies (common provisions and norms) applicable to all Lietuvos Energija group entities.

Use this link for the description of the corporate governance principles and of the governance and control system.

More information on the Company's management bodies ant its members, committees, etc. is provided herein under section "The Company and its management bodies" and in the table below, which contains information on compliance with the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius.

Structured table for disclosure:

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Company publishes its long-term business strategy, strategic directions and goals on its website. The main directions of the Company's development are published in annual and interim reports of the Company, its press releases etc.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	In pursuit of the Company's operational objectives, management bodies of the Company act for the benefit of the Company and all its shareholders. Key strategic decisions affecting the shareholder value growth (optimizing the Company's operational functions and structure, other actions aimed at increasing operational efficiency and cost savings) are taken by the Company's Supervisory Board and its board.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	Legal acts, Articles of Association and rules of procedure governing activities of the Company's supervisory and management bodies lay down the principles and procedure of cooperation between supervisory and management bodies of the Company and ensure that management and

		supervisory bodies cooperate to attain the greatest possible benefit to the Company and its shareholders.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the Company's operation, are duly respected.	Yes	The bodies of the Company respect the rights and interests of persons participating in and connected with the Company's operations. Since its establishment, the Company has been cooperating and involved in social partnership with representatives of the Company's employees (allocating funds for the implementation of the collective bargaining agreement, employee incentives, etc.). The Company fulfils its financial and other obligations assumed to its creditors. The Company holds social projects involving therein children, young people, local communities and other social groups. More detailed information on the Company's initiatives is available on the Company's website, its annual report and social responsibility reports.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	In accordance with the Articles of Association, the Company has set up the collegial supervisory body – the Supervisory Board, and the collegial management body of the Company – the Board.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the Company's management bodies.	Yes	In accordance with the Articles of Association, the Board is responsible for proper implementation of Company's operational strategy and strategic management of the Company (approves the Company's operational budget and corporate governance strategy, takes decisions on other matters attributed to the competence of the Board in the Articles of Association of the Company). The Supervisory Board approves operational strategy of the Company and is responsible for efficient supervision over activities of management bodies of the Company (elects and recalls members of the Board; evaluates and presents offers and feedback on the implementation of the Company's operational strategy, a set of annual financial statements of the Company, a draft distribution of profit (loss) of the Company, annual report of the Company and activities of its Board and chief executive officer to the general shareholders' meetings; presents feedback and makes proposals on the Company's operational budget, makes decisions on other issues, which the Company's Articles of Association attribute under the competence of the Supervisory Board).
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the Supervisory Board. In such a case, the Supervisory Board is responsible for the effective monitoring of the functions performed by the	Not applicable	In accordance with the Articles of Association, the Company has the set up collegial supervisory body - the Supervisory Board, and the collegial management body of the Company - the Board.

Company's chief executive officer.		
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the Board, Principles III and IV should apply to the Board as long as that does not contradict the essence and purpose of this body.	Yes	In accordance with the Articles of Association, the Company has the set up collegial supervisory body - the Supervisory Board, and the collegial management body of the Company - the Board. The recommendations set out in Principles III and IV have not been implemented in the Company to the full extent, however, the Company complies with the requirements for the formation of collegial bodies established by laws. It should be noted that according to the Company's Articles of Association, the Company is engaged in the production, import, export and trade in electricity, its activities are subject to strict legal regulation and supervision by respective state authorities (the National Commission for Energy Control and Prices, etc.), thus ensuring transparency and expeditiousness of the decision-making process, implementing the principles of non-discrimination, reduction of costs of the Company and other principles.
2.5. Company's management and supervisory bodies should comprise such number of Board (executive directors) and supervisory (non-executive directors) Board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	In accordance with paragraph 20 of the Articles of Association, the Supervisory Board of the Company consists of 3 (three) members. At least 1/3 (one third) of the Supervisory Board must be independent members. The Supervisory Board adopts decisions and its meeting is deemed to have taken place when it is attended by more than half of its members. In accordance with paragraph 37 of the Articles of Association, the Board consists of 3 (three) members. The Board adopts decisions, and its meeting is deemed to have taken place when it is attended by 2 (two) and more members of the Board (Article 61.6 of the Company's Articles of Association). The Company believes the above-mentioned number of members of the Supervisory Board and the Board to be sufficient to ensure supervision over the Company's activities and expeditious and effective management of the Company.
2.6. Non-executive directors or members of the Supervisory Board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management Board.	Yes	The Supervisory Board is elected for the term of 4 (four) years. The term of office of members on the Supervisory Board is the maximum term of office prescribed by the Lithuanian Law on Companies. A general meeting of shareholders may remove from office both the entire Supervisory Board and individual members thereof before the end of their term of office.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a Supervisory Board but rather the Board, it is recommended that the chairman of the Board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chair of the collegial body - the Supervisory Board - elected by the general shareholders' meeting of the Company and the chief executive officer is not the same person. Members and the Chair of the Supervisory Board of the Company have never been members of the Board or the Chief Executive Officer of the Company. The Chief Executive Officer of the Company is a member of the Board and its Chair, but this creates no preconditions for possible bias, because the body supervising over the Company's activities - the Supervisory Board - has been formed in the Company. Article 23 of the Articles of Association stipulates that a Chief Executive Officer, a member of the

		Board, a member of the supervisory body, management body or administration of an entity engaged in the transmission of electricity or gas, or some other person who cannot hold the office under applicable legislation, cannot be a member of the Supervisory Board of the Company. The Company also complies with the requirements set out in Article 31 of the Law on Companies of the Republic of Lithuania.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	In accordance with paragraph 22 of the Articles of Association, every candidate to become a member of the Supervisory Board must produce to the general meeting of shareholders a declaration of the candidate's interests, by specifying all circumstances that could lead to a conflict of the candidate's and the Company's interests. The Supervisory Board of the Company is elected by the general meeting of shareholders' in compliance with the requirements set out in the Lithuanian Law on Companies.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information on candidates to become members of the Supervisory Board of the Company is provided to shareholders in accordance with the procedure established by the Law on Companies of the Republic of Lithuania in the general shareholders' meeting, the agenda whereof includes the consideration of the issue of the election of members of the Supervisory Board. Article 21 of the Company's Articles of Association defines that a person nominating a candidate to the members of the Supervisory Board shall have an obligation to produce written explanations to the general shareholders' meeting as to the qualifications of each candidate proposed to members of the Supervisory Board, candidate experience of managerial work and fitness to hold the office of a member of the Supervisory Board. According to Article 22 of the Company's Articles of Association, each candidate to the members of the Supervisory Board must present to the general shareholders' meeting a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the Supervisory Board and the Company, the member of the Supervisory Board shall notify the Company and the Supervisory Board of such new circumstances in writing without any undue delay. Information on offices held by the members of its Supervisory Board and/or their involvement in activities of other companies is continuously collected, stored and presented in the Company's annual report and on the Company's website.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further	Yes	Information on candidates to become members of the Supervisory Board of the Company is provided to general shareholders' meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania (see commentary under recommendation 3.2).

relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.		Information on work experience and the office held by the candidates to become members of the Supervisory Board as well as other information describing competence of the candidate is presented at the general shareholders' meeting. Information on offices held by the members of the Supervisory Board or their participation in activities of other companies is continuously collected, stored and presented in interim and annual reports of the Company and on the Company's website.
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes Not applicable	In accordance with the Lithuanian Law on Companies, the Supervisory Board is elected and simultaneously qualifications of its members are evaluated by the general shareholders' meeting. The Supervisory Board cannot determine its own composition. It should be noted that the main activities of the Company include production, import, export, trade in electricity and assurance of energy security, while the majority of members on the Supervisory Board are experts in the field of energy. Since the parent company Lietuvos Energija, UAB, has a formed Audit Committee, a separate Audit Committee is not formed in the Company (see commentary under recommendation 4.14). Lietuvos Energija, UAB, also has a formed Nomination and Remuneration Committee (see commentary under recommendation 4.13).
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Not applicable	Once elected, the members of the Supervisory Board are familiarised with activities of the Company, its organisational and governance structure, strategy, operational and financial plans. It should be noted that the members of the Supervisory Board are regularly informed on activities of the Company in meetings of the Supervisory Board and personally, if members so wish and request. So far, there has been no need and practice in the Company to offer members of the Supervisory Board an individual programme for introducing them with their duties, organization and activities of the Company, or to conduct annual reviews.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	The Articles of Association establish that at least 1/3 (one third) of members on the Supervisory Board shall be independent memmers.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:	Yes	In accordance with Article 24 of the Company's Articles of Association, the general shareholders' meeting defines independence criteria pursuant to statutory requirements and good practice of corporate governance. The requirements are laid down in the Corporate Governance Code for the Companies Listed on Nasdaq Vilnius and provisions of paragraph 9 of the Description of the Procedure of selection of the candidates for the state or municipal enterprises Board and the selection of the candidates for collegial supervisory or management body elected by the general meeting of shareholders of the state or municipality-controlled company, adopted by the resolution No 631 of 17 June 2015 of the Government of the Republic of Lithuania. According to Article 22 of the Company's Articles of Association, each candidate to the members of

1) He/she is not an executive director or member of the Board (if a collegial body elected by the general shareholders' meeting is the Supervisory Board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the Board in some other company where executive director of the company or member of the Board (if a collegial body elected by the general shareholders' meeting is the Supervisory Board) is nonexecutive director or member of the Supervisory Board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the Board (if a collegial body elected by the general shareholders' meeting is the supervisory Board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and		the Supervisory Board must present to the general shareholders' meeting a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the Supervisory Board and the Company, the member of the Supervisory Board shall notify the Company and the Supervisory Board of such new circumstances in writing without any undue delay.

parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes/No	The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite the fact that a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances. The formation of the Supervisory Board (and election of independent members) falls under the competence of the general shareholders' meeting (see commentary under recommendation 3.6). In accordance with Article 24 of the Company's Articles of Association, the general shareholders' meeting defines independence criteria pursuant to statutory requirements and good practice of corporate governance (see commentary under recommendation 3.7). Moreover, Article 23 of the Company's Articles of Association establishes that a Chief Executive Officer, a member of the Board, a member of the supervisory body, management body or administration of an entity engaged in the transmission of electricity or gas, or some other person who cannot hold the office under applicable legislation, cannot be a member of the Supervisory Board of the Company.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	The formation of the Supervisory Board (and election of independent members) falls under the competence of the general shareholders' meeting (see commentary under recommendation 3.6). Information on candidates to become members of the Supervisory Board of the Company (including information on candidate's compliance with independence requirements) is provided to the general shareholders' meeting in accordance with the procedure established by the Law on Companies of the Republic of Lithuania (see commentary under recommendation 3.2). Information on elected members of the Supervisory Board is presented in interim and annual reports of the Company and on the Company's website.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	So far, there has been no need to apply this recommendation in the Company. An agreement on activities of an independent member of the Supervisory Board is concluded with an independent member of the Supervisory Board, which enshrines the obligation of the independent member of the Supervisory Board to inform the Company and the Supervisory Board in writing without any undue delay of any new circumstances, which may lead to a conflict of interests of the member of the Supervisory Board and the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	The Articles of Association establish that independent members of the Supervisory Board may be remunerated for their work on the Supervisory Board at the decision of the general shareholders' meeting. An independent member of the Supervisory Board may be remunerated for his activities in the Supervisory Board in accordance with the procedure and conditions laid down in the agreement on activities of an independent member of the Supervisory Board signed with him.

		The general shareholders' meeting approves conditions of the agreement with independent Supervisory Board members.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the Company's management performance.	Yes	The collegial body elected by the general shareholders' meeting - the Supervisory Board - is responsible for efficient supervision over activities of the Company's management bodies (it elects and recalls members of the Board; approves operational strategy of the Company and presents proposals and feedback on the implementation on the Company's operational strategy, a set of annual financial statements of the Company, a draft distribution of profit (loss) of the Company, annual report of the Company and activities of its Board and Chief Executive Officer to the general shareholders' meetings; presents feedback and makes proposals on the Company's operational budget, adopts decisions on other issues, which the Company's Articles of Association attribute to the competence of the Supervisory Board).
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	All members of the Supervisory Board act in good faith towards the Company, with due regard to the interests of the Company and public welfare. Members of the Supervisory Board have the right to express their opinion on all questions on the meeting agenda, which, pursuant to the rules of procedure of the Supervisory Board of the Company, must be properly recorded in the minutes of the meeting. The duties set out in this recommendation are embedded in the agreement on activities of a member of the Supervisory Board and agreement on activities of an independent member of the Supervisory Board.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Members of the supervisory body are actively involved in meetings of the Supervisory Board and devote sufficient time for performing their duties as a member of the collegial body. 14 (fourteen) meetings of members of the Supervisory Board of the Company were held in 2018. All elected members of the Supervisory Board were in attendance in all meetings of the Supervisory Board held in 2018. Names of the members of the Supervisory Board attending the meeting are recorded in the minutes of the meeting.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The collegial bodies of the Company comply with the established recommendations. Before adopting decisions, members of the collegial bodies consider their impact on the Company's activities and all shareholders of the Company. The Articles of Association of the Company obligate collegial bodies of the Company and each member thereof to act for the benefit of the Company and its shareholders. Communication with and

		commitments to shareholders are defined in accordance with statutory requirements.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes/No	Agreements on activities in the Supervisory Board are concluded with members of the Supervisory Board at the decision of the general shareholders' meeting. The Supervisory Board lays down conditions of agreements with members and the Chair of the Board. Collegial bodies of the Company conclude and approve transactions in accordance with the requirements set out in applicable legislation and the Articles of Association of the Company.
4.6. The collegial body should be independent in passing decisions that are significant for the Company's operations and strategy. Taken separately, the collegial body should be independent of the Company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the Company concerned.	Yes	The Supervisory Board acts independently in passing decisions that are of significance to the Company's operations and strategies. The Company ensures that the supervisory Board is supplied with all necessary resources (technical support during Board meetings, provision of all required information). Agreement of activities of a member of the Supervisory Board defines that the Company commits to creating proper working conditions for the Supervisory Board and its members by supplying them with technical and administrative tools required for work. The Articles of Association set out that the Supervisory Board has the right to apply to the Board and Chief Executive Officer asking for documents and information pertaining to the Company's operations, and the Board of directors and Chief Executive Officer must ensure that the documents and information so requested are produced to the Supervisory Board within reasonable time. The provision regarding supply of information is also included in the agreement of activities of a member of the Supervisory Board. The Company has no Remuneration committee, see commentary under clause 4.13.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees . Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that	Yes/No	In accordance with the Articles of Association, the Supervisory Board passes decisions in key areas. The Supervisory Board produces opinions to the Board as to the candidacy of Chief Executive Officer of the Company. The Articles of Association stipulate that the division discharging internal audit functions reports to the Supervisory Board. Based on the opinion of the Board the Supervisory Board decides on the nomination and removal of the head of the structural division performing internal audit functions, approval of his/her job description, promotion and disciplinary action. The Company has no audit, nomination or remuneration committees. These committees were formed in the parent company and activities of the said committees include the coordination of the Company's activities. The Company believes that work of the Supervisory Board is sufficiently effective, balanced and well organised meaning that the Supervisory Board can discharge all functions attributed to these committees properly.

adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.		No special or exclusive voting rights are conferred on independent members of the Supervisory Board. Independent members of the Board can always express their opinion which is then recorded in the minutes of the meeting. In accordance with the Lithuanian Law on Audit, a public interest company which is a subsidiary and prepares consolidated financial statements may omit the requirement to form an Audit Committee as defined in the Lithuanian Law on Audit if its parent company has the required committee. Since the parent company, i.e. Lietuvos Energija UAB, has an Audit Committee, there is no need or obligation for the Company to have a separate Audit Committee. Lietuvos Energija UAB, being the parent company, also has Nomination and Remuneration, and Risk Management and Business Ethics Supervision committees. In addition to other functions, the Nomination and Remuneration Committee at Lietuvos Energija UAB inter alia evaluates and drafts proposals as to long-term remuneration policy of the Company, policy of annual bonuses (tantiemes); evaluates terms and conditions of agreements concluded with corporate management bodies; evaluates recruitment and selection procedures for candidates to members of management bodies and senior management of the Company, and their qualification requirements; regularly evaluates the structure of corporate governance and supervisory bodies, their size, composition and activities. Risk Management and Business Ethics Supervision Committee at Lietuvos Energija UAB monitors the assessment and management of risks relevant to the achievement of Company's goals; assesses the adequacy of internal control procedures and risk management measures to identified risks; assesses risks and the Company's risk management plan; and monitors the implementation of risk management process.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes/No	See commentaries under clauses 4.7, 4.12, 4.13, and 4.14.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be	Yes/No	The Company implements the recommendation through the committees of the Supervisory Board formed at Lietuvos Energija UAB. See commentaries under clauses 4.7, 4.12, 4.13, and 4.14.

constituted from independent members of the collegial body. In cases when the company chooses not to set up a Supervisory Board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes/No	See commentaries under clauses 4.7, 4.12, 4.13, and 4.14.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes/No	See commentaries under clauses 4.7, 4.12, 4.13, and 4.14.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill Board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the Board (if a collegial body elected by the general shareholders'	Yes/No	The company has no nomination committee but its functions are indirectly performed through the Nomination and Remuneration Committee of Lietuvos Energija UAB. See commentaries under clauses 4.7, 4.13, and 4.14.

meeting is the Supervisory Board) and senior management, Chief Executive Officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares	Yes/No	The Company has no remuneration committee but its functions are indirectly performed through the Nomination and Remuneration Committee of Lietuvos Energija UAB. See commentaries under clause 3.4, 4.7 and other.

or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or Chief Executive Officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.	Yes/No	According to the provisions of the Law on Audit of the Republic of Lithuania, a public-interest entity, which is a subsidiary and whose financial statements are subject to consolidation, may depart from the requirement enshrined in the Law on Audit of the Republic of Lithuania to set up an Audit Committee if its parent company has such committee. Since the parent company Lietuvos Energija, UAB, has a formed audit company, a separate Audit Committee is not set up in the Company. See commentary under recommendation 4.7.

4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the Company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, Chief Executive Officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	Up until now, there has been no need or practice in the Company for the Supervisory Board to conduct a formal performance review and publish its findings since no requirements to this effect were established in legislation. Performance of the Supervisory Board is assessed by the Company's shareholders in accordance with applicable legislation.
Principle V: The working procedure of the company's collegial bodies		

The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	In accordance with the Articles of Association and approved work regulations of both the Supervisory Board and Board, this recommendation is implemented in the Company.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's Supervisory Board should be convened at least once in a quarter, and the company's Board should meet at least once a month.	Yes	According to the Company's Articles of Association, rules of procedure of the Supervisory Board and the Board of the Company, meetings of the Supervisory Board are held at least once per quarter and meetings of the Board - at least once every two calendar weeks. If necessary, the Board may establish a different periodicity of meetings.
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	Work regulation of the Supervisory Board sets out that attendees of the meeting should be notified of the convocation of the meeting at least 3 (three) working days before the day of the meeting (unless there are no objections as to a shorter term of notice), and they are supplied with all material required to discuss matters on the meeting's agenda. Work regulation of the Board sets out that attendees of the meeting should be notified of the convocation of the meeting at least 3 (three) working days before the day of the meeting (unless there are no objections as to a shorter term of notice), and they are supplied with all material required to discuss matters on the meeting's agenda.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's Board should be free to attend meetings of the company's Supervisory Board, especially where issues concerning removal of the Board members, their liability or remuneration are discussed.	Yes	The Company follows this recommendation. The Chair of the Supervisory Board and the Chair of the Board closely cooperate in solving questions related to the management of the Company. According to Article 33.3 of the Company's Articles of Association, the Supervisory Board must provide the opportunity to attend its meetings and provide explanations to members of the Board, the Chief Executive Officer and other employees of the Company in dealing with issues related to their activities.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The authorised share capital of the Company consists of ordinary registered shares at par value of EUR 0,29, which grant the same property and non-property rights to all their owners.

6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Articles of Association available on the Company's website provide information concerning the rights attached to the shares.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	Paragraphs 17 and 18 of the Company's Articles of Association provide for the transactions that shall be approved by the general shareholders' meeting. The transactions only partially correspond to the provided recommendation.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The venue, date, and time of the convened general shareholders' meeting is indicated in order to ensure equal opportunities for all shareholders to participate at the meeting; the procedures of convening and conducting a general shareholders' meeting are implemented under the Lithuanian Law on Companies. The shareholders of the Company are enabled to familiarise themselves with the agenda and documentation under the procedure prescribed by laws.
6.5. If it is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company in Lithuanian and English and/or other foreign language. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Following the Lithuanian Law on Companies, the Company places information about the calling of a general shareholders' meeting, its agenda and draft resolutions of the general shareholders' meeting in Lithuanian and English on its publicly accessible website in advance. Information about resolutions adopted by the general shareholders' meeting is published in Lithuanian and English on the website of the Company. Following the Company's Articles of Association and other laws, the information is also published on Nasdaq Vilnius Stock Exchange and an e-journal of the Centre of Register.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company's shareholders may implement their right to participate in the general shareholders' meeting in person and through a representative if the person has an appropriate authorisation or an agreement on the transfer of the right to vote was made with the person in line with the procedure prescribed by laws. The Company enables the shareholders to vote by completing the general voting ballot as prescribed by the Lithuanian Law on Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	No	On request of the shareholders and considering objective circumstances, the Company would allow the shareholders to vote using telecommunication terminal equipment, however, it is not applied yet because it needs extra investment.

Principle VII: The avoidance of conflicts of interest and their disclosure The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	The Company follows these recommendations. In accordance with Article 22 of the Articles of Association of the Company, each candidate to the members of the Supervisory Board must present to the general shareholders' meeting a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the Supervisory Board and the Company, the member of the Supervisory Board shall notify the Company and the Supervisory Board of such new circumstances in writing without any undue delay. According to Article 39 of the Articles of Association of the Company, each candidate to the members of the Board must present to the Supervisory Board a declaration of interests of the candidate, indicating therein all the circumstances which may lead to a conflict of interests of the candidate and the Company. Upon emergence of new circumstances, which may lead to a conflict of interests of a member of the Board and the Company, the member of the Board must shall the Board and the Supervisory Board of such new circumstances in writing without any undue delay. Moreover, Article 41 of the Articles of Association of the Company establishes that members of the Board cannot do such a work or hold such office, which would be incompatible with their activities on the Board, including holding a managerial position in other legal entities (except for an office or work in the company or a group of companies), work in the civil service or statutory service. Members of the Board can hold the office or do other work, except for the office in the Company and other legal entities where the company participates, and to engage in pedagogical, creative or intellectual activities only having received a prior consent of the Supervisory Board.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	The Company follows the recommendations.
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The Company follows the recommendations.

7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	The members of the Company's supervisory and management bodies are required to abstain from voting and they do not vote if there can be a conflict of interests between the member and the Company when voting on those issues (work regulations of the Supervisory Board and the management). Moreover, according to the laws, the Company's supervisory and management bodies have to avoid situations where their personal interests are or may be in conflict with the interests of the Company.
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual report as well as posted on the company's website.	Yes/No	General information on the Company's remuneration policy and average wage amounts of individual groups of employees is published in the Company's interim and annual reports, and in its webpage. Following Article 25(5) of the Law on Energy and Law on Financial Reporting of Companies of the Republic of Lithuania, the Company publishes information on the remuneration set for the members of the Company's management bodies and other payments related to functions of the members of the Company's management bodies.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	Annual report does not include the directors' remuneration policy of the Company for the upcoming year and the subsequent years. Annual report includes information about the sums of money attributed to the members of the Company's supervisory and management bodies (wages, other payments, bonuses and other benefits from profit).
8.3. Remuneration statement should leastwise include the following information: 1) explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2)sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) an explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) an explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) sufficient information on deferment periods with regard to variable components of remuneration; 6) sufficient information on the linkage between the remuneration and performance; 7) the main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) sufficient information on the policy regarding termination payments; 9) sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) sufficient information on the composition of peer	No	Annual report includes information about monetary amounts calculated for the members of the Company's supervisory and management bodies (wages, other payments, bonuses and other benefits from profit), also information on property transferred and guarantees granted to the members of the management bodies, as well as other information related to remuneration to the members of the supervisory and management bodies. See the commentary of clause 8.1

groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) a description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) remuneration statement should not include commercially sensitive information.		
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	See the commentary of clause 8.1
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3)The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year.	No	See the commentary of clause 8.1

8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	Remuneration Policy of Lietuvos Energija group, approved by Decision of the Board of Lietuvos Energija, UAB, of 26 November 2018 governs the determination and payment of the variable component of wage in the Company. This document sets out wage components, their maximum amounts, principles of allocation and payment thereof, which are common for all companies of Lietuvos Energija group. According to the provisions of the Remuneration Policy, the variable component of wage is paid only when the value of the achievement of the objectives of the Company is at least 70 percent.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	The Remuneration Policy of Lietuvos Energija group establishes that the variable component of wage shall be allocated for the achievement of goals/ indicators set as a percentage of the fixed wage component or another base of calculation.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	The Remuneration policy of Lietuvos Energija group stipulates that the calculated variable component of a wage to top-level managers shall be paid within 30 calendar days from the date of adoption of the decision to pay a variable component of wage.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	See the commentary of clause 8.1
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Not applicable	See the commentary of clause 8.1
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	See the commentary of clause 8.1
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	See the commentary of clause 8.1
8.13. Shares should not vest for at least three years after their award.	Not applicable	See the commentary of clause 8.1
8.14. Share options or any other right to acquire	Not applicable	See the commentary of clause 8.1

shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.		
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (non-variable plus variable components).	Not applicable	See the commentary of clause 8.1
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	See the commentary of clause 8.1
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	See the commentary of clause 8.1
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	See the commentary of clause 8.1
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	See the commentary of clause 8.1
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) grant of share-based schemes, including share options, to directors; 2) determination of maximum number of shares and main conditions of share granting; 3) the term within which options can be exercised; 4) the conditions for any subsequent change in the exercise of the options, if permissible by law; 5) all other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed herein to individual directors.	Not applicable	See the commentary of clause 8.1
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to	Not applicable	See the commentary of clause 8.1

subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		
8.22. Provisions of items 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	See the commentary of clause 8.1
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in paragraph 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given herein must be posted on the company's website.	Not applicable	See the commentary of clause 8.1
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The corporate governance framework ensures that the rights of shareholders that are protected by law are respected.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	The Company follows the recommendations. For instance, representatives of the employees of the Company participate in consultations, negotiation and meetings regarding the processes of performance optimisation that are implemented at the Company. According to the Company's collective agreement signed with the representatives of the employees of the Company, the Company provides information to the representatives of trade unions about the expected changes in the Company, the Company's financial situation, etc. The shareholders may participate in the management of the Company to the extent provided by laws.
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	The Company follows the recommendations.
Principle X: Information disclosure		

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: the financial and operating results of the company; company objectives; persons holding by the right of ownership or in control of a block of shares in the company; members of the company's supervisory and management bodies, Chief Executive Officer of the company and their remuneration; material foreseeable risk factors; transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; material issues regarding employees and other stakeholders; governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The Company discloses information indicated in the recommendation in the following ways: 1. Announces the information as key events under the procedure prescribed by laws (e.g. structural changes in the management of the Company, election of new members of management, financial results of the Company, etc.). 2. Information is placed on the publicly accessible website of the Company (e.g. the Company's objectives), on Nasdaq Vilnius Stock Exchange and in the e-journal of the Centre of Registers. 3. Announces the information in the annual report (e.g. members of the management bodies, director of the Company and his/her remuneration, possible major risk factors, etc.). The Company provides information about the consolidated results of the entire group of companies (i.e. Lietuvos Energijos Gamyba AB and its subsidiaries).
10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	The Company follows the recommendation and discloses information about the consolidated results of the Company and the group of its subsidiaries. Information related to the parent company Lietuvos Energija UAB is announced by the parent company itself.
10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, Chief Executive Officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and Chief Executive Officer as per Principle VIII.	Yes	Information provided in the recommendation is available in the annual report of the Company (director's professional experience, participation of the members of supervisory and management bodies in the activity of other companies and other information) and its website.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	The Company discloses information about the relationships between the Company and its stakeholders in the annual report of the Company. This information is also announced in press releases and placed on the Company's website under the procedure prescribed by laws.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company provides information in Lithuanian and English simultaneously using the information disclosure system of Nasdaq Vilnius. The Company announces information before, during or after a trading session of the Vilnius Stock Exchange and simultaneously provides it to all markets where its securities are traded. The Company does not disclose information that may have impact on the price of its securities, nor give it in comments, interviews or in other ways as long as the information is disclosed via the information system of the stock exchange.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to	Yes	Besides the way of information disclosure indicated in the commentary of clause 10.5, the Company uses various means of media

relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.		(newspapers, e-publications, news agencies, publicly accessible website of the Company) in order to ensure that information would reach as many interested people as possible. Information placed on the Company's website is available in Lithuanian and English languages.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company places all information mentioned in this recommendation on its website.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes/No	An independent audit of the Company's annual financial statements and annual report is performed at the Company. The interim financial statements are subject to review or audit.
11.2. It is recommended that the company's Supervisory Board and, where it is not set up, the company's Board should propose a candidate firm of auditors to the general shareholders' meeting.	No	After the selection of an audit firm in accordance with the procedure established by the Law on Public Procurement of the Republic of Lithuania, the Company's Board proposes it to the general shareholders' meeting.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's Supervisory Board and, where it is not formed, the company's Board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The Company follows the recommendations.

2018

LIETUVOS ENERGIJOS GAMYBA, AB

COMPANY’S FINANCIAL STATEMENS PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION FOR THE YEAR 2018

GAMYBA

Group of energy companies

www.le.lt

Lietuvos Energijos Gamyba AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

All amounts in EUR thousands unless otherwise stated

	Note	At 31 December 2018	At 31 December 2017
ASSETS			
Non-current assets			
Intangible assets	5	48,597	15,238
Property, plant and equipment	6	476,271	496,818
Investments in associates	7	1,588	1,535
Other non-current assets	8	5,087	3,236
Investment property	6	4,212	-
Other financial assets	11	232	1,799
Total non-current assets		**535,987**	**518,626**
Current assets			
Inventories	9	3,370	5,580
Prepayments		3,698	3,479
Amounts receivable under contracts with customers	10	12,037	17,216
Other financial assets	11	3,787	15,757
Loans granted	12	49,950	14,930
Cash and cash equivalents	13	47,885	60,700
Total current assets		**120,727**	**117,662**
TOTAL ASSETS		**656,714**	**636,288**
EQUITY AND LIABILITIES			
Equity			
Authorised share capital	14	187,921	184,174
Share premium	14	89,975	85,660
Legal reserve	16	13,897	12,871
Revaluation reserve	15	20,659	2,289
Retained earnings		74,184	68,880
Total equity		**386,636**	**353,874**
Non-current liabilities			
Borrowings	18	33,619	34,039
Finance lease liabilities	19	34	172
Grants	20	171,039	177,875
Provisions	25	723	-
Other non-current amounts payable and liabilities	21	10,614	6,704
Deferred income tax liabilities	22	23,466	17,475
Total non-current liabilities		**239,495**	**236,265**
Current liabilities			
Borrowings	18	4,417	21,208
Finance lease liabilities	19	138	138
Trade payables	23	13,425	17,380
Advance amounts received	24	6,562	1,135
Income tax payable		1,128	2,883
Provisions	25	1,744	528
Other amounts payable and liabilities	26	3,169	2,877
Total current liabilities		**30,583**	**46,149**
Total liabilities		**270,078**	**282,414**
TOTAL EQUITY AND LIABILITIES		**656,714**	**636,288**

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

Lietuvos Energijos Gamyba, AB, company code 302648707, address: Elektrinės g. 21, LT-26108, Elektrėnai, Lithuania
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

	Note	2018	2017
Revenue			
Revenue from contracts with customers	27	125,877	147,199
Other income	29	4,774	2,616
		130,651	**149,815**
Expenses			
Purchases of electricity or related services		(33,067)	(26,291)
Gas, biofuel and heavy fuel expenses		(28,827)	(32,214)
PP&E impairment loss	6, 20	(190)	(32,435)
Depreciation and amortisation	5,6,20	(19,034)	(24,956)
Wages and salaries and related expenses	33	(8,824)	(8,111)
Repair and maintenance expenses		(5,571)	(5,513)
Emission allowance revaluation and release (expenses)/income		8,214	1,587
Impairment (expenses) of other non-current assets /reversal	8	1,851	616
Inventory write-down allowance/reversal	9	(225)	7
Other expenses	34	(8,494)	(6,269)
Total expenses		**(94,167)**	**(133,579)**
OPERATING PROFIT		**36,484**	**16,236**
Finance income (costs):			
Finance income	30	168	244
Finance costs	31	(1,568)	(886)
		(1,400)	**(642)**
Share of results of operations of associates	7	**123**	**101**
PROFIT BEFORE INCOME TAX		**35,207**	**15,695**
Income tax benefit (expenses)	22	(5,563)	4,826
NET PROFIT FOR THE YEAR		**29,644**	**20,521**
Other comprehensive income (loss) that will be subsequently reclassified to retained earnings (loss)		18,872	1,285
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**48,516**	**21,806**
Basic and diluted earnings (loss) per share (in EUR)	35	**0.046**	**0.032**
Weighted average number of shares		**644,463,173**	**635,083,615**

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

All amounts in EUR thousands unless otherwise stated

	Note	Share capital	Share premium	Revaluation reserve	Legal reserve	Retained earnings	Equity total
Balance at 1 January 2017		**184,174**	**85,660**	**1,033**	**10,872**	**73,827**	**355,566**
Revaluation of emission allowances	15	-	-	1,285	-	-	1,285
Net profit for the reporting period		-	-	-	-	20,521	20,521
Total comprehensive income for the period		**-**	**-**	**1,285**	**-**	**20,521**	**21,806**
Legal reserve		-	-	-	1,999	(1,999)	-
Depreciation of revaluation reserve	15	-	-	(29)	-	29	-
Dividends	17	-	-	-	-	(23,498)	(23,498)
Balance as at 31 December 2017		**184,174**	**85,660**	**2,289**	**12,871**	**68,880**	**353,874**
Balance at 1 January 2018		**184,174**	**85,660**	**2,289**	**12,871**	**68,880**	**353,874**
Effect of change in accounting policies following the adoption of new IFRS		-	-		-	(21)	(21)
Restated balance at 1 January 2018		**184,174**	**85,660**	**2,289**	**12,871**	**68,859**	**353,853**
Revaluation of emission allowances	15	-	-	19,198	-	-	19,198
Revaluation of property, plant and equipment, net of deferred income tax	15	-	-	(326)	-	-	(326)
Net profit for the reporting period		-	-	-	-	29,644	29,644
Total comprehensive income for the period		**-**	**-**	**18,872**	**-**	**29,644**	**48,516**
Increase of authorised share capital		3,747	4,315	-	-	-	8,062
Legal reserve		-	-	-	1,026	(1,026)	-
Emission allowances utilised	15	-	-	(473)	-	473	-
Depreciation of revaluation reserve	15	-	-	(29)	-	29	-
Dividends	17	-	-	-	-	(23,795)	(23,795)
Balance as at 31 December 2018		**187,921**	**89,975**	**20,659**	**13,897**	**74,184**	**386,636**

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

All amounts in EUR thousands unless otherwise stated

	Note	2018	2017
Net profit for the period		29,644	20,521
Reversal of non-cash expenses (income) and other adjustments:			
Depreciation and amortisation expenses	5,6	27,481	44,733
Loss on impairment of property, plant and equipment (reversal of impairment)	6	(44)	105,307
Result of revaluation of non-current assets		334	-
Inventory write-down/(reversal)	9	225	(7)
Expenses (income) on revaluation of emission allowances and provisions		(10,783)	(3,808)
Other impairment allowances/(reversal of impairment)	34	138	-
Share of (profit) of associates	7	(123)	(101)
Income tax expenses	22	2,748	2,656
Change in deferred income tax liability	22	2,815	(7,255)
Depreciation of grants	20	(8,447)	(19,777)
Value of grants arising on recognition of impairment of PP&E	20	(769)	(72,872)
Increase (decrease) in provisions		2,292	92
(Gain) loss on disposal/write-off of non-current assets (other than financial assets)		(3)	(79)
Elimination of results of financing and investing activities:			
- Interest (income)	30	(132)	(154)
- Interest expense	31	498	876
- Other (income)/expenses of financing activities		-	-
- (Gain) on disposal of part of business		(528)	(799)
Changes in working capital			
(Increase) decrease in trade receivables and other amounts receivable		13,038	(4,343)
(Increase) decrease in inventories and prepayments		2,074	268
Increase (decrease) in amounts payable and advance amounts received		3,799	(5,265)
Income tax (paid)		(3,117)	-
Net cash flows generated from (used in) operating activities		**61,140**	**59,993**
Cash flows from investing activities			
(Purchase) of property, plant and equipment and intangible assets		(4,744)	(1,902)
Disposal of property, plant and equipment and intangible assets		1,113	93
Disposal of investments in associates		4,049	-
Disposal of a part of the business		2,000	2,000
Loans granted	7	(35,020)	-
Loans repaid	7	-	3,168
Grants received during the period	20	-	74
Interest received		130	149
Dividends received		70	77
Net cash flows generated from (used in) investing activities		**(32,402)**	**3,659**
Cash flows from financing activities			
Loans received		27,922	-
Repayments of borrowings		(45,133)	(77,212)
Finance lease payments		(138)	(138)
Interest (paid)		(498)	(876)
Dividends (paid)		(23,706)	(23,771)
Net cash flows used in financing activities		**(41,553)**	**(101,997)**
Net increase (decrease) in cash and cash equivalents		**(12,815)**	**(38,345)**
Cash and cash equivalents at the beginning of the period	13	**60,700**	**99,045**
Cash and cash equivalents at the end of the period	13	**47,885**	**60,700**

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

All amounts in EUR thousands unless otherwise stated

1 General information

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

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

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

The authorised share capital of Lietuvos Energijos Gamyba, AB amounts to EUR 187,920,762.41 and it is divided into 648,002,629 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares have been fully paid. With effect from 1 September 2011, the shares of Lietuvos Energijos Gamyba, AB have been listed on the Main List of NASDAQ OMX Vilnius Stock Exchange. As at 31 December 2018 and 2017, the Company had not acquired any of its own shares.

During 2018 and 2017, the Company was engaged in electricity generation and electricity trading activities. In addition to these principal activities, the Company is free to be engaged in any other business activities not forbidden under the laws and stipulated in the Company's Articles of Association.

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

As at 31 December 2018 and 2017, the Company had no subsidiaries.

The Company is part of the Lietuvos Energija group which is one of the largest state-owned groups of energy companies in the Baltic countries. The Company's parent company is Lietuvos Energija UAB which owns 96.82 per cent of the Company's share capital.

As at 31 December 2018 and 2017, the Company's investments in associates were as follows:

Company	Registered office address	Company's ownership interest at 31 December 2018	Company's ownership interest at 31 December 2017	Profile of activities
Geoterma UAB	Lypkių g. 53, LT-94100 Klaipėda, Lithuania	23.44%	23.44%	Geothermal energy generation
Technologijų ir Inovacijų Centras UAB	Juozapavičiaus g. 13, Vilnius, Lithuania	20.01%	20.01%	IT services
Verslo Aptarnavimo Centras UAB	P. Lukšio g. 5B, LT-08221 Vilnius	15.00%	15.00%	Public procurement, accounting and employment relations administration services

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

As at 31 December 2018, the Company had 372 (31 December 2017: 392) employees.

All amounts in EUR thousands unless otherwise stated

2 Accounting policies

Presented below are the principal accounting policies adopted in the preparation of the Company's financial statements for the year 2018:

2.1 Basis of preparation

The financial statements of the Company for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

These financial statements have been prepared on a going concern and historical cost basis, except for certain property, plant and equipment which is recorded at revalued amount, less accumulated depreciation and estimated impairment losses (Note 2.2), emission allowances (Note 2.6) and financial assets measured at fair value (Note 2.8).

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

2.2 Changes in accounting policies

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

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

The following IFRSs and amendments thereto were adopted by the Company for the first time for the financial year ended 31 December 2018:

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The new accounting policies applied starting from 1 January 2018 under IFRS 9 are set out in section 2.3.

Assessment as to when IFRS 9 affects the financial statements:

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

All amounts in EUR thousands unless otherwise stated

The effect of first-time adoption of IFRS 9 on the impairment of loans, trade receivables and other amounts receivable:

	Trade receivables	Other amounts receivable	Loans granted
Carrying amount of impairment as at 1 January	**381**	**912**	**-**
Effect of first-time adoption of IFRS 9 presented in retained earnings (loss)	21	-	-
Carrying amount of impairment upon adoption of IFRS 9	**402**	**912**	**-**

The effect of first-time adoption of IFRS 9 on the assessment of expected credit losses (at 1 January 2018):

	Trade receivables/IFRS 9	Trade receivables/IFRS 39
Trade receivables assessed individually		
Expected credit losses, %	0.01%	0.01%
Trade receivables	17,240	17,240
Expected credit losses	163	163
Trade receivables assessed collectively		
Expected credit losses, %	63.00%	57.67%
Trade receivables	378	378
Expected credit losses	239	218

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

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

The effect of first-time adoption of IFRS 9 on the classification of financial assets and liabilities:

	IFRS 9	IAS 39
Financial assets - Loans and receivables (IAS 39)/Financial assets carried at amortised cost (IFRS 9)		
Trade receivables	17,216	17,216
Other amounts receivable	8,669	8,669
Loans granted	14,930	14,930
Cash and cash equivalents	60,700	60,700
Other non-current amounts receivable	315	315
Financial assets compulsorily measured at fair value through profit or loss	**7,521**	**7,521**
Financial liabilities measured at amortised cost		
Loans received	55,247	55,247
Finance lease liabilities	310	310
Other non-current borrowings	723	723
Trade payables	17,380	17,380

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

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

The Company will apply IFRS 15 starting from 1 January 2018 using the modified retrospective approach. The Company reviewed all material contracts with customers and did not identify a number of performance commitments, contract execution expenses and variances in timing of revenue recognition. The new accounting policies applied starting from 1 January 2018 under IFRS 15 are set out in section 2.4.

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

Annual improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (changes to IFRS 12) or on or after 1 January 2018 (changes to IFRS 1 and IAS 28). On 7 February 2018, the European Commission, ensuring compliance with other accounting standards, approved the application of the improvements in the European Union retrospectively). The improvements impact three standards. The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended to delete some of the short-term exemptions from IFRSs after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that venture capital organisations or similar entities have an investment-by- investment choice for measuring investees at fair value. Additionally, the amendment clarifies that if an investor that is not an investment entity has an associate or joint venture that is an investment entity, the investor can choose on an investment-by-investment basis to retain or reverse the fair value measurements used by that investment entity associate or joint venture when applying the equity method. According to the Company's management, the first-time adoption of the improvements did not have any significant impact on the Company's financial statements.

Transfers of Investment Property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018; on 14 March 2018, the European Commission approved the application of the amendment in the European Union for annual periods beginning on or after 1 January 2018). The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer. According to the Company's management, the first-time adoption of the amendment did not have any significant impact on the Company's financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; on 28 March 2018, the European Commission approved the application of the interpretation in the European Union for annual periods beginning on or after 1 January 2018). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognises the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework. The Company does not conduct settlements in foreign currencies, therefore the amendment to the interpretation has no impact on the Company's financial statements. According to the Company's management, the first-time adoption of the interpretation did not have any significant impact on the Company's financial statements.

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

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

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

Other new standards, amendments and interpretations that are mandatory for annual periods beginning on 01 January 2019 or later and that have not been adopted when preparing these financial statements:

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

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

All amounts in EUR thousands unless otherwise stated

for those two types of leases differently. The Company plans to adopt IFRS 16 *Leases* starting from 1 January 2019. The value of assets being transferred under the lease agreement and related lease liabilities will be stated in the Company's statement of financial position.

The Company will apply IFRS 16 *Leases* starting from 1 January 2019 using the modified retrospective approach. The value of assets being transferred under the lease agreement and related lease liabilities will be stated in the Company's statement of financial position. The Company performed the calculation of assets being transferred under the lease agreement and related lease liabilities pursuant to IFRS 16. On 1 January 2019, the Company recognised assets and liabilities managed under the right of use in the amount of EUR 5,498 thousand, which indicates the impact of the first-time adoption of TFAS 16 on the Company's financial statements.

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

	Note	At 31 December 2018	IFRS 16	At 1 January 2019
ASSETS				
Non-current assets				
Non-current assets managed on the basis of lease		-	5,498	5,498
EQUITY AND LIABILITIES				
Non-current liabilities				
Non-current financial liabilities		-	(5,332)	(5,332)
Current liabilities				
Current financial liabilities		-	(166)	(166)

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

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

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

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

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

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

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

The revised Framework provides additional explanations related to the principles of prudence and substance over form, measurement uncertainty, and management's stewardship of the entity's economic resources.

The Company is currently assessing the impact of the new standards on its financial statements.

2.2.1. Investments in associates

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

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

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

2.2.2. Investment property

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

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

2.2.3. Non-current assets

An item of assets is recognised as property, plant and equipment, if it is probable that future economic benefits associated with the asset will flow to the entity, the cost of the item can be measured reliably and its useful life is longer than one year.

All amounts in EUR thousands unless otherwise stated

Property, plant and equipment

The list of the categories of property, plant and equipment set out in the accounting policies was supplemented with the category of buildings and structures of the thermal power plant. The category includes Vilnius Thermal Power Plant No 3 that the Company acquired in 2018. Assets in this category are stated at acquisition cost less subsequent accumulated depreciation and impairment.

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

Construction in progress represents property, plant and equipment under construction. The cost of such assets includes design, construction works, plant and equipment being installed, and other directly attributable costs.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired through business combinations is its fair value at acquisition date. Intangible assets are recognised only when it is probable that future economic benefits associated with these assets will flow to the Company and the value of assets can be measured reliably.

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

Depreciation and amortisation

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

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

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

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

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

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

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

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

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment, intangible assets and other non-current assets to determine whether there is any indications that those assets have suffered an impairment loss. If any such indication exists, the Company makes estimate of the recoverable amount of such property, plant and equipment and non-current assets to assess impairment, if any. When the recoverable amount of the asset cannot be calculated, the Company calculates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, administrative assets of the Company are allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. The recoverable amount of other non-current assets (right to receive emission allowances) is determined with reference to market prices of forward or spot transactions in emission allowances.
The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised immediately in profit or loss, unless such an asset was previously revalued. In that case, the impairment loss is accounted for as decrease in revaluation reserve.

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

The list of the categories of property, plant and equipment set out in the accounting policies was supplemented with the category of buildings and structures of the thermal power plant. The category includes Vilnius Thermal Power Plant No 3 that the Company acquired in 2018. Assets in this category are stated at acquisition cost less subsequent accumulated depreciation and impairment.

2.3 Financial assets

Following the adoption of IFRS 9, *Financial Instruments*, the Company classifies its financial assets into the following 3 new categories:
(i) financial assets subsequently measured at amortised cost;
(ii) financial assets subsequently measured at fair value through other comprehensive income; and
(iii) financial assets subsequently measured at fair through profit or loss.

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

The business model for managing financial assets is a matter of fact and not merely an assertion. It is typically observable through the activities that the Company undertakes to achieve the objective of the business model. In determining the business model applicable for managing financial assets, the Company justifies its decision not by a single factor or activity, but in view of all relevant evidence that is available at the date of the assessment.

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

At initial recognition, the Company measures financial assets at fair value, except for trade receivables that do not have a significant financing component. Transaction costs comprise all charges and commission that the Company would not have paid if it had not entered into an agreement on the financial instrument.

If the fair value of the financial asset at initial recognition differs from the transaction price, the difference is recognised in profit or loss.

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

Financial assets measured at amortised cost

Loans granted by the Company and amounts receivable are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows.

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

Loans and receivables are initially recognised at cost (the fair value of consideration receivable) and subsequently carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when these assets are derecognised, impaired or amortised.

Financial assets at fair value through profit or loss

The Company measures financial assets, which are stated at fair value in subsequent periods, through profit or loss, using the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Company does not have any financial assets held for trading and acquired for the purpose of selling in the near term and attributes to this category only financial assets arising from the disposal of business or investments classified as non-equity contingent consideration.

Effective interest method

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

Expected credit losses

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

Expected credit losses show the weighted average of credit losses with the respective risks (probability) of a default occurring as the weights.

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

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

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

The lifetime expected credit losses of trade receivables are recognised at the recognition of amounts receivable.

When granting the loan the Company assesses and recognises 12-month expected credit losses. In subsequent reporting periods, in case there is no significant increase in credit risk related to the lender, the Company adjusts the balance of 12-month expected credit losses in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the lender has deteriorated significantly compared to the financial position that existed upon the issue of the loan, the Company records all lifetime expected credit losses of the loan. The latest point at which the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption.

Loans for which lifetime expected credit losses were calculated are considered credit-impaired financial assets.

Credit-impaired financial assets

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

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

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

<u>Derecognition of financial assets</u>

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

- if the Company has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if the Company has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

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

2.4 Inventories

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

2.5 Cash and cash equivalents

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

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

2.6 Financial liabilities and equity instruments issued by the Company

<u>Recognition of instruments as debt or equity instruments</u>

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

<u>Equity instruments</u>

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

All amounts in EUR thousands unless otherwise stated

Financial liabilities

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

Other financial liabilities

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

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

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

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

Derecognition of financial liabilities

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

2.7 Foreign currency

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

The applicable rates used for principal currencies were as follows:

	At 31 December 2018	At 31 December 2017
USD 1	EUR 0.8734	EUR 0.8300

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

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

2.8 Grants

Asset-related grants

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

Income-related grants

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

2.9 Provisions

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

<u>Provisions for pension benefits</u>

Each employee is entitled to 2 months' salary payment when leaving the job at or after the start of pension period according to Lithuanian legislation. Actuarial calculations are made to determine liability for this pension benefit. The liability is recognised at present value, which is discounted using the market interest rate.

2.10 Employee benefits

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

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

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

2.11 Leases

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

<u>The Company is a lessor</u>

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

<u>Finance lease – where the Company is a lessee</u>

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

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

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

<u>Operating lease – where the Company is a lessee</u>

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

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

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

2.12 Segment reporting

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

As at 31 December 2018 and 2017, the Company's management analysed the Company's activities by separating them into regulated and commercial activities. The regulated activities include the Reserve Power Plant's revenue from heat and electricity production, balancing and regulation, capacity reserve services, including capacity reserve revenue of Kruonis Pumped Storage Power Plant. The commercial activities include electricity trade in a free market, electricity generation at Kaunas Algirdas Brazauskas Hydro Power Plant and Kruonis Pumped Storage Power Plant, related balancing and regulation services and other activities (including Vilnius Thermal Power Plant No 3). Administrative expenses are allocated between the regulated activities and the commercial activities based on operating expenses.

2.13 Revenue and expense recognition

The Company recognises revenue under contracts with customers at the time and to the extent that the transfer of goods or services promised to customers would show the amount which corresponds to a consideration, the right to which is expected to be obtained by the Company in exchange for those goods or services. When recognising revenue the Company takes into consideration terms of contracts signed with customers and all significant facts and circumstances, including the nature, amount, timing and uncertainty relating to cash flows arising from the contract with the customer.

<u>Revenue from provision of public service obligation (PSO) services</u>

The Company commits to render the services that serve the public interest in accordance with the procedures and terms established by the regulatory legal acts, including ensuring power system reserves in predetermined power plants the activity of which is essential for the purpose of ensuring energy security of the state. The benefits of the services of ensuring power system reserves are brought to customers throughout the period of the service, during which, accordingly, the seller carries out its performance obligation.

When entering into an agreement, the customer commits to compensate the expenditures necessary for maintaining the reserve (including the expenditure incurred during electricity production tests). In view of the above, the progress of fulfilment of the performance obligation is assessed considering the actual duration of providing the service the provision of which ensures the electricity system reserve.

In the agreement concluded with the customer, the consideration paid to the seller comprises the fixed part paid in equal portions over the duration of the provision of the service.

<u>Revenue from trade in electricity</u>

The sales of electricity produced using own resources are conducted at the power exchange (hereinafter "Exchange") by submitting electricity sale offers to the Exchange. On the Day Ahead market, the transaction for the purchase and sale of electricity is considered as concluded if the automatic coupling algorithm does not by default reject the submitted offer of selling electricity. Transactions on the Intraday market are approved by market participants. Following the approval of the transaction, the system of the Exchange sends a confirmation of the concluded electricity sale transaction to the seller. The seller's performance obligation under the concluded transaction is to supply the volume of electricity as indicated in the seller's offer to the electricity transmission system. The performance obligation is to be carried out throughout a certain period during which the supply of the agreed volume of electricity is maintained to the network. The progress of fulfilment of the performance obligation is assessed considering the volume of electricity indicated in respect of the transaction.

The price of the transaction and consideration to be paid to the seller correspond to the amount indicated in the confirmation notice of the transaction. The entire consideration of the seller is fixed. Upon receipt of the confirmation on the conclusion of the transaction on the sale of electricity, the prices of that transaction remain unchanged.

Revenue is recognised considering the actually supplied electricity pertaining to the transaction, without any deduction of commissions that might be deducted by trading intermediaries representing the Company at the Exchange.

<u>Revenue from electricity-related services</u>

Other revenue from the services related to energy supply comprise the following: (1) revenue from generation of electricity of the active power reserve, (2) revenue from assurance of the power reserve, (3) revenue from reactive power and voltage management services, (4) system recovery after the total accident, including isolated operation testing (hereinafter "Services").

The customer receives the benefits of other services related to energy supply at the same time the service is actually rendered to the customer. The customer may consume the benefits of the services separately or together with other services rendered to the customer. In the agreement, the services to be rendered to the customer are defined separately from other services stipulated under the agreement. The services are rendered per customer. The performance obligation under the agreement concluded with the customer is to be carried out throughout the period of validity of the agreement. The progress of fulfilment of the performance obligation is assessed considering the volume of services rendered, stated at power measurement units (kWh, MW/h, etc.).

Under the agreement concluded with the customer, the customer is provided an option to acquire additional services and regulating electricity on demand. The customer is not obligated to acquire from the seller any amount of additional services defined (in the agreement). The fixed consideration for the service of system recovery after the total accident, including the service of isolated operation testing, is to be paid to the seller as per agreement. The seller is entitled to 1/12 of the total price of the service each month. In view of the above, the whole of the agreement concluded with the customer is assessed at the moment of signing the agreement and the total consideration is attributed to the identified performance obligation.

For the purpose of its performance obligations, the seller recognises revenue pursuant to the provisions of IFRS 15 (paragraphs B39–B43) regarding *customer options for additional goods or services*, under which the revenue recognised is actually consistent with the invoices issued to the customer for the services relating to the supply and assurance of the active power and management of the reactive power rendered over time. Moreover, the seller additionally recognises 1/12 of the total price of the agreement that the seller intends to pay for the services of system recovery after the total accident, including the service of isolated operation testing, throughout the term of validity of the agreement, i.e. within one year.

Revenue from supply of thermal energy

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

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

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

Services of purchase of electricity generated by wind farms

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

Tariff regulation

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

Tariffs of electricity sold by the producers and independent suppliers of electricity as well as tariffs for capacity reserves are not regulated, except the cases when the producer or supplier is recognised as an undertaking with significant power following the respective market research by the Commission. In the latter case, the tariff setting is supervised by the Commission.

Tariffs for imported and exported electricity are not regulated.

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

Other operating income

Interest income is recognised on accrual basis considering the outstanding balance of debt and the applicable interest rate. Interest received is recorded in the statement of cash flows as cash flows from investing activities.

Expense recognition

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

All amounts in EUR thousands unless otherwise stated

2.14 Borrowing costs

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

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

2.15 Income tax

Income tax expense consists of the current year income tax and deferred tax expense.

Income tax

The current year income tax charge is based on taxable pre-tax profit for the year as modified by the items of income or expenses that are not subject to tax or deductible. Tax rates used to compute income tax expense are those applicable at the date of the preparation of the financial statements. Income tax rate was 15% in 2018 and 2017.

Deferred income tax

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

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available for the Company to realise all or part of deferred tax assets. Deferred income tax assets and liabilities are estimated using the tax rate that has been applied when calculating income tax for the year when the related temporary differences are to be realised or settled.

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

Current income tax and deferred income tax

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

2.16 Earnings per share

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

On 26 March 2018, the General Meeting of the Company's Shareholders was held during which a decision was passed to increase the Company's authorised share capital by EUR 3,747 thousand through the issue of 12,919,014 shares with the nominal value of EUR 0.29 each.

As at 31 December 2018, the weighted average number of shares, based on which the earnings per share are calculated was 644,463,173 (31 December 2017: 635,083,615).

2.17 Contingencies

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

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

2.18 Events after the end of the reporting period

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

All amounts in EUR thousands unless otherwise stated

2.19 Related parties

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

2.20 Inter-company offsetting

Related parties to the Company are defined as shareholders, employees, members of the Board, their close family members and companies that directly or indirectly (through the intermediary) control or are controlled by, or are under common control with, the Company, provided such relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.21 Fair value

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

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

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

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

3 Critical accounting estimates and judgements

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

Depreciation rates of property, plant and equipment

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

Management has reviewed the depreciation rates used for property, plant and equipment. As from 1 January 2018, new depreciation rates of energy units No 7 and 8 of the Reserve Power Plant were established for the remaining categories of property, plant and equipment that depreciation rates were not reduced for from 1 January 2017. The rates were reduced in view of technical depreciation and introduction of more stringent requirements applicable as from 2024:

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

Revaluation of property, plant and equipment

At 31 December 2018, the independent property valuers APUS TURTAS UAB determined the market value of the Company's assets stated at revalued amount. The valuation was performed using the comparable and cost method. For value of these assets is disclosed in Note 6.

Impairment of property, plant and equipment

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

The Company accounted for property, plant and equipment, except for the assets of the Hydro Power Plant, the Pumped Storage Power Plant, the Elektrėnai Complex (the Combined-Cycle Unit and the Reserve Power Plant, Thermal Power Plant No 3) at the revalued amount in accordance with IAS 16, 'Property, Plant and Equipment'.

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment, intangible assets and other non-current assets to determine whether there is any indications that those assets have suffered an impairment loss. If any such indication exists, the Company makes estimate of the recoverable amount of such property, plant and equipment and non-current assets to assess impairment, if any. When the recoverable amount of the asset cannot be calculated, the Company calculates the recoverable amount of the cash-generating unit to which the asset belongs.

As at 31 December 2017, the Company's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets, and recognised EUR 31,384 thousand of impairment losses for energy units No 7 and 8 of Elektrėnai Complex, EUR 757 thousand of impairment losses for two fuel oil reservoirs, and EUR 339 thousand of impairment losses for a tank. No impairment indications were identified for the remaining property, plant and equipment or, upon the impairment test, it was determined that the recoverable amount exceeded its carrying amount, less grants.

The same impairment test carried out in relation to this property, plant, and equipment on 31 December 2018 also revealed no indications of impairment.

Provisions

The Company estimates the provisions for emission allowances based on actual quantity of emission during the reporting period multiplied by the market price of one emission allowance. The quantity of actual emissions is approved by a responsible state authority during four months after the end of the year. The provision accounted for as at 31 December 2018 was consistent with actual quantities of emissions. Based on historic experience, the Company's management does not expect any significant differences to arise between the estimated provision at 31 December 2018 and the quantity of emissions which will be approved in 2019.

Also, a provision for the dismantling of units 5-6 and chimneys was established as at 31 December 2018. For more information, see Note 25.

Accrual of income from public service obligation (hereinafter "PSO") services and capacity reserve services

A part of fees received for PSO and tertiary capacity reserve services is allocated for the maintenance of the infrastructure of the Elektrėnai Complex and for the covering of expenses related to the testing of the necessary electricity generation facilities. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrėnai Complex, and gas consumption capacity taxes.

Accrual of income from public service obligation (hereinafter "PSO") services and capacity reserve services (continued)

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

As at 31 December 2018, the Company recognised PSO funds in the amount of EUR 7,517 thousand (31 December 2017: EUR 5,034 thousand) within 'Other non-current amounts payable and liabilities' to be refunded after 12 calendar months. PSO funds to be refunded arose from lower than established actual fixed and variable costs incurred in the provision of the regulated services. As at 31 December 2018, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 0.92% was used, and discounting effect of EUR 86 thousand as at 31 December 2018 was recognised within 'Other financial income'.

As at 31 December 2018, a payable amount of EUR 2,765 thousand (31 December 2017: EUR 8,198 thousand), which will be compensated in 2019, was recognised under the line item 'Other current amounts payable'. In 2017, the Commission inspected the PSO funds allocated to the Company during 2010-2015, and in 2017 introduced changes in the principles for determination of allocated PSO funds, with relevant changes in the regulatory framework. In 2014, the Commission adopted a resolution, by which the Company was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Company's hydroelectric plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Company. On 17 October 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of the Commission was repealed. At the end of 2017, as part of implementation of the court judgement, the Commission allocated to the Company EUR 5,438 million of PSO funds for the year 2018, which compensated the Company's revenue not received in 2015.

Accrual of income from capacity reserve and system services

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

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

As at 31 December 2018, the amount of the Company's contingent assets related to the legal dispute concerning the Commission's decision, by which the Company was declared as an undertaking with significant power in the electricity generation market and thus the amount of the payable PSO funds was additionally reduced by EUR 2.51 million, amounted to EUR 2.51 million and remains unchanged from 31 December 2017.

All amounts in EUR thousands unless otherwise stated

4 Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (foreign exchange risk, fair value interest rate risk and cash flow interest rate risk and securities price risk). In managing these risks the Company seeks to mitigate the effect of factors which could make a negative effect on the financial performance of the Company.

Financial instruments by category

Financial assets	At 31 December 2018	At 31 December 2017
Trade receivables	12,037	17,216
Other amounts receivable	2,556	8,669
Loans granted	49,950	14,930
Cash and cash equivalents	47,885	60,700
Other non-current receivables	232	315
Financial assets measured at amortised cost (2018)/Loans and receivables (2017)	**112,660**	**101,830**
Financial assets compulsorily measured at fair value through profit or loss	2,000	7,521
Total	**114,660**	**109,351**

Financial liabilities	At 31 December 2018	At 31 December 2017
Loans received	38,036	55,247
Finance lease liabilities	172	310
Other non-current borrowings	633	723
Trade payables	13,425	17,380
Other amounts payable and liabilities	1,026	1,209
Financial liabilities at amortised cost	**53,292**	**74,869**
Total	**53,292**	**74,869**

Credit risk

As at 31 December 2018 and 2017, exposure to credit risk arose from the following items:

Financial assets	At 31 December 2018	At 31 December 2017
Financial assets	114,660	109,351
Total	**114,660**	**109,351**

The Company's exposure to credit risk arising from amounts receivable is limited because the major buyers are reliable customers. As at 31 December 2018 and 2017, trade receivables neither past due nor impaired were of high credit quality. The Company is exposed to significant credit risk concentration, because credit risks are shared among 5 main customers accounting for approximately up to 99% of total trade receivables of the Company. More details about credit risk arising from amounts receivable are provided in Notes 10 and 11.

Exposure to credit risk arising from cash at bank is limited because the Company conducts transactions with the banks with high credit ratings awarded by international credit rating agencies. The Company holds cash balances and term deposits in accounts of the major banks in Lithuania awarded with 'A-' and higher external credit rating by the rating agency Fitch Ratings.

All amounts in EUR thousands unless otherwise stated

4 Financial risk management (continued)

Liquidity risk

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

As at 31 December 2018, the Company's current ratio (total current assets/total current liabilities) and quick ratio ((total current assets – inventories)/total current liabilities) were 3.86 and 3.75, respectively (31 December 2017: 2.55 and 2.43, respectively).

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

	Within the first year	Within the second year	Within the third–fifth year	After five years
At 31 December 2018				
Borrowings	4,898	4,820	14,118	16,317
Finance lease liabilities	148	36	-	-
Trade and other payables	16,127	101	197	186
At 31 December 2017				
Borrowings	21,884	17,634	12,136	5,472
Finance lease liabilities	148	148	36	-
Trade and other payables	18,589	105	304	380

Interest rate risk

Revenues and cash flows of the Company are affected by fluctuations in the market interest rates as all borrowings of the Company were subject to variable interest rates as of 31 December 2018. Increase in interest rate risk is mostly affected by non-current borrowings. All borrowings bear variable interest rates which are linked to EURIBOR. Intervals of repricing of interest rates are disclosed in Note 18.

If interest rates on withdrawn balances of borrowings of the Company had been higher/lower by 1 p.p., net profit for the year 2018 would have been EUR 107 thousand (2017: EUR 151 thousand) lower/higher.

Foreign exchange risk

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

Securities price risk

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

Fair value of financial assets and financial liabilities

Trade and other amounts receivable, trade and other debts, non-current and current debts represent the major portion of the Company's financial assets and financial liabilities not carried at fair value. The fair value of the Company's financial assets and financial liabilities designated as at fair value through profit or loss is based on prices in the active market.

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

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

- The carrying amount of cash and cash equivalents, current trade and other accounts receivable, short-term loans granted, current trade and other accounts payable and current borrowings approximates their fair value;
- The fair value of non-current borrowings is based on the quoted market price for the same or similar loan or on the current rates available for loan with the same maturity profile. As at 31 December 2018, the Company had non-current borrowings from Luminor and SEB Bank bearing variable interest rates (Note 18). The fair value of a non-current borrowing bearing variable interest rates approximates its carrying amount, provided that the margin on such loan corresponds to the margins currently prevailing in the market.
- The fair value of non-current amounts receivable and payable is determined with reference to the current interest rates available for the loans with the same maturity profile. As at 31 December 2018, the discount rate applied to the Company's non-current amounts receivable and payable approximated the market interest rate.

All amounts in EUR thousands unless otherwise stated

5 Intangible assets

The Company's intangible assets as at 31 December 2018 and 2017 comprised as follows:

	Computer software	Emission allowances	Other intangible assets	Total
At 31 December 2016				
Acquisition cost	1,262	11,826	128	13,216
Accumulated amortisation	(936)	-	(123)	(1,059)
Net book amount at 31 December 2016	**326**	**11,826**	**5**	**12,157**
Period ended 31 December 2016				
Opening net book amount	**326**	**11,826**	**5**	**12,157**
Additions	29	-	-	29
Grant received	-	1,128	-	1,128
Emission allowances utilised (Note 25)	-	(932)	-	(932)
Income from the revaluation of emission allowances/(expenses)	-	2,808	-	2,808
Transfers from property, plant and equipment (Note 6)	217	-	-	217
Amortisation	(166)	-	(3)	(169)
Net book amount at 31 December 2017	**406**	**14,830**	**2**	**15,238**
At 31 December 2017				
Acquisition cost	1,394	14,830	103	16,327
Accumulated amortisation	(988)	-	(101)	(1,089)
Net book amount at 31 December 2017	**406**	**14,830**	**2**	**15,238**
Period ended 31 December 2017				
Opening net book amount	406	14,830	2	15,238
Additions	89	-	-	89
Grant received	-	2,555	-	2,555
Emission allowances utilised (Note 25)	-	(908)	-	(908)
Income from the revaluation of emission allowances/(expenses)	-	31,816	-	31,816
Transfers from property, plant and equipment (Note 6)	-	-	-	-
Amortisation	(191)	-	(2)	(193)
Net book amount at 31 December 2018	**304**	**48,293**	**0**	**48,597**
At 31 December 2018				
Acquisition cost	1,483	48,293	103	49,879
Accumulated amortisation	(1,179)	-	(103)	(1,282)
Net book amount at 31 December 2018	**304**	**48,293**	**0**	**48,597**

The fair value of emission allowances is determined using the prices quoted in an active market, therefore, it is attributable to Level 1 in the fair value hierarchy. Following the initial recognition, emission allowances are remeasured at fair value based on the active market prices at the end of each reporting period. On revaluation of emission allowances, any increase in carrying amount, which is in excess of the acquisition cost, is added to the revaluation reserve within equity, whereas any decrease in carrying amount, which is excess of the previously accumulated amount in the reserve, is recognised through profit or loss. Emission allowances received on gratuitous basis and emission allowances acquired are accounted for by the Company separately. Upon the realisation of emission units, the positive balance in the revaluation reserve is recognised directly within retained earnings.

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment

The Company's property, plant and equipment as at 31 December 2018 and 2017 comprised as follows:

	Land	Buildings	Structures and equipment	Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant	Structures and equipment of Reserve Power Plant	Combined Cycle Unit	Vilnius Thermal Power Plant No 3	Motor vehicles	Computer hardware, communicatio and other offi equipment	Other PP&E	Construction in progress	Total
At 31 December 2016												
Acquisition cost	1,880	657	4,095	206,510	498,459	387,941	-	138	46	172	2,726	1,101,493
Accumulated amortisation	-	(42)	(1,467)	(87,262)	(267,860)	(62,330)	-	(106)	(43)	(102)	-	(418,081)
Accumulated impairment	-	-	-	-	(38,135)	-	-	-	-	-	(223)	(38,358)
Net book amount at 31 December 2016	**1,880**	**615**	**2,628**	**119,248**	**192,464**	**325,611**	**-**	**32**	**3**	**70**	**2,503**	**645,054**
Period ended 31 December 2017												
Opening net book amount	1,880	615	2,628	119,248	192,464	325,611	-	32	3	70	2,503	645,054
Additions	-	-	24	22	35	104	-	-	-	-	1,703	1,888
Write-offs	-	-	-	-	(14)	-	-	-	-	-	-	(14)
Reversal of impairment	-	-	-	-	45	-	-	-	-	-	-	45
Impairment	-	-	-	-	(105,352)	-	-	-	-	-	-	(105,352)
Reclassifications between groups	-	-	-	835	1,205	60	-	-	-	-	(2,100)	-
Reclassification to intangible assets	-	-	-	-	-	-	-	-	-	-	(217)	(217)
Reclassification from/to inventories	-	-	-	(19)	6	(9)	-	-	-	-	-	(22)
Depreciation	-	(14)	(120)	(7,297)	(22,347)	(14,753)	-	(16)	(2)	(15)	-	(44,564)
Net book amount at 31 December 2017	**1,880**	**601**	**2,532**	**112,789**	**66,042**	**311,031**	**-**	**16**	**1**	**55**	**1,889**	**496,818**
At 31 December 2017												
Acquisition cost	1,880	657	4,119	207,297	389,195	388,095	-	138	46	172	2,112	993,711
Accumulated amortisation	-	(56)	(1,587)	(94,508)	(216,483)	(77,082)	-	(122)	(45)	(117)	-	(390,000)
Accumulated impairment	-	-	-	-	(106,670)	-	-	-	-	-	(223)	(106,893)
Net book amount at 31 December 2017	**1,880**	**601**	**2,532**	**112,789**	**66,042**	**311,013**	**-**	**16**	**1**	**55**	**1,889**	**496,818**

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment (continued)

	Land	Buildings	Structures and equipment	Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant	Structures and equipment of Reserve Power Plant	Combined Cyc Unit	Vilnius Thermal Power Plant No 3	Motor vehicles	Computer hardware, communication and other office equipment	Other PP&E	Construction in progress	Total
Period ended 31 December 2017												
Opening net book amount	1,880	601	2,532	112,789	66,042	311,013	-	16	1	55	1,889	496,818
Additions	-	-	-	10	25	21	3,850	10	2	-	4,858	8,776
Revaluation	(35)	9	(538)	-	(96)	-	-	-	-	-	-	(660)
Sales	-	-	-	-	(8)	(1,060)	-	-	-	-	-	(1,068)
Write-offs	-	-	-	(5)	(29)	-	(9)	-	-	-	-	(43)
Reversal of impairment	-	-	-	-	44	-	-	-	-	-	-	44
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Reclassifications between groups	-	-	-	3,666	1,586	180	-	-	-	-	(5,432)	-
Reclassification to intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification from/to inventories	-	-	-	(116)	(234)	42	-	-	-	-	-	(308)
Depreciation	-	(14)	(122)	(7,130)	(5,046)	(14,551)	(397)	(12)	(1)	(15)	-	(27,288)
Net book amount at 31 December 2018	**1,845**	**596**	**1,872**	**109,214**	**62,284**	**295,645**	**3,444**	**14**	**2**	**40**	**1,315**	**476,271**
At 31 December 2018												
Acquisition cost	1,845	666	3,581	210,852	383,882	387,278	3,841	148	49	172	1,538	993,852
Accumulated depreciation	-	(70)	(1,709)	(101,638)	(215,286)	(91,633)	(397)	(134)	(47)	(132)	-	(411,046)
Accumulated impairment	-	-	-	-	(106,312)	-	-	-	-	-	(223)	(106,535)
Net book amount at 31 December 2018	**1,845**	**596**	**1,872**	**109,214**	**62,284**	**295,645**	**3,444**	**14**	**2**	**40**	**1,315**	**476,271**

All amounts in EUR thousands unless otherwise stated

The table below presents the carrying amounts of the Company's property, plant and equipment that would have been recognised if the cost method had been used in accounting for assets as at 31 December 2018 and 2017:

	Land	Buildings	Structures and equipment	Structures and equipment of Hydro Power Plant and Pumped Storage Power Plant	Structures and equipment of Reserve Power Plant	Combined Cyc Unit	Vilnius Thermal Power Plant No 3	Motor vehicles	Computer hardware, communication and other office equipment	Other PP&E	Construction in progress	Total
At 31 December 2018												
Net book amount	**1,699**	**153**	**2,045**	**109,214**	**62,188**	**295,644**	**3,444**	**12**	**2**	**34**	**1,315**	**475,750**
At 31 December 2017												
Net book amount	**1,699**	**157**	**2,152**	**112,790**	**66,041**	**311,013**	**0**	**14**	**1**	**47**	**1,890**	**495,804**

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment (continued)

As at 31 December 2018, an independent valuation was performed for the Company's assets carried at revalued amount since the fair value of assets differed significantly from their carrying amounts, and the difference was recognised accordingly.

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

	Level 1	Level 2	Level 3	
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	Total
Land	-	1,845	-	1,845
Structures and equipment	-	1,872	-	1,872
Buildings	-	596	-	596
Motor vehicles	-	14	-	14
Computer hardware, communication and other office equipment other PP&E	-	42	-	42
Fair value at 31 December 2018	**-**	**4,369**	**-**	**4,369**

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

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

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

As at 31 December 2018, there were no outstanding capital expenditure commitments under the contracts.

As at 31 December 2018, the Company pledged to the banks property, plant and equipment with the value of EUR 21,978 thousand (31 December 2017: EUR 316,136 thousand).

On 30 March 2018, after Lietuvos Energija UAB, a shareholder of Lietuvos Energijos Gamyba AB, paid for the new issue of 12,919,014 shares by way of in-kind contribution, the non-current assets, a part of which under the accounting policies is attributable to investment property, were transferred to the Company. Investment property includes buildings and constructions with permanently installed fixtures and fittings.

On 27 February 2018, the independent property valuers NILL NILL UAB determined the market value of the assets of Vilnius thermal power plant No 3. At the date of valuation of 13 February 2018, the market value was EUR 8,062 thousand (incl. both investment property and non-current assets).

	Buildings	Constructions	Machinery and equipment	Other fixtures, fittings, tools and equipment	Total
Net book amount at 31 December 2017	-	-	-	-	-
Additions	3,731	100	4	377	4,212
Net book amount at 31 December 2018	**3,731**	**100**	**4**	**377**	**4,212**

The net book amounts of property, plant and equipment recorded within 'Structures and equipment of the Reserve Power Plant' and acquired by the Company under the finance lease contracts as at 31 December 2018 and 2017 were as follows:

Category of property, plant and equipment	At 31 December 2018	At 31 December 2017
Motor vehicles	446	518
Total	**446**	**518**

All amounts in EUR thousands unless otherwise stated

7 Investments

As at 31 December 2018 and 2017, the Company had no subsidiaries.

The Company's investments into associates comprised the following:

At 31 December 2018	Acquisition cost	Participation (ownership interest, %)	Increase (decrease) in value	Company's share of result and dividends	Carrying amount
Geoterma UAB	2,142	23.44	(2,142)	-	-
Technologijų ir Inovacijų Centras UAB	1,287	20.00	189	(30)	1,446
Verslo Aptarnavimo Centras UAB	87	15.00	95	(40)	142
Total	**3,516**		**(1,858)**	**(70)**	**1,588**

At 31 December 2017	Acquisition cost	Participation (ownership interest, %)	Increase (decrease) in value	The Company's share of results of operations	Carrying amount
Geoterma UAB	2,142	23.44	(2,142)	-	-
Technologijų ir Inovacijų Centras UAB	1,287	20.00	116	(20)	1,383
Verslo Aptarnavimo Centras UAB	87	15.00	21	44	152
Total	**3,516**		**(2,005)**	**24**	**1,535**

In its stand-alone financial statements as at 31 December 2018, the Company accounted for investments into associates using the equity method. As at 31 December 2018, the equity of Geoterma UAB was negative, and therefore, the Company was not committed to cover this loss. Accordingly, its share was not accounted for. The guarantee issued by the Company to Geoterma UAB is described in more detail in Note 38.

Movements of the Company's investments in associates during the period ended 31 December 2018 and 2017:

	2018	2017
Carrying amount as at 1 January	**1,535**	**1,511**
Disposal/liquidation of associates	-	-
Dividends of associates	(70)	(77)
Share of financial performance result of associates – profit (loss)	123	101
Carrying amount at 31 December	**1,588**	**1,535**

Summarised statement of financial position of associates as at 31 December 2018 (unaudited) and 2017:

Summarised statement of financial position	Technologijų Ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2018	2017	2018	2017	2018	2016
					N/A	
Current assets and liabilities						
Cash and cash equivalents	1,156	106	1,837	627		39
Other current assets	4,138	3,787	1,761	2,542		246
Total current assets	**5,294**	**3,893**	**3,598**	**3,169**		**285**
Borrowings	(3,455)	(2,409)	-	-		-
Other current liabilities	(2,522)	(2,952)	(2,764)	(2,240)		(3,353)
Total current liabilities	**(5,977)**	**(5,361)**	**(2,764)**	**(2,240)**		**(3,353)**
Non-current assets and liabilities						
Non-current assets	7,951	8,413	134	92		5,822
Grants and subsidies	-	-	-	-		(3,708)
Financial liabilities	-	-	-	-		-
Other non-current liabilities	(157)	(153)	-	-		(394)
Total non-current assets	**7,794**	**8,260**	**134**	**92**		**1,720**
Net assets	**7,111**	**6,792**	**968**	**1,021**		**(1,348)**

All amounts in EUR thousands unless otherwise stated

7 Investments (continued)

Summarised statement of comprehensive income of associates as at 31 December 2018 (unaudited) and 2017:

Summarised statement of comprehensive income	Technologijų Ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2018	2017	2018	2017	2018	2016
					N/A	
Revenue	**16,170**	**14,317**	**11,323**	**11,209**		**1,228**
Depreciation and amortisation	(2,805)	(2,501)	(1)	(1)		(381)
Interest income	-	-	-	-		-
Interest expenses	(13)	(10)	-	-		(40)
Profit (loss) before income tax	**576**	**339**	**257**	**543**		**(466)**
Income tax benefit/(expenses)	(108)	(155)	(61)	(115)		10
Net profit/(loss) for the period	**468**	**184**	**196**	**428**		**(456)**
Other comprehensive income	**-**	**-**	**-**	**-**		**-**
Total comprehensive income for the year	**468**	**184**	**196**	**428**		**(456)**
Dividends received from the associate	**30**	**57**	**40**	**20**		**-**

Summarised financial information of associates as at 31 December 2018 (unaudited) and 2017:

Summarised financial information	Technologijų Ir Inovacijų Centras UAB		Verslo Aptarnavimo Centras UAB		Geoterma UAB	
	2018	2017	2018	2017	2018	2016
					N/A	
Net assets at 1 January	**6,792**	**6,892**	**1,021**	**727**		**(892)**
Formation/dissolution of share capital/reserves	(148)	(284)	(268)	(134)		-
Profit (loss) for the period	468	184	196	428		(456)
Other comprehensive income	-	-	-	-		-
Net assets at 31 December	**7,111**	**6,792**	**949**	**1,021**		**(1,348)**
At 31 December						
Ownership interest	20.00%	20.00%	15.00%	15.00%	23.44%	23.44%
Investment in associate	1,446	1,358	142	152		(316)
Carrying amount	**1,446**	**1,358**	**142**	**152**	**-**	**-**

8 Other non-current assets

The Company's other non-current assets comprised the following:

	At 31 December 2018	At 31 December 2017
Right to receive emission allowances in the future	9,702	9,702
Emission allowances refunded	(4,615)	(4,615)
Less: impairment	-	(1,851)
Carrying amount at the end of the period	**5,087**	**3,236**

As at 31 December 2011, 400,000 units of emission allowances were lent under the provisions of the lending agreement signed with STX Services BV on 1 December 2009. The agreement is valid until 2021. On 16 April 2012, additional 650,000 units of emission allowances were lent under the provisions of the lending agreement signed with CF Partners (UK) LLP on 13 April 2012. On 7 April 2015, CF Partners (UK) LLP returned 650,000 units of emission allowances. There were no changes in 2017 and 2018.

All amounts in EUR thousands unless otherwise stated

9 Inventories

The Company's inventories comprised the following:

	At 31 December 2018	At 31 December 2017
Heavy fuel oil	2,350	4,585
Spare parts and other inventories	2,749	2,558
Biofuel	264	204
Goods for resale	296	297
Total	**5,659**	**7,644**
Less: write-down of inventories to net realisable value	(2,289)	(2,064)
Carrying amount	**3,370**	**5,580**

The cost of the Company's inventories stated at net realisable value as at 31 December 2018 amounted to EUR 2.478 thousand (2017: EUR 2,594 thousand).

Movements in impairment of inventories during the periods ended 31 December 2018 and 31 December 2017 are shown in the table below:

	2018	2017
Inventory write-downs on 1 January	2,064	2,071
Write-down of inventories during the reporting period	598	78
Reversal of inventory write-down	(373)	(85)
Inventory write-down at the end of the period	**2,289**	**2,064**

The inventory write-down expenses and reversal of inventory write-down were included in operating expenses in the statement of comprehensive income. In 2018 and 2017, the Company made additional write-downs to net realisable value for obsolete and slow-moving spare parts stored at the warehouse. In 2018 and 2017, reversal of inventory write-down was recognised for inventories that were utilised and moved to emergency reserve. The reversal was included in operating expenses.

As at 31 December 2018 and 2017, there were no inventories pledged as collateral by the Company.

10 Trade receivables

The Company's trade receivables comprised amounts receivable from customers for goods sold and services rendered:

	At 31 December 2018	At 31 December 2017
Receivables for electricity	12,403	16,539
Receivables for sales of thermal energy	657	1,058
Total	**13,060**	**17,597**
Less: allowance for doubtful receivables	(1,023)	(381)
Carrying amount	**12,037**	**17,216**

As at 31 December 2018 and 2017, the fair value of trade receivables approximated their carrying amount. The fair value of trade receivables is attributed to Level 3 in the fair value hierarchy.

Movements in impairment of trade receivable in the years ended 31 December 2018 and 31 December 2017 were as follows:

	At 31 December 2018	At 31 December 2017
Carrying amount as at 1 January	**381**	**350**
Change in impairment in retained earnings upon first-time adoption of IFRS 9	21	**-**
Restated balance at 1 January 2018	**402**	**-**
Reversal of allowance for doubtful trade receivables	(131)	(50)
Recognised as doubtful receivables in the reporting period	178	81
Reclassified from non-current doubtful debts	574	-
Carrying amount at the end of the period	**1,023**	**381**

Expected credit losses are recognised as amounts receivable which are assessed for credit risk on a collective basis. The Company uses the loss coefficient matrix.

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All amounts in EUR thousands unless otherwise stated

For the purpose of determining the lifetime expected credit losses of amounts receivable, the Company uses the loss coefficient matrix. The loss coefficient matrix is based on historical data on the settlement for trade receivables during the period of validity of trade receivables and is adjusted with respect to future forecasts. The loss coefficients are updated during the preparation of the annual financial statements with respect to the impact of operational prospects where these prospects are indicative of any exacerbation of economic conditions during upcoming years. In this regard, the Company applied used the following loss coefficient matrix as at 31 December 2018:

	Not past due	Past due from 1 to 30 days	Past due from 31 to 60 days	Past due from 61 to 90 days	Past due more than 90 days
Loss coefficient	27.09%	28.75%	53.25%	100%	100%

The Company's trade receivables under contracts with customers as at 31 December 2018, which were assessed using the loss coefficient matrix on a collective basis:

	Carrying amount before credit losses	Impairment
Not past due	152	41
Past due from 1 to 30 days	23	7
Past due from 31 to 60 days	11	6
Past due from 61 to 90 days	8	8
Past due more than 90 days	233	233
Total amounts receivable under contracts with customers	**427**	**295**

As at 31 December 2018, trade receivables that were not past due and were assessed on an individual basis, amounted to EUR 11,905 thousand. As at 31 December 2018, the remaining amount of EUR 728 thousand was past due for more than 90 days; an impairment was recognised on this amount.

The ageing analysis of the Company's trade receivables not past due or past due but not impaired as at 31 December 2017 is as follows:

	At 31 December 2017
Not past due	16,974
Past due up to 30 days	-
Past due from 30 to 60 days	-
Past due from 60 to 90 days	-
Past due more than 90 days	242
Carrying amount	**17,216**

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

	At 31 December 2017
Not past due	-
Past due up to 30 days	-
Past due from 30 to 60 days	-
Past due from 60 to 90 days	-
Past due more than 90 days	381
Carrying amount	**381**

As at 31 December 2018 and 2017, no trade receivables were pledged as collateral by the Company.

11 Other financial assets

The Company's other non-current financial assets comprised the following:

	At 31 December 2018	At 31 December 2017
Receivables for disposal of shares and part of business	-	1,484
Receivables for emission allowances lent	52	103
Receivables for apartments	83	95
Other amounts receivable	97	691
Total	**232**	**2,373**
Less: allowance for doubtful receivables	-	(574)
Carrying amount at the end of the period	**232**	**1,799**

All amounts in EUR thousands unless otherwise stated

11 Other financial assets (continued)

As at 31 December 2018, receivables for emission allowances lent represented future proceeds under the lending agreement signed with STX BV. As at 31 December 2018 and 2017, the fair value of other non-current amounts receivable approximated their carrying amount. The fair value of receivables for emission allowances lent is attributed to Level 3 in the fair value hierarchy.

The Company's other current financial assets comprised the following:

	At 31 December 2018	At 31 December 2017
Other amounts receivable	985	520
Receivables for disposal of shares and part of business	2,000	6,037
Accrued revenue related to the capacity reserve and PSO services (Note 3)	-	8,487
VAT receivable from the state budget	898	562
Receivable excise on heavy fuel	333	489
Total	**4,216**	**16,095**
Less: allowance for doubtful receivables	(429)	(338)
Carrying amount at the end of the period	**3,787**	**15,757**

Doubtful receivables comprise individually assessed amounts that as at 31 December 2018 were past due for more than 90 days. The remaining amounts receivable were not past due.

Movements in allowance for doubtful other non-current amounts receivable during the periods ended 31 December 2018 and 2017 were as follows:

	2018	2017
Carrying amount as at 1 January	574	722
Reversal of impairment	(574)	(148)
Carrying amount at the end of the period	**-**	**574**

Movements in allowance for doubtful other current amounts receivable during the periods ended 31 December 2018 and 2017 were as follows:

	2018	2017
Carrying amount as at 1 January	338	221
Reversal of impairment	-	(2)
Recognised as doubtful receivables in the reporting period	91	119
Carrying amount at the end of the period	**429**	**338**

The impairment charge was included in other expenses in the statement of comprehensive income.

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

	2017
Not past due	1,799
Past due up to 30 days	-
Past due from 30 to 60 days	-
Past due from 60 to 90 days	-
Past due more than 90 days	-
Carrying amount	**1,799**

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

	2017
Not past due	15,721
Past due up to 30 days	30
Past due from 30 to 60 days	3
Past due from 60 to 90 days	3
Past due more than 90 days	-
Carrying amount	**15,757**

All amounts in EUR thousands unless otherwise stated

11 Other financial assets (continued)

As at 31 December 2018 and 2017, the fair value of other current amounts receivable approximated their carrying amount. The fair value of other current amounts receivable is attributed to Level 3 in fair value hierarchy.

The ageing analysis of the Company's other non-current amounts receivable impaired as at 31 December 2018 and 2017 is as follows:

	2017
Not past due	-
Past due up to 30 days	-
Past due from 30 to 60 days	-
Past due from 60 to 90 days	-
Past due more than 90 days	574
Carrying amount	**574**

The ageing analysis of the Company's other current amounts receivable impaired as at 31 December 2018 and 2017 is as follows:

	2017
Not past due	-
Past due up to 30 days	-
Past due from 30 to 60 days	-
Past due from 60 to 90 days	-
Past due more than 90 days	338
Carrying amount	**338**

All amounts in EUR thousands unless otherwise stated

12 Loans granted

	2018	2017
Loans granted to related companies (cashpool)	49,950	14,930
Carrying amount	**49,950**	**14,930**

On 27 April 2016, the Company entered into cash pool agreement, under which the Company granted short-term loans to Lietuvos Energija UAB group companies. These loans are subject to market interest rate, and they are valid until 26 April 2019.

13 Cash and cash equivalents

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

	At 31 December 2018	At 31 December 2017
Cash at bank and on hand	47,885	60,700
Carrying amount	**47,885**	**60,700**

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

Based on the loan agreement signed with Luminor Bank AB, the Company pledged current cash balances and future inflows to bank accounts opened with this bank. As at 31 December 2018, the balance of pledged cash amounted to EUR 15.066 thousand (31 December 2017: EUR 12,505 thousand).

14 Share capital and share premium

On 26 March 2018, the General Meeting of the Company's Shareholders was held during which a decision was passed to increase the Company's authorised share capital by EUR 3,747 thousand through the issue of 12,919,014 shares with the nominal value of EUR 0.29 each. As the issue price was set at EUR 0.624 per share, Lietuvos Energijos Gamyba of shares of accounted for share premium in the amount of EUR 4,314,950.94. Lietuvos Energija UAB committed to pay for the acquired shares by way of an in-kind contribution, i.e. Vilnius Thermal Power Plant No 3, as a whole complex of technological equipment and territories, the value of which was EUR 8,061,465.

As at 31 December 2017, the share capital of the Company amounted to EUR 184,174,248 and it was divided into 635,083,615 ordinary registered shares with the nominal value of EUR 0.29 each. All the shares have been fully paid.

As at 31 December 2018 and 31 December 2017, the Company's shareholder structure was as follows:

	Authorised share capital at 31 December 2018		Share capital at 31 December 2017	
Shareholders	**(in EUR)**	**%**	**(in EUR)**	**%**
Lietuvos Energija UAB	181,938,103	96.82	178,191,589	96.75
Other shareholders	5,982,659	3.18	5,982,659	3.25
Total	**187,920,762**	**100.00**	**184,174,248**	**100.00**

Lietuvos Energija UAB is wholly owned by the State of Lithuania, represented by the Lithuanian Ministry of Finance.

	Share capital		Share premium	
	(shares)	**(shares)**	**(in EUR)**	**(in EUR)**
	2018	**2017**	**2018**	**2017**
Number of shares at the beginning of the period	635,083,615	635,083,615	85,660,132	85,660,132
Number of shares at the end of the period	648,002,629	635,083,615	89,975,083	85,660,132

All amounts in EUR thousands unless otherwise stated

15 Revaluation reserve

Revaluation reserve arises from revaluation of property, plant and equipment due to increase in value.

Movements in the Company's revaluation reserve as at 31 December 2018 and 2017 were as follows:

	Revaluation reserve	Deferred income tax	Net of deferred income tax
Balance at 31 December 2016	**1,215**	**(182)**	**1,033**
Depreciation of revaluation reserve	(34)	5	(29)
Revaluation of emission allowances	1,512	(227)	1,285
Balance at 31 December 2017	**2,693**	**(404)**	**2,289**
Balance at 31 December 2017	2,693	(404)	2,289
Depreciation of revaluation reserve	(34)	5	(29)
Revaluation of property, plant and equipment	(384)	58	(326)
Revaluation of emission allowances	22,031	(3,306)	18,725
Balance at 31 December 2018	**24,306**	**(3,647)**	**20,659**

16 Legal reserve

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

As at 31 December 2018, the Company's legal reserve amounted to EUR 13,897 thousand (31 December 2017: EUR 12,871 thousand).

17 Dividends per share

On 27 December 2016, the Board of Lietuvos Energija UAB, a company holding 96.82% of the Company's shares, approved the dividend policy of the Lietuvos Energija group of companies which establishes the uniform net profit appropriation principles to be applicable to all companies of the group. In accordance with the new procedure the Company's proposal regarding the allocation of dividends depends on the Company's ratio on return on equity, financial capacities to pay dividends, implementation of economic projects important to the State and other circumstances.

During the Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 26 March 2018, a decision was made to pay out dividends of EUR 0.014 per share for July–December 2017, amounting to EUR 8,891 thousand in total. During the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 28 September 2018, a decision was made to pay out dividends of EUR 0.023 per share for January–June 2018, amounting to EUR 14,904 thousand in total.

	2018
Dividends (EUR '000)	23,795
Weighted average number of shares (units)	644,463,173
Dividends per share (EUR)	**0.037**

During the Ordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 24 March 2018, a decision was made to pay out dividends of EUR 0.020 per share for July–December 2016. During the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB held on 29 September 2017, a decision was made to pay out dividends of EUR 0.017 per share for January–June 2017.

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

All amounts in EUR thousands unless otherwise stated

18 Borrowings

The Company's borrowings by maturity grouping are as follows:

	At 31 December 2018	At 31 December 2017
Non-current borrowings		
Loan from Luminor Bank AB, in EUR, to be repaid by 31 March 2027	8,888	10,114
Loan from SEB Bankas AB, in EUR, to be repaid by 6 July 2027	24,731	23,925
Total non-current borrowings	**33,619**	**34,039**
Current borrowings and current portion of non-current borrowings		
Loan from Luminor Bank AB, in EUR, to be repaid by 31 March 2027	1,226	1,226
Loan from SEB Bankas AB, in EUR, to be repaid by 6 July 2027	3,191	19,982
Total current borrowings and current portion of non-current borrowings	**4,417**	**21,208**

On 21 February 2014, the Company concluded a loan agreement with SEB Bankas AB for maximum amount of EUR 158,000 thousand. The purpose of this agreement was to refinance three loans under the credit agreements with the banks operating in Lithuania and the European Bank for Reconstruction and Development. The loan is to be repaid by 23 February 2024. The Company made an early repayment of part of loan to SEB Bankas AB and signed a new credit agreement with the SEB Bankas AB on 5 July 2017 for the amount of EUR 60,000 thousand. By this agreement, the loan granted by SEB Bankas AB under the credit agreement of 21 February 2014 was refinanced as of 20 November 2018, the outstanding balance of the loan being EUR 27.9 million, and part of property, plant and equipment (CCU, Units 7 and 8 of the Reserve Power Plant) was released from pledge as collateral to secure the repayment of the loan.

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

As at 31 December 2018, the Company had borrowings that were not withdrawn pursuant to the new credit line agreement signed with SEB Bankas AB on 5 July 2017. The average interest rate payable on the Company's borrowings was 1.44% in 2018 (2017: 1.37%).

To secure the repayment of loans, in 2018 and 2016 the Company pledged its property, plant and equipment, cash balances and future inflows to bank accounts (Notes 6,13).

As at 31 December 2018, the fair value of the Company's borrowings was approx. EUR 35,181 thousand (31 December 2017: the fair value of the Company's borrowings was approx. EUR 50,064 thousand). The fair value was estimated using a discount rate of 3.22% (31 December 2017: 2.37%). The fair value of borrowings is attributed to Level 2 in the fair value hierarchy.

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

	At 31 December 2018	At 31 December 2017
Every 1 to 3 months	27,922	43,908
Every 3 to 6 months	10,114	11,340
Total borrowings	**38,036**	**55,247**

19 Finance lease liabilities

The Company's future finance lease payments for equipment and other assets comprise the following:

	At 31 December 2018		At 31 December 2017	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Financial lease payments:				
Within the first year	147	138	148	138
Within the second– fifth years	37	34	184	172
Minimum lease payments	**184**	**172**	**332**	**310**
Less: future finance charges	(12)	-	(22)	-
Present value of minimum finance lease payments	**172**	**172**	**310**	**310**

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

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

All amounts in EUR thousands unless otherwise stated

20 Grants

The balance of grants includes grants received to finance the acquisition of assets Movements on grants account during 2018 and 2017 were as follows:

	Fuel combustion equipment and other assets	Asset-related grants Project for renovation, improvement of environmental and safety standards	Grants for emission allowances	Total
Balance at 1 January 2017	**27,408**	**241,843**	**507**	**269,758**
Depreciation of immovable property, plant and equipment	(628)	(19,149)	-	(19,777)
Grants received during the period	-	74	1,128	1,202
Reversal of grants on recognition of impairment of PP&E (Note 3)	-	(72,872)	-	(72,872)
Utilisation of grant for emission allowances	-	-	(436)	(436)
Balance at 31 December 2017	**26,780**	**149,896**	**1,199**	**177,875**
Balance at 1 January 2018	**26,780**	**149,896**	**1,199**	**177,875**
Depreciation of immovable property, plant and equipment	(628)	(7,819)	-	(8,447)
Grants received during the period	-	-	2,555	2,555
Reversal of grants on recognition of impairment of PP&E (Note 3)	-	(769)	-	(769)
Utilisation of grant for emission allowances	-	-	(175)	(175)
Balance at 31 December 2018	**26,152**	**141,308**	**3,579**	**171,039**

In 2018, assets-related grants decreased by EUR 8,447 thousand due to depreciation of property, plant and equipment (2017: EUR 19,777 thousand). Depreciation expenses of property, plant and equipment were reduced by this amount in the statement of comprehensive income.

In 2018, the Company received emission allowances on a gratuitous basis in the amount of EUR 2,555 thousand (31 December 2017: EUR 1,128 thousand (Note 2.6).

21 Other non-current amounts payable and liabilities

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

	At 31 December 2018	At 31 December 2017
PSO service fees received in advance (deferred income) (Note 3)	9,387	5,494
Non-current payables for material valuables	633	723
Provisions for pension payments and indemnification for damages	594	487
Total	**10,614**	**6,704**

Provisions for pension payments represent calculated amounts to be paid according to Lithuanian legislation. Each employee terminating the employment at retirement age is entitled to receive a payment of two monthly salaries upon retirement.

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

All amounts in EUR thousands unless otherwise stated

22 Income tax and deferred income tax

Income tax expense as at 31 December 2018 and 31 December 2017 comprised as follows:

	At 31 December 2018	At 31 December 2017
Income tax expense components		
Current income tax	2,936	3,381
Adjustment of previous year income tax	(121)	(725)
Deferred income tax expense/(income)	2,748	(7,480)
Adjustment to previous year deferred income tax	-	(2)
Current income tax (income) expenses	**5.563**	**(4,826)**

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

Deferred income tax assets	PP&E revaluation/deemed cost (decrease in value)	Accrued expenses	Deferred income	Impairment of assets	Impairment of assets	Total
At 31 December 2016	**35,961**	**122**	**1,383**	**33**	**1,599**	**39,098**
Recognised in the statement of comprehensive income	(1,883)	330	1,527	4,664	(202)	4,436
At 31 December 2017	**34,078**	**452**	**2,910**	**4,697**	**1,397**	**43,534**
At 31 December 2017	**34,078**	**452**	**2,910**	**4,697**	**1,397**	**43,534**
Recognised in the statement of comprehensive income	(1,667)	334	(667)	(1,277)	(1,397)	(4,674)
At 31 December 2018	**32,411**	**786**	**2,243**	**3,420**	**-**	**38,860**

Deferred income tax liability	PP&E revaluation/ deemed cost (increase in value)	Tax relief on acquisition of PP&E	Revaluation of emission allowances	Total
At 31 December 2016	**(43,659)**	**(2,796)**	**-**	**(63,829)**
Recognised in the statement of comprehensive income	3,670	556	-	3,046
Recognised in other comprehensive income	-	-	(227)	(227)
At 31 December 2017	**(39,989)**	**(2,240)**	**(227)**	**(61,009)**
At 31 December 2017	**(39,989)**	**(2,240)**	**(227)**	**(61,009)**
Recognised in the statement of comprehensive income	2,175	89	(770)	1,889
Recognised in other comprehensive income	99	-	(3,305)	(3,206)
At 31 December 2018	**(37,715)**	**(2,151)**	**(4,302)**	**(62,326)**

Deferred income tax, net, at 31 December 2016
Deferred income tax, net, at 31 December 2017
Deferred income tax, net, at 31 December 2018

All amounts in EUR thousands unless otherwise stated

22 Income tax and deferred income tax (continued)

Deferred income tax assets were offset with deferred income tax liability in the Company's statement of financial position as they relate to the same taxation authority.

Deferred income tax recognised in the statement of financial position as at 31 December 2018 and 2017 comprised the following:

	At 31 December 2018	At 31 December 2017
Deferred income tax assets	-	-
Deferred income tax liabilities	23,466	17,475
Net deferred income tax liability	**23,466**	**17,475**

When calculating deferred income tax as at 31 December 2018 and 2017, income tax rate of 15% was used.

As at 31 December 2018, the Company had no accumulated unrealised tax losses.

Income tax expense disclosed in the statement of comprehensive income relating to the result of the current reporting period may be reconciled to income tax expense that would arise using an enacted income tax rate applicable to profit before income tax.

	At 31 December 2018	At 31 December 2017
Profit before income tax	35,207	15,695
Income tax calculated at a rate of 15%	5,281	2,354
Adjustment of previous year income tax	(121)	(727)
Income tax relief for the investment project	(1,103)	(3,381)
Reversal of previous year deferred income tax due to the write-off of units 5-6	-	(1,581)
Tax effects of (non-)taxable income and (non-)deductible expenses	1,506	(1,491)
Income tax	5,563	(4,826)

23 Trade payables

The Company's trade payables comprise as follows:

	At 31 December 2018	At 31 December 2017
Debts for electricity and related services	914	12,975
Amounts due for contractual works, other services	8,971	1,022
Amounts due for gas and fuel oil	2,612	2,703
Amounts due for material values	746	205
Amounts payable for property, plant and equipment	182	475
Total	**13,425**	**17,380**

The fair value of trade payables approximates their carrying amounts.

24 Advance amounts received

The Company's advance amounts received comprised the following:

	At 31 December 2018	At 31 December 2017
PSO service fees received in advance (deferred income)	5,545	-
Other advances received	1,017	1,135
Total	**6,562**	**1,135**

All amounts in EUR thousands unless otherwise stated

25 Provisions

Movements in current year portion of provisions for emission allowances as at 31 December 2018 and 2017 were as follows:

Balance as at 31 December 2016	**1,316**
Emission allowances utilised (Note 5)	(932)
Revaluation	(384)
Provisions for emissions	528
Balance as at 31 December 2017	**528**
Balance as at 31 December 2017	**528**
Emission allowances utilised (Note 5)	(908)
Revaluation	380
Provisions for emissions	894
Balance as at 31 December 2018	**894**

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

As at 31 December 2018, a liability was accumulated in relation to the dismantling of units 5 and 6 and chimneys at the Lithuanian Power Plant. The gross amount of the liability was equal to EUR 1,573 thousand, whereof: non-current lablilities accounted for EUR 723 thousand, and current liabilities accounted for EUR 850 thousand.

26 Other amounts payable and liabilities

The Company's other amounts payable comprised the following:

	At 31 December 2018	At 31 December 2017
Dividends payable	866	777
Other amounts payable and current liabilities	153	322
Vacation reserve	685	595
Employment-related liabilities	930	605
Taxes payable	527	467
Accrued expenses from purchases of electricity	8	111
Carrying amount	**3,169**	**2,877**

The fair value of other accounts payable approximates their carrying amounts.

27 Revenue from contracts with customers

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

	At 31 December 2018	At 31 December 2017
Revenue from sale of electricity	76,285	103,033
Whereof: PSO revenue	*12,969*	*47,123*
Capacity reserve	45,681	40,449
Revenue from sale of thermal energy	3,911	3,717
Total	**125,877**	**147,199**

All revenue from agreements concluded with customers is calculated with regard to the price of the transaction as defined in the agreement. The Company usually receives payments immediately after rendering respective services. In rare cases, an agreement on deferred payment conditions might be made but payment deferral would not exceed twelve months in any case; therefore, the price of the transaction is not based on the impact of financing relationship on the recognition of revenue. The Company had no revenue from performance obligations fulfilled (or partially fulfilled) in prior periods (e.g. changes in the price of the transaction) and recognised during the reporting period. As at 31 December 2018, the Company assessed the potential liabilities to return funds to the customers and determined no balances of such liabilities.

All amounts in EUR thousands unless otherwise stated

28 Segment reporting

In 2017, the management distinguished its operating segments based on the reports reviewed by the Board. The Board is the principal decision-making body on the Company level With effect from 2012, the Board started analysing the operations in terms of profitability of the regulated activities and the commercial activities of the Company. Adjusted EBITDA is a profitability measure analysed by the Board. When calculating this EBITDA indicator, as compared to the EBITDA indicator disclosed in the Company's annual report, additional elimination of the management's adjustments is made. The reports analysed by the Board are in line with the financial statements prepared in accordance with IFRSs, except for the format of presentation. Changes were made in segment reporting for the year 2018 in view of how the Board analysed the Company's operations, i.e. operating profit was replaced with adjusted EBITDA. The comparative information was adjusted accordingly.

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

Information on the Company's segments for the year ended 31 December 2018 is presented below:

2018	Regulated activities	Commercial activities	Total
Total revenue of segments	**65,748**	**64,903**	**130,651**
Adjusted EBITDA	**20,146**	**24,670**	**44,816**
Management's adjustments	**-**	**-**	**-**
Due to the effect of the commercial activity regularisation[1]	-	-	-
Due to the effect of the recalculation of previous period one-off regulated revenue[2]	-	-	-
Other adjustments	**(14,023)**	**5,691**	**(8,332)**
Depreciation and amortisation expenses of non-current assets	(14,023)	(5,011)	(19,034)
Increase (decrease) in value of non-current and other assets	-	(553)	(553)
Write-offs of non-current assets	-	(57)	(57)
Revaluation of emission allowances and provisions	-	10,784	10,784
Disposal of shares, part of business	-	528	528
Operating profit	**6,123**	**30,361**	**36,484**
Finance income			168
Finance (costs)			(1,568)
Share of results of operations of associates			123
Profit before income tax			**35,207**

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

2017	Regulated activities	Commercial activities	Total
Total revenue of segments	**97,180**	**52,635**	**149,815**
Adjusted EBITDA	**32,971**	**20,763**	**53,734**
Management's adjustments	**16,805**	**-**	**16,805**
Due to the effect of the commercial activity regularisation[1]	5,438	-	5,438
Due to the effect of the recalculation of previous period one-off regulated revenue[2]	11,367	-	11,367
Other adjustments	**(51,562)**	**(2,741)**	**(54,303)**
Depreciation and amortisation expenses of non-current assets	(20,177)	(4,779)	(24,956)
Increase (decrease) in value of non-current and other assets	(31,385)	(1,046)	(32,431)
Write-offs of non-current assets	-	(11)	(11)
Revaluation of emission allowances and provisions	-	2,296	2,296
Disposal of shares, part of business	-	799	799
Operating profit	**(1,786)**	**18,022**	**16,236**
Finance income			244
Finance (costs)			(886)
Share of results of operations of associates			101
Profit before income tax			**15,695**

[1] In 2014, the Commission adopted a resolution, by which the Company was declared as an undertaking with significant power in the electricity generation market. Based on this resolution, earnings from sale of electricity generated at the Company's hydroelectric plants were subject to restriction by deducting the respective amount from the PSO funds approved for the Company. On 17 October 2016, the Supreme Administrative Court of Lithuania announced its judgement based on which the aforementioned resolution of the Commission was repealed. Regardless of the

All amounts in EUR thousands unless otherwise stated

court judgement, the Commission has not yet adopted a resolution on the compensation of the PSO funds that were not paid in 2016 to the Company. As a result, the decrease in PSO revenue that the Company accounted for in 2016 amounted to EUR 1.9 million. On the other hand, at the end of 2017, as part of implementation of the court judgement, the Commission allocated to the Company EUR 5.4 million of PSO funds for the year 2018, which will compensate the Company's revenue not received in 2015. This amount was recognised as revenue in the Company's financial statements for 2017. These adjustments were made in order to reflect on the Company's normalised results of the current reporting period.
[2] In 2014, following the completion of the audit of the Company's regulated activity for the period 2010-2012, the Commission made a decision on the restatement of expenses and revenue attributed to the regulated activities of this period. As a result of this restatement, the Company's capacity reserve revenue established for the year 2016 was reduced by EUR 3.7 million for the previous period. In 2017, the Commission inspected the PSO funds allocated to the Company during 2010-2015, and in 2017 introduced changes in the principles for determination of allocated PSO funds, with relevant changes in the regulatory framework. As a result of these changes, in its financial statements for 2017, the Company recognised PSO revenue related to the restatement of the PSO funds recognised in prior periods in the amount of EUR 11.4 million. These adjustments were made in order to reflect on the Company's normalised results of the current reporting period.

As at 31 December 2018 and 2017, all major items of revenue of the Company (including other operating income) were treated as earned inside Lithuania. Sales of electricity via the Lithuanian bidding area on the Power Exchange were not treated as revenue earned from outside Lithuania, since the end user of electricity sold on the power exchange was unknown.

All assets of the Company are located in Lithuania.
Revenue from customers accounting for 10% or more of the Company's total revenue:

	2018	2017
Baltpool UAB	27,961	34,308
Litgrid AB	53,691	43,209
Total	**81,652**	**77,517**

29 Other income

As at 31 December 2018 and 2017, the Company's other operating income comprised the following:

	At 31 December 2018	At 31 December 2017
Disposal of part of business (Note 3)	528	799
Sale of metal scrap	1,460	1,217
Sale of heavy fuel oil	1,860	-
Gain on disposal of property, plant and equipment	3	93
Disciplinary measures	69	67
Other income	854	440
Total	**4,774**	**2,616**

30 Finance income

As at 31 December 2018 and 2017, the Company's finance income comprised the following:

	At 31 December 2018	At 31 December 2017
Dividends	-	-
Other income	36	90
Interest income	132	154
Foreign exchange positive effect	-	-
Total finance income	**168**	**244**

31 Finance costs

As at 31 December 2018 and 2017, the Company's finance income comprised the following:

	At 31 December 2017	At 31 December 2017
Interest expenses	(498)	(874)
Foreign exchange negative effect	-	-
Other finance costs	(1,070)	(12)
Total finance costs	**(1,568)**	**(886)**

All amounts in EUR thousands unless otherwise stated

32 Related-party transactions

The Company's transactions with related parties between January and December 2018 and the balances arising on these transactions as at 31 December 2018 are presented below:

Related parties	Amounts payable and accrued expenses	Amounts receivable and unbilled revenue	Loans granted	Purchases	Sales
Associates of the Company	159	19	660	1,077	9
Companies of Lietuvos Energija UAB group	1,498	2,023	49,290	10,314	2,187
Parent company Lietuvos Energija UAB	60	-	-	8,603	24
Companies of the state-owned EPSO-G Group	2,923	11,714	-	31,331	118,772
Total	**4,640**	**13,756**	**49,950**	**51,325**	**120,992**

The Company carries out the functions of a designated entity, i.e. it bought the total quantity of electricity expected to be produced by wind-power generators and sold it at the power exchange. Purchases (EUR 10,814 thousand during January– December 2018; respectively, EUR 5,258 thousand during January–December 2017) and sales (EUR 83,358 thousand during January–December 2018; respectively, EUR 54,264 thousand during January–December 2017) of electricity produced by wind-power generators as reported in the tables on the related-party transactions cover the total amount of the transactions in the Company's sales revenue.

The Company's transactions with related parties between January and December of 2017 and the balances arising on these transactions as at 31 December 2017 are presented below:

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

The major sale transactions during the years ended 31 December 2018 and 2017 comprised transactions with LITGRID AB and BALTPOOL UAB. Transactions with state-owned entities other than those controlled by the Ministry of Finance included regular business transactions and therefore they are not disclosed.

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

Compensation to key management personnel:

	2018	2017
Employment-related payments	262	218
Termination benefits	-	-
Other significant payments to key management personnel	43	48

In 2018 and 2017, key management personnel included the chief executive officer and the directors of services (including the acting directors of services).

33 Employee benefits and related social security contributions

	2018	2017
Wages and salaries	6,435	5,943
Termination benefits	191	166
Social security contributions	2,051	1,897
Change in vacation accrual	112	79
Change in social security contributions on accrued vacation reserve	35	26
Total	**8,824**	**8,111**

All amounts in EUR thousands unless otherwise stated

34 Other expenses

	2018	2017
Other expenses	1,975	2,185
Cost of heavy fuel oil	2,371	-
Operating taxes	1,914	1,920
Security expenses	596	642
Business support and management services	1,087	883
Insurance	232	242
Leases	143	163
Support , charity	-	156
Audit fee	38	77
(Increase in value) impairment of amounts receivable	138	1
Total	**8494**	**6,269**

Services rendered to the Company by the auditor

	2018
Expenses related to audit of financial statements under agreements	30
Expenses related to assurance and other related services	2
Expenses related to other services	2
Total	**34**

35 Basic and diluted earnings per share (in EUR)

Basic and diluted earnings per share in 2018 and 2017 were as follows:

	2018	2017
Net profit for the year attributable to shareholders	29,644	20,521
Weighted average number of shares (units)	644,463,173	635,083,615
Basic and diluted earnings/(loss) per share (in EUR)	**0.046**	**0.032**

36 Offsetting financial assets and financial liabilities

As at 31 December 2018 and 2017, the Company had no offset financial assets and financial liabilities.

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

37 Net debt reconciliation

This Note sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt balances as at 31 December 2018 and 31 December 2017:

	2018	2017
Cash and cash equivalents	(47,885)	(60,700)
Liquid investments	(49,950)	(14,930)
Financial debts payable within one year (including overdraft)	33,653	34,211
Financial debts payable after one year	4,555	21,346
Net debt	**(59,627)**	**(20,073)**
Cash and liquid investments	(97,835)	(75,630)
Financial debts with variable interest rate	38,208	55,557
Net debt	**(59,627)**	**(20,073)**

All amounts in EUR thousands unless otherwise stated

37 Net debt reconciliation (continued)

For the purpose of net debt calculation, borrowings comprise only debts to financial institutions and other debts relating to financing. There is no definition of net debt in the accounting standards, because no unanimous decision has been reached in terms of its definition and in terms of what should/shouldn't be included in the calculation of net debt as the issuer of the standards considered the amendments to IAS 7.

Reconciliation of net debt balances and cash flows from financing activities of 2018 and 2017:

	Other assets		Liabilities arising from financing activities					
	Cash/overdraft	Liquid investments*	Current portion of finance lease liabilities	Non-current portion of finance lease liabilities	Current borrowings	Current portion of non-current borrowings	Non-current portion of non-current borrowings	Total
Net debt as at 1 January 2017	**(99,045)**	**(18,098)**	**138**	**310**	**-**	**21,208**	**111,251**	**15,764**
Cash flows	38,345	3,168	-	(138)	-	-	(77,212)	(35,837)
Other non-cash changes	-	-	-	-	-	-	-	-
Net debt as at 31 December 2017	**(60,700)**	**(14,930)**	**138**	**172**	**-**	**21,208**	**34,039**	**(20,073)**
Cash flows	12,815	(35,020)	-	(138)	-	-	(17,211)	(39,554)
Other non-cash changes	-	-	-	-	-	(16,791)	16,791	-
Net debt as at 31 December 2018	**(47,885)**	**(49,950)**	**138**	**34**	**-**	**4,417**	**33,619**	**(59,627)**

* Liquid investments are financial assets that include short-term investments recognised as loans at amortised cost. Their cash flows are classified as cash flows from investing activities.

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

38 Off-balance sheet commitments and contingencies

Guarantees issued and received

The Company has provided a guarantee to Luminor Bank AB, by which it irrevocably and unconditionally guaranteed for the payment of Kauno Energetikos Remontas UAB in the amount of EUR 1,883 thousand after the receipt of the first written request. The Company has guaranteed to the bank for the proper fulfilment of obligations of Kauno Energetikos Remontas UAB under Credit Agreement No KS 12/12/01 signed between the bank and Kauno Energetikos Remontas UAB on 4 December 2012. As from 1 January 2016, Kauno Energetikos Remontas UAB was reorganised to Energetikos Paslaugų ir Rangos Organizacija UAB by way of merger. The guarantee expired. The credit was repaid on 2 February 2018.

As at 31 December 2018, no other guarantees were received by the Company from other entities.

Litigations

The dispute over the resolutions adopted by the Commission relating to revenue from the regulated activities is disclosed in Note 3. There were no significant changes in litigations as from 31 December 2018.

Tax audits

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

Future minimum lease payments under irrevocable operating lease contracts

	2018	2017
Within one year	225	193
After one year, but not later than within five years	900	771
After five years	15,458	14,445
Total	**16,583**	**15,409**

The future minimum lease payments include long-term lease contracts for state-owned land, which is used for industrial, warehousing, transport and engineering network purposes. In 2018, operating lease expenses amounted to EUR 221 thousand.

All amounts in EUR thousands unless otherwise stated

39 Capital management

Capital consists of the equity capital disclosed in the statement of financial position.

The Company manages its capital structure and makes the adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, repay capital to shareholders or issue new shares. As at 31 December 2018, there were no changes in risk management objectives, policy or procedures, except for changes in the dividend policy.

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

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

According to the Law on Companies of the Republic of Lithuania, equity of the Company must account for at least ½ of the amount of the authorised share capital. No other external capital requirements have been imposed on the Company. As at 31 December 2018 and 31 December 2017, the Company was not in breach of the above mentioned requirement.

40 Events after the end of the reporting period

On 28 January 2019, the Company was notified about the intention of the Ministry of Finance to transfer the compensation due to the Republic of Lithuania by the decision of a British court for the alleged damage caused by Alstom Power Ltd. in 2005–2009 during the execution of a project at the Lithuanian Power Plant. On 11 February 2019, an amount of EUR 9,276 thousand was transferred to the Company’s settlement account.

On 15 February 2019, the state enterprise Turto Bankas filed a claim to Klaipėda Regional Court on the initiation of bankruptcy proceedings against the heat energy producer Geoterma UAB. The Company holds 23.44% of the shares of Geoterma UAB.

There were no other significant events between 31 December 2018 and the date of approval of the financial statements.

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