

IMPORTANT NOTICE

THIS BASE PROSPECTUS IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) LOCATED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S (“REGULATION S”).

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus following this page whether received by email, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Base Prospectus. In reading, accessing or making any other use of the Base Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Base Prospectus, including any modifications to them from time to time each time you receive any information from the Issuer, the Arranger or the Dealers (each as defined in the Base Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE BASE PROSPECTUS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the attached Base Prospectus or make an investment decision with respect to the securities that may be offered, prospective investors must be non U.S. persons (as defined in Regulation S) located outside the United States. This Base Prospectus is being sent to you at your request, and by accessing this Base Prospectus you shall be deemed to have represented to the Issuer and the Arrangers that (1) (a) you are not a U.S. Person and (b) the electronic mail address that you gave us and to which this email has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such Base Prospectus by electronic transmission. You are reminded that this Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person. The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

This Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom; or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) and (iii) to high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i), (ii) and (iii) above together being referred to as “**relevant persons**”). This Base Prospectus is only available to and is only directed at relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

The attached Base Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Arranger, the Dealers nor any person who controls them nor any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version.

The distribution of the Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the Base Prospectus comes are required by the Issuer and the Arrangers to inform themselves about, and to observe, any such restrictions.



„LIETUVOS ENERGIJA”, UAB

(incorporated with limited liability under the laws of the Republic of Lithuania)

EUR 1,000,000,000

Euro Medium Term Note Programme

„Lietuvos energija”, UAB (the “**Issuer**”) has established a Euro Medium Term Note Programme (the “**Programme**”) for the issuance of up to EUR 1,000,000,000 in aggregate principal amount of notes (the “**Notes**”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed EUR 1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

This Base Prospectus has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the “**CSSF**”), which is the Luxembourg competent authority for the purpose of Directive 2003/71/EC, as amended, (the “**Prospectus Directive**”) and relevant implementing measures in Luxembourg, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg for the purpose of giving information with regard to Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof. Applications have also been made for such Notes to be admitted during the period of twelve months after the date hereof to listing on the official list (the “**Official List**”) and to trading on the regulated market (the “**Regulated Market**”) of the Luxembourg Stock Exchange. The Regulated Market of the Luxembourg Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer (which may include the Nasdaq Vilnius Stock Exchange). Application has been made for a certificate of approval under Article 18 of the Prospectus Law 2005 to be issued by the CSSF to the competent authority in the Republic of Lithuania. This document will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

By approving this Base Prospectus, investors should note that the CSSF, in its capacity as competent authority under the Prospectus Law 2005, assumes no responsibility as to the economic and financial soundness of any transactions contemplated by this Base Prospectus or the quality or solvency of the Issuer, in line with Article 7(7) of the Prospectus Law 2005.

The Issuer has been assigned a long-term senior unsecured rating of BBB+ (stable outlook) by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”) but the Programme has not been separately rated. Standard & Poor’s is established in the European Economic Area (“**EEA**”) and registered under Regulation (EU) No 1060/2009, as amended (the “**CRA Regulation**”). Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche (as defined herein) of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Issuer.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Notes are discussed under “Risk Factors” below.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”)) except in certain transactions exempt from the registration requirements of the Securities Act.

Arranger

BNP PARIBAS

Dealers

BNP PARIBAS

SEB

Base Prospectus dated 27 June 2017

CONTENTS

	Page
IMPORTANT NOTICES	3
FORWARD-LOOKING STATEMENTS	6
HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA	7
RISK FACTORS	8
GENERAL DESCRIPTION OF THE PROGRAMME	24
PRESENTATION OF FINANCIAL INFORMATION OF THE GROUP	28
OVERVIEW OF FINANCIAL INFORMATION	32
FINAL TERMS AND DRAWDOWN PROSPECTUSES	38
FORMS OF THE NOTES	39
OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM.....	44
TERMS AND CONDITIONS OF THE NOTES	46
FORM OF FINAL TERMS.....	68
USE OF PROCEEDS	75
DESCRIPTION OF THE GROUP.....	76
DESCRIPTION OF OTHER INDEBTEDNESS	101
MANAGEMENT	103
RELATED PARTY TRANSACTIONS	109
REGULATION	110
TAXATION	130
SUBSCRIPTION AND SALE	133
GLOSSARY	135
GENERAL INFORMATION	136
INDEX TO CONSOLIDATED FINANCIAL INFORMATION	F-1

IMPORTANT NOTICES

Responsibility for this Base Prospectus

The Issuer accepts responsibility for the information contained in this Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Final Terms/Drawdown Prospectus

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under “*Terms and Conditions of the Notes*” (the “**Conditions**”) as supplemented by a document specific to such Tranche called final terms (the “**Final Terms**”) or in a separate prospectus specific to such Tranche (the “**Drawdown Prospectus**”) as described under “*Final Terms and Drawdown Prospectuses*” below.

Other Relevant Information

This Base Prospectus must be read and construed together with any supplements hereto and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

The Issuer has confirmed to the Dealers named under “*Subscription and Sale*” below that this Base Prospectus contains all information which is (in the context of the Programme and the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme and the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

Unauthorised Information

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer since the date thereof or, if later, the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Restrictions on Distribution

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see “*Subscription and Sale*”. In particular, Notes have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any

recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

Programme Limit

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed EUR 1,000,000,000 and for this purpose, any Notes denominated in another currency shall be translated into euros at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under “*Subscription and Sale*”.

Use of Proceeds

None of the Dealers will verify or monitor the proposed use of proceeds of Notes issued under the Programme.

Certain Definitions

In this Base Prospectus, unless otherwise specified, references to a “**Member State**” are references to a Member State of the EEA, references to “**U.S.\$**”, “**U.S. dollars**” or “**dollars**” are to United States dollars, references to “**EUR**” or “**euro**” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended. In addition, unless otherwise defined in this Base Prospectus, capitalised terms shall have the meanings given to them in the section headed “*Glossary*”.

Rounding

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Ratings

Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation or (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

Notice to Investors

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor’s currency;
- (d) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Stabilisation

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

IMPORTANT – EUROPEAN ECONOMIC AREA RETAIL INVESTORS

If the applicable Final Terms in respect of any Notes includes a legend entitled “Prohibition of Sales to European Economic Area Retail Investors”, the Notes are not intended from 1 January 2018 to be offered, sold or otherwise made available to *and, with effect from such date, should not be offered, sold or otherwise made available to* any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”) or (ii) a customer within the meaning of Directive 2002/92/EC (“IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

FORWARD-LOOKING STATEMENTS

This Base Prospectus includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believe,” “estimate,” “anticipate,” “expect,” “forecast,” “foresee,” “aim,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “will,” “would” or, in each case, similar expressions or the negative thereof, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. They appear in a number of places throughout this Base Prospectus and include statements regarding the Group’s or the Issuer’s intentions, beliefs or current expectations concerning, among other things, the Group’s results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. The Issuer cautions prospective investors that forward-looking statements are not guarantees of future performance and that the actual results of the Group’s operations, including its financial condition and liquidity, and the development of the Group’s industry may differ materially from those made in or suggested by the forward-looking statements contained in this Base Prospectus. In addition, even if the Group’s results of operations, financial condition and liquidity, and the development of the Group’s industry are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Factors that could cause these differences include, but are not limited to:

- a decrease in demand for electricity and gas;
- the Group’s strategy, outlook and growth prospects;
- the Group’s ability to expand its business and our generation capacity;
- fluctuations in electricity generated by the Group’s power plants;
- changes in government regulation and expectations as to future governmental policies and actions;
- unanticipated increases in fuel and other costs;
- fluctuations in interest rates and other market conditions, including foreign currency exchange rates;
- the Group’s ability to generate cash flow and to finance its capital expenditure needs;
- any decision by the Government of the Republic of Lithuania (the “**Government**”) to undertake a partial or full privatisation of the Issuer;
- diverse political, economic, legal, tax and other conditions affecting the markets in which the Group operates;
- competition in the markets in which the Group operates and its ability to compete in such markets;
- costs, liabilities and penalties the Group may incur in connection with litigation;
- other risks and factors discussed in this Base Prospectus including those under the heading “Risk Factors”; and
- other factors that are unforeseen or beyond the Group’s control.

Although the Issuer believes the expectations reflected in any forward-looking statement are reasonable, the Issuer cannot give any assurance that they will materialise or prove to be correct.

The Issuer urges prospective investors to read “Risk Factors”, “Description of the Issuer” and “Regulation” for a more complete discussion of the factors that could affect the Issuer’s future performance, its industry and related regulation thereof. In light of these risks, uncertainties and assumptions, the events described or suggested by the forward-looking statements in this Base Prospectus may not occur.

These forward looking statements speak only as of the date on which the statements were made. Except as required by law or applicable stock exchange rules or regulations, the Issuer undertakes no obligation to update or revise publicly any forward looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward looking statements attributable to the Issuer or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus.

HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA

Certain information contained in this Base Prospectus was derived from various public sources, including information published by the National Commission for Energy Control and Prices and the United Nations Framework Convention on Climate Change. Where information has been sourced from a third party, the source has been identified, the information has been accurately reproduced and (as far as the Issuer is aware and is able to ascertain from information published by that third party) no facts have been omitted which could render the reproduced information inaccurate or misleading.

The Issuer believes that the market and industry information contained in this Base Prospectus provides fair and adequate estimates of the size of the Group's market and fairly reflects the Group's competitive position within that market. However, the Group's internal company surveys and management estimates have not been verified by any independent expert, and the Issuer cannot give any assurance that a third party using different methods to assemble, analyse or calculate market data would obtain or generate the same results.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Issuer believes that these industry publications, surveys and forecasts are reliable but the Issuer has not independently verified them and cannot guarantee their accuracy or completeness. Further, the information presented in this Base Prospectus has been derived from several sources, as there is no single industry report or other source that covers all of the areas in which the Group conducts its operations.

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in Notes issued under the Programme, prospective investors should carefully consider risk factors associated with any investment in any Notes, the business of the Issuer and the Group and the industry in which it operates together with all other information contained in this Base Prospectus, including, in particular the risk factors described below. Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Base Prospectus have the same meanings in this section.

The following should be used as guidance only but are the material risks that the Issuer believes to be the most relevant to an assessment by a prospective investor of whether to consider an investment in Notes issued under the Programme. Additional risks and uncertainties relating to the Issuer and the Group that are not currently known to the Issuer at the date of this Base Prospectus, or that it currently deems immaterial as at such date, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and/or the Group and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in Notes issued under the Programme is suitable for them in light of the information in this Base Prospectus and their personal circumstances.

This Base Prospectus also contains forward-looking statements that involve risks and uncertainties. The actual results of the Group may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Base Prospectus. Please see “Forward-Looking Statements”.

RISKS RELATING TO THE ISSUER

Risks Relating to the Regulatory and Legal Environment

The Group is subject to regulations in Lithuania and other countries in which it operates and these regulations are complex and subject to change.

The Group is subject to the laws of Lithuania and other countries and jurisdictions including Latvia, Estonia, Poland and the European Union (“E.U.”), as well as the regulations of the regulatory agencies of Lithuania and the other countries in which it operates, see “Regulation”. These laws and regulations, particularly those of Lithuania, affect many aspects of the Group’s business and, in many respects, determine the manner in which the Group conducts its business and the fees it charges or obtains for its products and services, including in respect of electricity distribution and generation (both from traditional and renewable sources) and gas distribution. In particular, as an owner and operator of gas and oil-fired power plants, renewable energy facilities and electricity and gas distribution and heat generation businesses, and as public supplier of electricity and a developer of combined electricity and heat generation plants in Lithuania, the Group is subject to extensive governmental and other regulations in Lithuania.

For the year ended 31 December 2016, 77 per cent. of the Group’s revenue and 81 per cent. of the Group’s adjusted EBITDA depended on regulated tariffs (including electricity distribution prices and natural gas prices). Such tariffs are set by the NCC in Lithuania for periods of between six months (for public supply of electricity) and five years. The NCC may decide to limit or block tariff increases, or even order tariff decreases, with no change to the quality of service, or may change the conditions of access to such regulated tariffs, including changes to the price setting mechanisms as a result of political and social pressures. However, the Group cannot give any assurance that new tariff mechanisms would be put in place or that regulated tariffs would be set at a level which would allow it to preserve its short-, medium- or long-term investment capacity, while ensuring a fair return on the capital invested in its distribution, generation and supply assets. In the period from 2013-2016, electricity tariffs have decreased by approximately 20 per cent. and natural gas tariffs have decreased by approximately 30 per cent.

Accordingly, any new regulation or any changes in the existing regulations or requirements of the Government or regulatory authorities in Lithuania or the other countries in which the Group operates, may require significant changes in its business in ways that it cannot predict. Any new regulations or requirements that cause the Group to restructure or otherwise change its business in any way and any changes in regulated tariffs, particularly those that may affect the Group’s revenues from electricity or gas distribution, could have a material adverse effect on its business, results of operations and financial condition. In addition, it may fail to respond swiftly and appropriately to changes in applicable laws and regulations or to changes in the energy industry generally, which could have a material adverse effect on its business, results of operations and financial condition.

For more information on the Group’s disputes relating to the regulated tariffs, please see “Description of the Group—Legal Proceedings”.

The Group is subject to the regulatory regime associated with selection of tertiary power reserve and strategic power reserve service providers in Lithuania and these regimes are subject to change.

Historically, Lietuvos Energijos Gamyba, AB (“LEG”) has been the sole provider of tertiary power reserve services to the transmission system operator (“TSO”) and strategic power reserve services in Lithuania, see “*Description of the Group—Principal Subsidiaries*”. Tertiary reserves are intended to ensure the reliable operation of the national electricity system in emergencies when there is an unexpected reduction of electricity generation or unexpected increase in electricity consumption. Strategic reserves are intended to provide additional security in ensuring the reliable operation of the national electricity system. The provision of tertiary and strategic power reserve services by LEG contributed 8 per cent. of the Group’s revenues and 12 per cent. of the Group’s adjusted EBITDA for the year ended 31 December 2016. At the end of 2016, the Ministry of Energy and the TSO decided that providers of tertiary power reserve services would be determined by an auction process, with effect from 2017. On 28 December 2016, the TSO announced that the provision of tertiary power reserve services in 2017 would be provided by the LEG through its reserve power plants in the Elektrėnai Complex. However, there is uncertainty as to whether LEG will successfully bid for and be selected as the provider of tertiary power reserve services to the TSO in the future. Additionally, it is uncertain whether the Ministry of Energy’s mechanism for selecting the strategic power reserve service provider in Lithuania will remain the same in the future. If LEG is unsuccessful in bidding for and is not selected as the provider of tertiary power reserve services to the TSO in the future, or is not selected as the strategic power reserve service provider in the future, this could have a material adverse effect on the Group’s business, results of operations and financial condition.

The Group’s activities require various administrative authorisations and licences that may be difficult to obtain, maintain or renew or whose grant may be subject to conditions that may become significantly more stringent.

The Group’s generation, distribution and supply businesses require various administrative authorisations, at local and national levels, in Lithuania (see “*Regulation—Electricity Sector—Licensing Regime*” and “*Regulation—Heating Energy Sector—Licensing Requirements*” and “*Regulation—Gas Sector—Licensing Regime*”) and in the other countries in which it operates. Obtaining these authorisations is not routine and the conditions attached to obtaining them are subject to change and may not be predictable. As a result, the Group may incur significant expenses in order to comply with the requirements associated with obtaining or renewing these authorisations (for example, the cost of preparing applications for authorisations or investments associated with installing equipment that are required before the authorisation can be issued). Delays, extremely high costs or the suspension of the Group’s activities due to its inability to obtain, maintain, or renew authorisations, may also have a negative impact on its business activities and profitability. For further detailed information, please see “*Description of the Group—The Group’s Business—Distribution and Public Supply of Electricity and Distribution of Gas*”.

In addition, the Group often invests resources prior to obtaining the necessary permits and authorisations, particularly in connection with feasibility studies and environmental studies, but may have to cancel or withdraw from a project if the Group is unable to obtain the necessary permits or authorisations. Licences for the distribution and supply of electricity and gas and the generation of electricity are granted for an indefinite period, but there is a risk that the Group may be required to reapply for licences should the regulatory framework change in the future. On 11 October 2016, the Supreme Court of Estonia withdrew the permits for the operation of two of the Group’s wind turbines in Estonia, see “*Description of the Group—Legal Proceedings*”. Any failure to obtain, maintain, renew or extend all the necessary administrative authorisations and licences necessary for the operation of the Group’s business and execution of its strategy, could have a material adverse effect on its business, results of operations and financial condition.

The Group is subject to environmental, health and safety laws and regulations and must maintain environmental, health and safety regulatory approvals and it may be exposed to significant liabilities if it fails to comply with such laws or maintain such approvals.

The Group is subject to various environmental, health and safety laws and regulations governing, among other things: the generation, storage, handling, release, use, disposal and transportation of waste or hazardous materials; the emission and discharge of hazardous materials into the ground, air or water; the decommissioning of its facilities; and the health and safety of the public and its employees. E.U. regulators and regulators in the countries in which the Group operates administer these laws and regulations. The Group is also required to obtain environmental and safety permits from various governmental authorities for its operations. Certain permits require periodic renewal or review of their conditions as well as continuous monitoring and reporting of compliance with their conditions and the Group cannot give any assurance that it will be able to renew such permits or that material changes to the Group’s permits requiring significant expenditures, will not be imposed. Violations of these laws, regulations or permits could result in plant closures, fines or legal proceedings being commenced against the Group or other sanctions, in

addition to negative publicity and significant damage to the Group's reputation. Environmental and health and safety laws are complex, change frequently and have tended to become more stringent over time. As a result, the Group may not at all times be in full compliance with all such laws and regulations. While the Group has budgeted for future capital and operating expenditures to comply with current environmental and health and safety laws, it is possible that any of these laws may change or become more stringent in the future or that new laws may be adopted (for example E.U. legislation may be adopted that imposes additional capital expenditure on the Group's gas-fired power plants). Therefore, the Group's costs of complying with current and future environmental and health and safety laws and its liabilities arising from past or future releases of, or exposure to, hazardous substances, could have a material adverse effect on the Group's business, results of operations and financial condition.

Political developments in the E.U. and in other countries where the Group has or plans to have a business presence could have a material adverse effect on its results of operations and financial condition.

Any political developments in the E.U., including any future integration or withdrawal of European countries in the E.U. or changes in the economic policy, executive authority or composition of the E.U. and its institutions, may have an adverse effect on the overall economic stability of the E.U. and the European countries in which the Group's assets and operations are located. Any changes in the political or economic stability of any of the countries in which the Group operates, as well as any political, economic, regulatory or administrative developments in these countries, over which it has no control, could have a material adverse effect on its business, results of operations and financial condition.

Any political or other developments affecting the integration, integrity or stability of E.U. or other energy markets, developments in the regulation of energy supply, the performance of energy markets in other Member States, and the performance of financial markets in the E.U. and elsewhere could have a material adverse effect on the state of the Lithuanian economy and on the Group's business, results of operations and financial condition.

State-aid notification risk.

The Group is subject to the E.U. state-aid rules which prohibit it from receiving any state or public aid which would distort or threaten to distort competition by favouring it or the production of certain goods unless the aid falls within one of the exemptions set out in the Treaty on the Functioning of the European Union.

UAB LITGAS ("**LITGAS**") is the designated supplier of gas in Lithuania through the LNG Terminal in Klaipeda. Electricity and heat producers performing regulated activities in Lithuania are obligated to purchase gas for these activities from LITGAS. Prior to 2016, LITGAS was paid a price for gas supplied to electricity and heat producers performing regulated activities calculated using a formula approved by the NCC and based on a reasonable return and compensation for costs. The Ministry of Energy notified the European Commission of these state-aid measures and they were approved by the decision of European Commission No SA.36740 (2013/NN) dated 20 November 2013. However, this decision is subject to challenge by Achema AB, see "*Description of the Group—legal proceedings*". If the challenge is successful and such measures are recognised as inappropriate, LITGAS may be required to repay some or all of the revenues received from such tariffs, which could lead to a material adverse effect on the Group's business, results of operation and financial condition.

In 2016, legislative amendments were introduced with the aim of reducing the burden on market participants such as energy producers. Under the legislative amendments, LITGAS is paid the market price determined by the NCC for gas supplied to electricity and heat producers performing regulated activities and any shortfall between this price and LITGAS's costs in supplying the gas is subsidised by the LNG Supplement set and approved by the NCC which is collected from all users of natural gas ("**LNG Supplement**"), see "*Description of the Group—Principal Subsidiaries*" and "*—Regulation—Transmission and Distribution of Gas History*". Accordingly, in 2016, the Ministry of Energy reported that it had informed the European Commission about legislative changes regarding the LNG Supplement and started the pre-notification procedure with the European Commission (the pre-notification period began on 1 January 2016).

Additionally, LEG has received various PSO service fees since 2002, including for providing strategic power reserve services since 2016. The Ministry of Energy previously determined that PSO service fees would not be considered state aid by the European Commission. However, in 2016 the Ministry of Energy reported that it had informed the European Commission about PSO service fees and started the pre-notification procedure with the European Commission (the pre-notification period began on 1 May 2004 (when Lithuania acceded to the E.U. and became subject to E.U. state-aid rules)).

As a result of such notifications on LNG Supplements and PSO service fees, there is a risk that LNG Supplements or the PSO service fees will be recognised as inappropriate by the European Commission and could be abolished (with or without the requirement for repayment of some or all revenues already received from LNG Supplements

or PSO service fees) or amended so that the schemes will generate insufficient revenues for LITGAS's activity as designated supplier of gas in Lithuania through the Klaipėda LNG Terminal or LEG's activity as provider of strategic power reserve services, respectively. This could potentially lead to a material adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to the risks associated with E. U. regulation of energy market mechanisms, including the credit and cash settlement requirements for trading of commodities and financial instruments.

The Group, through its subsidiary Energijos Tiekimas UAB, trades financial and physical products on wholesale electricity markets. E.U. regulations, such as the E.U. Regulation on Wholesale Energy Market Integrity and Transparency (the "REMIT"), the E.U. Directive on Markets in Financial Instruments Directive (the "MIFID II") and the E.U. Regulation on European Market Infrastructure Regulation (the "EMIR"), require compliance with the wholesale commodity trading rules, including potential cash margining requirements. These regulations have significantly modified financial and commodity instrument rules based on rules of the European Federation of Energy Traders ("EFET") and of the International Swaps and Derivatives Association ("ISDA"). Changes to credit and cash settlement requirements require the Group to put-forward cash margining to cover mark-to-market of all the Group's wholesale forward sales of electricity used for hedging the electricity it has purchased for its supply portfolio in case of power price increases and in connection with its proprietary trading activities. Due to the amount of the Group's hedged volume and the volatility of power prices, such requirements could result in significant liquidity needs that may be difficult to cover. As a result, E.U. regulation of energy market mechanisms, including any changes to credit and cash settlement requirements for trading of commodities and financial derivative instruments, could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to public procurement regulations, which are often difficult to interpret and apply.

In many areas of the Group's business, the Group is bound by the provisions of applicable public procurement laws. These provisions apply, *inter alia*, to the procedure for selecting the Group's suppliers, construction contractors and service providers. The provisions of these laws are often difficult to interpret and apply, and may, in particular, lead to a significant extension of the selection process and limit the Group's freedom of decision-making. In addition, a contract concluded in breach of applicable public procurement laws may be declared null and void and penalties of up to 10 per cent. of the contract value may be imposed on a party found to be in breach. If the Group were found to be in breach of such a law, and the contract subject to the law was found to be null and void, the Group may have to pay expensive penalties and there may be a resulting material adverse effect on the Group's business, results of operations and financial condition.

The Group could incur unforeseen taxes, tax penalties and sanctions which could adversely affect its results of operations and financial condition.

Lithuania faces budget deficits and, as a result, amendments to tax regulations are being imposed on the utilities sector, such as amendments to taxes on the use of state natural resources and pollution. Lithuania is also assessing existing tax relief provided by the Government and excise duty rates. Any reduction or termination of corporate income tax relief for investments could have a significant impact on the Group given the size of its investments. In 2016, the Group utilised EUR 29.8 million in investment tax incentives. In relation to excise duties in Lithuania, electricity used in the generation of electricity is currently tax exempt. Any reduction or termination of excise duties could also have a significant impact on the Group. The imposition of any tax amendments in Lithuania, or changing interpretations or application of tax regulations by the tax authorities, harmonisation of Lithuanian and E.U. tax law and regulation, and the possible imposition of penalties and other sanctions due to unpaid tax liabilities may result in additional amounts being payable by the Group, which could have a material adverse effect on its business, results of operations and financial condition.

Risks Relating to the Market

The Group is exposed to risks arising from its activities on the wholesale energy and financial markets.

The Group operates in the deregulated energy markets in Europe, including the Nord Pool Exchange, Nasdaq Commodities Exchange and Get Baltic Exchange, through its trading activities, see "Description of the Group—Trading and Supply of Electricity and Gas—Trading of Electricity" and "Description of the Group—Trading and Supply of Electricity and Gas—Trading of Gas". The Group plans to expand its trading and supply businesses by increasing the volume of energy derivative products that it trades and by increasing trading with and supply to Latvia and trading with Poland. As a result, the Group is exposed to price fluctuations in the wholesale energy markets, affecting the prices at which it can purchase electricity and gas. Any such fluctuations in the wholesale energy

markets could have a material adverse effect on the Group's business, results of operations and financial condition. The Group is also exposed to interest rate risks by virtue of its incurrence of loans and borrowings with variable interest rates and, in the future, the expansion of its businesses in markets other than Lithuania could also expose the Group to currency risks.

The Group seeks to hedge these risks by entering into fixed price bilateral contracts and futures contracts on commodity exchanges, over the counter commodity markets and swaps traded in over the counter financial markets. To the extent the Group is unable to hedge these risks, enters into hedging contracts that fail to address its exposure or incorrectly anticipate market movements, the Group may suffer significant losses which could have a material adverse effect on its business, results of operations and financial condition.

Additionally, reduced access to the electricity wholesale markets, for example as a result of Lithuania not being included in the first stage of the new "Xbid" intraday trading system which will allow power to be traded through the European and Scandinavian intraday markets, could restrict the ability of Energijos Tiekimas UAB to trade in intraday markets. Any reduced access to wholesale energy markets could lead to a significant drop in trading volumes and revenue which could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks relating to the liberalisation and deregulation of electricity market in Lithuania.

The Group is exposed to significant and increasing competition in the electricity market in Lithuania. The electricity market is fully liberalised and, other than public supply, fully deregulated in Lithuania, see "*Description of the Group—The Group's Business—Distribution and Public Supply of Electricity and Distribution of Gas—Public supply of electricity*". The liberalisation and partial deregulation of the electricity market in Lithuania has created a more competitive environment with an increased number of market participants, which has reduced the Group's market share in Lithuania, as well as affected its pricing. Given the ongoing development in this market, the increasing activity of energy sellers and a growing number of customers who change their energy supplier, the Group is exposed to the risk of losing existing customers and decreased margins achieved on sales to existing commercial and industrial customers.

The Group cannot anticipate all of the various risks and opportunities that may arise from the ongoing deregulation of the Lithuanian energy market. The complete implementation of the deregulation process is intended to eliminate regulated retail tariffs, which is expected to further increase competition. The ongoing changes to the Lithuanian energy market could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks Relating to the Operations of the Group

Risks from potential participation in capital intensive projects.

The Group may participate in extensive investment projects such as the development of co-generation plants in Vilnius and Kaunas, the modernisation and renewal of its distribution network, wind farm developments and mergers and acquisitions. The Group's participation in new, capital intensive, projects may increase the Group's exposure to operational and/or financial risk levels, which could have a material adverse effect on its business, results of operations and financial condition.

The Group's operations are capital intensive because the production of energy and its distribution requires the construction of adequate infrastructure. Depending on the technology and type of infrastructure, from 5 per cent. to as much as 70 per cent. of the cost of construction is related to the purchase of materials, equipment and parts, the price of which depends on many factors beyond the Group's control. Any increase in the price of these materials, equipment or components translates into an increase in the cost of energy production and may decrease the profitability of proposed development projects and could have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

Poor economic performance in Lithuania could have a material adverse effect on the Group's results of operations and financial condition.

The Group's revenues are particularly sensitive to the performance of the Lithuanian economy. As of 31 December 2016, 98 per cent. of the Group's property, plant and equipment were located in Lithuania and 99 per cent. of its revenues and other operating income for the year ended 31 December 2016 were derived from Lithuania. Changes in economic, regulatory, administrative or other policies of the Government, as well as political or economic developments in Lithuania (including potential changes in Lithuania's credit ratings) over which the Group has no

control, could have a significant effect on the Lithuanian economy, which in turn could have a material adverse effect on the Group's business, results of operations and financial condition.

Poor financial performance in the Group's distribution and generation businesses could have a material adverse effect on the Group's results of operations and financial condition.

The Group's revenues are particularly sensitive to the performance of its distribution and generation businesses. As of 31 December 2016, 51 per cent. of the Group's revenues and 90 per cent. of its adjusted EBITDA were derived from its distribution and generation businesses. Changes in natural gas demand in Lithuania and the other Baltic countries, changes in electricity prices and the regulatory framework, increases in generation and distribution costs, future developments affecting the electricity and gas infrastructure within the Baltic and Nordic regions, competition in the markets in which the Group operates, political and economic developments affecting the Baltic and Nordic regions, E.U. legal and regulatory requirements and the reliability of its future partners for expanding the Group's business within the Baltic and Nordic regions and Poland, could have a significant effect on the financial performance in the Group's distribution and generation businesses, which in turn could have a material adverse effect on the Group's business, results of operations and financial condition.

Any decreases in the prices obtained for the Group's electricity and natural gas could have a material adverse effect on its results of operations and financial condition.

In the ordinary course of the Group's business, it is exposed to the risk of decreases in the prices obtained for the electricity and natural gas it supplies to its consumers. The Group sells its electricity at prices derived from the Nord Pool Spot Exchange which, in turn, are affected by prices in neighbouring countries (primarily Poland, Sweden, Finland, Latvia, Estonia), imports from Russia, weather (especially wind and water), temperatures and the hydrological situation. Decreases in electricity prices in neighbouring countries, including as a result of the utilisation of more cost effective methods of generation, may limit the prices which the Group can obtain for its electricity or limit its ability to generate electricity profitably. The Electricity price is also affected by demand, gas prices, cross border capacities (such as the "NordBalt" interconnection and the "LitPol" interconnection) and, to a lesser extent, carbon credits traded under the E.U. emission trading scheme and coal prices. The Group sells its gas at prices derived from gas indexes. Decreased prices of electricity and gas could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's revenues and results of operations are subject to climatic conditions and seasonal variations that are not within its control.

Electricity and heat consumption is seasonal and is mainly affected by climatic conditions. In the Baltic region electricity consumption is generally higher during the cold winter months. Electricity generation may also depend on climatic conditions, such as droughts or heat waves (which limit generation due to requirements to observe certain temperature limits for rivers downstream of facilities involved in the cooling of power plants) or speed and direction of winds. Consequently, the income the Group receives from its supply and generation businesses reflects the seasonal character of the demand for electricity and may be adversely affected by significant variations in climatic conditions. The Group may need to compensate for a reduction in the availability of electricity generated by economical means by using other means with a higher generation cost or by accessing the wholesale markets at higher prices, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may not successfully manage the risks associated with expanding its international operations and integrating newly acquired subsidiaries and it may face significant risks and liabilities or rating downgrades as a result of such acquisitions.

Since the Issuer was established, it has expanded its operations through mergers and acquisitions, especially in Lithuania and Estonia (please see "Description of the Group—History and Development of the Group"). The Group continues to evaluate investment opportunities in the future and it may expand its operations in other countries or in new markets (please see "Description of the Group—Strategy"). The Group faces many risks inherent in expanding its operations, such as unexpected changes in regulatory requirements; default by the Group's partners; trade barriers, including import and export controls, tariffs, customs and duties; difficulties in staffing and managing foreign operations; increased competition in fully liberalised and deregulated foreign markets; existing incumbents; lack of brand recognition; longer payment cycles and problems in collecting accounts receivable; fluctuations in currency exchange rates; foreign exchange controls which restrict or prohibit repatriation of funds; technology export and import restrictions or prohibitions; and potentially adverse tax consequences. Any failure to manage the risks

associated with expanding the Group's operations could have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, although due diligence reviews are undertaken in relation to acquisitions, such reviews may not reveal all existing or potential risks and liabilities and the Group cannot give any assurance that its acquisitions are not or will not become subject to liabilities of which it is unaware. While warranties and indemnities are generally obtained where practical and appropriate, the Group cannot give any assurance that it would be able to enforce its contractual or other rights against the relevant sellers or that any warranties and indemnities would be adequate to cover potential liabilities. The acquisition of businesses or assets with risks or liabilities of which the Group was or may be unaware, or did not correctly assess or assume, or against which the Group did not obtain full legal protection, could have a material adverse effect on its business, results of operations and financial condition.

The Group cannot give any assurance that it will successfully integrate its previous acquisitions in an efficient and effective manner or that it will be able to identify, consummate and integrate future acquisitions. The Group's failure to integrate its acquisitions and to manage any of the risks and costs associated with such integration, could have a material adverse effect on its business, results of operations and financial condition.

In addition, any future acquisition of highly leveraged companies (and the funding of such acquisitions through debt finance) might result in worsening of the Group's financial condition and therefore, lead to rating downgrades in the future.

Failures, breakdowns, planned or unplanned outages as well as natural disasters or sabotage at the Group's power plants (including its hydropower facilities and wind farms) or in its distribution infrastructure may harm its business and reputation.

The Group's power plants (including its gas and oil-fired heat and power plants, hydropower facilities and wind farms), distribution infrastructure and information systems controlling these facilities could be subject to failure, breakdowns, unplanned outages, capacity limitations, system loss, breaches of security or physical damage due to natural disasters (such as storms, floods or earthquakes), sabotage, terrorism, computer viruses, fuel interruptions and other causes. The main risk associated with the Group's gas and oil-fired facilities is the risk of accidents or malfunctions occurring via its electricity production units. The main risk associated with the Group's hydropower facilities is the risk of damage during floods. The main risk associated with the Group's wind farms is the risk of breakdowns due to unfavourable weather conditions. The Group cannot give any assurance that accidents will not occur or that the preventative measures taken by it will be fully effective in all cases, particularly in relation to external events that are not within its control, such as floods and other natural disasters. Any service disruption may cause loss in electricity generation, interruption to gas and electricity supply, which may result in customer dissatisfaction and may also lead to liability for damages, the imposition of penalties and other unforeseen costs and expenses which could have a material adverse effect on the Group's reputation, business, results of operations and financial condition.

In addition, the Group may need to temporarily shut down some of its power plants and incur expenses in connection with inspections, maintenance or repair activities in addition to those that the Group currently conduct, including such additional activities that the governmental authorities in the countries in which it operates may require it to conduct. Any physical damage to the Group's facilities may be costly to repair and the Group may not have insurance coverage for all potential losses or its insurance claims may be subject to challenge or delay. As a result, any failure, breakdown or unplanned outages at the Group's power plants or any failure or interruption of its distribution infrastructure could have a material adverse effect on its reputation, business, results of operations and financial condition.

The Group's equipment and components of its distribution network and power plants are subject to gradual deterioration over time.

The continual operation of the Group's distribution network and power plants, as well as natural processes, such as erosion and corrosion, have an impact on the condition of some of its equipment and components of its distribution network and power plants. The impact of such operation and processes tends to increase as its plant, equipment and components grow older. Certain parts of the Group's electricity distribution system network have deteriorated due to a prolonged lack of investments in respect of these assets. There is a risk that the quality of provided distribution services provided in some locations may not correspond to the safety and service level requirements set out in legal acts. This in turn may lead to additional service interruptions, losses and damages causing the Group additional unplanned repair and maintenance costs, legal disputes, as well as reallocation of resources from other investments projects.

As part of the Group's strategy it is planning to invest EUR 1.7 billion in the modernisation and renewal of its electricity distribution network between 2015 and 2025. It has also decommissioned four units, and is currently in the process of decommissioning two additional units, in the Elektrėnai Complex in 2014 and 2015 and is planning to invest approximately EUR 511 million in the building of new or modernising of existing co-generation plants, with the aim of modernising its power plant portfolio. Although the Group seeks to implement new inspections and maintenance practices, including proactively repairing or replacing equipment and components before they fail, as well as implementing its plans to modernise its distribution network and power plant portfolio, the Group cannot give any assurance that it will be successful in its efforts or that maintenance and investment costs will not increase over time, which could have a material adverse effect on its business, results of operations and financial condition.

Certain of the Group's loans have been advanced to subsidiaries of the Issuer, which means that the Noteholders may be effectively subordinated to other creditors of the Group.

As at 31 December 2016, the current and non-current borrowings of the Issuer's subsidiaries amounted to EUR 429 million, or 17.7 per cent. of the Group's total assets. This accounts for 86.8 per cent. of the Group's total borrowings, which amounted to EUR 494 million and which had been advanced as loans mainly to the subsidiaries of the Issuer, please see "*Description of Other Indebtedness—Indebtedness at subsidiary level*". In the event of any insolvency of these subsidiaries, claims of their secured and unsecured creditors, including trade creditors, banks and other lenders, will have priority with respect to the assets of such subsidiaries over any claims that the Issuer or its creditors may have with respect to such assets. Additionally, if the Issuer became insolvent at the same time, claims of the Noteholders against the Issuer in respect of any Notes would only be met after the claims of all creditors of the Issuer's subsidiaries and may not be met in full even in circumstances where creditors of its subsidiaries are repaid in full, see "*Description of Other Indebtedness*". Secured indebtedness of the Issuer or any of its subsidiaries may also rank effectively senior to the obligations of the Issuer under the Notes. The incurrence of additional indebtedness by the Issuer or its subsidiaries, including secured indebtedness, may have a material adverse effect on the value of an investment in the Notes.

The Issuer's ability to access credit and bond markets and the Issuer's ability to raise additional financing is in part dependent on the Issuer's credit ratings.

As of the date of this Base Prospectus, the Issuer has been assigned a long-term senior unsecured rating of BBB+ (stable outlook) by Standard & Poor's. These ratings reflect each agency's opinion of the Issuer's financial strength, operating performance and ability to meet the Issuer's debt obligations as they become due. The Issuer's ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on the Issuer's credit ratings. In the event the Issuer's credit or debt ratings are lowered by the rating agencies, the Issuer may not be able to raise additional indebtedness on terms similar to its existing indebtedness or at all, and its ability to access credit and bond markets and other forms of financing (or refinancing) could be limited, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Future privatisation of the Issuer may result in a credit downgrade or may affect the Group's ability to repay debt, which could have a material adverse effect on its results of operations and financial condition.

Lithuania, through the Ministry of Finance, is the sole shareholder of the Issuer. Although the Group does not currently expect the Government to privatise the Issuer, the Group cannot give any assurance that the Government or any future government of Lithuania will not initiate changes of relevant legislation and will not ultimately seek to undertake a partial or full privatisation of the Issuer resulting in the sale of its entire shareholding in the Issuer. Credit ratings assigned to the Issuer in the future by ratings agencies could be based in part on the opinion of the rating agencies that Lithuania may potentially provide support to the Issuer in the event of financial distress. These ratings could come under pressure, potentially leading to a downgrade, if the Issuer is fully or partially privatised and Lithuania is no longer a controlling shareholder, which could affect the Group's ability to make repayments on its debt or otherwise have a material adverse effect on its business, results of operations and financial condition.

The agreements that govern the Group's long-term debt contain restrictive covenants.

The agreements that govern the Group's long-term debt contain certain restrictive covenants, including among others "negative-pledge" clauses, "no disposal of assets" clauses and "restrictions on financial indebtedness" clauses and "net leverage ratio/net interest cover ratio" clauses, which may restrict its ability to acquire or dispose of assets or incur new debt. The Group's failure to comply with any of these covenants could constitute an event of default, which could result in the immediate or accelerated repayment of its debt, lead to cross-default under its other credit agreements or limit or reduce its ability to implement and execute its key strategies, which could in turn have a material adverse effect on its business, results of operations and financial condition.

Default or delay by any of the Group's counterparties (which include its partners, contractors, customers, subcontractors and suppliers) as well as by financial and insurance institutions may have an impact on its results of operations and financial condition.

The Group undertakes significant capital expenditures related to the modernisation, renewal and construction of its distribution assets and energy power plants. The Group faces the risk of potential default or delay by its counterparties (which include its partners, contractors, subcontractors and suppliers), especially in cases of financial hardship or bankruptcy. Any default by the Group's counterparties may affect the cost and completion of its projects, the quality of its work, the supply of certain critical products or services or expose it to reputational risk, business continuity risk and the loss of important contracts, as well as to substantial additional costs, particularly in cases where it would have to pay contractual penalties, find alternative counterparties or complete work itself, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's revenues are partly generated by sales to end-consumers or wholesale partners and state owned customers across Lithuania and other Baltic markets. There is a risk that some of the Group's key counterparties, end-consumers or suppliers could default on or dispute their contractual obligations towards us, which could have a material adverse effect on its business, results of operations and financial condition. The credit quality of the Group's counterparties may deteriorate during adverse economic conditions, which may threaten the results of its hedging strategy, which in turn could have a material adverse effect on its business, results of operations and financial condition.

The Group concludes treasury operations with major Scandinavian banks and with local regional banks. Given potential continued economic recession in Europe and its potential impact on Europe's financial services industry, there is a significant risk that some of the Group's financial counterparties might default which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to a variety of litigation and regulatory proceedings and it cannot give any assurances as to their outcome.

In the ordinary course of the Group's business, it is subject to numerous civil, administrative and arbitration proceedings. See "*Description of the Group—Legal Proceedings*". The Group has not recorded provisions in respect of any legal, regulatory or administrative proceedings to which it is a party or in which it may become a party. As a result, although the Group believes it has sufficient funds to cover all amounts payable by it in connection with such proceedings, it cannot give any assurance of this. The Group's failure to assess the likely outcome of any proceedings against it could have a material adverse effect on its business, results of operations and financial condition.

The Group also has potential liability arising from injuries to, or deaths of, workers, including, in some cases, workers employed by its contractors. The Group's insurance for health and safety claims or the relevant workers' compensation arrangements may not be adequate to meet the costs that may arise up on any future health and safety claims. Any failure by the Group to adequately cover these costs may have a material adverse effect on the Group's business, results of operations and financial condition.

A strike or other labour disruption at the Group's facilities could adversely affect its business.

A substantial number of the Group's employees, particularly those in its electricity generation business, are represented by labour unions and all Group employees were covered by its collective bargaining agreements as of 31 December 2016 (please see "*Description of the Group—Employees*"). Since the Group's foundation, it has not experienced any strikes or work stoppages, however, any strikes, threats of strikes, or other resistance or work stoppages in the future, particularly those affecting its facilities in Lithuania, could impair its ability to implement further measures to reduce costs and improve production efficiencies in furtherance of its strategy, which could have a material adverse effect on its business, results of operations and financial condition.

The Group's insurance coverage may not be adequate.

The Group has property and machinery insurance for its significant assets, including the power plants in the Elektrėnai Complex. However, it does not (as at the date hereof) have insurance in place for its hydro power plants or electricity and gas distribution assets, see "*Description of the Group—Insurance*". The Group cannot give any assurance that its business will not be adversely affected by the costs of accidents or other unexpected occurrences at its facilities for which insurance coverage is not available, has not been obtained by it or is not sufficient, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may not be able to hire, train or retain a sufficient number of qualified staff.

Experienced and capable personnel in the energy industry are in high demand and the Group faces significant competition in its principal markets to recruit such personnel. Consequently, when the Group's experienced employees leave its business, it may have difficulty, and incur additional costs, replacing them. In addition, the loss of any member of the Group's senior management team, or any change to the Supervisory Council or Board of Directors (including as a result of the on-going re-election process, see "*Management—Supervisory Council*" below), may result in a loss of organisational focus, poor execution of its operations and corporate strategy and its inability to identify and execute potential strategic initiatives in the future, including strategies relating to the growth of its business. The Group's failure to hire, train or retain a sufficient number of experienced, capable and reliable personnel, especially senior and middle management with appropriate professional qualifications, or to recruit skilled professional and technical staff in pace with its growth, could have a material adverse effect on its business, results of operations and financial condition.

Risk surrounding the lack of integrity and the reliability of IT systems.

The complexity of the Group's structure and its operation and the diversity of its IT systems carry a risk of a lack of coordination and cooperation between individual systems. This could limit the possibility of developing effective standards to create and develop a more streamlined system which, in turn, could result in inefficiencies in data handling.

There are many changes, updates and integration features with respect to the Group's IT systems which are being carried out across the Group and the broad scope of those changes carries a risk that new IT solutions may not necessarily achieve the planned cohesion and technological and cost-related interdependence that the Group had expected.

There are also general concerns in the energy sector regarding the security and integrity of data which is handled through an energy company's IT system. This is exacerbated by the energy sector's increasing dependence on IT systems and the quantity of data collected and processed by those systems which make it essential to ensure the highest degree of reliability of those systems and the security of the data held in them.

Potential events posing a risk to the continuity of the operation of IT systems and confidentiality of data include the risk of a breakdown of the systems and cyber attacks on the systems.

There are several risks related to grid management. The electricity distribution grid is highly dependent on computer-based control systems. Any failure of the electric grid would have a significant and devastating impact on the economy of whole country regions. The control systems are also exposed to cyber risk.

There are risks related to power plant operations. Power plant control systems are especially vulnerable to risks surrounding hardware disintegration and the difficulty of sourcing spare parts on the market to replace and/or upgrade affected hardware. This is compounded by the fact that there is also a shortage of hardware and IT specialists that have the skills to maintain the systems to the standards required.

There are also risks related to outsourcing of IT functions by the Group to third parties, which is most prevalent in respect of IT systems that are custom developed for the Group by a single external third party according to specific needs of the Group. In such circumstances, the Group is dependent on a single third party company which may result in higher development and/or support prices and development and support continuity problems if such company ceases to exist or cannot honour its contractual obligations to the Group.

Finally, unreliability of certain IT systems might cause difficulties in maintaining the full functionality of invoicing systems and result in end users not receiving invoices on time or in the correct amount.

Each of the above factors poses risks to the operations of the Group and if they were to occur, could have a material adverse effect on the activity, results or financial condition of the Group.

The Group is subject to cyber security risks and may incur increasing costs in an effort to minimise those risks.

Security breaches could expose the Group to a risk of loss or misuse of customer information, litigation and potential liability. Although the Group takes steps to secure management information systems, the security measures the Group has implemented may not be effective, and the Group's systems may be vulnerable to theft, loss, damage and interruption from a number of potential sources and events, including unauthorised access or security breaches, cyber attacks, computer viruses, power loss, or other disruptive events. The Group may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber attacks. Attacks may be targeted at the Group, its customers and suppliers, or others who have entrusted it with information.

In addition, data and security breaches can also occur as a result of non-technical issues, including breaches by the Group or by persons with whom it has commercial relationships that result in the unauthorised release of personal or confidential information. Any such cyber attack or other security issue could result in a significant loss of customer confidence in the Group's business which, in turn, could have a material adverse effect on the Group's business, financial condition, prospects or results of operations and potentially entail incurring significant litigation or other costs.

The Group may not keep pace with technological changes in the evolving energy sector.

The technologies used in the energy sector, particularly in power generation and electricity and gas distribution, constantly change and may continue to evolve rapidly in the future. Similarly techniques for generating electricity are constantly improving and becoming more complex. In order to maintain competitiveness and to expand its business, the Group must effectively adjust to changes in technology. If the Group is unable to modernise its technologies quickly and regularly so as to take advantage of industry trends, it could face increased pressure from competitors and lose customers. The Group could also lose valuable opportunities to expand its operations in existing and new markets due to an insufficient integration of new technologies in its operations. As a result, the failure of the Group to respond to current and future technological changes in the energy sector in an effective and timely manner could have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

Risks associated with the implementation of the Energy Efficiency Directive.

On 25 October 2012, the E.U. adopted Directive 2012/27/EU on Energy Efficiency (the "**Energy Efficiency Directive**"). The Energy Efficiency Directive establishes a common framework of measures for the promotion of energy efficiency within the E.U. in order to ensure the achievement of the E.U. 2020 20 per cent. target on energy efficiency.

In November 2016, Lithuania adopted the requirements of the Energy Efficiency Directive by implementing the Law on Energy Efficiency. Pursuant to this law, ESO is required to conclude an agreement with the Ministry of Energy pursuant to which ESO shall be obliged to, *inter alia*, achieve energy savings through the implementation of energy efficiency measures. This agreement is expected to be concluded by 30 June 2017. Companies in other E.U. countries have failed to achieve the energy savings targets set by the Energy Efficiency Directive. The Law on Energy Efficiency does not currently stipulate the amount of energy savings that need to be achieved and how the energy efficiency measures are to be financed. However, if ESO fails to achieve the required energy savings, it may receive a warning or a fine of up to 5 per cent. of its gross annual income. Accordingly, the failure of ESO to achieve the required energy savings could have a material adverse effect on the Group's business, results of operations and financial condition.

The Republic of Lithuania, which is the sole shareholder of the Issuer, can control the Group's policies and may pursue decisions that reflect Government policy.

Lithuania, through the Ministry of Finance, is the sole shareholder of the Issuer, the parent company of the Group. The Republic maintains three members on the Issuer's Supervisory Council (from the Ministry of Finance, the Ministry of Economy and one representative from the Government) and the Republic implements its rights as shareholder through the Ministry of Finance. There are three independent members on the Supervisory Council. Additionally, the Chairman of the Supervisory Council is independent and, in the case of equality of votes, has the deciding vote. Accordingly, the Republic cannot make unilateral decisions on the Supervisory Council, please see "*Description of the Group—Shareholder*". However, Lithuania, through its shareholdings, has and will continue to have, indirectly, the power to affect the Group's operations. As a result, certain of the Group's decisions may reflect Government policy.

The interests of the Government may conflict with the Group's objectives as a commercial enterprise and there can be no assurance that the Government will not take any action to further its own objectives which may conflict with the interests of the Group and/or the Noteholders. For example, the Group is subject to the Government's dividend policy for state owned companies (which may limit the Group's ability to reinvest a proportion of its profits) and the Lithuanian energy policy, which includes the Government's desire for it to build new CHP plants in Lithuania, both of which the Group is currently in the process of complying with. Compliance with such decisions could lead to significant capital expenditure as well as the risks inherent in building a CHP plant, including debt capacity risks, which could in turn have a material adverse effect on the Group's ratings, business, results of operations and financial condition. Furthermore, changes to the members of the Issuer's Supervisory Council or Board of Directors (including as a result of the on-going re-election process, see "*Management—Supervisory Council*") are influenced by the

Government as sole shareholder and may be made for political, rather than business, reasons and such changes could have a material adverse effect on the Group's operations and financial condition.

Certain activities planned by the Group, including mergers and acquisitions, establishment of new legal entities by the Issuer (but not Group subsidiaries) and reorganisations or equity injections into the Group's principal subsidiaries require the approval of the Government, please see "*Description of the Group—Shareholder*". Some of the Group's subsidiaries are also subject to additional corporate supervision under the Law on Enterprises and Plants of the Strategic Importance to National Security and Other Enterprises Important to the National Security ("**Law on Enterprises of the Strategic Importance**"). In respect of the Group's subsidiaries, facilities and businesses which are considered to be of strategic importance to national security, the Law on Enterprises of the Strategic Importance: (i) places restrictions for ownership that does not comply with the interests of national security; (ii) increases certain compliance requirements for managers and investors and certain security measures for operations; (iii) places restrictions for reorganisation of directly controlled enterprises; (iv) requires state ownership to be greater than 50 per cent. (and it is anticipated that new laws will require state ownership to be greater than two-thirds); and (v) may limit enforcement against such subsidiaries, facilities and businesses and the Issuer (for example as set out in (iv) above). Such powers, in particular those described in (iv) above, could affect the implementation of the Group's strategy which, in turn, could have a material adverse effect on the Group's business, results of operations and financial condition. There is also a risk that, notwithstanding the Issuer's waiver of immunity, Noteholders may be unable to enforce a court judgment against certain assets of the Issuer.

Elections for the Issuer's Supervisory Council and Board of Directors are due to take place in the near future which may result in changes to the composition of the Supervisory Council and/or Board of Directors.

The current four year term for which all six members of the Issuer's Supervisory Council are elected is due to expire in the near future. All members will stand for re-election for a further four year term at a General Meeting of the Issuer's shareholders on or about 16 July 2017. It is expected that the Republic will maintain two members on the Supervisory Council (nominated by the Ministry of Finance). See "*Management—Supervisory Council*". In addition, the next re-election of the members of the Board of Directors is expected to take place on or about 22 July 2017. The Shareholder has recently confirmed to the Issuer on 22 June 2017 that it will ensure that the best principles of corporate governance (including the corporate governance principles of the Organisation for Economic Co-operation and Development and the Nasdaq Vilnius Stock Exchange which the Issuer adheres to) will be followed in the formation of the new Supervisory Council to be elected on or about 16 July 2017 to ensure the continuity of the Group's strategy, its results of operations and its management structure and transparency. Accordingly the Issuer believes that any changes to the composition of the Supervisory Board and/or the Board of Directors, following the relevant election process, will not have any material impact on the Issuer's operations or financial condition. However, the Government, as the Issuer's sole shareholder, could influence such election processes for political, rather than business reasons which could have a material adverse effect on the Group's operations and financial condition. See "*—The Republic of Lithuania, which is the sole shareholder of the Issuer, can control the Group's policies and may pursue decisions that reflect Government policy*". In addition, any changes to the composition of the Issuer's Supervisory Council and/or the Board of Directors following such elections may result in a loss of organisational focus, poor execution of the Group's operations and corporate strategy and its inability to identify and execute potential strategic initiatives in the future, including strategies relating to the growth of its business. See "*—The Group may not be able to hire, train or retain a sufficient number of qualified staff*".

Risks associated with restitution claims in Lithuania.

A restitution process is underway in Lithuania, which involves the return of nationalised real property to its previous owners, following the change of the political regime and the fundamental changes in the principles of registration of real estate property in Lithuania in 1990. A significant part of the Group's distribution assets, including its electricity and gas distribution networks, are located on real property which was previously owned by the Republic of Lithuania and has now been returned to its previous owners as a result of the restitution process. While the restitution process provides the Group with an easement over such real property for the Group to operate its distribution assets, and no legislation currently requires the Group to pay compensation for the use of such easements, certain owners of previously nationalised property have recently brought actions against the Group entities claiming compensation for the use of such easements and in some instances courts in Lithuania have found in favour of these owners. Although the Group believes it has sufficient funds to cover all amounts which may become payable by it in connection with such claims, it cannot give any assurance of this. The Group's failure to assess the likely outcome of any claims against it could have a material adverse effect on its business, results of operations and financial condition.

RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Zero Coupon Notes may experience price volatility in response to changes in market interest rates.

Zero Coupon Notes do not pay interest but are issued at a discount from their nominal value. Instead of periodic interest payments, the difference between the redemption price and the issue price constitutes interest income until maturity and reflects the market interest rate. A holder of Zero Coupon Notes is exposed to the risk that the price of such Notes falls as a result of changes in the market interest rate. Prices of Zero Coupon Notes are more volatile than the prices of Fixed Rate Notes and are likely to respond to a greater degree to market interest rate changes than interest bearing notes with a similar maturity.

If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor.

The Final Terms relating to any specific Tranche of Notes may provide that it will be the Issuer's intention to apply the proceeds from an offer of those Notes specifically for projects and activities that promote climate-friendly and other environmental purposes ("**Eligible Projects**"). Prospective investors should determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary. In particular no assurance is given by the Issuer that the use of such proceeds for any Eligible Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Projects. Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label nor can

any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Projects will meet any or all investor expectations regarding such “green”, “sustainable” or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Notes and in particular with any Eligible Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Notes are listed or admitted to trading on any dedicated “green”, “environmental”, “sustainable” or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer or any other person that any such listing or admission to trading will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

While it is the intention of the Issuer to apply the proceeds of any Notes so specified for Eligible Projects in, or substantially in, the manner described in this Base Prospectus, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Projects. Nor can there be any assurance that such Eligible Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Eligible Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Eligible Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

RISKS RELATED TO THE NOTES GENERALLY

Set out below is a brief description of certain risks relating to the Notes generally:

Limitation periods may apply to any claims or enforcement proceedings relating to the Notes which are brought before a Lithuanian court.

According to Article 55 Part 9 of the Law on Companies of the Republic of Lithuania, should the owner of any debt securities issued by a Lithuanian company fail to request the redemption of such debt securities within a period of 3 (three) years after the due date for redemption, as established by the resolution of the company approving the issue of the relevant debt securities, then the right of the owner to request redemption shall be treated as expired. Although the Notes are governed by English law, and the prescription periods set out in Condition 14 are materially longer than those set out above, the application of this principle to foreign law securities is untested before the Lithuanian courts, and there remains a risk that any claims or enforcement proceedings that are not brought within three years of the redemption date of the relevant Notes would not be recognised or enforced by the Lithuanian courts.

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions of the Notes also provide that the Agent and the Issuer may, without the consent of Noteholders agree to the amendment of any of the provisions of the Notes in order to correct a manifest error.

Notes may be redeemed prior to their stated maturity.

Under current Lithuanian laws and regulations, interest payments under any Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) to individuals (non-tax residents of Lithuania) are subject to Lithuanian withholding tax at a rate of 15 per cent. and to entities residing outside of the EEA or in countries which do not benefit from a double tax treaty with the Republic of Lithuania are subject to Lithuanian withholding tax at a rate of 10 per cent. – see further “*Taxation*”. The Issuer has undertaken to pay additional amounts such that Noteholders receive the amount of interest they would have received had there been no such withholding. If the Issuer has or will become obliged to pay any other additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Lithuania or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

There is no active trading market for the Notes.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single Series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been made for the Notes issued under the Programme to be admitted to listing on the Official List and to trading on the Regulated Market of the Luxembourg Stock Exchange and the Nasdaq Vilnius Stock Exchange, there is no assurance that such applications will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

Because Notes in global form are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer and payment with the Issuer.

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more global Notes the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to its account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant.

Notes in New Global Note and New Safekeeping Structure form.

The New Global Note and New Safekeeping Structure form has been introduced to allow for the possibility of debt instruments being issued and held in a manner which will permit them to be recognised as eligible collateral for monetary policy of the central banking system for the euro (the “**Eurosystem**”) and intra-day credit operations by

the Eurosystem either upon issue or at any or all times during their life. However in any particular case such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time. Investors should make their own assessment as to whether the Notes meet such Eurosystem eligibility criteria.

Minimum Specified Denomination and higher integral multiples.

In relation to any issue of Notes in bearer form which have a denomination consisting of a minimum Specified Denomination (as defined below) plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such Specified Denomination. In such case a Noteholder who, as a result of trading such amount, holds a principal amount not an integral amount of such Specified Denomination may not receive a Note in definitive form corresponding to such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to an integral multiple of such Specified Denomination.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes.

As of the date of this Base Prospectus, the Issuer has been assigned a long-term senior unsecured rating of BBB+ (stable outlook) by Standard & Poor's. Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Such rating will not necessarily be the same as the rating(s) assigned to the Issuer or to Notes already issued. One or more independent credit rating agencies may also assign credit ratings to the Notes, which may not necessarily be the same ratings as the Issuer rating described above or any rating(s) assigned to Notes already issued. Such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency ("**CRA**") established in the E.U. and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-E.U. credit rating agencies, unless the relevant credit ratings are endorsed by an EU registered CRA or the relevant non-E.U. rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

GENERAL DESCRIPTION OF THE PROGRAMME

The following information is derived from, and should be read in conjunction with, the full text of this Base Prospectus. You should read the whole document and not just rely on the overview information, which should be read as an introduction to this Base Prospectus. Any decision to invest in Notes issued under the Programme should be based on consideration of this Base Prospectus as a whole.

Words and expressions defined in “Terms and Conditions of the Notes” below or elsewhere in this Base Prospectus have the same meanings in this overview.

Issuer:	„Lietuvos energija”, UAB
Programme Limit:	Up to EUR 1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed under “ <i>Risk Factors</i> ” below.
Arranger:	BNP Paribas
Dealers:	BNP Paribas and AB SEB Bankas and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent:	The Bank of New York Mellon, London Branch
Registrar:	The Bank of New York Mellon SA/NV, Luxembourg Branch
Paying Agents and Transfer Agents:	The Bank of New York Mellon, London Branch
Final Terms or Drawdown Prospectus:	Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and relevant Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of Notes will be the Terms and Conditions of the Notes as completed to the extent described in the relevant Final Terms or, as the case may be, as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus.
Listing and Trading:	Applications have been made for Notes issued under the programme to be admitted during the period of twelve months after the date hereof to listing on the Official List and to trading on the Regulated Market of the Luxembourg Stock Exchange and the Nasdaq Vilnius Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. Application has been made for a certificate of approval under Article 18 of the Prospectus Law 2005 to be issued by the CSSF to the competent authority in the Republic of Lithuania. This document will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).
Clearing Systems:	Euroclear Bank SA/NV (“ Euroclear ”) and/or Clearstream Banking, S.A. (“ Clearstream, Luxembourg ”) and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent and the relevant Dealer(s).
Method of Issue:	The Notes will be issued in Series. Each Series may be issued in one or more Tranches on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will

be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.

Forms of Notes:

Notes may be issued in bearer form or in registered form.

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note which is not intended to be issued in a new global note form (a “**Classic Global Note**”), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a “**New Global Note**”), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached.

Each Tranche of Notes represented by a Global Registered Note will either be: (a) in the case of a Note which is not to be held under the new safekeeping structure (“**New Safekeeping Structure**” or “**NSS**”), registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depository; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Currencies:

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealer(s).

Status:

The Notes will constitute direct, general and (subject to Condition 5 (*Negative Pledge*)) unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Issue Price:

Notes may be issued at any price on a fully paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Maturities:

Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the

activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000, as amended (the “FSMA”) by the Issuer.

Under the Luxembourg Law on Prospectuses for Securities, which implements Directive 2003/71/EC, prospectuses for the listing of money market instruments having a maturity at issue of less than 12 months and complying also with the definition of securities are not subject to the approval provisions of such law and do not need to be approved by the CSSF.

Redemption:

Notes may be redeemable at par or such other Redemption Amount as may be specified in the relevant Final Terms.

Optional Redemption (including Make-Whole Redemption):

The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders, and if so the terms applicable to such redemption.

If a Change of Control Put Option is specified in the relevant Final Terms, following the occurrence of a Change of Control, the Noteholders will be entitled to request the Issuer to redeem or, at the Issuer’s option, procure the purchase of their Notes, as more fully set out in Condition 9(f) (*Redemption and Purchase – Change of Control Put Option*).

If specified in the relevant Final Terms, the Issuer will have the option to redeem the Notes, in whole or in part, at any time or from time to time, prior to their Maturity Date, at the Make-Whole Redemption Amount. See Condition 9(c) (*Redemption and Purchase – Redemption at the option of the Issuer*).

Tax Redemption:

Except as described in “*Optional Redemption (including Make-Whole Redemption)*” above, early redemption will only be permitted for tax reasons as described in Condition 9(b) (*Redemption and Purchase – Redemption for tax reasons*).

Interest:

Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.

Denominations:

No Notes may be issued under the Programme with a minimum denomination of less than EUR 100,000 (or its equivalent in any other currency). Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Negative Pledge:

The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).

Cross Default:

The Notes will have the benefit of a cross default provision, as described in Condition 13(c) (*Cross-default of the Issuer or Subsidiary*).

Taxation:

All payments of principal and interest in respect of Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present

or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Lithuania or any political subdivision therein or authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall (subject as provided in Condition 12 (*Taxation*)) pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders after such withholding or by them had no such withholding or deduction been required, all as described in “*Terms and Conditions of the Notes – Taxation*”.

Under current Lithuanian laws and regulations, interest payments under any Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) to individuals (non-tax residents of Lithuania) are subject to Lithuanian withholding tax at a rate of 15 per cent. and to entities residing outside of the EEA or in countries which do not benefit from a double tax treaty with the Republic of Lithuania are subject to Lithuanian withholding tax at a rate of 10 per cent. – see further “*Taxation*”. The Issuer will pay additional amounts in respect of this withholding so that Noteholders receive the full amount they would have received had there been no withholding. For so long as the Notes are held in global form, the Issuer will pay such additional amounts on the entire principal amount of the Notes represented by such Global Note.

Rating:

Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will be specified in the applicable Final Terms or Drawdown Prospectus. A rating is not a recommendation to buy, sell or hold securities and may be subject to supervision, change or withdrawal at any time from the assigning rating agency.

Governing Law:

English law

Selling Restrictions:

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, the EEA (with respect to retail investors), the Republic of Lithuania and Japan, see “*Subscription and Sale*” below.

PRESENTATION OF FINANCIAL INFORMATION OF THE GROUP

With the exception of certain alternative performance measures (“APMs”), the financial information as of and for the three months ended 31 March 2017, as of and for the year ended 31 December 2016 and as of and for the year ended 31 December 2015, included in this Base Prospectus have been derived from the Group’s unaudited condensed consolidated interim financial statements as of and for the three month period ended 31 March 2017 prepared in accordance with the International Accounting Standard IAS 34 (the “**Interim Financial Statements**”), the Group’s audited stand-alone and consolidated financial statements as of and for the year ended 31 December 2016 prepared in accordance with the International Financial Reporting Standards as adopted by the E.U. (“**IFRS**”) (the “**2016 Financial Statements**”), and the Group’s audited stand-alone and consolidated financial statements as of and for the year ended 31 December 2015 prepared in accordance with IFRS (the “**2015 Financial Statements**”, and together with the 2016 Financial Statements, the “**Audited Financial Statements**”).

Certain amounts and percentages which appear in this Base Prospectus have been subject to rounding adjustments, and, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

UAB PricewaterhouseCoopers (“**PwC**”), with its registered office in Vilnius (J.Jasinskio 16B, LT – 03163 Vilnius) audited the 2016 Financial Statements and issued an unqualified auditors’ report on the aforementioned financial statements.

In addition, PwC audited the 2015 Financial Statements and issued a qualified auditor’s report on the aforementioned financial statements, see “—*Qualifications to 2015 Financial Statements*”.

The Interim Financial Statements have not been subject to an audit or a review by independent auditors.

Alternative Performance Measures

This section provides further information relating to APMs for the purposes of the guidelines published by the European Securities and Markets Authority. Certain of the financial measures included in “*Description of the Group*” can be characterised as APMs and set out below are clarifications as to the meaning of such measures.

This Base Prospectus includes EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, net debt, net debt to equity, net debt to adjusted EBITDA and free cash flow figures, as set out in the following tables, which are APMs:

EBITDA, EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, Net Debt, Net Debt to Equity, Net Debt to Adjusted EBITDA and Free Cash Flow Figures:

	As of and for the year ended 31 December	
	2016	2015
	<i>(EUR in thousands, except percentages)</i>	
EBITDA	225,869	139,330
EBITDA Margin	20.5%	12.7%
Adjusted EBITDA	254,515	215,717
Adjusted EBITDA margin	23.1%	19.7%
Net debt	315,826	251,786
Net debt to equity	23.9%	19.3%
Net debt to adjusted EBITDA	1.24	1.17
Free cash flow	94,445	(8,951)

EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, net debt, net debt to equity, net debt to adjusted EBITDA and free cash flow measures should not be used instead of, or considered as alternatives to, the Group’s consolidated historical financial results based on IFRS. The non-IFRS measures relate to the reporting periods and are not meant to be predictive of future results. EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, net debt, net debt to equity, net debt to adjusted EBITDA and free cash flow as presented in this Base Prospectus are not defined under, or presented in accordance with, IFRS. Management of the Group uses EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, net debt, net debt to equity, net debt to adjusted EBITDA and free cash flow measures because the Issuer believes that these measures are commonly used by lenders, investors and analysts. The Group’s use of the terms EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, net debt, net debt to equity, net debt to adjusted EBITDA and free cash flow figures and its method of calculating EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, net debt, net

debt to equity, net debt to adjusted EBITDA and free cash flow figures may vary from other companies' use and calculation of such terms.

These measures are presented for purposes of providing investors with a better understanding of the Issuer's financial performance, cash flows or financial position as they are used by the Issuer when managing its business.

EBITDA and Adjusted EBITDA

EBITDA and adjusted EBITDA should not be considered as alternatives to profit before tax as defined by IFRS or to cash flows from operating activities (or any other performance measure determined in accordance with IFRS) or as indicators of operating performance or as measures of the Group's liquidity. In particular, EBITDA and adjusted EBITDA should not be considered as measures of discretionary cash available to the Group to invest in the growth of the Group's businesses.

EBITDA and adjusted EBITDA have certain limitations as analytical tools, and should not be considered in isolation, or as a substitute for financial information as reported under IFRS. Investors should not place undue reliance on this data. EBITDA in this Base Prospectus is presented, for each period, as: profit/(loss) before tax, adjusted by financial income and financial costs, depreciation and amortisation. Adjusted EBITDA is EBITDA further adjusted for impairments and write offs, changes in market value of open financial derivative instruments, extraordinary and exceptional items separately identified as such by the management and temporary regulatory differences identified as such by the management (such as the Gazprom price reduction and temporary regulatory differences of LITGAS). For further details, see Note 38 of the 2016 Financial Statements.

No statement in this Base Prospectus is intended as a profit/EBITDA/adjusted EBITDA forecast and no statement in this Base Prospectus should be interpreted to mean that the earnings of the Group for the current or future years would necessarily match or exceed the historical published earnings of the Group.

The table below presents reconciliation of EBITDA and adjusted EBITDA to the net profit for the period of the Group for the years ended 31 December 2016 and 31 December 2015:

	For the year ended 31 December	
	2016	2015
	<i>(EUR in thousands, except percentages)</i>	
Net profit	118,438	55,296
Current year income tax expense	13,373	2,140
Deferred income tax expense/(benefit)	12,404	6,740
Depreciation and amortisation	78,518	74,237
Finance income	(3,720)	(5,632)
Finance costs	6,856	6,549
EBITDA	225,869	139,330
EBITDA Margin	20.5%	12.7%
Impairments and write-offs	11,682	30,387
Change in market value of open financial derivative instruments	(2,036)	(0.0)
Gas price discount provided by Gazprom ⁽¹⁾ and temporary regulatory differences of LITGAS ⁽²⁾	19,000	46,000
Adjusted EBITDA	254,515	215,717
Adjusted EBITDA Margin	23.1%	19.7%

(1) The Group received the full amount of the Gazprom discount in 2014. However, this discount was not distributed to consumers in 2014 but in subsequent years, between 2015-2017. Accordingly, the adjustment in this line item has been made by management to reflect the portion of the original discount received by Gazprom which was distributed to consumers in the relevant year.

(2) Starting from 2017, the Group expects that it will make further adjustments to EBITDA for temporary regulatory differences, in particular affecting ESO and LDT and the impact of such adjustments on the Group's adjusted EBITDA could be significant. Adjustments to EBITDA for temporary regulatory differences are recalculations of regulated revenue to reflect temporary differences between actual and approved regulatory revenues, by which the Group's future financial results would be adjusted.

EBITDA Margin and Adjusted EBITDA Margin

EBITDA Margin consists of EBITDA divided by total revenues, expressed as a percentage.

The following table illustrates the methodology the Group uses to determine EBITDA margin for the year ended December 2016 and 31 December 2015:

	For the year ended 31 December	
	2016	2015
	<i>(EUR in thousands, except percentages)</i>	
EBITDA	225,869	139,330
Total Revenue	1,101,630	1,095,766
EBITDA Margin	20.5%	12.7%

Adjusted EBITDA margin consists of adjusted EBITDA divided by total revenues, expressed as a percentage.

The following table illustrates the methodology the Group uses to determine adjusted EBITDA margin for the year ended 31 December 2016 and 31 December 2015:

	For the year ended 31 December	
	2016	2015
	<i>(EUR in thousands, except percentages)</i>	
Adjusted EBITDA	254,515	215,717
Total Revenue	1,101,630	1,095,766
Adjusted EBITDA Margin	23.1%	19.7%

Net Debt

Net debt consists of borrowings less cash and cash equivalents less short-term investments and term deposits less a portion of non-current other financial assets representing investments in debt securities.

The following table illustrates the methodology the Group uses to determine its net debt as of 31 December 2016 and 31 December 2015:

	As of 31 December	
	2016	2015
	<i>(EUR in thousands)</i>	
Non-current borrowings		
Bank borrowings	364,957	277,805
Current borrowings		
Finance lease liabilities	316	473
Current portion of non-current borrowings	90,008	99,023
Current borrowings	38,948	1,490
Current portion of finance lease liabilities	157	155
Letters of credit	—	206
Bank overdrafts	—	41,531
Accrued interest	5	5
Total borrowings	494,391	420,688
Cash and cash equivalents	(178,565)	(164,341)
Short term investments and term deposits	—	(4,561)
Portion of non-current financial assets representing investment in debt securities	—	—
Net Debt	315,826	251,786

Net Debt to Equity

Net debt to equity is the ratio of net debt to equity and is used as a measure of both indebtedness and borrowing capacity.

Net Debt to Adjusted EBITDA

Net debt to adjusted EBITDA is the ratio of net debt to adjusted EBITDA and is used as a measure of both indebtedness and borrowing capacity.

Free cash flow

The Group calculates free cash flow as the sum of net cash generated from operating activities and net cash used in investing activities and uses it as a measure for analysing the Group's ability to generate cash.

The following table illustrates the methodology the Group uses to determine its free cash flow for the year ended 31 December 2016 and 31 December 2015:

	As of 31 December	
	2016	2015
	<i>(EUR in thousands)</i>	
Net cash generated from operating activities	251,692	125,428
Net cash used in investing activities	(157,247)	(134,379)
Free cash flow	94,445	(8,951)

Qualifications to 2015 Financial Statements

PwC audited the 2016 Financial Statements and issued an audit report with no qualifications. PwC audited the 2015 Financial Statements and issued an audit report with certain qualifications.

The qualified audit report on the 2015 Financial Statements contains the following statement:

“According to the Group's accounting policy, property, plant and equipment (except for the Power Plants, distribution networks and related installations, gas technological equipment and constructions, information technology and telecommunication equipment) are carried at revalued amounts, being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses. As explained in note 4, Group's management has assessed the fair values of property plant and equipment as of 31 December 2014 and accounted for the related revaluation. The management did not determine the fair values of property, plant and equipment with carrying amount of EUR 1,303 million as of 31 December 2013, although impairment indicators existed as of that date. Consequently, we were unable to assess in which period the revaluation results should have been recognised, and by which amount the depreciation expense of the comparative period presented in these financial statements should have been adjusted. Our audit opinions on the financial statements for the years ended 31 December 2014 and 2013 were modified accordingly. Our opinion on the current period's financial statements is therefore modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

As of 31 December 2014, the Group's management assessed the recoverable amount of goodwill and recognised an impairment loss. The management did not determine the recoverable amount of goodwill with carrying amount of EUR 51.6 million as of 31 December 2013, although impairment indicators existed as of that date. Consequently, we were unable to assess in which period the impairment loss should have been recognised, and by which amount the goodwill impairment loss of the comparative period presented in these financial statements should have been adjusted. Our audit opinions on the financial statements for the years ended 31 December 2014 and 2013 were modified accordingly. Our opinion on the current period's financial statements is therefore modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

The Company accounts for its investments in subsidiaries at cost less impairment losses. As of 31 December 2014, the Company's management assessed the recoverable amount of investments in subsidiaries and recognised an impairment loss. The management did not determine the recoverable amount of investments will with carrying amount of EUR 504.7 million as of 31 December 2013, although impairment indicators existed as of that date. Consequently, we were unable to assess in which period the impairment loss should have been recognised, and by which amount the impairment loss of the comparative period presented in these financial statements should have been adjusted. Our audit opinions on the financial statements for the years ended 31 December 2014 and 2013 were modified accordingly. Our opinion on the current period's financial statements is therefore modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.”

OVERVIEW OF FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of the Group as of and for the periods indicated.

With the exception of APMs discussed in “*Presentation of Financial Information of the Group*”, the financial information as of and for the three months ended 31 March 2017 and 31 March 2016 and as of and for the years ended 31 December 2016 and 31 December 2015 included in this Base Prospectus has been derived from the Interim Financial Statements and the Audited Financial Statements as set out in F-4 to F-152 in this Base Prospectus.

The summary financial data in the tables below should be read together with the Interim Financial Statements and the Audited Financial Statements, including the notes thereto. Please also see “*Presentation of Financial Information of the Group*” and “*Risk Factors*” herein.

The following table sets forth summary Consolidated Statements Of Profit And Loss and Other Comprehensive Income Data of the Group for the three months ended 31 March 2017 and 31 March 2016 and for the years ended 31 December 2016 and 31 December 2015:

Consolidated Statements Of Profit And Loss And Other Comprehensive Income Data

	For the three months ended 31 March (unaudited)		For the year ended 31 December	
	2017	2016	2016	2015
	<i>(EUR in thousands)</i>			
Revenue				
Sales revenue	302,825	328,052	1,070,542	1,048,021
Other income	6,795	7,047	31,088	47,745
Total revenue	309,620	335,099	1,101,630	1,095,766
Operating expenses				
Purchases of electricity, gas for trading and related services	(129,082)	(130,852)	(691,738)	(761,490)
Purchases of gas and heavy fuel oil	(96,615)	(95,430)	(35,689)	(12,511)
Depreciation and amortisation	(20,338)	(18,871)	(78,518)	(74,237)
Wages and salaries and related expenses	(20,185)	(22,216)	(86,065)	(93,705)
Repair and maintenance expenses	(3,880)	(4,556)	(22,765)	(27,196)
Revaluation of property, plant and equipment and investment property	—	—	336	(1,277)
Impairment of property, plant and equipment	(1,086)	—	(566)	(30,133)
Other expenses	(9,432)	(14,392)	(39,274)	(30,124)
Total operating expenses	(280,618)	(286,317)	(954,279)	(1,030,673)
Total revenue less operating expenses	29,002	48,782	147,351	65,093
Finance income	623	938	3,720	5,632
Finance costs	(1,425)	(1,975)	(6,856)	(6,549)
Profit (loss) before tax	28,200	47,745	144,215	64,176
Current year income tax (expense)/income	(3,500)	(6,541)	(13,373)	(2,140)
Deferred income tax (expense)/income	(2,681)	(5,924)	(12,404)	(6,740)
Net profit	22,019	35,280	118,438	55,296
Attributable to:				
Owners of the parent	20,398	32,026	108,105	49,216
Non-controlling interests	1,621	3,254	10,333	6,080
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss				
Gain (loss) on revaluation of non-current assets	—	—	385	1,080
Items that will be not reclassified to profit or loss, total	—	—	385	1,080
Items that will be reclassified to profit or loss				
Change in fair value of available-for-sale financial assets	—	(14)	(48)	(26)
Items that will be reclassified to profit or loss, total	—	(14)	(48)	(26)
Other comprehensive income (loss)	—	(14)	337	1,054
Total comprehensive income for the period	22,019	35,266	118,775	56,350
Attributable to:				
Owners of the parent	20,398	32,012	108,442	50,256
Non-controlling interests	1,621	3,254	10,333	6,094

The following table sets forth summary consolidated statements of financial position data of the Group as of 31 March 2017 and 31 December 2016:

Consolidated Statements of Financial Position Data

	As of 31 March (unaudited) 2017	As of 31 December 2016
	<i>EUR (in thousands)</i>	
Assets		
Non-current assets		
Intangible assets	28,060	32,261
Property, plant and equipment	1,771,384	1,770,814
Investment property	45,007	46,207
Amounts receivable after one year	210,334	203,582
Other non-current assets	1,871	2,620
Deferred income tax asset	5,053	5,699
Total non-current assets	2,061,709	2,061,183
Current assets		
Inventories	37,873	38,117
Prepayments	21,753	6,967
Trade receivables	105,341	111,884
Other amounts receivable	20,961	29,363
Other current assets	4,384	4,606
Prepaid income tax	1,083	589
Short-term investments	—	—
Cash and cash equivalents	157,745	178,565
	349,140	370,091
Non-current assets held for sale	1,045	878
Total current assets	350,185	370,969
Total assets	2,411,894	2,432,152
Equity and liabilities		
Equity		
Share capital	1,212,156	1,212,156
Reserves	92,875	92,171
Retained earnings (deficit)	(16,258)	(35,952)
Equity attributable to owners of the parent	1,288,773	1,268,375
Non-controlling interests	49,783	51,172
Total equity	1,338,556	1,319,547
Liabilities		
Non-current liabilities		
Non-current borrowings	345,902	364,957
Finance lease liabilities	282	316
Grants and subsidies	282,573	284,929
Deferred income tax liabilities	42,518	40,481
Provisions	3,199	3,254
Deferred income	52,307	52,214
Other non-current amounts payable and liabilities	12,542	11,780
Total non-current liabilities	739,323	757,931

	As of 31 March (unaudited) 2017	As of 31 December 2016
<i>EUR (in thousands)</i>		
Current liabilities		
Current portion of long-term debts	84,843	90,008
Current borrowings	57,098	38,953
Current portion of finance lease liabilities	154	157
Trade payables	60,146	96,118
Advance amounts received	27,060	27,636
Income tax liabilities	12,957	9,355
Provisions	7,331	12,883
Other current amounts payable and liabilities	84,426	79,564
Total current liabilities	334,015	354,674
Total liabilities	1,073,338	1,112,605
Total equity and liabilities	2,411,894	2,432,152

The following table sets forth summary consolidated statements of financial position data of the Group as of 31 December 2016 and 31 December 2015:

	As of 31 December 2017	2016
<i>EUR (in thousands)</i>		
Assets		
Non-current assets		
Intangible assets	32,261	21,539
Property, plant and equipment	1,770,814	1,631,117
Investment property	46,207	48,519
Amounts receivable after one year	203,582	244,426
Other non-current assets	2,620	3,288
Deferred income tax assets	5,699	6,488
Total non-current assets	2,061,183	1,955,377
Current assets		
Inventories	38,117	39,974
Prepayments	6,967	40,170
Trade receivables	111,884	107,066
Other amounts receivable	29,363	20,977
Other current assets	4,606	798
Prepaid income tax	589	5,757
Short-term investments	—	4,561
Cash and cash equivalents	178,565	164,341
Non-current assets held for sale	370,091	383,644
	878	209
Total current assets	370,969	383,853
Total assets	2,432,152	2,339,230
Equity and Liabilities		
Equity		
Share capital	1,212,156	1,212,156
Reserves	92,171	91,148
Retained earnings (accrued deficit)	(35,952)	(49,264)
Equity attributable to owners of the parent	1,268,375	1,254,040
Non-controlling interests	51,172	50,445
Total equity	1,319,547	1,304,485

	<u>As of 31 December</u>	
	<u>2017</u>	<u>2016</u>
	<i>EUR (in thousands)</i>	
Liabilities		
Non-current liabilities		
Non-current borrowings	364,957	277,805
Finance lease liabilities	316	473
Grants and subsidies	284,929	296,437
Deferred income tax liabilities	40,481	26,648
Provisions	3,254	5,084
Deferred revenue	52,214	53,602
Other non-current amount payable and liabilities	11,780	9,033
Total non-current liabilities	<u>757,931</u>	<u>669,082</u>
Current liabilities		
Current portion of non-current borrowings	90,008	99,023
Current borrowings	38,953	43,232
Current portion of finance lease liabilities	157	155
Trade payables	96,118	92,119
Advance amounts received	27,636	39,386
Income tax liabilities	9,355	1,314
Provisions	12,883	23,333
Other current amounts payable and liabilities	79,564	67,101
Total current liabilities	<u>354,674</u>	<u>365,663</u>
Total liabilities	<u>1,112,605</u>	<u>1,034,745</u>
Total equity and liabilities	<u>2,432,152</u>	<u>2,339,230</u>

The following table sets forth summary consolidated cash flow statements data of the Group for the three months ended 31 March 2017 and 31 March 2016 and for the years ended 31 December 2016 and 31 December 2015:

Statements of Cash flow Data

	<u>For the three months</u>		<u>For the year</u>	
	<u>ended 31 March (unaudited)</u>	<u>ended 31 March (unaudited)</u>	<u>ended 31 December</u>	<u>ended 31 December</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>
	<i>(EUR in thousands)</i>			
Cash flows from operating activities				
Net profit for the period	22,019	35,280	118,438	55,296
Adjustments for non-monetary expenses (income):				
Depreciation and amortisation expenses	23,462	21,846	90,925	86,439
Impairment of intangible assets, property, plant and equipment	1,086	—	566	30,133
Revaluation of investment property	—	—	(214)	1,407
Result of revaluation of property, plant and equipment	—	—	(122)	(130)
Revaluation of derivative financial instruments	1,492	—	(2,036)	—
Share of profit of associates and joint ventures	—	2	—	13
(Gain) loss on disposal of investments in subsidiaries and associates	—	—	—	(21)
Impairment of financial assets (reversal of impairment)	(1,585)	586	1,019	(2,289)
Income tax expenses	6,181	12,465	25,777	8,880
(Depreciation) of grants	(3,124)	(2,975)	(12,407)	(12,202)
Increase (decrease) in provisions	(5,607)	(8,793)	(10,481)	13,819
Inventory write-down expenses (income)	—	(20)	275	(1,077)
Emission allowance revaluation expenses (income)	3,417	4,744	3,346	(370)
Emission allowances utilised	—	—	1,742	2,992
(Gain) loss on disposal/write-off of non current assets (other than financial assets)	592	13	2,285	3,710

	For the three months ended 31 March (unaudited)		For the year ended 31 December	
	2017	2016	2016	2015
	<i>(EUR in thousands)</i>			
Elimination of results of financing and investing activities:				
Interest (income)	(427)	(805)	(2,858)	(4,957)
Interest expenses	1,355	1,424	5,760	4,456
Other finance (income) expenses	(126)	418	234	1,418
Changes in working capital:				
(Increase) decrease in trade receivables and other amounts receivable	11,125	(2,410)	3,803	26,902
(Increase) decrease in inventories, prepayments and other current assets	(14,116)	30,355	31,057	(16,209)
Increase (decrease) in amounts payable, deferred income and advance amounts received	(18,886)	(51,243)	(3,188)	(60,158)
Income tax (paid)	(491)	(453)	(2,229)	(12,624)
Net cash flows from (used in) operating activities	<u>26,367</u>	<u>40,434</u>	<u>251,692</u>	<u>125,428</u>
Cash flows from investing activities				
(Acquisition) of property, plant and equipment and intangible assets	(41,339)	(24,219)	(172,946)	(148,722)
Disposal of property, plant and equipment and intangible assets	1,490	1,274	4,327	306
Loans repaid	—	4,504	29,201	96
(Acquisition) disposal of subsidiaries	—	(33,158)	(27,378)	125
Grants received	—	8	2,157	9,362
Bonds redeemed	—	—	4,534	145
Interest received	84	29	2,858	4,629
Change in non-controlling interest resulting from changes in the Group's structure	—	—	—	(320)
Net cash flows from (used in) investing activities	<u>(39,765)</u>	<u>(51,562)</u>	<u>(157,247)</u>	<u>(134,379)</u>
Cash flows from financing activities				
Proceeds from borrowings	13,038	44,357	172,189	282,048
Repayments of borrowings	(24,192)	(17,701)	(96,689)	(282,031)
Finance lease payments	(37)	(42)	(155)	120
Interest paid	(1,313)	(1,611)	(5,760)	(4,329)
Dividends paid	—	(124)	(100,537)	(62,035)
Increase in share capital of Kauno Kogeneraciné Jégainé UAB	—	—	1,317	—
Acquisition of non-controlling interest	—	—	(9,055)	—
Net cash flows from (used in) financing activities	<u>(12,504)</u>	<u>24,879</u>	<u>(38,690)</u>	<u>(66,227)</u>
Increase (decrease) in cash and cash equivalents (including overdraft)				
(including overdraft)	<u>(25,902)</u>	<u>13,751</u>	<u>55,755</u>	<u>(75,178)</u>
Cash and cash equivalents (including overdraft) at the beginning of the period	<u>178,565</u>	<u>122,810</u>	<u>122,810</u>	<u>197,988</u>
Cash and cash equivalents (including overdraft) at the end of the period	<u><u>152,663</u></u>	<u><u>136,561</u></u>	<u><u>178,565</u></u>	<u><u>122,810</u></u>

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression “necessary information” means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme the Issuer has included in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Conditions described in the relevant Final Terms as supplemented to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the relevant Notes or (2) by a registration document (the “**Registration Document**”) containing the necessary information relating to the Issuer, a securities note (the “**Securities Note**”) containing the necessary information relating to the relevant Notes and, if necessary, a summary note.

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form (“**Bearer Notes**”) will initially be in the form of either a temporary global note in bearer form (the “**Temporary Global Note**”), without interest coupons, or a permanent global note in bearer form (the “**Permanent Global Note**”), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a “**Global Note**”) which is not intended to be issued in new global note (“**NGN**”) form (each, a “**CGN**”), as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depository or a common depository for Euroclear Bank SA/NV as operator of the Euroclear System (“**Euroclear**”) and/or Clearstream Banking, S.A., Luxembourg (“**Clearstream, Luxembourg**”) and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the “**ECB**”) announced that Notes in NGN form are in compliance with the “Standards for the use of E.U. securities settlement systems in ESCB credit operations” of the central banking system for the euro (the “**Eurosystem**”), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

Whether or not the Notes are intended to be held in a manner which would allow Eurosystem eligibility will be set out in the relevant Final Terms. Note that the designation “Yes” in the relevant Final Terms means that the Notes are intended upon issue to be deposited with one of the international central securities depositories (“**ICSDs**”) as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. Where the designation is specified as “No” in the relevant Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them, the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note”, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and
- (ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership provided, however, that in no

circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

- (a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form (“**Definitive Notes**”):

- (a) on the expiry of such period of notice as may be specified in the Final Terms; or
- (b) at any time, if so specified in the Final Terms; or
- (c) if the Final Terms specifies “in the limited circumstances described in the Permanent Global Note”, then if either of the following events occurs:
 - (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
 - (ii) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or
- (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be

exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (b) at any time, if so specified in the relevant Final Terms; or
- (c) if the relevant Final Terms specifies “in the limited circumstances described in the Permanent Global Note”, then if either of the following events occurs:
 - (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
 - (ii) any of the circumstances described in Condition 13 (Events of Default) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “*Terms and Conditions of the Notes*” below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “*Overview of Provisions Relating to the Notes while in Global Form*” below.

Legend Concerning United States Persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

Registered Notes

Each Tranche of Notes in registered form (“**Registered Notes**”) will be represented by either individual Note Certificates in registered form (“**Individual Note Certificates**”) or a global Note in registered form (a “**Global Registered Note**”), in each case as specified in the relevant Final Terms.

In a press release dated 22 October 2008, “*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*”, the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in cooperation with market participants and that Notes to be held under the new structure (the “**New Safekeeping Structure**” or “**NSS**”) would be in compliance with the “*Standards for the use of E.U. securities settlement systems in ESCB credit operations*” of the central banking system for the euro (the “**Eurosystem**”), subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for Notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

Each Note represented by a Global Registered Note will either be: (a) in the case of a Note which is not to be held under the NSS, registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depositary; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the relevant Global Registered Note will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Whether or not the Notes are intended to be held in a manner which would allow Eurosystem eligibility will be set out in the relevant Final Terms. Note that the designation “Yes” in the relevant Final Terms means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem

either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. Where the designation is specified as “No” in the relevant Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them, the Notes may then be deposited with one of the ICSDs as common safekeeper and registered in the name of a nominee of one of the ICSDs acting as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.

If the relevant Final Terms specifies the form of Notes as being “Individual Note Certificates”, then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Registered Note Exchangeable for Individual Note Certificates

If the relevant Final Terms specifies the form of Notes as being “Global Registered Note exchangeable for Individual Note Certificates”, then the Notes will initially be represented by one or more Global Registered Notes each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies “in the limited circumstances described in the Global Registered Note”, then:
 - (a) if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and
 - (b) in any case, if any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever a Global Registered Note is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Registered Note at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under “Terms and Conditions of the Notes” below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Note will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “*Overview of Provisions Relating to the Notes while in Global Form*” below.

OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to “Noteholder” are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by one or more Global Registered Notes, references in the Terms and Conditions of the Notes to “Noteholder” are references to the person in whose name the relevant Global Registered Note is for the time being registered in the Register which for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper or a nominee for that depositary or common depositary or common safekeeper.

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an “**Accountholder**”) must look solely to Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer to the holder of such Global Note or Global Registered Note and in relation to all other rights arising under such Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Registered Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Registered Note.

Transfers of Interests in Global Notes and Global Registered Notes

Transfers of interests in Global Notes and Global Registered Notes within Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Registrar, the Dealers or the Agents will have any responsibility or liability for any aspect of the records of any Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Registered Note or for maintaining, supervising or reviewing any of the records of Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

For a further description of restrictions on the transfer of Notes, see “*Subscription and Sale*”.

Conditions Applicable to Global Notes

Each Global Note and Global Registered Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Registered Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Registered Note which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Registered Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payment Business Day: in the case of a Global Note or a Global Registered Note, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Registered Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Registered Note is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 9(e) (*Redemption at the option of Noteholders*) the bearer of a Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 9(c) (Redemption at the option of the Issuer) in relation to some only of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 19 (Notices), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Registered Note is, deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 19 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system except that so long as the Notes are listed on the Luxembourg Stock Exchange’s regulated market and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder to the Fiscal Agent or Registrar (as applicable) through Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and otherwise in such manner as the Fiscal Agent or the Registrar, as the case may be, and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, may approve for this purpose.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Overview of Provisions Relating to the Notes while in Global Form” above.

1. Introduction

- (a) *Programme*: „Lietuvos energija“, UAB (the “**Issuer**”) has established a Euro Medium Term Note Programme (the “**Programme**”) for the issuance of up to EUR 1,000,000,000 (or the equivalent in other currencies at the date of issue) in aggregate principal amount of notes (the “**Notes**”).
- (b) *Final Terms*: Notes issued under the Programme are issued in series (each a “**Series**”) and each Series may comprise one or more tranches (each a “**Tranche**”) of Notes. Each Tranche is the subject of final terms (the “**Final Terms**”) which complete these terms and conditions (the “**Conditions**”). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.
- (c) *Agency Agreement*: The Notes are the subject of an issue and paying agency agreement dated 27 June 2017 (the “**Agency Agreement**”) between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the “**Agents**” are to the Paying Agents and the Transfer Agents and any reference to an “**Agent**” is to any one of them.
- (d) *Deed of Covenant*: The Notes may be issued in bearer form (“**Bearer Notes**”), or in registered form (“**Registered Notes**”). Registered Notes are constituted by a deed of covenant dated 27 June 2017 (the “**Deed of Covenant**”) entered into by the Issuer.
- (e) *The Notes*: All subsequent references in these Conditions to “Notes” are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing, and copies may be obtained from, the registered office of the Issuer, Žveju g. 14, LT-09310 Vilnius, the Republic of Lithuania and the Issuer’s website www.le.lt. Copies of the relevant Final Terms will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).
- (f) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

2. Interpretation

- (a) *Definitions*: In these Conditions the following expressions have the following meanings:
 - “**Accrual Yield**” has the meaning given in the relevant Final Terms;
 - “**Additional Business Centre(s)**” means the city or cities specified as such in the relevant Final Terms;
 - “**Additional Financial Centre(s)**” means the city or cities specified as such in the relevant Final Terms;
 - “**Benchmark Security**” has the meaning given it in Condition 9(c) (*Redemption at the option of the Issuer*);
 - “**Business Day**” means:
 - (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) “**Following Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) “**Preceding Business Day Convention**” means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) “**FRN Convention**”, “**Floating Rate Convention**” or “**Eurodollar Convention**” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:
- (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
- (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
- (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) “**No Adjustment**” means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“**Calculation Agent**” means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

“**Calculation Amount**” has the meaning given in the relevant Final Terms;

“**Change of Control**” has the meaning given to it in Condition 9(f) (*Change of Control Put Option*);

“**Change of Control Period**” has the meaning given to it in Condition 9(f) (*Change of Control Put Option*);

“**Change of Control Put Event Notice**” has the meaning given to it in Condition 9(f) (*Change of Control Put Option*);

“**Change of Control Put Option Notice**” has the meaning given to it in Condition 9(f) (*Change of Control Put Option*);

“**Change of Control Put Period**” has the meaning given to it in Condition 9(f) (*Change of Control Put Option*);

“**Coupon Sheet**” means, in respect of a Note, a coupon sheet relating to the Note;

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (the “**Calculation Period**”), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (a) if “**Actual/Actual (ICMA)**” is so specified, means:
- (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
- (ii) where the Calculation Period is longer than one Regular Period, the sum of:
- (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

- (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (iii) if “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iv) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (v) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (vi) if “**30/360**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30”;

- (vii) if “**30E/360**” or “**Eurobond Basis**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

if “30E/360 (ISDA)” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D₂** will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**Early Redemption Amount (Tax)**” means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

“**Early Termination Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in these Conditions or the relevant Final Terms;

“**EBITDA**” means (i) the consolidated operating profit of the Group or (ii) in the case of a Material Subsidiary, the consolidated or unconsolidated operating profit of such Material Subsidiary, in the case of both (i) and (ii) before taking into account:

- (a) depreciation and amortisation;
- (b) finance income and finance costs;
- (c) revaluation of property, plant and equipment, and investment property;
- (d) impairment of property, plant and equipment;
- (e) current year income tax expense and deferred income tax (expense)/benefit
- (f) any revaluation of non-current assets; and
- (g) extraordinary and exceptional items, as defined by IFRS or separately identified as such within the most recent publicly available annual or interim financial statements of the Issuer or the relevant Material Subsidiary (as the case may be), prepared in accordance with IFRS;

“**EURIBOR**” means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Money Markets Institute (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

“**Extraordinary Resolution**” means a resolution passed at a Meeting duly convened and held in accordance with the provisions for meetings of Noteholders scheduled to the Agency Agreement by a majority of not less than three quarters of the votes cast;

“**Final Redemption Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

“**First Interest Payment Date**” means the date specified in the relevant Final Terms;

“**Fixed Coupon Amount**” has the meaning given in the relevant Final Terms;

“**Group**” means the Issuer and its Subsidiaries taken as a whole;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“**Holder**”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer—Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer—Title to Registered Notes*);

“**IFRS**” means the International Financial Reporting Standards as adopted by the E.U.;

“**Indebtedness**” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**Initial Rate of Interest**” means the rate (expressed as a percentage per annum) of interest initially payable in respect of the Notes specified in the relevant Final Terms;

“**Interest Amount**” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“**Interest Commencement Date**” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

“**Interest Determination Date**” has the meaning given in the relevant Final Terms;

“**Interest Payment Date**” means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“**Interest Period**” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“**ISDA Definitions**” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

“**Issue Date**” has the meaning given in the relevant Final Terms;

“**LIBOR**” means, in respect of any specified currency and any specified period, the interest rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor);

“**Make Whole Margin**” has the meaning given to it in Condition 9(c) (*Redemption at the option of the Issuer*);

“**Make Whole Redemption Amount**” has the meaning given to it in Condition 9(c) (*Redemption at the option of the Issuer*);

“**Margin**” has the meaning given in the relevant Final Terms;

“**Material Subsidiary**” means at any relevant time a Subsidiary of the Issuer:

- (a) whose total consolidated (or, if applicable, unconsolidated) assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 10 per cent. of the total consolidated assets of the Issuer, or whose gross consolidated EBITDA (or, if applicable, unconsolidated) represents not less than 10 per cent. of the gross consolidated EBITDA of the Issuer, in each case as determined by reference to the most recent publicly available annual or interim financial statements of the Issuer prepared in accordance with IFRS and the latest financial statements of the Subsidiary determined in accordance with IFRS; or
- (b) to which is transferred all or substantially all of the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary;

“**Maturity Date**” has the meaning given in the relevant Final Terms;

“**Maximum Redemption Amount**” has the meaning given in the relevant Final Terms;

“**Meeting**” means a meeting of Noteholders (whether originally convened or resumed following an adjournment);

“**Minimum Redemption Amount**” has the meaning given in the relevant Final Terms;

“**Noteholder**”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer—Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer—Title to Registered Notes*);

“**Optional Redemption Amount (Call)**” means, in respect of any Note, its principal amount, the Make Whole Redemption Amount, or such other amount as may be specified in the relevant Final Terms;

“**Optional Redemption Amount (Put)**” means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

“**Optional Redemption Date (Call)**” has the meaning given in the relevant Final Terms;

“**Optional Redemption Date (Put)**” has the meaning given in the relevant Final Terms;

“**Par Redemption Date**” has the meaning given to it in Condition 9(c) (*Redemption at the option of the Issuer*);

“**Participating Member State**” means a Member State of the E.U. which adopts the euro as its lawful currency in accordance with the Treaty;

“**Payment Business Day**” means:

- (a) if the currency of payment is euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

- (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

“Permitted Restructuring” means:

- (a) any disposal by any Material Subsidiary of all or any part of its business, undertaking or assets, on an arm’s length basis, to the Issuer or any other Subsidiary;
- (b) any solvent amalgamation, consolidation or merger of a Material Subsidiary with the Issuer or any other Subsidiary; or
- (c) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by an Extraordinary Resolution;

“Permitted Security Interest” means:

- (a) a Security Interest which is created to secure or provide for the payment of Relevant Indebtedness in connection with any Project Financing provided that the assets or revenues subject to such Security Interest are (i) assets which are used or to be used in or in connection with the project to which such Project Financing relates or (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or damage to, such assets; or
- (b) any Security Interest created over any asset of any company which becomes a Subsidiary after the Issue Date of the first Tranche of the Notes, where such Security Interest is created prior to the date on which the company becomes a Subsidiary, provided that:
 - (i) such Security Interest was not created in contemplation of the acquisition of such company; and
 - (ii) the principal amount secured was not increased in contemplation of or since the acquisition (or proposed acquisition) of that company;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“Project Financing” means any Indebtedness incurred solely to finance a project or the restructuring or expansion of an existing project, in each case for the acquisition, construction, development or exploitation of any assets pursuant to which the Person or Persons to whom such Indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) (i) expressly agrees that the principal source of repayment of such funds will be the assets of the project and the revenues generated by such project (or by such restructuring or expansion thereof) and (ii) has no other recourse whatsoever to any member of the Group (or its assets and/or revenues) for the repayment of, or a payment of, any sum relating to such Indebtedness;

“Put Option Notice” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Put Option Receipt” means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Rate of Interest” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

“Rating Event” has the meaning given to it in Condition 9(f) (*Change of Control Put Option*);

“Rating Agency” means Standard & Poor’s Credit Market Services Europe Limited and its successors and/or any other rating agency of equivalent standing notified by the Issuer to the Noteholders in accordance with Condition 19 (*Notices*).

“Redemption Amount” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms;

“Reference Banks” has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

“Reference Price” has the meaning given in the relevant Final Terms;

“Reference Rate” means EURIBOR or LIBOR as specified in the relevant Final Terms in respect of the currency and period specified in the relevant Final Terms;

“Reference Time” has the meaning given to it in Condition 9(c) (*Redemption at the option of the Issuer*);

“Regular Period” means:

- (a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

“Relevant Date” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“Relevant Financial Centre” has the meaning given in the relevant Final Terms;

“Relevant Indebtedness” means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

“Relevant Screen Page” means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“Relevant Time” has the meaning given in the relevant Final Terms;

“Reserved Matter” means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“Security Interest” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

“Specified Currency” has the meaning given in the relevant Final Terms;

“Specified Denomination(s)” has the meaning given in the relevant Final Terms;

“Specified Office” has the meaning given in the Agency Agreement;

“Specified Period” has the meaning given in the relevant Final Terms;

“**Subsidiary**” means, in relation to any Person (the “**first Person**”) at any particular time, any other Person (the “**second Person**”):

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

“**Talon**” means a talon for further Coupons;

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro;

“**Treaty**” means the Treaty of the Functioning of the European Union, as amended; and

“**Zero Coupon Note**” means a Note specified as such in the relevant Final Terms;

(b) *Interpretation*: In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being “outstanding” shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes; and
- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form, Denomination, Title and Transfer

- (a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.
- (b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, “**Holder**” means the holder of such Bearer Note and “**Noteholder**” and “**Couponholder**” shall be construed accordingly.
- (c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.
- (d) *Title to Registered Notes*: The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Note Certificate**”) will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, “**Holder**” means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.

- (e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.
- (f) *Transfers of Registered Notes*: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
- (g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.
- (j) *Regulations concerning transfers and registration*: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. Status

The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. Negative Pledge

So long as any Note remains outstanding, the Issuer shall not, and shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

6. Fixed Rate Note Provisions

- (a) *Application*: This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments—Bearer Notes*). Each

Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

- (c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note Provisions

- (a) *Application:* This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments—Bearer Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
 - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
 - (ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:
 - (A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
 - (B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period; **provided, however, that** if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;
 - (iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

- (iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean of such quotations; and
- (v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) *ISDA Determination*: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “ISDA Rate” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;
 - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms; and
 - (iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
 - (A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
 - (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.
- (e) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in

respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a “sub-unit” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

- (g) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (h) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Zero Coupon Note Provisions

- (a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Redemption and Purchase

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments—Bearer Notes*) or Condition 11 (*Payments—Registered Notes*), as applicable.
- (b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:
 - (i) at any time (unless the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable); or
 - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),
on giving not less than 30 nor more than 60 days’ notice to the Noteholders, or such other period(s) as may be specified in the relevant Final Terms, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:
 - (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the Republic of Lithuania or any political subdivision or any authority thereof or therein having

power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

- (1) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Final Terms) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant Final Terms) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b).

(c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant final terms (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

If the Optional Redemption Amount (Call) specified in the relevant Final Terms is the "**Make-Whole Redemption Amount**", the Optional Redemption Amount (Call) will be the higher of:

- (i) the principal amount of the Notes; and
- (ii) the product of the principal amount of the Notes and the price, expressed as a percentage of the principal amount of the Notes (rounded to four decimal places with 0.00005 being rounded upwards), at which the then current yield on the Notes on the Reference Date would be equal to the sum of (x) the current yield (determined by reference to the middle market price) at the Reference Time on the Reference Date of the relevant Benchmark Security plus (y) the Make-Whole Margin, as determined by the Calculation Agent,

provided however that, if the Optional Redemption Date occurs on or after the Par Redemption Date (if specified in the relevant Final Terms), the Make-Whole Redemption Amount will be the principal amount of the Notes.

The "**Benchmark Security**", the "**Reference Time**", the "**Make-Whole Margin**" and the "**Par Redemption Date**" will be specified in the relevant Final Terms, **provided however that**, if "Linear Interpolation" is specified as applicable in the relevant Final Terms, the current yield of the Benchmark Security shall be determined by linear interpolation (calculated to the nearest one twelfth of a year) of the yield of the two Benchmark Securities specified in the Final Terms.

The "**Reference Date**" means the date which is the third London Business Day prior to the date fixed for redemption.

(d) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of

outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Final Terms), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(e), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 9(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *Change of Control Put Option*

If this Condition 9(f) is specified as applicable in the relevant Final Terms, if at any time while any Note remains outstanding, (A) there occurs a Change of Control (as defined below), and (B) within the Change of Control Period, a Rating Event in respect of that Change of Control occurs (such Change of Control and Rating Event not having been cured prior to the expiry of the Change of Control Period, together, a “**Change of Control Put Event**”), each Noteholder will have the option (the “**Change of Control Put Option**”) (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer gives notice to redeem the Notes under Condition 9(b) or 9(c)) to require the Issuer to redeem or, at the Issuer’s option, to procure the purchase of, all or part of its Notes, on the Optional Redemption Date (as defined below) at the principal amount outstanding of such Notes together with (or where purchased, together with an amount equal to) interest accrued to, but excluding, the Optional Redemption Date.

Where:

A “**Change of Control**” shall be deemed to have occurred if at any time following the Issue Date, the Republic of Lithuania ceases to hold, directly or indirectly, more than 51 per cent. of the shares or voting rights of the Issuer.

A “**Rating Event**” shall be deemed to have occurred in respect of a Change of Control if (within the Change of Control Period) either (i) (A) the rating previously assigned to the Notes or to the Issuer by any Rating Agency solicited by the Issuer is (x) withdrawn or (y) changed from an investment grade rating (BBB-/Baa3 or its equivalent for the time being, or better) to a non-investment grade rating (BB+/Ba1 or its equivalent for the time being, or worse) or (z) (if the rating previously assigned to the Notes or to the Issuer by any Rating Agency solicited by the Issuer was below an investment grade rating (as described above)), lowered by at least one full rating notch (for example, from BB+ to BB, or their respective equivalents) and (B) such rating is not within the Change of Control Period subsequently upgraded (in the case of a downgrade) or reinstated (in the case of a withdrawal) either to an investment grade credit rating (in the case of (x) and (y)) or to its earlier credit rating or better (in the case of (z)) by such Rating Agency or (ii) the Notes or the Issuer have not been previously assigned a credit rating solicited by the Issuer, and no Rating Agency assigns the Issuer or the Notes an investment grade rating solicited by the Issuer within the Change of Control Period, provided that the Rating Agency making the reduction in rating or deciding not to assign an investment grade rating announces or publicly confirms or, having been so requested by the Issuer, informs the Issuer in writing that the lowering or failure to assign an investment grade rating was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Rating Event).

“**Change of Control Period**” means the period beginning on the date of the first public announcement by or on behalf the Issuer by any bidder or any designated advisor, of the relevant Change of Control and ending 90 days after completion of the relevant Change of Control.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Condition 19 (*Notices*) specifying the nature of the Change of Control Put Event and the circumstances giving rise to it and the procedure for exercising the Change of Control Put Option contained in this Condition 9(f).

To exercise the Change of Control Put Option, a Noteholder must transfer or cause to be transferred its Notes to be so redeemed or purchased to the account of the Fiscal Agent specified in the Change of Control Put Option Notice (as defined below) for the account of the Issuer within the period (the “**Change of Control Put Period**”) of forty-five (45) days after a Change of Control Put Event Notice is given together with a duly signed and completed notice of exercise in the then current form obtainable from the Fiscal Agent (a “**Change of Control Put Option Notice**”) and in which the Noteholder may specify a bank account to which payment is to be made under this Condition 9(f).

A Change of Control Put Option Notice once given shall be irrevocable. The Issuer shall redeem or, at the option of the Issuer procure the purchase of, the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above, and subject to the transfer of such Notes to the account of the Fiscal Agent for the account of the Issuer as described above by the date which is the fifth Business Day following the end of the Change of Control Put Period (the “**Optional Redemption Date**”). Payment in respect of such Notes will be made on the Optional Redemption Date by transfer to the bank account specified in the Change of Control Put Option Notice.

For the avoidance of doubt, the Issuer shall have no responsibility for any cost or loss of whatever kind (including breakage costs) which the Noteholder may incur as a result of or in connection with such Noteholder’s exercise or purported exercise of, or otherwise in connection with, any Change of Control Put Option (whether as a result of any purchase or redemption arising therefrom or otherwise).

If 75 per cent. or more in principal amount of the Notes then outstanding have been redeemed pursuant to this Condition 9(f), the Issuer may, on not less than thirty (30) nor more than sixty (60) days’ irrevocable notice to the Noteholders in accordance with Condition 19 (*Notices*) given within thirty (30) days after the Optional Redemption Date, redeem on a date to be specified in such notice at its option, all (but not some only) of the remaining Notes at their principal amount, together with interest accrued to but excluding the date of redemption.

- (g) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (f) above.
- (h) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(h) or, if none is so specified, a Day Count Fraction of 30E/360.

- (i) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.
- (j) *Cancellation:* All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them may at the option of the Issuer be cancelled and all Notes so cancelled may not be reissued or resold.

10. Payments—Bearer Notes

This Condition 10 is only applicable to Bearer Notes.

- (a) *Principal:* Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

- (b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and **(provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) *Deductions for unmatured Coupons*: If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and **(provided that** payment is made in full) surrender of the relevant missing Coupons.

- (f) *Unmatured Coupons void*: If the relevant Final Terms specifies that this Condition 10(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(e) (*Redemption at the option of Noteholders*), Condition 9(f) (*Change of Control Put Option*), Condition 9(c) (*Redemption at the option of the Issuer*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged

at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. Payments—Registered Notes

This Condition 11 is only applicable to Registered Notes.

- (a) *Principal*: Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest*: Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11 arriving after the due date for payment or being lost in the mail.
- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

12. Taxation

- (a) *Gross up*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Lithuania or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction

of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

- (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon;
 - (ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or
 - (iii) required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.
- (b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Lithuania, references in these Conditions to the Republic of Lithuania shall be construed as references to the Republic of Lithuania and/or such other jurisdiction.

Under current Lithuanian laws and regulations, interest (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) payments under the Notes to individuals (non-tax residents of Lithuania) are subject to withholding tax at a rate of 15 per cent. (unless a double tax treaty with the Republic of Lithuania provides for a lower tax rate) and interest payments under the Notes to entities residing outside of the EEA or in countries which do not benefit from a double tax treaty with the Republic of Lithuania are subject to Lithuanian withholding tax at a rate of 10 per cent.

13. Events of Default

If any of the following events occurs and is continuing:

- (a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and the default continues for a period of five days in the case of principal and for a period of 14 days in the case of interest; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default is not capable of remedy or remains unremedied for at least 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or
- (c) *Cross-default of Issuer or Material Subsidiary:*
 - (i) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;
 - (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or
 - (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds EUR 50,000,000 (or its equivalent in any other currency or currencies); or
- (d) *Unsatisfied judgment:* one or more judgment(s) or order(s) for the payment of any amount in excess of EUR 50,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) *Security enforced:* a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries; or

- (f) *Insolvency etc.*: (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer or any of its Material Subsidiaries or the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries, unless the petition to commence such proceedings or procedure is discharged, stayed or dismissed within 60 days of such commencement, (iii) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (save for the purposes of a Permitted Restructuring); or
- (g) *Winding up etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (save for the purposes of a Permitted Restructuring); or
- (h) *Analogous event*: any event occurs which under the laws of the Republic of Lithuania has an analogous effect to any of the events referred to in paragraphs (d) to (g) above; or
- (i) *Failure to take action etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Coupons admissible in evidence in the courts of the Republic of Lithuania is not taken, fulfilled or done; or
- (j) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes,

then any Note may, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

14. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

15. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

16. Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that:**

- (a) the Issuer shall at all times maintain a fiscal agent and a registrar; and

- (b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and
- (c) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

17. Meetings of Noteholders; Modification and Waiver

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification:* The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is made to correct a manifest error.

18. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

19. Notices

- (a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Bearer Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (b) *Registered Notes:* Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if the Registered Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not

practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

20. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

21. Rounding

- (a) For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. Governing Law and Jurisdiction

- (a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.
- (b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).
- (c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England*: Notwithstanding Condition 22(b) (*English courts*), any Noteholder may take proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) *Service of process*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.
- (f) *Waiver of immunity*: To the extent that the Issuer has any immunity from the jurisdiction of any court or from any process, the Issuer hereby irrevocably agrees not to claim, and hereby waives, any such immunity.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS]—The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”) or (ii) a customer within the meaning of Directive 2002/92/EC (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][*Include unless the Final Terms specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”*]

Final Terms dated [●]

„Lietuvos energija”, UAB

(incorporated with limited liability in the Republic of Lithuania)

Issue of [Aggregate Nominal Amount of Tranche][Title of Notes]

**under the EUR 1,000,000,000
Euro Medium Term Note Programme**

PART A—CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated 27 June 2017 [and the supplement[s] dated [●] [and [●]] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement(s) to it] [is][are] available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address]].

The expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU **provided, however, that** all references in this document to the “Prospectus Directive” in relation to any Member State of the European Economic Area refer to Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive), and include any relevant implementing measure in the relevant Member State.

1. Issuer: „Lietuvos energija”, UAB
2. (i) Series Number: [●]
[(ii) Tranche Number: [●]
[(iii) Date on which the Notes become fungible: [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] on [[●]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [22] below [which is expected to occur on or about [●]].]
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount: [●]
[(i) Series: [●]
[(ii) Tranche: [●]]

5. Issue Price: [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6. (i) Specified Denominations: [●] [and integral multiples of [●] in excess thereof up to and including [●]. No notes in definitive form will be issued with a denomination above [●]]
- (If Notes are to be issued which have denominations consisting of a minimum Specified Denomination and higher integral multiples of another smaller amount, the following sample wording should be used (as adjusted for the relevant Specified Currency and the actual Specified Denominations):*
- EUR100,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000. No Notes in definitive form will be issued with a denomination in excess of EUR199,000.)
- (ii) Calculation Amount: [●]
7. (i) Issue Date: [●]
- (ii) Interest Commencement Date: [[●]/Issue Date/Not Applicable]
8. Maturity Date: [●]
9. Interest Basis: [[●] per cent. Fixed Rate]
- [●] [●] [EURIBOR]/[LIBOR] +/- [●] per cent. Floating Rate]
- [Zero Coupon]
- (further particulars specified below in paragraph(s) [14/15/16])
10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100]/[●] per cent. of their nominal amount.
11. Change of Interest or Redemption/Payment Basis: [Applicable/Not Applicable]
12. Put/Call Options: [Not Applicable]
- [Investor Put]
- [Change of Control Put]
- [Issuer Call]
- (See paragraph(s) [17/18/19] below)
13. (i) Status of the Notes: Senior
- (ii) [Date [Board] approval for issuance of Notes obtained]: [●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [The Initial Rate of Interest is] [●] per cent. per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [[●] [and [●]] in each year up to and including the Maturity Date]
- (iii) Fixed Coupon Amount(s): [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/[Not Applicable]

(v) Day Count Fraction:	[Actual/Actual (ICMA)/Actual/Actual (ISDA)/Actual/365 (Fixed)/Actual/360/30/360/30E/360]
(vi) [Determination Dates:	<input checked="" type="checkbox"/> in each year/[Not Applicable]]
15. Floating Rate Note Provisions	[Applicable/Not Applicable]
(i) Specified Period:	<input checked="" type="checkbox"/>
(ii) Specified Interest Payment Dates:	<input checked="" type="checkbox"/> in each year
(iii) [First Interest Payment Date]:	<input checked="" type="checkbox"/>
(iv) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/No Adjustment]
(v) Additional Business Centre(s):	[Not Applicable/ <input checked="" type="checkbox"/>
(vi) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii) [Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[[<input checked="" type="checkbox"/>] shall be the Calculation Agent [name and address of Calculation Agent to be inserted]]
(viii) Screen Rate Determination:	
• Reference Rate:	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> [EURIBOR]/[LIBOR]]
• Interest Determination Date(s):	<input checked="" type="checkbox"/>
• Relevant Screen Page:	<input checked="" type="checkbox"/>
• [Relevant Time:	<input checked="" type="checkbox"/>
• Relevant Financial Centre:	<input checked="" type="checkbox"/>
(ix) ISDA Determination:	
• Floating Rate Option:	<input checked="" type="checkbox"/>
• Designated Maturity:	<input checked="" type="checkbox"/>
• Reset Date:	<input checked="" type="checkbox"/>
(x) Linear Interpolation:	[Not Applicable/Applicable—the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
(xi) Margin(s):	[+/-] <input checked="" type="checkbox"/> per cent. per annum
(xii) Minimum Rate of Interest:	<input checked="" type="checkbox"/> per cent. per annum
(xiii) Maximum Rate of Interest:	<input checked="" type="checkbox"/> per cent. per annum
(xiv) Day Count Fraction:	[Actual/Actual (ICMA)/Actual/Actual (ISDA)/Actual/365 (Fixed)/Actual/360/30/360/30E/360]
16. Zero Coupon Note Provisions	[Applicable/Not Applicable]
(i) Accrual Yield:	<input checked="" type="checkbox"/> per cent. per annum
(ii) Reference Price:	<input checked="" type="checkbox"/>
(iii) Day Count Fraction in relation to early Redemption Amounts:	[Actual/Actual (ICMA)/Actual/Actual (ISDA)/Actual/365 (Fixed)/Actual/360/30/360/30E/360]

PROVISIONS RELATING TO REDEMPTION

17. Call Option	[Applicable/Not Applicable]
(i) Optional Redemption Date(s):	<input checked="" type="checkbox"/>

(ii) Optional Redemption Amount(s) of each Note:	[[●] per Calculation Amount/Make Whole Redemption Amount]
[(a) Benchmark Security(ies):	[●]
[(b) Reference Time:	[●]
[(c) Make-Whole Margin:	[●] per cent.
[(d) Par Redemption Date:	[[●] [Not Applicable]]
[(e) Linear Interpolation:	[Applicable/Not Applicable]
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	[●] per Calculation Amount
(b) Maximum Redemption Amount	[●] per Calculation Amount
(iv) Notice period:	[●]
18. Put Option	[Applicable/Not Applicable]
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
(iii) Notice period:	[●]
19. Change of Control Put Option:	[Applicable/Not Applicable]
20. Final Redemption Amount of each Note	[[●] per Calculation Amount/Not Applicable]
21. Early Redemption Amount	
Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:	[[●] per Calculation Amount/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. Form of Notes:	<p>[Bearer Notes:]</p> <p>[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]</p> <p>[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]</p> <p>[Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]</p> <p>(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes includes language substantially to the following effect: "EUR100,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000". Furthermore, such Specified Denomination construction is not permitted in relation to any issuance of Notes which is to be represented on issue by Permanent Bearer Global Notes exchangeable for Definitive Notes.)</p> <p>[Registered Notes:]</p> <p>Global Registered Note registered in the name of a nominee for [a common depositary for Euroclear and</p>
--------------------	---

Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]

23. New Global Note: [Yes] [No] [Not Applicable]
24. Additional Financial Centre(s): [Not Applicable/[●]]
25. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left.]

THIRD PARTY INFORMATION

[[●] has been extracted from [●].] The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of „LIETUVOS ENERGIJA”, UAB:

By:
Duly authorised

PART B—OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Official List of the Luxembourg Stock Exchange/[●]/None]
- (ii) Admission to Trading: [Application [has been] [is expected to be made] by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the Regulated Market of the Luxembourg Stock Exchange [Green Exchange segment]]/[●]/[Nasdaq Vilnius Stock Exchange] with effect from [●].] [Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [●]

2. RATINGS

- The Notes to be issued [[have been/are expected to be] rated]/[are unrated]:
- Ratings: [Standard & Poor's: [●]]
- [Moody's: [●]]
- [Fitch: [●]]
- [●]
- [[●] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the “**CRA Regulation**”).]
- [[●] is established in the EEA and has applied for registration under Regulation (EU) No 1060/2009, as amended (the “**CRA Regulation**”), although notification of the corresponding registration decision has not yet been provided by the [relevant competent authority]/[European Securities and Markets Authority].]
- [[●] is established in the EEA and is neither registered nor has it applied for registration under Regulation (EU) No 1060/2009, as amended (the “**CRA Regulation**”).]
- [[●] is not established in the EEA but the rating it has given to the Notes is endorsed by [●], which is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the “**CRA Regulation**”).]
- [[●] is not established in the EEA but is certified under Regulation (EU) No 1060/2009, as amended (the “**CRA Regulation**”).]
- [[●] is not established in the EEA and is not certified under Regulation (EU) No 1060/2009, as amended (the “**CRA Regulation**”) and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[Save for any fees payable to the [Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]/[●]/[Not Applicable]

4. REASONS FOR THE OFFER

[See “*Use of Proceeds*” wording in Base Prospectus.] [The Notes are intended to be issued as Green Bonds, [further particulars to be provided].]

5. **Fixed Rate Notes only—YIELD** [Applicable/Not Applicable]
 Indication of yield:
 [The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
6. **Floating Rate Notes only—HISTORIC INTEREST RATES** [Applicable/Not Applicable]
 Details of historic [LIBOR/EURIBOR] rates can be obtained from Reuters.
7. **OPERATIONAL INFORMATION**
- ISIN:
 Common Code:
 Delivery Delivery [against/free of] payment
 Names and addresses of additional Paying Agent(s) (if any):
 Intended to be held in a manner which would allow Eurosystem eligibility:
 [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/
 [No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
8. **DISTRIBUTION**
- (i) Method of distribution: [Syndicated/Non-syndicated]
 (ii) If syndicated: [Not Applicable/*give names*]
 (a) Names of Dealers:
 (b) Date of subscription agreement:
 (c) Stabilising Manager(s) (if any): [Not Applicable/
 (iii) If non-syndicated, name Dealer: [Not Applicable/*give name*]
 (iv) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
 (v) US Selling Restrictions: [Reg. S Compliance Category 1]; [TEFRA C/TEFRA D/TEFRA not applicable]

USE OF PROCEEDS

The Issuer will use the net proceeds from the issue of each Series of Notes for its general corporate purposes or as may otherwise be disclosed in the Final Terms.

Notes may be issued as green bonds (“**Green Bonds**”) and the relevant Final Terms will indicate whether or not the Notes are intended to constitute Green Bonds and will provide additional information in relation to the intended use of proceeds in respect of any Green Bonds.

DESCRIPTION OF THE GROUP

Overview

Lietuvos energija, UAB (the “**Issuer**”) together with its 22 directly and indirectly controlled subsidiaries (the “**Group**”) is one of the largest state-owned energy companies in the Baltic countries. The Group’s core business activities are the distribution of electricity and gas, the generation of electricity and heat, and the trading and supply of electricity and gas. According to the Coface CEE TOP 500 companies report (August 2016), the Group is the largest utility company in Lithuania on the basis of revenues, and one of the largest groups of companies in Lithuania on the basis of revenues. The Group is the primary distributor of electricity in Lithuania. For the year ended 31 December 2016, the Group generated sales revenues of EUR 1,101.630 million, adjusted EBITDA of EUR 254.515 million and a net profit of EUR 118.438 million. As at 31 December 2016, the Group had total assets of EUR 2,432.152 million and total equity (net assets) of EUR 1,319.547 million. As at 31 December 2016, the Group had 4,859 employees.

The Group’s three principal business segments are (i) distribution, which involves the distribution and public supply of electricity and distribution of gas, (ii) electricity generation and (iii) trading and supply of electricity and gas, which together represented 97.7 per cent. of the Group’s revenue in the year ended 31 December 2016. Revenue from the distribution and public supply of electricity and distribution of gas represented 51.1 per cent. of the Group’s revenue in the year ended 31 December 2016. Revenue from electricity generation represented 14.6 per cent. of the Group’s revenue in the year ended 31 December 2016. Revenue from the trading and supply of electricity and gas represented 32.0 per cent. of the Group’s revenue in the year ended 31 December 2016. The Group’s remaining revenue is principally generated from Group companies which provide support services to its principal businesses, including maintenance, repair and construction of the Group’s energy facilities and the electricity distribution network in Lithuania, the provision of information technology, real estate management and transport services.

Since 2013, the Group has reorganised its corporate structure, operations and governance model in order to enhance the value of the Group, improve its operational efficiency and improve the quality of service to its customers. As part of this process, the Group’s electricity and gas distribution activities were merged and transferred to a new company, AB „Energijos Skirstymo Operatorius” (“**ESO**”), the Group’s electricity generation activity was concentrated in LEG and its electricity trading and supply activities were concentrated in Energijos Tiekimas UAB (“**Energijos Tiekimas**”). The Group’s gas trading and supply activities remain separated in LITGAS and UAB „Lietuvos Dujų Tiekimas” (“**LDT**”). The Group also transferred its electricity and gas customer service activities to a joint service centre known as Gile, which is managed by its subsidiary UAB Verslo Aptarnavimo Centras (“**VAC**”) and its contracting activities to a new wholly-owned entity, UAB Energetikos Paslaugu ir Rangos Organizacija (“**EnePRO**”). The Group is planning to divest its non-core activities conducted through VšĮ Energetiku Mokymo Centras (“**EMC**”), NT Valdosa, UAB (“**NTV**”) and UAB Duomenų logistikos centras (“**DLC**”), if market conditions are favourable.

The principal operating companies within the Group are ESO and LEG. ESO distributes electricity and gas to consumers in Lithuania. The Group is the primary distributor of electricity in Lithuania. The Group’s electricity distribution network covers the entire territory of Lithuania and the Group provides and operates approximately 8.5 thousand kilometres of gas distribution pipelines. LEG owns and operates 3 power plants located in and connected to the transmission system in Lithuania, which generate electricity predominantly from gas, oil and hydro power. The Group also owns wind farms in Lithuania and Estonia. The Group’s subsidiary, Energijos Tiekimas, supplies electricity procured by its trading business to consumers in Lithuania and, to a lesser extent, to consumers in Latvia and Estonia and ESO is responsible for the public supply of electricity in Lithuania. In addition, the Group supplies gas to consumers through its subsidiaries LDT and LITGAS. The Group’s electricity trading business is conducted through Energijos Tiekimas and consists of: (i) planning and optimisation of LEG’s generation capacity and sales of electricity generated by LEG; (ii) purchasing electricity for its consumer supply business; and (iii) hedging and proprietary wholesale trading. Planning electricity generation capacity involves providing power plants with a schedule of how much electricity is required to be produced by that power plant and coordinating with the TSO in respect of electricity sold. Optimisation of electricity generation capacity involves determining the most financially beneficial method of selling available generation capacity taking into account restrictions such as availability of fuel sources (including gas and water) and environmental restrictions. The Group’s gas trading business, operated through LDT and LITGAS, purchases and sells gas and energy commodities on wholesale markets.

The table below sets forth certain information relating to the Group's distribution, generation and trading and supply businesses for the year ended 31 December 2016.

For the year ended 31 December 2016					
Installed electricity generation capacity	Electricity distributed to consumers	Gas distributed to consumers	Electricity generated	Electricity sold to consumers	Gas sold to consumers
(MW)	(TWh)	(TWh)	(TWh)	(TWh)	(TWh)
2,098.1	8.98	7.39	1.49	4.79	11.80

The Issuer was incorporated as a joint stock company under the laws of Lithuania on 28 August 2008 and registered with Register of Legal Entities, State Enterprise, the Centre of Registers with company no. 301844044. Its registered head office is located at Žvejų g. 14, LT- 09310, Vilnius, Republic of Lithuania, and the telephone number of its registered head office is + 370 5 278 2998. As of 31 December 2016, the Issuer had a registered share capital of EUR 1,212.156 million and was solely owned by Lithuania represented by the Ministry of Finance of the Republic of Lithuania.

History and Development of the Group

Principal events during the Group's history and development include:

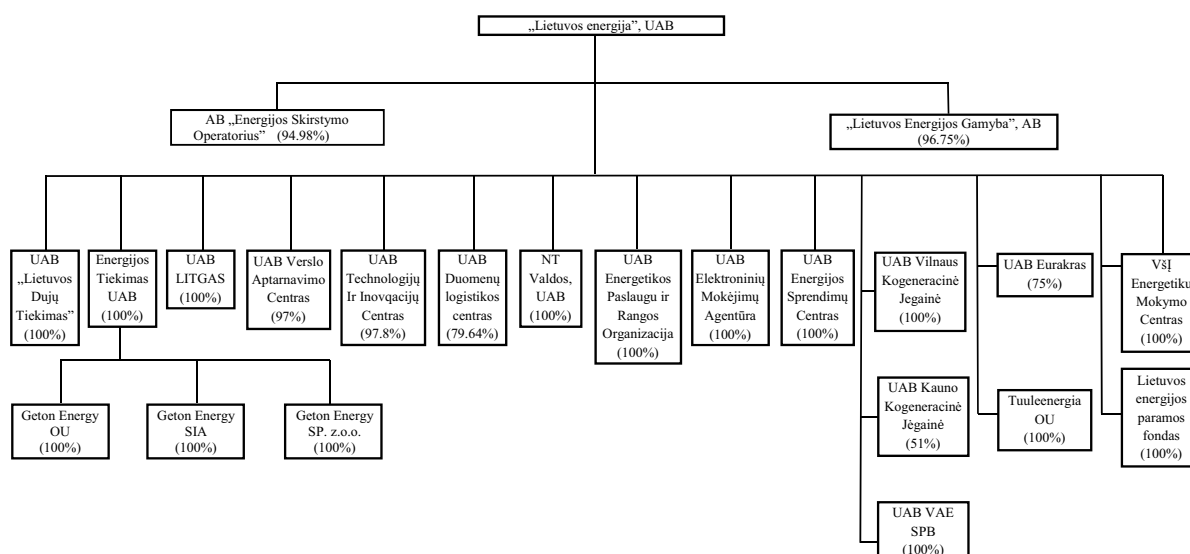
- 1995 On 4 December 1995, AB „Lietuvos energija” was registered. More than 90 per cent. of shares were owned by the State. The company consisted of electricity transmission and distribution networks, four electricity power plants (Lietuvos elektrinė, Mažeikiai TE, Kaunas HPP and Kruonis PSHP), heating networks, two thermal power plants located in Vilnius and Kaunas and energy construction and services subsidiaries.
- 1997 On 8 April 1997, the Parliament of Lithuania enacted the law regarding the reorganisation of AB „Lietuvos energija”. On 1 July 1997, the heating networks and thermal power plants of Vilnius and Kaunas were separated from AB „Lietuvos energija” and transferred to municipalities.
- 2001 On 31 December 2001, distribution companies AB Rytų Skirstomieji Tinklai, AB Vakarų Skirstomieji Tinklai (later renamed to AB VST) and electricity generation companies, AB Lietuvos Elektrinė and AB Mažeikių Elektrinė were established by separating assets from AB „Lietuvos energija”. AB „Lietuvos energija” remained only as a TSO but also retained hydro generation capacities of Kaunas HPP and Kruonis PSHP.
- 2008 On 20 May 2008, a new company LEO LT, AB was set up for the purpose of constructing a nuclear power plant. 61.7 per cent. of LEO LT, AB shares were owned by the Government and the remaining 38.3 per cent. were owned by private company UAB NDX Energija. LEO LT, AB owned AB „Lietuvos energija”, AB Rytų Skirstomieji Tinklai (contributed by the State) and a private company AB VST (contributed by UAB NDX Energija). On 28 August 2008, LEO LT, AB set up a new subsidiary UAB Visagino Atominė Elektrinė to carry out preparatory works ahead of the construction of the nuclear power plant.
- 2009 On 14 September 2009, the Parliament of Lithuania decided to liquidate LEO LT, AB. UAB NDX Energija sold AB VST shares back to the State.
On 22 October 2009, AB „Lietuvos energija” set up its new subsidiary LITGRID UAB which took over the function of TSO from AB „Lietuvos energija”.
- 2010 For the purpose of execution of the energy sector's reorganisation plan (which was approved by the Government in 2010) and implementation of the provisions of the Third Energy Package of the E.U., the share capital of UAB Visagino Atominė Elektrinė was increased in 2010. On 4 June 2010, LEO LT, AB (a company in liquidation) paid for a part of such shares by contributing the shares of entities controlled by it (AB VST and AB Rytų Skirstomieji Tinklai) and the majority of shares owned by it in AB „Lietuvos energija”. The remainder of UAB Visagino Atominė Elektrinė shares were acquired by the Government by contributing the shares of AB Lietuvos Elektrinė and certain non-current assets.
On 27 December 2010, AB VST and AB Rytų Skirstomieji Tinklai were merged and registered as a new company, AB LESTO.
- 2011 The merger of two companies—AB „Lietuvos energija” and AB Lietuvos Elektrinė in 2011 marked the end of the process of formation of the Group's power generation unit. The new company Lietuvos energija, AB officially started operations on 1 August 2011.

- On 21 October 2011, the Ministry of Energy of the Republic of Lithuania became a sole shareholder of UAB Visagino Atominė Elektrinė after the liquidation of LEO LT, AB.
- 2012 On 26 September 2012 the shares of UAB Visagino Atominė Elektrinė were transferred under the right of trust to the possession of the Ministry of Economy of the Republic of Lithuania.
- On 26 September 2012, the implementation of the provisions of the Third Energy Package of the European Parliament in the Lithuanian electricity sector was finalised. Shares of Litgrid AB, the TSO controlled by the UAB Visagino Atominė Elektrinė were transferred to a newly established state-owned private limited liability company EPSO-G, controlled by the Ministry of Energy of the Republic of Lithuania.
- 2013 On 26 February 2013, the shares of UAB Visagino Atominė Elektrinė were transferred to the Ministry of Finance of the Republic of Lithuania.
- On 5 August 2013, Lietuvos energija, AB was renamed to Lietuvos Energijos Gamyba, AB.
- On 30 August 2013, the Group parent company UAB Visagino Atominė Elektrinė changed its name to Lietuvos energija, UAB.
- On 8 October 2013, Lietuvos energija, UAB paid up the newly issued shares of LITGAS and became an owner of 67 per cent. of LITGAS share capital.
- 2014 During February-June 2014, Lietuvos energija, UAB acquired 96.63 per cent. of shares in Lietuvos Dujos AB (17.7 per cent. were transferred by the State, 38.9 per cent. were acquired from E.ON Ruhrgas International and 40.03 per cent. were acquired through a tender offer (of which 37.1 per cent. was acquired from OAO Gazprom)).
- In November 2014, Lietuvos energija, UAB implemented the requirement of the Third Energy Package of the E.U. regarding the unbundling of natural gas supply, trade and distribution activities by transferring the natural gas supply activity from Lietuvos Dujos AB to the newly established subsidiary, LDT.
- 2015 On 10 April 2015, Lietuvos energija, UAB established two special purpose companies Vilniaus Kogeneracinė Jėgainė UAB and Kauno Kogeneracinė Jėgainė UAB for the implementation of co-generation power plant projects in Vilnius and Kaunas.
- 2016 On 1 January 2016, LESTO AB and Lietuvos Dujos AB were reorganised by way of merger, as a result of which a new entity Energijos Skirstymo Operatorius AB was established.
- On 1 January 2016, Elektros Tinklo Paslaugos UAB and Kauno Energetikos Remontas UAB were reorganised by way of merger, as a result of which a new entity was established under the name of Energetikos Paslaugų ir Rangos Organizacija UAB.
- On 21 January 2016, Lietuvos energija, UAB acquired two wind farms with the total installed capacity of 42.3 MW: 24MW in Lithuania (UAB „Eurakras“) and 18.3MW in Estonia („Tuuleenergia“ OU).
- On 18 February 2016, Lietuvos energija, UAB established Energijos Sprendimų Centras UAB, with the objective of developing energy efficiency improvement and renewable energy projects.
- On 3 October 2016, Lietuvos energija, UAB acquired 33.3 per cent. of the shares of LITGAS from AB Klaipėdos Nafta and became the sole shareholder of the company.

Organisational Structure

As at the date of this Base Prospectus, the Group consisted of the Issuer and 22 fully consolidated subsidiaries. The Issuer is the Group's parent company and is responsible for the co-ordination of its activities and the transparent management of the Group. Its objectives are to improve its operational efficiency in order to deliver competitive services to its customers and providing long-term value for its shareholder in a socially responsible manner. The Issuer analyses the Group's activities and performance, establishes operational guidelines and rules, and provides certain centralised support functions to the Group, including strategy and development, risk management, treasury, legal services, audit and human resources.

The chart below sets out the Group’s corporate structure.



The chart below sets out each of the Group’s subsidiaries by reference to the operating segments within which it operates.

Main activities				
Production	Supply and trade	Distribution	Customer care	Services
„Lietuvos Energijos Gamyba“, AB	UAB „Lietuvos Dujų Tiekimas”	AB „Energijos Skirstymo Operatorius”	UAB Verslo Aptarnavimo Centras	UAB Energijos Sprendimų Centras
Eurakras	UAB LITGAS			UAB „Elektroninių mokėjimų agentūra”
Tuuleenergia	Energijos Tiekimas UAB AB „Energijos Skirstymo Operatorius”			
Servicing Activities				
Corporate governance	Shared services		Non-core activities	
„Lietuvos energija”, UAB	UAB Technologijų Ir Inovacijų Centras UAB Verslo Aptarnavimo Centras		VšĮ Energetiku Mokymo Centras UAB Energetikos Paslaugu ir Rangos Organizacija NT Valdosa, UAB UAB Duomenų logistikos centras	

Pursuant to the Third Energy Package: (i) the distribution of electricity must be separate and independent from the transmission, generation and sale of electricity; (ii) the distribution of gas must be separate and independent from the transmission and sale of gas; (iii) the transmission of electricity must be separate and independent from the generation and sale of electricity; and (iv) the transmission of gas must be separate and independent from the sale of gas (“unbundling”). Additionally, the separation of electricity generation and sale is considered beneficial for the electricity market, see “*Regulation—The Third Energy Package requirements and unbundling implementation in natural gas and electricity sector*”. For more information on the unbundling of the Group’s activities, see “—*History and Development of the Group*” and “*Regulation—Current structure of the transmission and distribution of electricity*”.

Shareholder

The Republic of Lithuania is the sole shareholder of the Issuer. As at the date of this Base Prospectus, the Issuer is unaware of any plans that may result in a change of ownership. The Ministry of Finance holds all of the shares in the Issuer on behalf of the Republic of Lithuania and, accordingly, is the registered shareholder of the Issuer in the State Register of Legal Entities (the “**Shareholder**”).

The relationship between the Shareholder and the Issuer is conducted primarily through members of the Issuer’s Supervisory Council. The Republic currently maintains three members on the Issuer’s Supervisory Council (from the Ministry of Finance, the Ministry of Economy and one representative from the Government) and the Republic

implements its rights as shareholder through the Ministry of Finance. There are three independent members on the Supervisory Council. Additionally, the Chairman of the Supervisory Council is independent and, in the case of equality of votes, has the deciding vote. Accordingly, the Republic cannot make unilateral decisions on the Supervisory Council. All members of the Supervisory Council are elected by the General Meeting of the shareholders for a term of four years, which is due to expire in July 2017, please see “*Management—Supervisory Council*”.

Certain activities planned by the Group, including mergers and acquisitions, establishment of new legal entities by the Issuer (but not Group subsidiaries) and reorganisations or equity injections into the Group’s principal subsidiaries require the approval of the Government. As of the date of this Base Prospectus, the Government has not materially altered any plan submitted by the Group. Additionally the Group is responsible for implementing certain energy projects of national strategic value, including the development of two new co-generation plants in Vilnius and Kaunas. The Group seeks to build sustainable value in the energy sector by promoting the development of the country’s economy and society. In December 2013, the Ministry of Finance prepared a “Letter of Expectations” addressed to the Issuer outlining its expectations as the Shareholder of the Issuer in relation to strategic direction, principal activities, management of the Group, efficiency, responsibility, accountability and values.

The Issuer is subject to a statutory requirement to pay dividends based on a percentage of the Group’s return on equity. The higher the Group’s return on equity, the lower the proportion of retained earnings that the Group is required to pay to the Shareholder. ESO and LEG, in turn, are required to pay dividends to the Issuer based on their return on equity. The higher ESO or LEG’s return on equity, the lower the proportion of net profit that ESO and LEG are required to pay to the Shareholder. In 2016, the Issuer paid dividends to the Shareholder of EUR 97.2 million, an increase of 68.2 per cent. from 2015 (EUR 57.8 million), and 295.1 per cent. from 2014 (EUR 24.6 million). This increase was mainly due to the increase in the Group’s net profit in 2016 compared to 2015. The Issuer is the largest contributor to the state budget among state-controlled companies in Lithuania.

In 2014 the Issuer received a EUR 32.6 million “payment in kind” equity injection, in the form of Lietuvos Dujos AB shares from the Government. It is possible that support of this sort may also be provided in the future but there is no commitment from the Shareholder to do this. The ability of the Government to support the Issuer and the Group through subsidies, loans, capital or other financial injection is restricted by, and subject to, the relevant rules regarding State Aid.

The Ministry of Energy previously determined that payments to LITGAS by electricity and heat producers performing regulated activities prior to 2016 and PSO service fees paid to LEG would not be considered State Aid by the European Commission. In 2016, the Ministry of Energy informed the European Commission about legislative changes regarding LNG Supplements and PSO service fees and started the pre-notification procedure with the European Commission, please see “*Risk Factors—State-aid notification risk*”.

Principal Subsidiaries

ESO, 94.98 per cent. owned by the Issuer with the remainder of its shares listed on the main market of Nasdaq Vilnius Stock Exchange, was established on 1 January 2016 as part of the implementation of the Group’s corporate reorganisation as a result of which the electricity distribution activities of LESTO AB and the gas distribution activities of Lietuvos Dujos AB were merged and transferred to ESO. ESO is the largest company on the Nasdaq Baltic Market by market capitalisation. The main activities of ESO are distribution and public supply of electricity, natural gas distribution and the maintenance and development of electricity and gas distribution networks. ESO is the primary distributor of electricity in Lithuania and serves approximately 1.6 million customers in Lithuania, which represents approximately 100 per cent. of consumers in Lithuania. ESO’s electricity distribution network comprises approximately 122,000 kilometres of lines, of which approximately 76 per cent. is comprised of overhead lines and approximately 24 per cent. is comprised of underground electricity cables. ESO’s gas distribution network comprises approximately 8,400 kilometres of pipelines. In 2016, ESO distributed 8.98 TWh of electricity, supplied 3.15 TWh of electricity and distributed 7.39 TWh (691 million m³) of gas. In the year ended 31 December 2016, ESO contributed 64.2 per cent. of the Group’s adjusted EBITDA. For more information on the Group’s distribution business, please see “—*The Group’s Business—Distribution and Public Supply of Electricity and Distribution of Gas*” below.

LEG, 96.75 per cent. owned by the Issuer with the remainder of shares listed on the main market of the Nasdaq Vilnius Stock Exchange, was established on 21 July 2011. LEG owns and operates three generation facilities: the Elektrėnai Complex which, following the decommissioning of four units in 2014 and 2015, and excluding two units which are inactive and are currently in the process of being decommissioned, now consists of two gas and oil-fired reserve power units (the “**Reserve Power Plants**”) and a combined cycle gas unit (“**CCGT**”); Kruonis Pumped Storage Hydroelectric Power Plant (“**Kruonis PSHP**”) which consists of four units, two of which operate as a secondary reserve; and Kaunas Algirdas Brazauskas Hydroelectric Power Plant (“**Kaunas HPP**”). In 2016, LEG

produced 1.37 TWh of electricity. LEG also provides balancing services to the Lithuanian TSO LITGRID AB (the “TSO”), regulation power (as defined in the Glossary) and power reserve services. LEG’s activities are focused on two operating segments, regulated activities and commercial activities. Its regulated activities include power reserve services and strategic power reserve services, including the Reserve Power Plant’s revenue from heat and electricity generation and balancing and regulation. Its commercial activities include electricity trading in the open market, electricity generation at Kaunas HPP and Kruonis PSHP, the related balancing and regulation services and certain other activities.

LEG is the sole provider of “secondary” power reserve services and also provides “tertiary” power reserve services. Tertiary and secondary reserves are intended to ensure the reliable operation of the national electricity system in emergencies when there is an unexpected reduction in electricity generation or unexpected increase in electricity consumption. The secondary power reserve consists of power from installations or hydroelectric units which can be activated within 15 minutes. The tertiary power reserve is derived from power-generating facilities which can be activated within 12 hours. LEG provides secondary power reserve services at Kruonis PSHP and it provides the tertiary power reserve at the Reserve Power Plant at the Elektrėnai Complex. The units at the Reserve Power Plants are only therefore activated when there is a shortfall in the amount of electricity in the system and LEG is instructed by the TSO to generate additional power, which is sold to the TSO. At the end of 2016, the Ministry of Energy and the TSO decided that providers of tertiary power reserve services would be determined by an auction process, beginning in 2017. On 28 December 2016, the TSO announced that the provision of tertiary power reserve services in 2017 would be provided by LEG through its Reserve Power Plants in the Elektrėnai Complex. In addition, LEG provides strategic power reserve services via the CCGT unit at the Elektrėnai Complex. The strategic power reserve is determined by the Government based on proposals from the Lithuanian Ministry of Energy. The aim of these services is to provide additional security in ensuring the reliable operation of the national electricity system. LEG receives public service obligation (“PSO”) service fees for providing strategic power reserve services. PSO service fees are the fees payable to the producers of electricity under a PSO scheme based on pre-determined annual quantities and prices of services set by the NCC. In the year ended 31 December 2016, PSO fees contributed 34 per cent. of LEG’s EBITDA. In the year ended 31 December 2016, LEG contributed 22.8 per cent. of the Group’s adjusted EBITDA.

In 2016, the Elektrėnai Complex produced 0.49 TWh of electricity compared to 1.07 TWh in 2015. This reduction in the level of production was principally caused by the cancellation of production quotas for subsidised electricity production from the beginning of 2016 and the commencement of operations of two cross-border electricity transmission lines between Klaipėda (Lithuania) and Nybro (Sweden) (known as the “NordBalt” interconnection) and between Alytus (Lithuania) and Elk (Poland) (known as the “LitPol” interconnection). However, during 2016, the secondary power reserve units of Kruonis PSHP were activated by the TSO on 58 occasions, compared to 20 occasions in 2015, primarily as a result of unanticipated disconnections of the NordBalt interconnection. For more information on the Group’s generation business, please see “—*The Group’s Business—Electricity*”.

Energijos Tiekimas, a wholly owned subsidiary of the Issuer was established on 21 October 2009. The main activities of Energijos Tiekimas are the supply and trading of electricity. Its core business is the independent supply of electricity, including supply of electricity to consumers, scheduling, forecasting, balancing, purchasing, sales, balancing energy, trade intermediation and import and export of electricity. Its trading activities consist of: (i) planning and optimisation of LEG’s generation capacity and sales of electricity generated by LEG; (ii) purchasing electricity for its consumer supply business; and (iii) hedging and proprietary wholesale trading. The Group’s gas trading business, operated through LDT and LITGAS, purchases and sells gas and energy commodities on wholesale markets. Energijos Tiekimas is a member of the Nasdaq Commodities exchange and is the only Lithuanian electricity supplier that actively participates on this exchange. Energijos Tiekimas is also a member of Nord Pool Exchange. Energijos Tiekimas owns Geton Energy OU, a company established in Estonia, Geton Energy SIA, a company established in Latvia and Geton Energy Sp. z.o.o., a company established in Poland, that are engaged in power supply and/or trading in Estonia, Latvia and Poland, respectively. According to the Group’s internal data, Energijos Tiekimas has the highest number of commercial customers, approximately 6,700, among independent electricity suppliers in Lithuania, which represents approximately 42 per cent. of electricity consumers in Lithuania. In 2016, Energijos Tiekimas supplied 1.7 TWh of electricity. In 2016, Energijos Tiekimas entered into financial derivatives transactions on the Nasdaq Commodities exchange worth more than 8.7 TWh. In the year ended 31 December 2016, Energijos Tiekimas contributed 4.3 per cent. of the Group’s adjusted EBITDA. For more information on the Group’s electricity trading and supply business, please see “—*The Group’s Business—Trading and Supply of Electricity and Gas*”.

LDT, a wholly owned subsidiary of the Issuer, was established on 2 September 2014. The main activities of LDT are the supply, purchase (import) and sale of natural gas to industrial and business companies and household customers. LDT serves approximately 560,000 customers in Lithuania, which represents approximately 99 per cent.

of gas consumers in Lithuania. In 2016, the company supplied 7.49 TWh of natural gas. In the year ended 31 December 2016, LDT contributed 5.7 per cent. of the Group's adjusted EBITDA. For more information on the Group's gas supply business, please see "*—The Group's Business—Trading and Supply of Electricity and Gas—Supply of Gas*".

LITGAS, wholly owned by the Issuer, was established on 17 December 2012. The main activities of LITGAS are LNG trading and the supply of natural gas through the liquefied natural gas ("LNG") terminal in Klaipėda (although it does not own or operate the terminal). Since 2015, LITGAS has been the designated supplier of gas in Lithuania and is responsible for ensuring that a minimum quantity of gas is delivered through the Klaipėda LNG Terminal. In 2016, LITGAS supplied 3.81 TWh of natural gas. The Group had intended to complete a merger between LDT and LITGAS on 1 January 2016 as part of the implementation of its corporate reorganisation. This merger was postponed until the finalisation of the legal and regulatory framework relating to the operation of the Klaipėda LNG terminal and the supply of natural gas from the LNG terminal.

In the year ended 31 December 2016, LITGAS contributed 0.7 per cent. of the Group's adjusted EBITDA. For more information on the Group's gas trading and supply please see "*—Trading and Supply of Electricity and Gas—Trading of Gas*" and "*—Trading and Supply of Electricity and Gas—Supply of Gas*".

Competitive Strengths

The Group benefits from the following key strengths:

Strong and Stable Financial Position

The Group benefits from a strong and stable financial position as a result of its low level of indebtedness relative to its equity and the levels of profitability from its operating activities. As at 31 December 2016, the Group's net debt to equity ratio was 23.9 per cent. (compared to 19.3 per cent. as at 31 December 2015). The Group's net debt to adjusted EBITDA ratio for the year ended 31 December 2016 was 1.24 times compared to 1.17 times for the year ended 31 December 2015. It has also been able to make dividend payments to its shareholder in each of the last 3 years, please see "*—Shareholder*". For the year ended 31 December 2016, sales revenues exceeded EUR 1 billion for the first time in its operating history. As a result, the Group has the financial capacity to invest in the maintenance of its current services and network and to support the financing of its 2020 Strategy, including the acquisition and development of new wind farms and the construction of co-generation power plants, while at the same time retaining a relatively low debt level, please see "*Description of Other Indebtedness*". In addition, the Group's low debt level gives the Issuer good access to financing.

Experienced and Dynamic Management Team and Structure

The Group has an experienced senior management team within the Issuer and at its principal operating subsidiaries. Since its establishment in 2013, Dr. Dalius Misiūnas has been the Chairman of the Board and Chief Executive Officer of the parent company. In 2016, Dr. Dalius Misiūnas was named as CEO of the Year for 2015 in Lithuania by the weekly magazine Veidas. This is the first time that this prestigious award has been awarded to the CEO of a state-owned company. Mr. Darius Kašauskas is a member of the Board of Directors and has been the Finance and Treasury Director of the Issuer since its establishment. In 2015, Mr. Darius Kašauskas was awarded the "CFO of the Year" in Lithuania by the Association of Financial Analysts and the Verslo Žinios newspaper.

The senior management team have been instrumental in the development of the Group's strategy and delivering its high levels of profitability on a consistent basis over the last 3 years. As part of the Group's 2020 Strategy, the governance structure of the Group has been substantially reorganised over the last 3 years. The Group has introduced uniform management and control policies, including integrated planning and monitoring systems across the Group in order to facilitate operational efficiency and to benefit from synergies between Group companies. In 2013, 2014 and 2015, the Group was recognised as the best managed state-owned entity in Lithuania by the Government's state-owned enterprise monitoring and governance coordination unit ("**Governance Coordination Centre**").

The Group's Clearly Defined Strategy and Consistent Implementation has Contributed to Strong Financial Performance

Since 2014, the Group has been consistently and successfully implementing its 2020 Strategy. The main goal of the strategy is to double the value of the Group by 2020. The Group has merged companies and combined operations to benefit from synergies and has centralised Group support functions to reduce operating costs. See "*—The Group's Strategy*". The Group has improved its operational efficiency year on year since 2014. In 2016, the Group recorded its highest levels of revenue and net profit. Adjusted EBITDA for the year ended 31 December 2016 amounted to EUR 254.5 million (compared to EUR 215.7 million for the year ended 31 December 2015). The Group's

management believes that adopting and consistently implementing its clearly defined strategy has enabled it to deliver higher added value to customers and its Shareholder, to benefit from operational efficiencies and to deliver strong sustainable financial results.

A Significant Proportion of the Group's adjusted EBITDA is Generated by its Electricity and Gas Distribution Business

A significant proportion of the Group's revenue and adjusted EBITDA is generated by its electricity and gas distribution business which is operated by ESO. The electricity and gas distribution business provides predictable and stable cash flows. For the year ended 31 December 2016, the Group distributed 8.98 TWh of electricity to approximately 1.6 million customers and electricity and gas distribution contributed 36.2 per cent. of the Group's revenues and 64 per cent. of the Group's adjusted EBITDA. Management believes that the stability of the Group's principal revenue stream, which, as a natural monopoly within Lithuania, is not subject to competitive pressures, contributes significantly to the management of its overall risk profile and provides a solid basis for the implementation of its investment programmes.

Wholly State-Owned Company, Backed by a Stable and Open Economy

The Republic of Lithuania, through the Ministry of Finance, owns 100 per cent. of the share capital of the Issuer, the parent company of the Group. Currently, Standard & Poor's has assigned Lithuania a rating of A-/stable, Moody's has assigned Lithuania a rating of A3/stable and Fitch Ratings has assigned Lithuania a rating of A-/stable. The Group's management believes that being wholly-owned by a government that is backed by a stable and open economy provides additional credibility in the electricity and credit markets and allows it to benefit from more favourable credit terms than competitors without similar ownership.

The Group's Strategy

In 2014, the Group adopted its 2020 Strategy. Its 2020 Strategy set the "mission" of the Group to build sustainable value in the energy sector by promoting the development of the country's economy and society. The Group's "vision" is to become the energy company with the highest value, which the Group determines as its EBITDA multiplied by its enterprise value as a proportion of its EBITDA, in the Baltic States. The key objective of its 2020 Strategy is to double the value of the Group by 2020 from the level at 2012. By 2015, the Group had achieved approximately 41 per cent. of this target value and by 2016 it had achieved over 60 per cent. of this target value.

Its 2020 Strategy defines the following three fundamental strategic elements, which outline the Group's operating guidelines until 2020:

- **Development:** the Group intends to diversify its generation portfolio and invest in current activities, to develop new activities and acquire businesses operating in the energy industry. Development will be financed by optimising the Group's capital structure and matching investments with future cash flows. Development projects are to be selected according to clear profitability criteria and having regard to national strategic priorities in the energy sector.
- **Efficiency:** efficiency is to be achieved by centralising and optimising the ancillary functions of the Group's companies, by making progress in technology and innovation deployment, and by consistently improving operational processes. The Group's objective is productivity growth, improvement of the quality of the services, and higher value added to consumers. The Group intends to focus on its main activities and seek to divest non-core businesses.
- **Organisational development:** the Group intends to create a distinctive organisational culture which promotes shared values, raises talents and provides on-going development opportunities. This will be achieved using the "Group Competency Model", which assesses every employee of the Group to determine specific employee development actions. The selection of development actions is based on a "70/20/10" principle, where approximately 70 per cent. of the proposed development actions come from working experience and self-learning, 20 per cent. from managers and peers and 10 per cent. from specific formal training.

Organisational development will also be achieved using a three level training programme which includes: (i) an induction programme; (ii) the Group's internal training academy, which provides training in relation to mandatory professional qualifications and certifications which employees are required to obtain; and (iii) a leadership development program, which provides managers with 8 months of modular training. The Group has also invested in an e-learning platform enabling the organisation to access training resources remotely and promoting a unified approach to learning.

As part of the Group's performance management process, it has developed a talent identification system which helps to identify employees with high potential and learning ability for career advancement with the aim of developing a deep talent pool of candidates for key positions within the Group.

In order to achieve the objectives required by the 2020 Strategy, the Group has implemented operational programmes which seek to ensure the provision of high quality services to customers. As a result of the implementation of the Group's strategy, its adjusted EBITDA has increased significantly to EUR 254.5 million in 2016. The Group's adjusted EBITDA margin has also increased significantly to 23.1 per cent. in 2016.

In 2015, the Group implemented a corporate reorganisation programme known as "LE-START" designed to enhance the value of the Group, improve the Group's operational efficiency and improve the quality of service to the Group's customers. As part of this programme, the Group's electricity and gas distribution activities were merged and transferred to a new company, ESO. Under the programme, the Group also concentrated its electricity generation activity in LEG by transferring its wholesale electricity trading activity from LEG to Energijos Tiekimas. This reorganisation also resulted in the concentration of the Group's electricity trading and supply activities in Energijos Tiekimas. Currently, the Group's gas trading and supply activities remain separated in LITGAS and LDT. The Group also transferred its electricity and gas customer service activities to a joint service centre known as "Gile", which is managed by its subsidiary, VAC. Gile services customers of ESO and LDT. Under the programme, the Group's contracting operations (which consist primarily of the reconstruction, repair and technical maintenance of electricity equipment and power stations) were transferred from Elektros Tinklo Paslaugos and Kauno Energetikos Remontas and merged into a new company, EnePRO. The Group is planning to divest its non-core activities, which are conducted through EMC, NTV and DLC, if market conditions are favourable.

The Group plans to grow its distribution business and improve its operational efficiency by significantly modernising its electricity distribution network. The Group is planning to invest EUR 1.7 billion in the modernisation and renewal of the electricity distribution network between 2015 and 2025. A significant proportion of this investment will seek to improve the resistance of the network to adverse weather conditions. This will involve the replacement of overhead lines with underground lines or isolated lines. The Group anticipates the main source of growth in its 2020 Strategy will come from these investments in its electricity distribution assets. The Group is in the process of reviewing its plans to modernise its electricity distribution network and expects to complete this review in the third quarter of 2017. It does not anticipate the total amount of its capital expenditure in respect of these plans to change significantly. However, the Group may change the amount of funds it will allocate for particular projects. The Group also plans to invest approximately EUR 141.1 million in its gas distribution network by 2025. The Group's electricity and gas supply businesses in Lithuania are not expected to grow significantly in the next 4 years as a result of strong competition, market saturation, energy efficiency measures and lack of new customers. The Group plans to expand its trading and supply businesses by increasing the volume of energy derivative products that it trades and increasing trading with and supply to Latvia and trading with Poland.

The Group plans to diversify its activities by investing approximately EUR 500 million between 2017 and 2020 in the building of new co-generation plants, which are expected to be completed in 2019-2020. In 2014, the Group started implementing its projects for the development of combined heat and power ("CHP") production plants in Vilnius and Kaunas. According to the resolution of the Government of the Republic of Lithuania of 28 May 2014, these projects were declared economic projects of state significance and the Issuer was assigned to hold not less than 51 per cent. of shares of the CHP plants in Vilnius and Kaunas. In 2015, the Group established two special purpose vehicles: one for project implementation of the CHP plant in Vilnius (UAB Vilniaus kogeneracinė jėgainė, Vilnius CHP plant), and the other for project implementation of the CHP plant in Kaunas (UAB Kauno Kogeneracinė Jėgainė, Kaunas CHP plant). The Group is developing the Kaunas CHP plant jointly with Fortum Heat Lietuva, UAB, which owns 49 per cent. of the Kaunas CHP plant. The Group anticipates that the Vilnius CHP plant will be funded by the combination of a EUR 190 million loan facility provided by the European Investment Bank, an E.U. grant for the Vilnius CHP plant (which will cover up to 40 per cent. of the capital expenditure for the Vilnius CHP plant) and shareholders' equity, while the Kaunas CHP plant will be funded via a commercial bank loan and shareholders' equity. The Group intends that both projects' share capital will be partly funded through the Eurobond market, please see "*Description of Other Indebtedness*".

In 2017, the Group anticipates that it will invest EUR 15 million in the Vilnius CHP plant and EUR 12.2 million in the Kaunas CHP plant. In order to obtain the permit to connect the Vilnius CHP plant to the central heating network and to obtain the municipality permit to increase the height of the Vilnius CHP plant, in May 2017 the Issuer signed a cooperation agreement with „Vilniaus šilumos tinklai“ to acquire an inactive gas-fired CHP power plant (with an installed heat generation capacity of 604 MW and an installed electricity generation capacity of 360 MW) for EUR 9.96 million and an option to acquire 5 per cent. of the shares in the Vilnius CHP plant, subject to approvals from the European Commission, European Investment Bank and any other third parties, if required.

The Group expects that the Vilnius CHP plant will have a total installed electricity generation capacity of approximately 87.6 MW and a total installed heat generation capacity of approximately 227 MW. It is expected that the Vilnius CHP plant will generate approximately 40 per cent. of the heat required by the Vilnius district. The Group expects that the Kaunas CHP plant will have a total installed electricity generation capacity of approximately 24 MW and a total installed heat generation capacity of approximately 70 MW. It is expected that the Kaunas CHP plant will generate approximately 40 per cent. of the heat required by the Kaunas district. By generating both power and heat, the CHP plants are expected to ensure lower heat production prices for consumers and additional electricity production capacities at a competitive price and contribute to solving waste handling problems by reducing the accumulation of waste in landfills and reducing pollution of the environment. In 2016, the Group established a venture capital fund to fund start-up companies in the energy sector. The Group intends to invest approximately EUR 7 million in the fund (including all fees, expenses and acceleration costs) over an investment period of 5 years. This is the first energy sector venture capital fund in the Baltic countries.

The Group anticipates that part of its growth in value and EBITDA will come from renewable sources, primarily wind. The Group plans to develop its own wind farm near Kruonis and also plans to acquire wind power projects at a stage when the necessary infrastructure for the installation of a wind farm has already been developed, where land plots have been leased, connection to the power grid is present and territorial planning and public health and environmental requirements have been met. The progress of these developments depends significantly on the level of subsidies that will be provided by the Government. In addition, the Group is also considering constructing a new unit in Kruonis PSHP.

The Group's Business

The Group's three principal business segments are:

- the distribution and public supply of electricity and distribution of gas;
- electricity generation; and
- trading and supply of electricity and gas.

Distribution and Public Supply of Electricity and Distribution of Gas

Distribution of electricity

The Group distributes electricity in Lithuania to approximately 1.6 million customers covering an area of approximately 65,300 square kilometres as of 31 December 2016. The Group is the primary distributor of electricity in Lithuania through its subsidiary ESO. ESO, which commenced operations on 1 January 2016, was formed following the merger of LESTO AB (the electricity distribution network operator) and Lietuvos Dujos AB (the gas distribution company). Revenue from the distribution of electricity is the largest single contributor to the Group's revenue and EBITDA.

In the year ended 31 December 2016, the Group distributed 8.98 TWh of electricity to consumers compared to 8.53 TWh for the year ended 31 December 2015. The Group does not currently distribute electricity to consumers in any other country. In the year ended 31 December 2016, approximately 31 per cent. of electricity distributed by the Group was consumed by private residents, 28.6 per cent. by industrial customers and 11 per cent. by service-sector institutions. Both SAIDI and SAIFI, as both defined in the "Glossary", have decreased in recent years from 288.1 minutes and 1.83 units, respectively, in the year ended 31 December 2012 reflecting an improvement in the reliability of distribution and supply.

The table below sets out the key operating indicators of ESO's electricity distribution business as the dates indicated:

Key operating indicators of ESO

	2016	2015	Change	
	(TWh)	(TWh)	+/-	%
Operating Indicators				
Distributed electricity via medium and low voltage networksTWh	8.98	8.53	0.45	5.23
Public and guaranteed supply of electricityTWh	3.15	3.12	0.03	0.84
Supply quality indicators of the network				
ELECTRICITY				
SAIDI, (with <i>force majeure</i>).....min.	172.9	106.5	66.4	62.35
SAIFI, (with <i>force majeure</i>)units	1.25	1.06	0.19	17.92

More frequent natural disasters caused by extremely varied weather conditions had a significant impact on the operation of the Group's electricity distribution network in 2016. The storm of 17 to 25 June 2016, which was one of the strongest in recent years, had the largest impact on the electricity network reliability indicators. The Group's distribution network losses were 629 million kWh of electricity or 6.55 per cent. of the amount of electricity received in the year ended 31 December 2016 compared to network losses of 6.80 per cent. in the year ended 31 December 2015.

Electricity distribution investment plans

The Group is planning to significantly modernise its electricity distribution network and to invest EUR 1.7 billion in the modernisation and renewal of its network between 2015 and 2025. A significant proportion of this investment, approximately EUR 511 million, will seek to improve the resistance of the network to adverse weather conditions. This will involve the replacement of overhead lines with underground lines or isolated lines. Over the next 10 years, the portion of such lines is expected to increase from approximately 24 per cent. to 40 per cent. with planned construction of underground and isolated lines spanning 18 thousand kilometres. The Group is in the process of reviewing its plans to modernise its electricity distribution network and expects to complete this review in the third quarter of this year. It does not anticipate the total amount of its capital expenditure in respect of these plans to change significantly, please see “—The Group's Strategy”.

The Group also plans to invest up to EUR 426 million in its “Safe and Reliable Network” programme, which involves the replacement of unsafe transformers, cable lines and distribution devices and up to approximately EUR 130 million to improve the quality of the electricity supply voltage by fixing nearly 9.1 thousand kilometres of lines currently affected by voltage fluctuation. The Group plans to allocate EUR 34 million to implement smart grid projects. Seven projects are expected to be implemented by 2025 including the automation of the grid, pilot projects for smart reading devices, the creation of a single dispatcher centre and the installation of a system for the management of the distribution network. The remaining investments, approximately EUR 580 million, will be allocated to other measures including the connection of new customers.

Regulation of electricity distribution

The Group's electricity distribution network is a natural monopoly within Lithuania and is therefore not subject to direct competition from other market participants. Electricity distribution is subject to a licensing regime in Lithuania and is regulated by the Lithuanian Law on Energy, the Lithuanian Law on Electricity and other regulatory legislation. Operating licences are issued and licensed activities are controlled by the NCC. The NCC sets price caps for the provision of network services in the electricity sector for five year periods on the basis of a long-run average incremental cost (“LRAIC”) model. The current regulatory period of five years sets the price caps for 2016 – 2020. For further information in relation to price regulation and the licensing regime, see “Regulation”.

Public Supply of Electricity

The Group supplies electricity to approximately 1.6 million customers in Lithuania. The electricity supply market in Lithuania is fully liberalised. Consumers are able to choose to be supplied from independent electricity suppliers. However, it is not fully deregulated as consumers are also still able to rely on the Government to supply electricity at a regulated tariff. The public supply of electricity is conducted through ESO. As the principal public supplier, ESO supplies electricity to both regulated consumers on the basis of public tariffs and as a guaranteed supplier on the basis of a guaranteed supply price set by the Law on Electricity. ESO provides a guaranteed electricity supply to consumers who have not chosen an independent supplier or where an independent supplier fails to fulfil its obligations. In the year ended 31 December 2016, ESO supplied 3.15 TWh of electricity to the public in Lithuania

(approximately 99 per cent. of total electricity supplied to the public in Lithuania), representing an increase of 0.8 per cent. compared to the year ended 31 December 2015.

Regulation of Public Supply

The public supply of electricity is subject to a licensing regime in Lithuania and is regulated by the Lithuanian Law on Energy, the Lithuanian Law on Electricity and other regulatory legislation. The NCC sets price caps for the public supply services for five year periods on the basis of a reasonable return, regulatory depreciation and compensated cost. The NCC also sets the purchase price of electricity on the basis of the difference between the public supply price and the actual electricity purchase price, taking into account any over-payment of tariffs in the previous period. The current regulatory period of five years sets the price caps for 2016 – 2020. For further information in relation to price regulation and the licensing regime, see “*Regulation*”.

Distribution of Gas

The Group distributed natural gas to approximately 0.576 million customers as of 31 December 2016. As of 31 December 2016, the Group owned and operated 8,500 kilometres of gas distribution pipelines in Lithuania. In the year ended 31 December 2016, the Group distributed 7.39 TWh of natural gas to consumers, representing an increase of 8.32 per cent. or 0.57 TWh compared to 2015. The Group does not distribute gas to consumers in any other country.

The table below sets out the key operating indicators of ESO’s gas distribution business at the dates indicated:

	<u>2016</u>	<u>2015</u>	<u>Change</u>	
	<i>(TWh)</i>	<i>(TWh)</i>	+/-	%
Operating Indicators				
Distributed volume of natural gas..... <i>TWh</i>	7.39	6.83	0.56	8.3
Supply quality indicators of the network				
GAS				
SAIDI (with <i>force majeure</i>)..... <i>min.</i>	0.529	1.034	-0.505	-48.84
SAIFI (with <i>force majeure</i>) <i>units</i>	0.006	0.007	-0.001	-14.29

In 2016, ESO invested EUR 16.5 million in the construction and reconstruction of gas systems, a 24 per cent. increase compared to 2015. In 2016, ESO constructed 109.1 kilometres of gas distribution pipeline (2015: 82.7 kilometres) to connect new customers to the gas network and connected 5,375 customers to the gas pipelines, an increase of 32 per cent. compared to 2015 when 4,078 new customers were connected.

Gas Distribution Investment Plans

Lietuvos Dujos AB, the company whose operations were merged with LESTO AB and are now carried out by ESO, announced a ten-year investment plan in December 2015 which projected that its investments in the gas distribution network would amount to EUR 141.1 million over a ten year period. ESO plans to allocate EUR 58 million of this investment for the development of the distribution system in order to meet the demand generated by the growing number of natural gas customers. ESO plans to invest a further EUR 21 million to modernise remote data collection and control systems, and EUR 20.4 million is planned to be allocated to reconstruct gas distribution pipelines. ESO has also allocated EUR 11.7 million to modernise the gas metering system within ten years. ESO also intends to invest in the reconstruction of gas pressure regulating equipment, the replacement and additional installation of closing devices, and investments in the reconstruction of corrosion protection equipment for the pipelines.

Regulation of Gas Distribution

The Group’s gas distribution business in Lithuania is regulated by the Lithuanian Law on Energy, the Lithuanian Law on Natural Gas and other regulatory legislation. A licence is necessary in order to distribute gas, which is issued by the NCC for an indefinite period. Prices for gas distribution services are also regulated by the NCC, please see “*Regulation – Legislation: the Republic of Lithuania – Regulatory Authorities*”.

Electricity Generation

Overview

The Group owns and operates five generation facilities: the Elektrėnai Complex, which contains three gas and oil-fired power units with a combined installed capacity of 1,055.0 MW, two hydroelectric power plants with total installed capacity of 1,000.8 MW and two wind farms with total installed capacity of 42.3 MW. For the year ended 31 December 2016, 36 per cent. of all electricity generated in Lithuania was produced by LEG.

The following table sets forth a breakdown of the total installed capacity of the Group's power plants for the years ended 31 December 2016 and 31 December 2015:

	As of 31 December			
	2016		2015	
	(MW)	%	(MW)	%
Gas and oil	1,055.0	50	1,055.0	51
Hydro	1,000.8	48	1,000.8	49
Wind	42.3	2	0.0	0
Total installed capacity	2,098.1	100	2,055.8	100

As of 31 December 2016, the total installed capacity of the Group's generation facilities was 2,098.1 MW, representing an increase of 42.3 MW, or 2 per cent., from 2,055.8 MW as of 31 December 2015. The increase was caused by acquisitions of two wind parks. As of 31 December 2016, 50 per cent. of the Group's total installed capacity was gas and oil-fired and 50 per cent. was hydroelectric and wind power combined.

The following table sets forth a breakdown of the total electricity generated by the Group's power plants by type of energy for the years ended 31 December 2016 and 31 December 2015:

	For the year ended 31 December			
	2016		2015	
	(TWh)	%	(TWh)	%
Gas and oil	0.49	33	1.07	53
Hydro	0.88	59	0.9	47
Wind	0.12	8	0.0	0
Total electricity generated	1.49	100	2.01	100

In the year ended 31 December 2016, the Group generated 1.49 TWh of electricity, representing a decrease of 0.52 TWh, or 26 per cent., from 2.01 TWh in the year ended 31 December 2015. The decrease was caused mainly by the launch of new electricity connections with Sweden and Poland in 2016 and the subsequent elimination of production quotas for subsidised electricity production from the beginning of 2016. In the year ended 31 December 2016, 33 per cent. of the Group's total electricity generated was generated by gas and oil, and the remaining 67 per cent. was generated by renewable sources including hydro power and wind.

Gas and Oil-fired Power Generation

The Group owns and operates the Elektrėnai Complex in Lithuania, which contains the Reserve Power Plants and the CCGT, each of which is gas and oil-fuelled, with a combined installed capacity of 1,055 MW as of 31 December 2016. The Reserve Power Plants have an installed capacity of 300 MW each and the CCGT has an installed capacity of 455 MW. The CCGT uses heat, which is a by-product of the generation of electricity by gas and heavy fuel oil power plants to generate steam, which is then used to drive a steam turbine generator to make additional electricity.

In the year ended 31 December 2016, the Elektrėnai Complex generated 0.491 TWh of electricity, representing a decrease of 54 per cent. compared to the year ended 31 December 2015. The decrease was caused predominantly by the launch of new electricity connections with Sweden and Poland in 2016 and the subsequent elimination of quotas for electricity generation in the Elektrėnai Complex. The Elektrėnai Complex generated 33 per cent. of the total electricity generated by the Group in 2016.

In the year ended 31 December 2016, the Reserve Power Plants generated 0.024 TWh of electricity. On 28 December 2016, the TSO announced that the provision of tertiary power reserve services in 2017 would be provided by the Reserve Power Plants following completion of its first auction process. The Reserve Power Plants' electricity generation and related balancing, regulation and tertiary power reserve provision services are regulated activities.

In the year ended 31 December 2016, the CCGT generated 0.468 TWh of electricity representing a decrease of 55 per cent. compared to the year ended 31 December 2015. The decrease was caused predominantly by the cancellation of production quotas for subsidised electricity production from the beginning of 2016. The CCGT is also responsible for providing Lithuania's strategic power reserve, which is determined by the Government based on proposals from the Lithuanian Ministry of Energy. In 2016, the CCGT was switched on 58 times representing an increase of 190 per cent. compared to the year ended 31 December 2015 when it was switched on 20 times. The increase was caused predominantly by disconnections of the NordBalt interconnection. The CCGT's electricity generation and related balancing and strategic power reserve services are regulated activities.

The units in the Elektrėnai Complex have a diversified age profile. Construction of the CCGT was completed in October 2012 whereas the construction of the currently operational Reserve Power Plants' electricity generation

units were completed in 1971 to 1972. The units are affected by various factors including the availability of gas and oil. The Group has a schedule of regular repairs and overhauls for its gas and oil-fired power plants. Four power generation units in the Elektrėnai Complex were decommissioned in 2014 and 2015 and two units are inactive and are currently in the process of being decommissioned, in each case due to their poor technical condition, low potential of use in the future, high maintenance costs and negative impact on the environment.

In the year ended 31 December 2016, the Group consumed 1.1 TWh of natural gas in relation to its power generation operations which was primarily sourced from Group subsidiaries. The Group consumed approximately 2,000 tons of oil in 2016, which was primarily sourced from reserves held by LEG.

The Group, through LEG, has permits for an indefinite term to engage in electricity generation activities at the Reserve Power Plants and the CCGT. LEG also holds permits to expand electricity generation capacities at the Reserve Power Plants. Since the establishment of LEG in 2011, all of the Group’s gas and oil-fired power plants in Lithuania, which are owned by LEG, have complied with all environmental requirements and regulations. The Elektrėnai Complex was assigned approximately 0.24 million tons of CO² emission allowances for the year ended 31 December 2016. For additional information on CO² emission allowances and the allocation of CO² emission allowances, please see “*Regulation – Carbon Compliance (Emissions Allowances)*”.

Hydroelectric Power Generation

The Group owns and operates 2 hydroelectric power plants in Lithuania, Kruonis PSHP and Kaunas HPP. In the year ended 31 December 2016, its hydroelectric power plants had an installed capacity of 1,000.8 MW of electricity. In addition, the Group is also considering constructing a new unit in Kruonis PSHP.

Kruonis PSHP pumps water from the Kaunas reservoir using electricity at night (the “off peak period”) when electricity prices are relatively low and generates electricity during the day time (the “peak period”) when electricity prices are higher.

The following table sets forth certain information regarding the Group’s hydroelectric power plants as of 31 December 2016:

Plant	Installed capacity (MW)	Type of plant	Start of operation
Kruonis PSHP	900	Pump Storage	1992-1998
Kaunas HPP	100.8	Hydroelectric	1959
Total installed capacity	1,000.8		

In the year ended 31 December 2016, the Group’s hydroelectric power plants generated 0.88 TWh of electricity, representing approximately 47 per cent. of the Group’s total electricity generated, compared to 0.94 TWh or 59 per cent. of the Group’s total electricity generated for the year ended 31 December 2015. The decrease in hydro electricity production was caused predominantly by lower generation in Kruonis PSHP due to unfavourable electricity price spreads between peak and off peak prices during several months (mainly at the end of the year).

In the year ended 31 December 2016, Kruonis PSHP generated 0.517 TWh of electricity. Kruonis PSHP is also responsible for secondary power reserve provision. Two units of Kruonis PSHP’s capacity (representing 450 MW of installed capacity) are allocated solely to providing secondary power reserves which can be switched on within 15 minutes. This activity is regulated.

The remaining 2 units of Kruonis PSHP’s capacity are allocated to providing electricity on market terms. This activity was regulated by the NCC in 2015 but ceased to be regulated from October 2016 following a ruling by the Supreme Administrative Court.

In the year ended 31 December 2016, Kaunas HPP generated 0.363 TWh of electricity. Kaunas HPP also generates electricity which is used for the recovery of the electricity system when there has been a sudden loss of power in the system, for example, when there is an electricity “black-out”. Electricity generation at Kaunas HPP and related balancing and regulation services are commercial activities.

Hydroelectric power plants have a high degree of flexibility in the regulation of their output. The ability to control hydroelectric power plants centrally permits the hydroelectric plants to commence operation rapidly thereby regulating electricity output. Neither conventional nor pump storage hydroelectric power plants release polluting emissions into the atmosphere. These plants also represent an inexpensive source of electricity, particularly in periods of peak demand. In addition, pump storage power plants allow the productive use of excess electricity generated by base load plants by operating storage pumps in periods of low demand. Further development of hydroelectric power generation in Lithuania is limited by the topography of the region and Law on Water. As a result, other than the construction of a new unit in Kruonis PSHP, the Group does not currently expect to construct any new hydroelectric power plants in Lithuania.

Wind Power Generation

The Group owns and operates two wind farms in Lithuania and Estonia with total installed capacity of 42.3 MW, which were both purchased in the first quarter of 2016. In the year ended 31 December 2016, these wind farms generated 0.123 TWh of electricity. The Group also plans to develop its own wind farm near Kruonis and plans to acquire wind power projects at a stage when the necessary infrastructure for the installation of a wind farm has already been developed, where land plots have been leased, connection to the power grid is present and territorial planning and public health and environmental requirements have been met. The progress of these developments depends significantly on the level of subsidies that will be provided by the Government.

Nuclear Power Generation

Lithuania has been working towards the development of a new nuclear power plant project, Visaginas NPP, which is intended to operate in the joint Nordic/Baltic region. The project's preparation works were being carried out by the Group via UAB VAE SPB, a special purpose vehicle. However, this project is currently on hold following a negative vote in an advisory non-binding referendum on the development of a new nuclear power plant in Lithuania in October 2012.

Trading and Supply of Electricity and Gas

Trading of Electricity

The Group's electricity trading activities are conducted through Energijos Tiekimas, and consist of three separate activities: (i) planning and optimisation of LEG's generation capacity and sales of electricity generated by LEG; (ii) purchasing electricity for its consumer supply business; and (iii) hedging and proprietary wholesale trading. Energijos Tiekimas, is a member of the Nord Pool Exchange, Nasdaq Commodities Exchange and the Intercontinental Exchange ("ICE"). Energijos Tiekimas is the only Lithuanian power supplier active on the Nasdaq Commodities exchange and on the ICE.

From 2016, all electricity generated by the Group's Lithuanian power plants is sold directly on the Nord Pool Exchange. Generated electricity is traded on day ahead as well as intraday markets. Since 2010, the wholesale prices have been unregulated. Prices on the Nord Pool Exchange are set on the basis of supply and demand. When trading on a day ahead basis, the Group submits sell bids for physical electricity to be delivered the next day, whereas intraday market trading allows the Group to trade physical electricity to be delivered on the same day. Due to the nature and flexibility of the generation assets and optimisation activities, total generated volume may differ from the volume sold. In 2016 the Group's power plants generated 1.19 TWh, compared to 2.04 TWh in 2015. Asset backed sold electricity volume was 1.57 TWh in 2016, compared to 2.22 TWh in 2015.

The Group's electricity supply and generation portfolios are separated in accordance with the Third Energy Package, REMIT and best market practices. Accordingly, Energijos Tiekimas sources electricity for its supply portfolio directly from the Nord Pool Exchange or through bilateral agreements with third parties, rather than directly from LEG. Energijos Tiekimas estimates that a significant proportion of the electricity it purchased for its supply portfolio in 2016 was imported from outside Lithuania as the marginal cost of electricity production in Lithuania was higher than the cost of importing electricity. As of 31 December 2016, the Group had entered into a number of long-term contracts for physical power supply with various durations (the longest duration being until 31 December 2019) at prices which reflect prices on the derivative or wholesale markets in order to minimise price risk.

In order to manage market price fluctuation risk, Energijos Tiekimas hedges retail portfolio exposure using physical and financial instruments traded over-the-counter or on the Nasdaq Commodities Exchange. The Group began its proprietary electricity wholesale trading activity in 2016, through Energijos Tiekimas. Energijos Tiekimas trades both standard and nonstandard physical and financial derivative products for the Group's own account bilaterally and on the Nasdaq Commodities Exchange and Nord Pool Exchange. In 2016 the Group's wholesale trading volume was 8.7 TWh.

The following table sets forth a breakdown of the volume of electricity purchased and sold by the Group on wholesale markets (including the Group's net electricity generated and total sales to consumers) for the years ended 31 December 2016 and 31 December 2015:

	For the year ended 31 December		
	2016	2015	Change in 2016 compared to 2015
	(TWh)	(TWh)	%
Wholesale trading in electricity, TWh			
Electricity purchased on wholesale markets	15.07	6.15	145.04
ESO portfolio	3.78	3.75	0.80
Energijos Tiekimas (for Energijos Tiekimas retail customers)	1.78	1.46	21.92
Energijos Tiekimas (for Kruonis PSHP)	0.81	0.94	(13.83)
Energijos Tiekimas (for proprietary trading purposes)	8.70	0.00	
Electricity sold on wholesale markets	10.27	2.22	362.61
LEG (through Energijos Tiekimas)	1.45	2.22	(34.68)
Energijos Tiekimas (for proprietary trading purposes)	8.70	0.00	
Eurakras	0.07		
Tuuleenergia	0.05		
Balance of wholesale trading in electricity	4.79	3.93	21.88
Electricity generated and sold to consumers, TWh			
Total electricity generated by the Group (gross)	1.56	2.04	(23.53)
LEG	1.44	2.04	(29.41)
LEG – Elektrėnai Complex	0.49	1.09	(55.05)
LEG – Kaunas HPP	0.37	0.28	32.14
LEG – Kruonis PSHP	0.57	0.67	(14.93)
Eurakras	0.07		
Tuuleenergia	0.05		
Own consumption of electricity generated	0.81	0.94	(13.83)
Kruonis PSHP	0.81	0.94	(13.83)
Total electricity generated by the Group (net)	0.75	1.10	(31.82)
Technological losses	0.67	0.67	0.00
ESO	0.62	0.62	0.00
LEG	0.04	0.05	(20.00)
Eurakras	0.00		
Tuuleenergia	0.00		
Electricity sold by the Group to consumers	4.93	4.58	7.64
Energijos Tiekimas	1.78	1.46	21.92
ESO	3.15	3.12	0.96
Balance between electricity generated by the Group and sold to its consumers	(4.85)	(4.16)	(16.59)

The Group carries out proprietary trading that consists of taking on energy commodity (electricity and emissions) exposures in European markets by means of financial derivative instruments and contracts for physical delivery exchanged on the regulated and over-the-counter markets, seeking to exploit arbitrage opportunities and speculating on price developments. By trading on its own account, the Group aims to generate additional profits. The Group carries out these activities through Energijos Tiekimas which has a formal governance framework with strict risk limits set by its board of directors and in coordination with the Group's Risk Management Committee. The Group has specific controls in place in terms of quantitative risk limits (value at risk and other risk limits, including a EUR 3 million stop-loss). Credit risk management for trading operations is based on strict evaluation, assignment and monitoring procedures that the Group believes are in accordance with international best practices.

Trading of Gas

The Group's gas trading activities, conducted through LDT and LITGAS, encompass selling natural gas on wholesale markets through bilateral agreements and trading on GET Baltic, the local gas exchange. Natural gas is also traded on "cross-border interconnection points" of transmission systems in the Baltic region and on "virtual trading points" without a defined physical location in the Lithuanian transmission system, both as defined in the Glossary. Small scale LNG trading activities are also conducted in the Baltic region through the LNG Terminal in Klaipėda.

Gas financial instruments, which are primarily used to hedge changes in physical gas supply portfolios, are used by LDT, which has ISDA agreements in place with well-known financial institutions and major European gas traders.

Supply of Electricity

Lithuania

In the year ended 31 December 2016, the Group, through its subsidiary Energijos Tiekimas, supplied electricity to approximately 6,700 commercial customers, which is the largest electricity customer base in Lithuania. In the year ended 31 December 2016, the Group supplied 1.7 TWh of electricity to commercial customers in Lithuania, representing an increase of 16.8 per cent. compared to the year ended 31 December 2015. The increase was caused predominantly by the acquisition of large corporate customers and an overall increase in the number of customers due to competitive pricing, flexible, tailored products and excellent customer service. Energijos Tiekimas achieved a market share among independent electricity suppliers in sales to consumers in Lithuania in the year ended 31 December 2016 of approximately 25.0 per cent. compared to 21.8 per cent. in 2015, according to the National Commission for Energy Control and Prices.

Latvia

In the year ended 31 December 2016, Energijos Tiekimas, through its subsidiary Geton Energy SIA, sold 136 GWh of electricity to consumers in Latvia, representing an increase of 54 per cent. compared to the year ended 31 December 2015. The increase was caused predominantly by competitive pricing, flexible, tailored products and excellent customer service. The Group's subsidiary Geton Energy SIA is the fourth-largest supplier in the Latvian electricity market according to the Group's data.

Estonia

In the year ended 31 December 2016, Energijos Tiekimas, through its subsidiary Geton Energy OU, sold 0.052 GWh of electricity to consumers in Estonia, representing a decrease of 99 per cent. compared to the year ended 31 December 2015. This decrease was caused predominantly by the loss of a significant customer which constituted the majority of Geton Energy OU's revenue. The Group's subsidiary Geton Energy OU is one of the smallest suppliers in the Estonian electricity market according to the Group's internal data. The Group is currently considering its plans for this subsidiary given the loss of its main customer.

Supply of Gas

In the year ended 31 December 2016, the Group, through its subsidiaries LDT and LITGAS, supplied gas to approximately 6,700 industrial and business companies and 560,000 household customers. LDT supplies natural gas to industrial and business companies and household customers. LITGAS is the designated supplier of LNG in Lithuania and is responsible for ensuring that a minimum quantity of gas is delivered through the Klaipeda LNG Terminal. The gas supplied by LITGAS as designated gas supplier through the Klaipeda LNG Terminal is purchased from Statoil ASA under a long term LNG supply contract concluded on 9 September 2014, which expires at the end of 2024. The price of LNG does not have a material impact on LITGAS's designated supply business given that the designated supply of gas is a regulated activity and its profit margins are set by the NCC. In 2016, LDT purchased approximately 44 per cent. of the gas it supplied to consumers from the LNG Terminal in Klaipeda. The remainder was purchased from Gazprom through natural gas pipelines and other sources such as wholesale markets under short term natural gas supply contracts. LDT's decision to purchase gas from either the Klaipeda LNG Terminal or Gazprom is based on price and the need to ensure diversification of supply. In 2014, LDT received a retrospective discount on the price of the gas it had purchased from Gazprom since 1 January 2013. The majority of the discount received from Gazprom was distributed to end-users between 2015 and 2016. The remaining portion of the discount will be distributed to consumers in the first half of 2017. However, LDT does not expect that the expiry of the discount distributed to consumers will significantly affect its business as it expects that it will be able to continue sourcing natural gas at competitive prices under short term contracts from Gazprom and through the Klaipeda LNG Terminal.

In the year ended 31 December 2016, the Group supplied 11.30 TWh of gas to 569,700 consumers, representing a decrease of 19 per cent. compared to the year ended 31 December 2015. The decrease was caused predominantly by the cancellation of production quotas for subsidised electricity production, which in turn decreased the production of electricity using gas in the CCGT which led to lower gas sales from LITGAS to LEG and decreases in wholesale sales volumes completed in year 2015. LDT and LITGAS achieved a market share in sales to consumers in Lithuania in the year ended 31 December 2016 of approximately 46 per cent. (90 per cent. for households segment) compared to 50 per cent. (99 per cent. for households segment) in 2015, according to the Group's data. In the year ended

31 December 2016, the Group's revenues from the supply of gas were EUR 267.6 million, representing a decrease of EUR 31.5 million, or 10.5 per cent., from EUR 299.2 million in the year ended 31 December 2015. The revenue decrease was caused by a combination of a decrease in sales volume, natural gas prices and the cancellation of production quotas for subsidised electricity production, which in turn decreased the production of electricity using gas in CCGT which led to lower gas sales from LITGAS to LEG.

The supply of gas to consumers in Lithuania is regulated by the Lithuanian Law on Energy, Law on Liquefied Natural Gas Terminal, the Lithuanian Law on Natural Gas and other regulatory legislation. A licence is necessary in order to supply gas, which is issued by the NCC for an indefinite period. A licence for LITGAS was issued on 27 December 2013, and for LDT on 13 October 2014.

At the end of June 2017, LDT signed a contract with the U.S. energy company Cheniere Marketing International and purchased a LNG cargo. It is expected that the LNG will be supplied directly from the U.S, which would be the first time that LNG from the U.S. has been imported directly to Lithuania. LDT intends to store a part of the LNG purchased at a lower price during the summer in the Incukalns LNG storage facility in Latvia.

Other Businesses

Heat Generation

The Elektrėnai Complex also contains steam and biofuel boilers which generate heat and have an installed capacity of 90 MW. The Reserve Power Plants sold around 130 GWh of heat in 2016.

Part of heat generation is a regulated activity. Regulated heat generation comprises generation which is sold to a local heat supplier. A small part of heat generation is not regulated by the NCC. Non-regulated heat generation comprises generation sold directly to companies. However, both activities are treated as regulated activities in the company's managerial accounting. LEG has permits for indefinite term to engage in heat generation activities at the steam and biofuel boilers in the Elektrėnai Complex.

Biomass in the form of wood chip, straw and pellets is combusted in the Elektrėnai Complex. In the year ended 31 December 2016, the Group burned 12,000 tons of biomass in the Elektrėnai Complex.

Construction of the steam and biofuel boilers in the Elektrėnai Complex were completed in 2015. The units are affected by various factors including major equipment failure, operational accidents, disruptions in the supply of biofuel and district heating water contamination. The Group has a schedule of regular repairs and overhauls for its steam and biofuel boilers. Since 2015, all of the Group's steam and biofuel boilers have complied with all environmental requirements.

Provision of Ancillary Services

Contracting activities

The Group's contracting activities are conducted through EnePRO. EnePRO's activities include the reconstruction, repair and technical maintenance of electricity equipment and power stations, installation of boilers, technological pipes and other installation works, manufacturing of stacks, metal construction structures, pressure vessels and management of engineering projects. EnePRO provides services to Lithuanian energy sector companies and companies of other sectors and natural persons in Lithuania. In the year ended 31 December 2016, EnePRO's revenues were EUR 30.6 million (EUR 60 million in 2015) and its net loss was EUR 7.2 million (EUR -1.2 million in 2015). The decline in revenue and the net loss was predominantly caused by lower scopes of works and loss-making orders (including those concluded in the previous periods).

Real estate management and transport services

The Group's real estate management and transport services activities are conducted through NTV. NTV is one of the largest property management and transport services companies in Lithuania according to internal data. It is engaged in the long-term and short-term lease of administrative, production and warehousing premises as well as long-term and short-term lease of territories and long-term and short-term lease of cars and special purpose motor vehicles and equipment, management of vehicle fleet, accommodation and conference organisation services. In the year ended 31 December 2016, its revenues were EUR 21.7 million (EUR 17.4 million in 2015) and EBITDA before elimination of intragroup transactions was EUR 8.3 million (EUR 5.7 million in 2015).

Data centers and data transmission services

The Group's data activities are conducted through DLC. DLC is one of the largest operators of data transmission networks and data centres in the Baltic region. DLC provides data transmission services to companies and

communication operators, manages data centres in which major banks, telecommunication operators, cloud computing services providers and other companies store their equipment. In the year ended 31 December 2016, its revenues were EUR 4.4 million (EUR 4.9 million in 2015) and EBITDA before elimination of intragroup transactions was EUR 1.0 million (EUR 1.0 million in 2015).

Customer service activities

The Group also transferred its electricity and gas customer service activities to a joint service centre known as Gile, which is managed by its subsidiary, VAC. Gile services customers of ESO and LDT.

Shared services

VAC provides organisation and performance of public procurements, accounting and employment relationship administration services to the Group's subsidiaries.

Group subsidiary Technologijų ir Inovacijų Centras UAB is one of the largest ITT companies in Lithuania, according to internal data, providing IT and telecommunication services to Group companies.

Training

The Group's training activities are conducted through EMC. EMC provides training for workers, engineers, managers and executives working on electricity and heat sector management, occupational safety and health, welding and hoisting equipment, work organisation and training on topics related to the gas sector. It also provides regular training to and certifies foremen responsible for the maintenance of potentially dangerous equipment and heads of special works.

Divestment of non-core activities

The Group is planning to divest its non-core activities which are conducted through NTV, DLC and EMC, if market conditions are favourable.

Other Ancillary Businesses

From 2016 the Group through its new created subsidiary UAB, Elektroninių Mokėjimų Agentūra" started providing financial services, collection of payments for utility services and other periodic payments from customers and their distribution to service providers.

In February 2016, the Issuer, established a new company Energijos Sprendimų Centras UAB which will be developing projects on energy efficiency improvement and renewable energy resources in Lithuania and abroad. The operations of the new company will be based on the ESCO ("**Energy Service Company**") model which defines the company providing energy efficiency improvement services as the entity investing in energy efficiency measures and covering the investments made using future energy savings during the validity term of the agreement. The operations are intended to enable the Group to achieve the highest impact of energy efficiency whilst at the same time avoiding large initial investments by the owners of buildings or equipment.

Property, Plant and Equipment and Investment Property

The Group owns all of its significant generation facilities and other properties and the Group holds the title to all of the land underlying its operation facilities. The Group's plant, property and equipment mainly comprise power plants and electricity and gas distribution networks as the well as administrative buildings, investment property and other assets. As of 31 December 2016, the Group owned buildings with a total net book value of EUR 103,038,000, other property, plant and equipment and investment property items with a net book value of EUR 1,711,607,000 and land with a net book value of EUR 2,376,000.

A restitution process is underway in Lithuania, involving the return of nationalised real property to its previous owners, following the change of the regime and the fundamental change in principles of registration of real estate property in the Lithuania in 1990. A significant part of the Group's distribution assets, including its electricity and gas distribution networks, is located on real property which was previously owned by the Republic and has now been returned to its previous owners as a result of the restitution process, please see "*Risk Factors—Risks Relating to the Regulatory and Legal Environment—Risks associated with restitution claims in Lithuania*".

As of 31 December 2016, the Group owned net plant in service pledged as a security for liabilities in the amount of EUR 353,686,000, representing 39.7 per cent. of total net book value of plant in service as of 31 December 2016.

The Group plans to sell and leaseback all of the administrative buildings that it owns by 2019 in order to use its balance sheet more effectively and focus on its core activities.

Capital Expenditures

In the year ended 31 December 2016, the Group's investments amounted to EUR 238.1 million, representing an increase of 58.3 per cent. compared to the year ended 31 December 2015. Without taking into consideration the acquisition of the wind farms, investments increased by 16.4 per cent. or EUR 24.7 million compared to 2015 (EUR 150.4 million). Investments in the maintenance and development of the electricity distribution network made up 52.2 per cent. of the total investments for 2016. The Group expects its investments in 2017 will amount to approximately EUR 253 million, of which EUR 176 million will be made by ESO (primarily investments in the electricity distribution network) and EUR 46 million will be made by the Group in the Vilnius CHP plant.

In the year ended 31 December 2016, investments allocated by ESO for the maintenance of the electricity distribution network increased by EUR 14.1 million to EUR 84.7 million, representing an increase of 20 per cent. compared to the year ended 31 December 2015 and investments allocated by ESO for the development of the electricity distribution network decreased by EUR 3.4 million to EUR 39.5 million, representing a decrease of 8 per cent. compared to the year ended 31 December 2015. The Group is in the process of reviewing its plans to modernise its electricity distribution network and expects to complete this review in the third quarter of 2017. It does not anticipate the total amount of its capital expenditure in respect of these plans to change significantly, please see “–*The Group's Strategy*”.

In the year ended 31 December 2016, investments in real estate increased by EUR 6.1 million to EUR 7.3 million from the year ended 31 December 2015. The increase was caused predominantly by the lease right to the land plot acquired by the Group subsidiary Kauno Kogeneracinė Jėgainė UAB as an in-kind contribution. The value of the lease right is equal to EUR 4 million. Investments also increased because of reconstruction works carried out at buildings held by the Group.

In the year ended 31 December 2016, investments in IT, telecommunication and management systems increased by EUR 5.6 million from the year ended 31 December 2015. The increase was caused predominantly by the Group company Technologijų ir Inovacijų Centras UAB's EUR 2 million investment in the data transmission network and other less significant investments made by Group subsidiaries. Investments in transport increased by EUR 5.2 million from the year ended 31 December 2015. The increase was caused predominantly by a regular renovation of the Group's fleet of motor vehicles and the acquisition of fire fighting vehicles by the Group company NTV that were leased to the state fire fighting and rescue services. In 2016, no investments were made in the heat generation capacities.

In the year ended 31 December 2016, the Group's assets increased by 4 per cent. or EUR 93 million to EUR 2,432.2 million compared to the year ended 31 December 2015 (EUR 2,339.2 million). The increase was caused predominantly by the acquisition of the wind farms in Lithuania and Estonia and accordingly property, plant, and equipment increased by EUR 63 million and the total amount of non-current assets increased by EUR 105.8 million or 5.4 per cent.

The Group makes independent investment decisions according to the investment plans and respective decisions of individual Group subsidiaries. However, the Group determines general principles regarding investments in specific projects or the creation of new services encompassing financial assessment criteria and risks of investments that are required to be assessed when determining the financial recoverability of the investment project. However, certain activities planned by the Group, including mergers and acquisitions, establishment of new legal entities by the Issuer (but not Group subsidiaries) and reorganisations or equity injections into the Group's principal subsidiaries require the approval of the Government. Additionally, ESO requires the approval of regulators for: (i) investments in regulated activities over EUR 1.5 million (in respect of its electricity distribution activities) and (ii) any investment which accounts for more than 5 per cent. of its total annual capital expenditure (in respect of its gas distribution activities) and LEG requires the approval of regulators for any investment related to its regulated activities. As of the date of this Base Prospectus, neither the Government nor any regulator has materially altered any investment plan submitted by the Group. The Group also makes investments on behalf of the Government in economic projects of State significance.

Employees

The Group had 4,859 and 5,379 employees in the years ended 31 December 2016 and 2015, respectively. The decrease was caused predominantly by various factors arising from the Group's corporate reorganisation.

ESO had 2,677 and 3,149 employees in the years ended 31 December 2016 and 2015, respectively. The decreases were caused predominantly by the Group's corporate reorganisation, including the transfer of 240 ESO's customer service and legal services employees to VAC. LEG had 399 and 414 employees in the years ended 31 December 2016 and 2015, respectively. The decrease was caused by the transfer of LEG's legal services employees to the Issuer and VAC, as part of the Group's corporate reorganisation.

The Group has developed employment policies to meet the needs of its different business segments, embodying principles of equal opportunity. The Group encourages involvement of employees in the performance of the business in which they are employed and aims to achieve a sense of shared commitment through programmes such as the Issuer's long-term managerial staff training programmes which have the goal of developing a uniform leadership culture to achieve the strategic business objectives of the Group.

As of 31 December 2016, all employees of the Issuer were covered by three collective bargaining agreements in accordance with Lithuanian law. The new Labour Code in Lithuania, which is expected to come into force on 1 July 2017, is expected to ensure greater flexibility of labour relations in terms of working schedules and overtime regulations as well as employment conclusion and termination. The Group will review its labour regulations and, in accordance with the new Labour Code, renew collective bargaining agreements. As at the date of this Base Prospectus, the Group has not experienced any strikes or work stoppages in Lithuania.

Research and Development

For the purpose of implementing the Group's operational strategy for 2014–2020, and with a view to promoting innovations, Lietuvos energija UAB is in the process of establishing an Innovations Fund (the **Fund**). The Fund will provide funding for start-ups in the energy sector. The Fund will seek to cooperate with start-ups and research institutions, targeting the development of new services and sustainable products as well as contributing to the commercialisation of research and development (**R&D**) in the energy sector. The capital commitment of the Fund will be approximately EUR 7 million (including all fees, expenses and accelerations costs) for an investment period of 5 years. The Fund is seeking a financial partner which would manage the implementation of the acceleration programme and the fund itself.

The Group's other R&D projects are mainly performed by private scientific institutions, or by the academic sector. R&D covers numerous topics in micro generation, smart metering, electricity quality, waste-to-energy, chimney technology. The Issuer has entered into a cooperation agreement with the biggest technical university in Lithuania, with whom the Issuer has established an applied research centre, which helps it to develop its scientific base and knowledge in a fast and efficient way. The Issuer also encourages students by offering scholarships and internship positions.

The Issuer is also a member of the EURELECTRIC Innovation working group, the Issuer is involved in international energy R&D projects, particularly in the E.U.'s Framework Programs, mainly in areas of waste-to-energy, big data, smart grids, energy storage solutions. The Issuer is also involved in long term R&D programmes development group for Lithuanian scientific institutes.

Licences

As of the date of this Base Prospectus, the Group holds all material licences necessary for the operation of its business. For information on licences and permissions required under the Energy Law and under other applicable regulations, please see "*Regulation—Electricity Sector—Licensing Regime*", "*Regulation—Heating Energy Sector—Licensing Requirements*" and "*Regulation—Gas Sector—Licensing Regime*".

Insurance

The Group maintains several types of insurance to protect it against potential liabilities.

LEG maintains insurance for its power plants, excluding its hydro power plants. The Group plans to obtain insurance policies to cover its hydro power plants in 2017, please see "*Risk Factors—The Group's insurance coverage may not be adequate*". Additionally it maintains surety insurance for major waste projects.

ESO maintains insurance policies covering assets such as dispatch management systems, electrical installations and buildings financed from E.U. funds. ESO's technological assets, including its distribution assets, are not covered by insurance as such costs are not covered under regulated tariffs for distribution activities, whereas repair costs for technological assets are covered under such tariffs.

The Group also maintains insurance policies covering non-technological equipment, general third party liability insurance in connection with its main operations and car insurance. The Group also has insurance policies covering directors' and officers' liability.

Risk Management

The Group continues to develop its integrated risk management system in order to increase its fundamental value while taking into account the level of risk acceptable for its Shareholder. The ultimate risk authority is the Risk Management Supervision Committee of the Supervisory Council, please see "*Management—Committees of the Supervisory Council—Risk Management Supervision Committee*". The Risk Management Supervision Committee is responsible for reporting to the Supervisory Council on the risks that the Group faces and implementation of risk management or prevention measures.

The Risk Management Supervision Committee comprises:

- (a) the Chair, who also sits on the Supervisory Council;
- (b) one member representing the Government; and
- (c) two independent members.

The Risk Management Supervision Committee continuously monitors the overall impact of risk on the Group and actions the Group takes to minimise those risks, such monitoring includes the implementation of internal control procedures and risk management measures, the assessment of the regular risk identification and assessment cycle, the establishment and control of risk registers and the drafting of risk management related internal documents.

The Risk Management Supervision Committee meets to assess risk factors on at least a quarterly basis. During these periodical risk self-assessment meetings, the Committee identifies the systemic risks to the Group. Systemic risks are those risks which are relevant to at least two of the Group's subsidiaries and where the level of the risk is higher than the defined Group risk appetite. Risk appetite (accepted risk level expressed as a percentage of EBITDA) is approved by the Board of the Issuer. Measures and initiatives to mitigate these risks are the responsibility of the management of the Issuer and the relevant subsidiaries. The Committee also identifies risks which are specific to individual subsidiaries of the Group. The Committee advises the relevant subsidiary of any risks relevant to it and makes recommendations to mitigate such risks. These risks are the responsibility of the relevant subsidiary. The Committee also assesses the implementation of its recommendations on a bi-annual basis.

The main systemic risks which have been identified for 2017 are:

- (a) Health and safety of employees, residents and contractors;
- (b) Information security (cyber security);
- (c) Market changes and competitiveness;
- (d) Management of strategic and internal change projects; and
- (e) Regulation and compliance.

There are also specific risks which are material to specific subsidiaries and the Group as a whole.

For 2017, the Risk Management Supervision Committee identified the main issues in this category to be:

- (a) Inadequate project management by EnePRO;
- (b) Changes in regulatory regime associated with selection of regulated services providers;
- (c) The health and safety of ESO's employees, subcontractors and consumers;

In order to control risk management effectiveness there is Group level risk tolerance for main financial results and key risks. Risk limits are set for specific risks. Risk tolerance and limits are approved by Board of the Issuer.

Property, casualty and other operational risks are managed through using insurance, emergency and crisis planning and preventive actions.

For more information relating to material risks that the Group faces, please see "Risk Factors" and Note 3 of the 2016 Financial Statements.

In addition to the Risk Management Supervisory Committee, there is the Audit Committee of the Company's Supervisory Council. The Audit Committee of the Company's Supervisory Council ("**Audit Committee**") is responsible for the submission of the objective and impartial conclusions or proposals to the Supervisory Council on the functioning of the audit and control system in the Group. The Audit Committee is responsible for monitoring

the process of preparation of financial statements of the Issuer and the Group's subsidiaries, with a focus on the relevance and consistency of accounting methods used. In addition it is responsible for monitoring the effectiveness of internal controls and risk management systems of the Issuer and the Group's subsidiaries, to analyse the need for and relevance of these systems and perform the review of the existing internal control management systems.

Environmental Matters

The Group's activities are regulated by the following environmental legislation; the Law of Environmental Protection, Law on Energy, Law on Electricity and the Law on Natural Gas, please see "*Regulation—Security of Electricity Supply*" and "*Regulation—Legislation: the Republic of Lithuania—Overview*". When planning its activities the Group assesses the environmental requirements set out in the legislation and takes into account trends in environmental protection. As of the date of this Base Prospectus the Group is in compliance with all material environmental legislative requirements.

Legal Proceedings

The Group is currently involved in a number of legal proceedings; however, the Group believes that liabilities relating to such proceedings would not, individually or in the aggregate, have a material adverse effect on its results of operations or financial condition. Certain significant legal proceedings in which the Group has been involved in the 12 months preceding the date of this Base Prospectus are described below.

ESO and LDT

On 29 January 2015, UAB Vilniaus Energija ("**VE UAB**") brought a claim before the Vilnius Regional Court against LDT and ESO for breach of pricing rules set out in natural gas supply agreements between the parties. VE UAB claims that LDT and ESO breached the agreements because they did not transfer a retrospective discount received from the natural gas supplier (Gazprom) directly to the claimants, who acted as purchasers under the agreements, and claims EUR 15,234,614.94 as compensation for the alleged overpayment for natural gas supplies.

On 21 January 2016, the Vilnius Regional Court dismissed the claim.

On 19 February 2016, VE UAB lodged an appeal which was rejected by the Court of Appeal of Lithuania on 17 November 2016; the Court upheld the decision of the Vilnius Regional Court of 21 January 2016.

VE UAB lodged a further appeal which was accepted by the ruling of the Supreme Court of Lithuania dated 23 February 2017. The court hearing in the Supreme Court of Lithuania took place on 21 June 2017. The Court's decision will be announced on or around 5 July 2017.

On 3 April 2015, AB "Amilina" brought a claim before the Vilnius Regional Court against ESO and LDT on similar grounds and claimed EUR 1,038,849.79 as compensation for the alleged overpayment for natural gas supplies.

On 7 October 2016, the Vilnius Regional Court dismissed the claim by the decision.

On 8 November 2016, AB "Amilina" lodged an appeal at the Court of Appeal of Lithuania; the procedural decision of the Court of Appeal of Lithuania will be announced on or around 27 June 2017.

The Group believes that it will defend these proceedings successfully and has not made provisions for these proceedings in its historical consolidated financial statements.

ESO

On 27 March 2014, VE UAB brought a claim against ESO before the Vilnius Regional Court claiming damages of EUR 10,711,700.00. VE UAB and ESO entered into an electricity sale and purchase agreement under which VE UAB supplied ESO with electricity for ESO's public supply activities ("**Supported Production Volume**"). The Supported Production Volume is determined under the Resolution of the Government of the Republic of Lithuania No 1051 "Regarding the Determination of the Providers of the Services of Public Interest and of the Scope of Provision of the Services of Public Interest for 2014" of 20 November 2013. VE UAB claims the Supported Production Volume in the agreement with ESO is below the Supported Production Volume stipulated in the resolution. ESO believes the resolution provides it, as public supplier of electricity in Lithuania, with flexibility to determine the exact Supported Production Volume.

The oral hearing in the Vilnius Regional Court will take place on 28 August 2017.

The Group believes that it will defend these proceedings successfully and has not made provisions for these proceedings.

LITGAS

AB “Achema” filed complaints against the European Commission (i) on 17 November 2016 concerning the Resolution of the Commission dated No O3-369 “On Estimation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer” dated 8 December 2016, (ii) on 22 January 2016 concerning the Resolution of the Commission No. O3-683 “On Estimation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer” dated 23 December 2015 and (iii) on 18 April 2016 concerning the Resolution of the Commission No. O3-83 “On Estimation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer” dated 25 March 2016 and (iv) on 16 June 2017 concerning the Resolution of the Commission No. O3E-145 “On Recalculation of an Additional Component of Safety of Natural Gas Provision Set to the Price of Natural Gas Transfer for year 2017” dated 15 May 2017. The resolutions require all users of the Klaipeda LNG Terminal, including AB “Achema” to pay a proportion of the additional component of the gas tariff which relates to the lease and maintenance of the Klaipeda LNG Terminal. AB “Achema” claims the resolutions to be unlawful on the basis that the Commission exceeded its competence in making the resolutions and that the resolutions contradict the legal acts of the Republic of Lithuania and the E.U.. If such complaints are upheld by the court, AB “Achema” and other market participants may bring claims against LITGAS, AB Klaipėdos Nafta and AB Amber Grid and/or the State claiming compensation for amounts already paid.

The cases have been suspended and the court hearings will be scheduled only after the final decision in administrative case No A-162-858/2017 have been heard. The decision in the latter administration case will be made after the General Court of the E.U. has made its determination in the case concerning AB “Achema”’s challenge of the decision of the European Commission No SA.36740 (2013/NN) dated 20 November 2013, approving the payments received by LITGAS prior to 2016 for gas it supplied to electricity and heat producers performing regulated activities. LITGAS UAB has not been involved in this proceeding.

The future claims, if submitted, might be material to LITGAS’ business. However, the value of possible claims is hard to predict as certain details are not known (e.g. the number of defendants, the ground of claims, the division of responsibility between the defendants etc.).

Tuuleenergia OÜ (“TOU”)

On 13 December 2013, the owner of a property in close proximity to two wind turbines installed by TOU in Tallinn, Estonia filed a complaint against TOU in the Tallinn Administrative Court. He requested that construction permits granted by the Varbla Municipality allowing TOU to construct the two wind turbines and their operation be withdrawn on the basis that the wind turbines had been constructed too close to nearby residential property and in breach of regulatory requirements. The claim was dismissed by the Tallinn Administrative Court on 16 February 2015. An appeal against this decision was dismissed by the Tallinn Regional Court of Second Instance on 2 November 2015.

A further appeal against this decision was upheld by the Supreme Court of Estonia on 11 October 2016, which withdrew the permits for the operation of the two wind turbines on the basis that the operation of the wind farms was unlawful. However, the Supreme Court of Estonia found that all the arguments related to the positioning of the turbines were not founded and ruled that new proceedings must take place in order to issue lawful permits. Accordingly, TOU considers that, based on the judgement, the turbines can be positioned where they stand at the moment.

The claim itself does not impose any financial penalty or obligation upon TOU and TOU is indemnified for any losses it may incur if it is held by a court that it required to dismantle the turbines.

The Group believes it will obtain a new permit to operate the turbines and does not believe TOU will be required to dismantle the turbines and on that basis has not made provisions for this proceeding in its historical consolidated financial statements.

UAB Vilniaus kogeneracinė jėgainė (“VKJ”)

On 24 May 2017, Danpower Baltic UAB lodged an action before the EU General Court appealing the European Commission decision of 19 September 2016 relating to the case “State Aid SA.41539 (2016/N) – Lithuania Investment aid for high-efficiency cogeneration power plant in Vilnius, UAB Vilniaus kogeneracinė jėgainė (“VKJ”)” that approved EUR 153 million State Aid for VKJ (case T-295/17 *Danpower Baltic v Commission*). The content of this action is not known by VKJ or the Issuer and as of the date of this Base Prospectus it is not known what impact, if any, such action will have on the business, results of operations and financial condition of VKJ and/or the Issuer.

Anti-corruption Investigation

In December 2014, an action was brought by the UK Serious Fraud Office against Alstom Power Ltd, Nicholas Paul Reynolds and Johannes Villi Venskus (Alstom employees) in connection with bribes alleged to have been made by Alstom Power Ltd, Nicholas Paul Reynolds and Johannes Villi Venskus between February 2002 and March 2010 to officials previously employed by a Group subsidiary, AB Lietuvos Elektrine, during a period of eight years in order to secure AB Lietuvos Elektrine's contract to supply burners to a power plant in the Elektrėnai Complex. In 2013, LEG received a request for information regarding projects related to Alstom. However, neither LEG nor the Group is currently the subject of this action or any investigation in connection with these charges and no charges have been brought against LEG, the Group, its subsidiaries or any of its current or former employees. The trial is expected to start at Southwark Crown Court in October 2017.

In March 2017, the Lithuanian Special Investigation Services conducted searches at the homes of two former employees of the Group: Rymantas Juozaitis, CEO of AB „Lietuvos energija” between 2002 and May 2008 and CEO of LEO LT between May 2008 and October 2008, and Pranas Noreika, CEO of Lietuvos Elektrinė (Lithuanian Power Plant) between 1962 and 2010. According to media reports, the investigation is related to Alstom projects implemented in Lithuanian Power Plant and Kaunas HPP. LEG provided information to the Lithuanian Special Investigation Services which it believes to have been requested in connection with these searches (although the Lithuanian Special Investigation Services never confirmed the rationale for such information requests).

No searches were conducted in the premises of the Issuer or the Group's subsidiaries and, to the Group's knowledge, no homes of current employees were searched. The investigation is ongoing. To the knowledge of the Group no member of the Group or current employee is the subject of this investigation and no charges have been brought against the Group, its subsidiaries or current employees.

The Group does not anticipate that such investigations will have a material impact on the Group.

Recent Developments

On 15 May 2017, the Group published its Interim Financial Statements. See “*Overview of Financial Information*” and F-4 to F-16 included in this Base Prospectus.

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of the Group's material other indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the financial statements. Please also see Note 19 of the 2016 Financial Statements and Note 19 of the 2015 Financial Statements, which are set out in this Base Prospectus on pages F-68 and F-136 respectively.

The Group's Indebtedness

The Group's indebtedness mainly consists of borrowings from financial institutions. The Group maintains a flexible funding strategy and monitors domestic and foreign financial market conditions as part of its financing activities.

The Issuer and its subsidiaries have signed a variety of loan facilities. These facilities have been used for general corporate purposes, but have also been used as funding for particular projects such as financing for the acquisition of wind power plants in Lithuania and Estonia. As of 31 December 2016 and 31 December 2015, borrowings from financial institutions amounted to EUR 494 million and EUR 420 million, respectively.

Short-Term Indebtedness

The Issuer and its subsidiaries short-term debt position is as set forth in the table below:

	As of 31 December	
	2016	2015
	<i>(EUR in thousands)</i>	
Current borrowings	38,948	1,490
Letters of credit	—	206
Bank overdrafts	—	41,531
Accrued interest	5	5
Total current borrowings	38,953	43,232

Total short-term debt (without current portion of long-term debt) as of 31 December 2016 was EUR 38,953 thousand, representing 7.9 per cent. of the Group's total borrowings from financial institutions as of 31 December 2016.

Long-Term Indebtedness

The Issuer and its subsidiaries' long-term debt position is set forth in the table below:

	As of 31 December	
	2016	2015
	<i>(EUR in thousands)</i>	
Long-term bank loans	454,965	376,828
of which current portion	90,008	99,023

Total long-term debt as of 31 December 2016 was EUR 454,965 thousand, representing 92.1 per cent. of the total amount of the Group's total borrowings from financial institutions as of 31 December 2016. Long-term borrowings from financial institutions comprised all of the long-term debt as of 31 December 2016.

Neither the Issuer nor any of its subsidiaries has issued domestic, or international bonds prior to the establishment of this Programme.

As of 31 December 2016, all the Group's long-term debt has floating rates of interest which can expose the Group to interest rate risk. The floating rates are based mainly on EURIBOR or EONIA. For information regarding the repayment schedule of the Issuer and its subsidiary's long-term debt and interest rates for short and long-term debt, please see Note 6 from the Interim Financial Statements, Note 19 from the 2016 Financial Statements and Note 19 from the 2015 Financial Statements.

The Group has entered into interest rate swaps and other derivative contracts to manage risk associated with fluctuations in interest rates. For information with respect to derivative financial instruments and hedging, please see Notes 3 and 26 from the 2016 Financial Statements and Notes 3 and 26 from the 2015 Financial Statements.

Indebtedness at subsidiary level

As at 31 December 2016, the current and non-current borrowings of the Issuer's subsidiaries amounted to EUR 429 million, or 17.7 per cent. of the Group's total assets. This accounts for 86.8 per cent. of the Group's total borrowings, which amounted to EUR 494 million, see "Risk Factors—Certain of the Group's loans have been

advanced to subsidiaries of the Issuer, which means that the Noteholders may be effectively subordinated to other creditors of the Group". In June 2017, the Board of Directors of the Issuer agreed in principle to transfer ESO's current and non-current borrowings to the Issuer during 2017, subject to relevant lender approvals. The Group plans to transfer LEG's current and non-current borrowings to the Issuer in the short to medium term, although no agreement has been reached on this.

MANAGEMENT

General Overview

The Issuer has a two-tier board system consisting of a Board of Directors and a Supervisory Council. Its Board of Directors represents it in all matters and is responsible for its management, while its Supervisory Council is the body that oversees its Board of Directors. The Board of Directors manages the Issuer's day-to-day operations.

The Supervisory Council is a collegial supervisory body provided for in the Issuer's Articles of Association. The Supervisory Council functions at the Group level. Where appropriate, it addresses the issues related not only to the activities of the Issuer, but also to the activities of its subsidiaries or the activities of their respective management and supervisory bodies. For the purposes of effective fulfilment of its functions and obligations, the Supervisory Council forms three committees: the Risk Management Supervision Committee, the Audit Committee, and the Appointment and Remuneration Committee.

The Board of Directors consists of the employees of the Issuer and is a collegial management body provided for in the Issuer's Articles of Association. The Board of Directors manages its operations and acts on its behalf. The powers and responsibilities of the Board of Directors are set forth in detail in the Issuer's Articles of Association. For information on the availability of the Issuer's Articles of Association, please see "*General Information—Documents Available*".

Supervisory Council

As of the date of this Base Prospectus and in accordance with the Issuer's Articles of Association, the Supervisory Council comprises six members, with one member nominated by each of the Ministry of Finance, the Ministry of Economy and the Office of the Government of the Republic of Lithuania, and three members being independent members. Additionally, the Chairman of the Supervisory Council is independent and, in the case of equality of votes, has the deciding vote. Accordingly, the Republic cannot make unilateral decisions on the Supervisory Council. All members of the Supervisory Council are elected by the General Meeting of the shareholders for a term of four years, which is due to expire in July 2017. The re-election of the Supervisory Council is expected to take place on or about 16 July 2017. The Issuer expects that, following this re-election process, the Republic will maintain two members on the Issuer's Supervisory Council (nominated by the Ministry of Finance). The Shareholder has recently confirmed to the Issuer on 22 June 2017 that it will ensure that the best principles of corporate governance (including the corporate governance principles of the Organisation for Economic Co-operation and Development and the Nasdaq Vilnius Stock Exchange which the Issuer adheres to) will be followed in the formation of the new Supervisory Council to be elected on or about 16 July 2017 to ensure the continuity of the Group's strategy, its results of operations and its management structure and transparency. Accordingly, the Issuer does not expect this re-election to have a material impact on the Group's business. The Chairman of the Supervisory Council is elected from the members of the Supervisory Council. This model of formation of the Supervisory Council complies with the principles of corporate governance (see "*—Corporate Governance*").

The Supervisory Council's powers include, among other powers, the power to:

- elect and remove members of the Board of Directors. The next re-election of the members of the Board of Directors is expected to take place on or about 22 July 2017. The Issuer does not expect this re-election to have a material impact on the Group's business;
- supervise the activities of the Board of Directors and the Chief Executive Officer;
- provide comments to the General Meeting of the Issuer's shareholders on the Issuer's strategy, financial statements, appropriation of profit or loss, and the annual report; and
- provide the opinion to the Board of Directors regarding the election of individuals to the management or supervisory bodies of the Issuer's subsidiaries.

Generally, the Supervisory Council makes decisions by a simple majority of all its members. Under the Issuer's Articles of Association, the Supervisory Council makes decisions by a majority of two thirds of its members in certain circumstances, such as decisions to adopt procedural rules of the supervision of Directors. The quorum for a meeting of the Supervisory Council is a simple majority of its members. Each Supervisory Council member has one vote. When necessary in matters of urgency, a decision may be made by the Supervisory Council without holding a meeting. At its discretion, the Supervisory Council may invite members of the other governing bodies, employees, or other persons to its meetings.

In accordance with the Issuer's Articles of Association, the Supervisory Council meets once a month. In 2016, there were 12 regular and 2 extraordinary meetings. The Board of Directors and the Chairman of the Board of Directors regularly attend the meetings.

None of the members of the Supervisory Council has any ownership interest in the capital of the Issuer or the Group.

The business address of each member of the Supervisory Council of the Group is „Lietuvos energija”, UAB, Žvejų g. 14, LT-09310, Vilnius, the Republic of Lithuania. As of the date of this Base Prospectus, the below mentioned members of the Supervisory Council of the Group do not have potential conflicts of interest between any duties to the Group and their private interests or other duties.

Set out below are the members of the Supervisory Council as of the date of this Base Prospectus:

<u>Name</u>	<u>Born</u>	<u>Position</u>	<u>Date of appointment</u>
Šarūnas Kliokys	1959	Chairman and Independent Member of the Supervisory Council	19/07/2013
Antanas Danys	1975	Independent Member of the Supervisory Council	19/07/2013
Dr. Virginijus Lapeška	1955	Independent Member of the Supervisory Council	19/07/2013
Tomas Garasimavičius	1978	Member of the Supervisory Council	19/07/2013
Rasa Noreikienė	1959	Member of the Supervisory Council	19/07/2013
Agnė Bagočiūtė	1977	Member of the Supervisory Council	02/05/2016

Šarūnas Kliokys. Mr. Kliokys is the Chairman of the Supervisory Council and an independent member. He is Chairman of the boards of Ekonovus UAB, Avestis UAB; and Kilimai AB, as well as a member of the boards of the state enterprise Centre of Registers, and the association EUROCHAMBERS and President of the Lithuanian Chamber of Commerce, Industry and Crafts. Mr Kliokys obtained his diploma in Economics at Vilnius University and a Master’s degree in Business Administration (EMBA) at Vytautas Magnus University.

Antanas Danys. Mr. Danys is an independent member of the Supervisory Council. He is also the Chairman of the Risk Management Supervision Committee. He is a director of Grinvest PTE LTD and Asian Pacific Green Energy Pte. Ltd. He is Development Director of Kaštonų Kalva UAB. He is chairman of the Board of Directors of Neo Finance UAB and a members of the boards of Lanestead OU and Balaef OU. Mr. Danys obtained his Bachelor’s degree at Boston College, followed by a Master’s degree in Business Administration (MBA) from Vilnius University.

Dr. Virginijus Lapeška. Dr. Lapeška is an independent member of the Supervisory Council. He is also Chairman of the Appointment and Remuneration Committee. He is a consultant and chairman of the board of Organizacijų Vystymo Centras UAB and a consultant at OVC Mokymai UAB. He is an adviser to the chairman of the board of Vilandra UAB and to the General Manager of AL Holdingas UAB. He is a member of the board of the Association Mentor Lietuva and of the public institution Paramos Vaikams Centras. He is also a member of the Commission for the Selection of Candidates for Judges. Dr. Lapeška obtained his doctoral degree in Social Sciences from Vilnius University.

Tomas Garasimavičius. Mr. Garasimavičius is a member of the Supervisory Council, having been appointed by the Office of the Government of the Republic of Lithuania. He is also a member of the Risk Management Supervision Committee and the Appointment and Remuneration Committee. Mr. Garasimavičius is an advisor to the Prime Minister of Lithuania on energy matters. He obtained his Bachelor’s degree in Political Science from Vilnius University before going on to complete Masters’ degrees in Political Science from Vilnius University and Creighton University.

Rasa Noreikienė. Ms. Noreikienė is a member of the Supervisory Council, having been appointed by the Ministry of Economy of the Republic of Lithuania. She is also Chair of the Audit Committee. Ms. Noreikienė was Deputy Minister at the Ministry of Economy. She qualified as a lawyer at Vilnius University before going on to obtain a Master’s degree in Public Administration from Kaunas University of Technology.

Agnė Bagočiūtė. Ms. Bagočiūtė is a member of the Supervisory Council, having been appointed by the Ministry of Finance of the Republic of Lithuania. She also a member of the Appointment and Remuneration Committee. Ms. Bagočiūtė was Deputy Minister at the Ministry of Finance until December, 2016. She currently holds the position of Senior Adviser to the Ministry of Finance. She obtained her Bachelor’s degree in Public Geography at Vilnius University before obtaining a Master’s degree in General Geography and Landscape Science.

Committees of the Supervisory Council

The Supervisory Council has formed three committees:

- (i) the Risk Management Supervision Committee;
- (ii) the Audit Committee; and
- (iii) the Appointment and Remuneration Committee.

Where appropriate, the Issuer may also form other ad hoc committees (e.g. to address specific issues, or to prepare, supervise or coordinate strategic projects, etc.). The committees of the Supervisory Council provide their conclusions, opinions and proposals to the Supervisory Council within their competence. A committee consists of at least three members, of whom at least one member is a member of the Supervisory Council and at least one member is an independent member. None of the members of any of the committees of the Supervisory Council have any shares in the Issuer or any company in the Group.

Risk Management Supervision Committee

The Risk Management Supervision Committee is responsible for the submission of conclusions or proposals to the Supervisory Council on the functioning of management and control system in the Group and the main risk factors and implementation of risk management or prevention measures. Its main functions are:

- (a) to monitor the identification, assessment and management of risks relevant for the accomplishment of goals of the Issuer and the Group companies;
- (b) to assess the relevance of internal control procedures and risk management measures with respect to the identified risks;
- (c) to assess the status of implementation of risk management measures;
- (d) to monitor the implementation of risk management process;
- (e) to analyse financial possibilities for the implementation of risk management measures;
- (f) to assess the risks and risk management plan of the Issuer and the Group companies;
- (g) to assess the regular risk identification and assessment cycle;
- (h) to control the establishment of risk registers, analyse their data and provide proposals;
- (i) to monitor the drafting of risk management related internal documents; and
- (j) to perform other functions attributed to the competence of the Committee by the Supervisory Council.

Set out below are the members of the Risk Management Supervision Committee as at the date of this Base Prospectus:

<u>Name</u>	<u>Position</u>	<u>Outside role</u>
Antanas Danys	Chairman of the Committee, independent member	Director of Grinvest PTE.LTD
Raimundas Petrauskas	Independent member of the Committee	General Manager of Schmitz Cargobull Baltic UAB
Donatas Kaubrys	Independent member of the Committee	Director of Dovirma UAB
Tomas Garasimavičius	Member of the Committee	Adviser to the Prime Minister of Lithuania for Energy

Audit Committee

The Audit Committee is responsible for the submission of the objective and impartial conclusions or proposals to the Supervisory Council on the functioning of the audit and control system in the Group. Its main functions are:

- (a) to monitor the process of preparation of financial statements of the Issuer and the Group companies, with a special focus on the relevance and consistency of accounting methods used;
- (b) to monitor the effectiveness of internal controls and risk management systems of the Issuer and the Group companies, to analyse the need for and relevance of these systems and perform the review of the existing internal control management systems;
- (c) to monitor the adherence to the principles of independence and objectivity by the certified auditor and audit firm, to provide related recommendations, as well as proposals for the selection of an audit company;
- (d) to monitor the audit performance processes of the Issuer and the Group companies, to examine the effectiveness of audit and response of the administration to the recommendations provided in the management letter;
- (e) to monitor the effectiveness of the internal audit function of the Issuer and the Group companies, to analyse the need for and relevance of this function, to provide recommendations on the need for, effectiveness of the internal audit function, and on other internal audit related matters;
- (f) to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Issuer and the Group companies, appointment and dismissal of the head of a structural unit performing the functions of the internal audit, approval of his (her) job description, imposition of incentives and penalties;
- (g) to monitor the compliance of activities of the Issuer and the Group companies with laws and other legal acts of the Republic of Lithuania, relevant Articles of Association and operational strategy;
- (h) to assess and analyse other issues attributed to the competence of the Committee by the decision of the Supervisory Council; and

- (i) to perform other roles related to the functions of the Committee set forth by legal acts of the Republic of Lithuania and in the Corporate Governance Code of companies listed on the Nasdaq Vilnius Stock Exchange.

Set out below are the members of the Audit Committee as at the date of this Base Prospectus:

<u>Name</u>	<u>Position</u>	<u>Outside role</u>
Rasa Noreikienė	Chair of the Committee and independent member of the Committee	Ministry of Economy of the Republic of Lithuania, former Vice-Minister
Danielius Merkinas	Independent member of the Committee	Finance Director of Nordnet UAB
Aušra Vičkačkienė	Member of the Committee	Ministry of Finance of the Republic of Lithuania, Director of the Asset Management Department
Gintaras Adžgauskas	Member of the Committee	Director of the Lithuanian Committee of the World Energy Council
Irena Petruškevičienė	Independent member of the Committee	Member of Audit Development Committee of the European Commission

Appointment and Remuneration Committee

The Appointment and Remuneration Committee is responsible for the submission of conclusions or proposals on the matters of appointment, removal or promotion of the Board Members to the Supervisory Council, also for the assessment of activities of the Board of Directors and its members and for issuing the respective opinions. The functions of the committee also cover the formation of the common remuneration policy at the Group level, establishment of the amount and composition of remuneration, principles of promotion, etc. Its main functions are:

- to assess and provide proposals on the long-term remuneration policy of the Issuer and Group companies (the main fixed part of the remuneration, performance based remuneration, pension insurance, other guarantees and forms of remuneration, compensation, termination benefits and other parts of the remuneration package), principles of compensation for costs related to the individual's performance;
- to assess and provide proposals on the policy of bonuses to employees of the Issuer and the Group companies;
- to monitor the compliance of the policy of remuneration and bonuses to employees of the Issuer and the Group companies with the international practice and good governance practice recommendations, and provide respective proposals for the improvement of the policy of remunerations and bonuses;
- to provide proposals concerning bonuses upon appropriation of profit (losses) to be appropriated of the Issuer and the Group companies in the respective financial year;
- to assess the terms and conditions of agreements of the Issuer and the Group companies with members of the management bodies of the Issuer and the Group companies;
- to assess the procedures of recruitment and selection of candidates to members of the boards and senior management of the Issuer and the Group companies and establishment of the qualification requirements;
- to perform regular reviews of the structure, size, composition and activities of the management and supervisory bodies of the Issuer and the Group companies;
- to supervise how members of management bodies and employees of the Issuer and Group companies are notified of the professional development possibilities and how to upgrade their skills regularly;
- to supervise and assess the implementation of measures ensuring the continuity of operations of the management bodies and employees of the Issuer and the Group companies; and
- to perform other functions attributed to the competence of the Committee by the Supervisory Council.

Set out below are the members of the Appointment and Remuneration Committee as at the date of this Base Prospectus:

<u>Name</u>	<u>Position</u>	<u>Outside role</u>
Virginijus Lepeška	Chairman and independent member of the Committee	Chairman of the Board of Directors of Organizacijų Vystymo Centras UAB
Tomas Garasimavičius	Member of the Committee	Advisor to the Prime Minister of Lithuania for Energy
Agnė Bagočiūtė	Member of the Committee	Ministry of Finance of the Republic of Lithuania, Chief Advisor

Board of Directors

The members of the Board of Directors are elected for a term of four years and removed by the Supervisory Council on the proposal of the Appointment and Remuneration Committee. The Board of Directors consists of five members and elects the Chairman of the Board of Directors—the Chief Executive Officer of the Issuer—from among its members. The members of the Board of Directors, acting within their competence, must ensure the proper performance of the Issuer’s activities/supervision of the respective areas at the Group level.

The Board of Directors makes decisions by a simple majority of the votes of all its members. A quorum is present when at least 4 members of the Board of Directors is present at a meeting. Each member of the Board of Directors has one vote. When necessary in matters of urgency, a decision may be made by the Board of Directors without holding a meeting. The Board of Directors has discretion to invite to its meetings members of the other governing bodies, employees, or other persons.

In accordance with the Issuer’s Articles of Association, certain decisions of the Board of Directors require the prior consent of the Supervisory Council before they can be implemented, and the Board of Directors is required to submit such decisions to the Supervisory Council for discussion and request its opinion.

The Issuer’s Articles of Association provide that the Board of Directors shall comprise five members. The Board of Directors is obliged to meet at least once a fortnight. In practice, however, meetings are held almost weekly and a total of 68 meetings took place in 2016.

None of the members of the Board of Directors has any ownership interest in the capital of the Issuer or the Group.

The business address of each member of the Board of Directors of the Group is „Lietuvos energija”, UAB, Žvejų g. 14, LT-09310, Vilnius, the Republic of Lithuania. As of the date of this Base Prospectus, the below mentioned members of the Board of Directors of the Group do not have potential conflicts of interest between any duties to the Group and their private interests or other duties.

Set out below are members of the Board of Directors as of the date of this Base Prospectus:

Name	Born	Position	Date of appointment
Dr. Dalius Misiūnas	1978	Chairman of the Board of Directors and Chief Executive Officer	22/07/2013
Iłona Daugėłaitė	1970	Member of the Board of Directors and Organisational Development Director	22/07/2013
Darius Kašauskas	1972	Member of the Board of Directors and Finance and Treasury Director	22/07/2013
Mindaugas Keizeris	1980	Member of the Board of Directors and Strategy and Development Director	22/07/2013
Dominykas Tučkus	1981	Member of the Board of Directors and Production and Services Director	02/01/2016

Dr. Dalius Misiūnas. Dr. Misiūnas is the Chairman of the Board of Directors and the Chief Executive Officer. He is also Chairman of the Supervisory Council of Energijos Skirstymo Operatorius AB, a member of the Board of Directors of the Association Eurelectric, President of the Lithuanian Power Association, President of the Alumni Association of Kaunas University of Technology, a member of the Board of Directors of the Sponsorship Fund of the Issuer and a member of the Council of the Lithuanian Confederation of Industrialists. He received his Bachelor’s degree in Electrical Engineering from Kaunas University of Technology before attending Lund University where he obtained a Master’s degree in Industrial Electrical Engineering and Automatics and a doctoral degree in Technological Sciences.

Iłona Daugėłaitė. Ms. Daugėłaitė is a member of the Board of Directors and the Organisational Development Director. She is also a member of the Supervisory Council of Energijos Skirstymo Operatorius AB and Elektroninių Mokėjimų Agentūra UAB and Chair of the Boards of Directors of Technologijų ir Inovacijų Centras UAB, Duomenų Logistikos Centras UAB and VAC. She holds a Master’s degree in Hydrogeology and Engineering Geology from Vilnius University.

Darius Kašauskas. Mr. Kašauskas is a member of the Board of Directors and the Finance and Treasury Director. He is Chairman of the Boards of Directors of NTV and Duomenų Logistikos Centras UAB, and also a member of the Board at Elektroninių Mokėjimų Agentūra UAB. Following his Master’s degree in Economics from Vilnius University, he obtained a further Master’s degree in Management from ISM University of Management and Economics, and has undertaken doctoral studies in the field of economics at the same university.

Mindaugas Keizeris. Mr. Keizeris is a member of the Board of Directors and the Strategy and Development Director. He is Chairman of the Supervisory Council of LEG and Chairman of the Boards of Directors of EnePRO

and Vilniaus Kogeneracinė Jėgainė UAB. He is also a member of the Board of Directors of the Sponsorship Fund of the Issuer. Mr Keizeris obtained his Bachelor's degree in Business Administration and Management and his Master's degree in International Business at Vilnius University.

Dominykas Tučkus. Mr. Tučkus is a member of the Board of Directors and the Production and Services Director. He is also the Chairman of the Board of Directors of LITGAS, a member of the Supervisory Councils of LEG and Elektroninių Mokėjimų Agentūra UAB and a member of the Boards of Directors of LDT, Energijos Tiekimas, HOB OU, Tuuleenergia OU and EURAKRAS UAB. He obtained his degree in Business Management and Administration and his Master's degree at L. Bocconi University in Italy.

Chief Executive Officer and Division Heads

At the executive employees' level, the Group is managed by the Chief Executive Officer and the Division Heads. The business address of the Chief Executive Officer and Division Heads is Žvejų g. 14, LT-09310, Vilnius, Lithuania.

Neither the Chief Executive nor any of the Division Heads has any ownership interest in the capital of the Issuer or the Group.

The business address of each member of the Chief Executive and Division Heads of the Group is „Lietuvos energija”, UAB, Žvejų g. 14, LT-09310, Vilnius, the Republic of Lithuania. As of the date of this Base Prospectus, the below mentioned Chief Executive and Division Heads of the Group do not have any potential conflicts of interest between any duties to the Group and their private interests or other duties.

Set out below are the Division Heads as of the date of this Base Prospectus:

Name	Born	Position	Date of appointment
Dr. Dalius Misiūnas	1978	Chief Executive Officer	22/07/2013
Ilona Daugėlaitė	1970	Organisational Development Director	22/07/2013
Darius Kašauskas	1972	Finance and Treasury Director	22/07/2013
Mindaugas Keizeris	1980	Strategy and Development Director	22/07/2013
Dominykas Tučkus	1981	Production and Services Director	22/07/2013

Dr. Dalius Misiūnas. Dr. Misiūnas is the Chief Executive Officer. For more information on Dr. Misiūnas, please see “—Board of Directors”.

Ilona Daugėlaitė. Ms. Daugėlaitė is the Organisational Development Director. For more information on Ms. Daugėlaitė, please see “—Board of Directors”.

Darius Kašauskas. Mr. Kašauskas is the Finance and Treasury Director. For more information on Mr. Kašauskas, please see “—Board of Directors”.

Mindaugas Keizeris. Mr. Keizeris is the Strategy and Development Director. For more information on Mr. Keizeris, please see “—Board of Directors”.

Dominykas Tučkus. Mr. Tučkus is the Production and Services Director. For more information on Mr. Tučkus, please see “—Board of Directors”.

Corporate Governance

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

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

The Governance Coordination Centre recognised the Group as the best managed State capital entity in 2015, 2014 in 2013. High scores were given for transparency and management.

RELATED PARTY TRANSACTIONS

The relationships between the Group and its related parties, identified according to the principles of International Accounting Standard 24 (“**IAS 24**”), primarily consist of business transactions relating to the sale and purchase of products, goods and services. They fall within the activities carried out by the Group in the ordinary course of its business. Please see Note 10 of the Interim Financial Statements, Note 37 of the 2016 Financial Statements and Note 37 of the 2015 Financial Statements for information on the Group’s related party transactions conducted in such respective periods.

The Group’s transactions with its related parties are regulated by Lithuanian Law on Companies, Articles of Association and transfer pricing documents, which provides for comprehensive regulation of rules concerning related party transactions and conflicts of interest between a company and members of its Board of Directors or Supervisory Council (and persons close to such members).

As the sole shareholder of the Issuer is the Republic of Lithuania represented by the Lithuanian Ministry of Finance, the Group’s related party transactions are transactions with the Republic of Lithuania, associates and all entities controlled by or under significant influence of the Republic of Lithuania, and key management and their close family members.

In the Issuer’s opinion, all agreements with related parties are conducted on an arm’s length basis and the Issuer believes that all of the transactions between the Group and related parties have taken place at market prices.

REGULATION

Below is a brief summary of the rules and regulations applicable to the Group in the Republic of Lithuania as the Group's principal market. Since Lithuania's accession to the E.U. on 1 May 2004, certain rules and regulations of the E.U. have been adopted and, therefore, a description of the E.U. Legislation as applicable to the Group is also included. The following summary does not purport to be complete and is subject to the regulations of the jurisdictions referred to below.

E.U. Legislation

History of Energy Regulation

As a member of the E.U. (a "**Member State**"), the Republic of Lithuania is required to adhere to E.U. energy legislation which has developed in order to establish a competitive, secure and environmentally sustainable energy market in Europe.

The E.U. Commission (the "**Commission**") began regulating the E.U. energy market by enacting the "First Energy Package" which was comprised of Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity (the "**E.U. First Electricity Directive**") and Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas (the "**E.U. First Gas Directive**"). The E.U. First Electricity Directive and the E.U. First Gas Directive were designed to provide non-active suppliers with access to the internal electricity and gas markets of E.U. Member States and to allow for better competition in these markets. In June 2003, the E.U. Energy Council repealed the E.U. First Electricity Directive and the E.U. First Gas Directive by adopting the "Second Energy Package" comprising of Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity and repealing Directive 96/92/EC (the "**E.U. Second Electricity Directive**") and Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas and repealing Directive 96/92/EC (the "**E.U. Second Gas Directive**").

The E.U. Second Electricity Directive required each E.U. Member State to allow for full competition within its internal commercial and residential electricity markets by 1 July 2004 and 1 July 2007, respectively. The E.U. Second Electricity Directive also set forth general rules for the organisation of the E.U. electricity market, such as the option for Member States to impose certain public service obligations, customer protection measures and provisions for monitoring the security of electricity supply in the E.U.; the establishment of a regulatory body, independent from any interests of the electricity and gas industries, which would be required to ensure non-discriminatory network access, monitor the level of competition and ensuring the efficient functioning of the electricity generation, distribution, and trade market; and the implementation of so-called "legal unbundling" meaning that each transmission and distribution system operator had to be separated, at least in terms of legal form, organisation and decision-making, from other activities in the energy sector not relating to transmission or distribution.

The E.U. Second Electricity Directive further focused on enhancing customer rights by granting household customers the right to be supplied with electricity of a specified quality at reasonable and transparent prices that are easy to compare. Moreover, it required electricity suppliers to provide their end-users with information on the energy sources and kinds of fuel used in the production of supplied electricity and on the environmental impact of the supplier's activities, including the amount of carbon dioxide and radioactive waste produced.

Similar to the E.U. Second Electricity Directive, the E.U. Second Gas Directive, adopted on 26 June 2003, required each Member State to allow for full competition within its internal commercial and residential gas markets by 1 July 2004 and 1 July 2007, respectively. With regard to the establishment of an independent regulatory authority and the process of legal unbundling, the E.U. Second Gas Directive sets forth similar rules as the E.U. Second Electricity Directive.

Current E.U. Energy Regulation

E.U. Energy and Climate Change Legislation

The Commission published its paper entitled "An Energy Policy for the European Union" in December 1995 with a primary focus on market integration. In 2006, this was followed by a green paper on "A European Strategy for Sustainable, Competitive and Secure Energy". This was revised in two communication "packages" in 2007 and 2008. In March 2007, the European Council adopted an Action Plan and the Commission started to propose legislation from September 2007.

In 2007, the Commission published a proposal for the establishment of a new energy policy and a strategy for achieving a more integrated and competitive energy market within the E.U. designed to ensure a stable energy

supply and combat climate change, such “E.U. Energy and Climate Change Legislation” set certain targets (known as the 20-20-20 goal), including:

- further liberalisation of electricity markets;
- a reduction of at least 20 per cent. in greenhouse gas emissions by 2020;
- for renewable energies to make up a 20 per cent. share of E.U. energy consumption by 2020; and
- 20 per cent. energy savings by 2020 compared to 2020 projections (1853 million tonnes of oil equivalent) made in 2007.

Subsequently, in 2009 the E.U. adopted the E.U. Energy and Climate Change Legislation “Third Energy Package” which includes (besides the climate change related legislation described below), but is not limited to, Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity and repealing Directive 2003/54/EC (the “**E.U. Third Electricity Directive**”), Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas and repealing Directive 2003/55/EC (the “**E.U. Third Gas Directive**”), Regulation (EC) No. 713/2009 Establishing an Agency for the Cooperation of Energy Regulators, Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-border Exchanges in Electricity and repealing Regulation (EC) No 1228/2003 (the “**E.U. Regulation on Cross-Border Exchanges**”) and Regulation (EC) No. 715/2009 on Conditions for Access to the Natural Gas Transmission Networks repealing Regulation (EC) No 1775/2005 (the “**E.U. Natural Gas Transmission Regulation**”). These directives and regulations were collectively designed to complete the liberalisation of the electricity and gas markets within the E.U. In particular, such energy legislation contemplates the further separation of supply and production activities from transmission network operations. To achieve this goal, Member States are able to choose, subject to the respective conditions set forth in the E.U. Third Electricity Directive and the E.U. Third Gas Directive, between the following three options:

- Full ownership unbundling: This option entails vertically integrated undertakings selling their gas and electricity grids to an independent operator, which will carry out all network operations. This option applies to new undertakings;
- Independent System Operator (the “**ISO**”): Under this option, vertically integrated undertakings maintain the ownership of the gas and electricity grids, but they are obliged to designate an independent operator for the management of all network operations. This option may apply to existing undertakings; and
- Independent Transmission Operator (the “**ITO**”). This option is a modification of the ISO option whereby vertically integrated undertakings do not have to designate an ISO, but need to abide by strict rules ensuring separation between supply and transmission. This option may apply to existing undertakings.

Lithuania has chosen to implement the full ownership unbundling model in the electricity and gas sectors with regards to TSOs. Distribution system operators remain under the same shareholders. The provisions of the Third Energy Package were transposed into the Law on Electricity of the Republic of Lithuania, the Law on Natural Gas of the Republic of Lithuania and the Law on LNG Terminal of the Republic of Lithuania in 2011-2012.

The E.U. energy legislation, as aforesaid, also enhanced consumers’ rights by establishing the right for consumers to (i) change electricity or gas supplier (the process of switching must be completed within three weeks), and receive the final closure statement at the latest six weeks after the switch; (ii) obtain compensation if quality targets are not met; (iii) receive information on supply terms through bills and company websites; and (iv) see complaints dealt with in an efficient and independent manner.

Finally, the E.U. Energy and Climate Change Legislation provides for the creation of an agency within the E.U. for the coordination of national energy regulators, which will issue non-binding framework guidelines for national agencies. This task was assigned to the Agency for the Cooperation of Energy Regulators. It is expected that this will result in a more harmonised energy regulation environment across the E.U.

2030 E.U. Framework for Climate and Energy Policy

In October 2014, the E.U. Energy Council enacted new targets and the architecture for the E.U. framework for climate and energy in the period from 2020 to 2030. The new targets are:

- a reduction of at least 40 per cent. in greenhouse gas emissions by 2030, compared to 1990 levels (the total greenhouse gas emissions cap will be reduced by 2.2 per cent. each year from 2021, compared with the 1.74 per cent. annual reduction in the period from 2013 to 2020);
- 27 per cent. of E.U. energy consumption by 2030 (resulting in renewable energy sources being used in the generation up to 47 per cent. of electricity consumed in the E.U.);

- to increase in E.U. wide energy efficiency by 27 per cent. (this target is still indicative); and
- to achieve 10 per cent. electricity interconnection by 2020.

In July 2015, the Commission proposed to revise the E.U. Emission Trading Scheme (the “**E.U. ETS**”) from 2020. An Innovation Fund and Modernisation Fund will be established to help the power sector meet the innovation and investment challenges of the transition to a low-carbon economy. Free allowances will continue to be available to modernise the power sector in lower-income Member States. In addition, the legislative proposal on a market stability reserve was approved in October 2015. The placing of allowances in the reserve will operate from 1 January 2019.

Cross-Border Trading of Electricity

Besides focusing on the liberalisation of the internal energy markets in every Member State, E.U. energy regulation is also designed to improve the cross-border trade of electricity. Accordingly, the E.U. has also implemented Regulation (EC) No. 1228/2003 (“**Regulation (EC) No. 1228/2003**”) on Conditions for Access to the Network for Cross-border Exchanges in Electricity. This Regulation required the establishment of a committee of national experts chaired by the Commission to adopt the guidelines on (i) inter-transmission system operator compensation for electricity transit flows; (ii) the harmonisation of national transmission charges; and (iii) network congestion management. Regulation (EC) No. 1228/2003 established a fund mechanism to cover the costs resulting from cross-border trades, whereby the TSOs contribute to a fund according to their net physical import and export flows. The distribution of the accumulated funds then depends on the transit volume.

Although Regulation (EC) No. 1228/2003 was partially successful, the Commission adopted a subsequent Regulation on Cross-Border Exchanges. The E.U. Regulation on Cross-Border Exchanges repealed Regulation (EC) No. 1228/2003 and established the rules designed to alleviate cross-border exchange difficulties, with a view to improving competition and harmonisation in the internal E.U. electricity market.

The E.U. Regulation on Cross-Border Exchanges created the European Network of Transmission System Operators (“**ENTSO-E**”), which comprises the designated TSO from all Member States, which have a duty to put in place the information exchange mechanisms in order to ensure the security of networks in the context of congestion management.

The costs related to the activities of ENTSO-E are borne by the TSOs which host cross-border flows of electricity on their networks. In return, they receive compensation from the TSOs from which cross-border flows originate. Charges for access to networks are applied by operators as well.

Legislative proposals to implement the new market design were planned for 2016. On 23 February 2017 the Commission adopted the Proposal for a Regulation of the European Parliament and of the Council on the Internal Market for Electricity. The key objectives of the legislation were to better link wholesale and retail markets, strengthen regional cooperation, increase cross-border trade, and develop short-term and long-term markets to send positive signals in relation to investments for modern technologies to both producers and consumers of electricity.

Energy Infrastructure

Gas Infrastructure Legislation

In November 2005, the Commission adopted Regulation (EC) No. 1775/2005 (“**Regulation (EC) No. 1775/2005**”) on Conditions for Access to the Natural Gas Transmission Networks, which covered access to all transmission networks in the E.U. and addressed a number of issues such as: access charges (which reflect the actual costs incurred), third party access services, capacity allocation mechanisms, congestion management, balancing and imbalance charges, secondary markets and information and confidentiality provisions. Regulation (EC) No. 1775/2005 established a committee of national energy experts with the authority to revise the rules annexed to the Regulation. In July 2009, it was replaced by the E.U. Natural Gas Transmission Regulation which was adopted as a part of the E.U. Energy and Climate Change Policy.

Development of Legislation

The E.U. Natural Gas Transmission Regulation complements the E.U. Third Gas Directive and stipulates rules for natural gas transmission networks, gas storage and liquefied natural gas facilities. It concerns access to infrastructure (by determining the establishment of tariffs for access to networks), services to be offered, allocation of capacity, transparency and balancing of the network. It provides for access to maximum network capacity as well as storage and liquefied natural gas facilities for all market participants. Infrastructure operators have a duty to implement and publish non-discriminatory and transparent congestion-management procedures.

In the same way that the E.U. Regulation on Electricity Cross-Border Exchanges created ENTSO, it created the European Network of Transmission System Operators for Gas (the “**ENTSO for Gas**”), comprised of gas transmission network operators from all Member States.

On 30 April 2015, in order to further encourage and facilitate efficient gas trading and transmission across gas transmission systems within the E.U., and thereby to move towards greater internal market integration, the Commission issued Regulation (E.U.) 2015/703 Establishing a Network Code on Interoperability and Data Exchange Rules.

Security of Electricity Supply

In 2006, the E.U. adopted Directive 2005/89/EC concerning measures to safeguard security of electricity supply and infrastructure investment (the “**Directive on the Security of Supply**”), which requires that E.U. Member States ensure a high level of security of electricity supply by taking necessary measures to facilitate a stable investment climate. The Directive on the Security of Supply stipulates that the TSOs set minimum operational rules and obligations for network security, which may then require approval by the relevant authority. Member States must also prepare, in close cooperation with the TSOs, a system adequacy report according to the E.U. reporting requirements. Member States were required to transpose the E.U. Directive on the Security of Supply into national law by 24 February 2008. Lithuania transposed this directive into the Law on Energy from 1 January 2009.

By the end of 2016, the Commission had introduced a new regulation on the security of electricity supply, designed to enhance transparency, ensure a common approach and better address cross-border in relation to the security of electricity supply. This instrument is planned to be fully integrated with the redesign of the electricity market as proposed by the Commission on 23 February 2017 in the Proposal for a Regulation of the European Parliament and of the Council on the E.U. internal market for electricity.

Security of Gas Supply

Following the Russian-Ukrainian gas crisis of January 2009, Regulation (EU) No. 994/2010 concerning measures to safeguard the security of gas supply and repealing Council Directive 2004/67/EC (the “**E.U. Gas Supply Directive**”) was adopted in order to strengthen the prevention and crisis response mechanisms.

The E.U. Gas Supply Directive imposed a number of new rules designed to prevent or mitigate potential disruption to gas supplies. These included risk assessment mechanisms, preventive action plans and emergency plans, a duty to ensure gas supplies to households for at least 30 days under severe conditions and enhancing flexibility of the gas infrastructure (including enabling bi-directional physical capacity on cross-border interconnections).

On 16 February 2016, the Commission submitted a proposal to the European Parliament for a Regulation of the European Parliament and of the Council concerning Measures to Safeguard the Security of Gas Supply and Repealing Regulation (E.U.) No 994/2010. This draft regulation proposes stronger regional coordination, with certain principles and standards being set at the E.U. level. The proposed approach is that Member States should cooperate closely within their regions when conducting regional risk assessments. To ensure E.U.-wide consistency, regional risk assessments have to be conducted on the basis of an E.U.-wide simulation, with common standards and a specific scenario. Risks identified through the regional risk assessments will be addressed in regional preventative action plans and emergency plans, to be peer-reviewed and approved by the Commission. To ensure that risk assessments and plans are comprehensive and consistent with one another, the draft regulation sets out mandatory templates listing aspects that must be taken into account when conducting a risk assessment and drawing up the plans. The draft regulation also improves the application of the supply standard to protected customers (mainly households) and the infrastructure standard (the possibility of supplying gas even if the largest infrastructure is not available). Finally, it enables permanent bi-directional capacity and proposes the introduction of additional transparency measures concerning gas supply contracts. It is expected that the regulation could be adopted in the second half of 2017.

Proposed Changes for Energy Infrastructure

In 2011, the Commission launched a proposal for a Regulation on the Guidelines for Trans-European Energy Infrastructure which should ensure completion of strategic energy networks and storage facilities by 2020. The general objective of this initiative is to ensure the sufficient and timely development of energy infrastructures across the E.U. and neighbouring countries in order to facilitate the continuous and unrestricted cross-border flow of energy.

To this end, the Commission has identified 12 priority corridors and areas covering electricity, gas, oil and CO² transport networks. Several of Lithuania’s gas and electricity interconnection projects are included in the Baltic Energy Market Interconnection Plan in gas and the Baltic Energy Market Interconnection Plan in electricity.

In October 2013, on the basis of Regulation (E.U.) No. 347/2013, effective from June 2013, the Commission approved a list of approximately 250 key projects in the field of energy infrastructure – the “Projects of common interest”. These key projects will benefit from a more expedient permit-granting process and better regulatory conditions and access to financial assistance from the Connecting Europe Facility, with the aim of speeding-up the realisation of such projects and increasing their attractiveness to investors.

Renewable Energy Sources

The E.U. made commitments to reduce greenhouse gas emissions under the Kyoto protocol for reducing greenhouse gas emissions (the “**Kyoto Protocol**”). Under the Kyoto Protocol, promotion of electricity from renewable energy sources, meaning electricity produced from non-fossil renewable energy sources such as wind power, solar power, geothermal power, wave power, tidal power, hydroelectric, biomass and biogas became a priority for the E.U. To this end, in 2009 the E.U. institutions adopted Directive 2009/28/EC on the Promotion of the Use of Energy from Renewable Sources (and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC) (the “**E.U. Renewable Energy Directive**”) as a part of the E.U. Energy and Climate Change Legislation.

The E.U. Renewable Energy Directive establishes a target for each the Member State reflecting their different starting points and potential for increasing renewables production based on the contribution of renewable energy to their gross final consumption for 2020. This target is in line with the 20-20-20 goal for the E.U. as a whole.

The Commission is expected to present the proposal for the new E.U. Renewable Energy Directive and the bioenergy sustainability policy for 2030, which is expected to provide a framework for achieving the binding E.U.-level target of at least 27 per cent. renewable energy by 2030.

E.U. Emissions Trading Scheme (“E.U. ETS”)

The E.U. ETS is a cornerstone of the E.U.’s policy to combat climate change and its key tool for reducing industrial greenhouse gas emissions cost-effectively.

The first, and still by far the biggest, international system for trading greenhouse gas emission allowances, the E.U. ETS covers more than 11,000 power stations and industrial plants in 31 countries, as well as airlines. In 2020, emissions from sectors covered by the E.U. ETS are expected to be 21 per cent. lower than in 2005. Under Commission proposals, by 2030, they would be 43 per cent. lower. Launched in 2005, the E.U. ETS is now in its phase III, running from 2013 to 2020. A major revision approved in 2009 in order to strengthen the system means that phase III will be significantly different from phases I and II. It is based on rules that are far more harmonised than those upon which phases I and II were based.

A single E.U. wide cap on emissions applies in place of the previous system of national caps. Auctioning, not free allocation, is now the default method for allocating allowances. For those allowances still given away for free, the harmonised allocation rules apply and are based on the ambitious E.U.-wide benchmarks for emissions performance.

300 million allowances are set aside in the New Entrants Reserve (the “**NER 300**”) to fund the deployment of innovative renewable energy technologies and carbon capture and storage through the NER 300 programme (the largest funding programmes for innovative low-carbon energy demonstration projects.) The system covers emissions of carbon dioxide (“**CO₂**”) from power plants, a wide range of energy-intensive industry sectors and commercial airlines. Nitrous oxide emissions from the production of certain acids and emissions of perfluorocarbons from aluminium production are also included.

Energy Efficiency Directive

On October 25 2012, the E.U. adopted the Directive 2012/27/EU on Energy Efficiency amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (“**Directive 2012/27/EU on Energy Efficiency**”), building on the Energy Efficiency Plan 2011. This Directive establishes a common framework of measures for the promotion of energy efficiency within the E.U. in order to achieve the E.U. target for 20 per cent. increase in energy efficiency and to pave the way for further energy efficiency improvements beyond that date. It lays down rules designed to remove barriers in the energy market and overcome market failures that impede efficiency in the supply and use of energy, and provides for the establishment of indicative national energy efficiency targets for 2020.

The Directive 2012/27/EU on Energy Efficiency was transposed in Lithuania's national legislation in stages by adopting or amending the following legal acts:

- The Energy Resource and Efficient Energy Consumption Monitoring Order approved by the Government decision No. 332 dated 30 March 2016. This decision sets the requirements for the long-term strategy for the renovation of the national building stock;
- The Public Building Energy Efficiency Development Programme adopted by the Government decision No. 1328 dated 26 November 2014. The aim of this programme is to increase energy efficiency in public buildings saving 60 GWh of primary energy by the end of 2020. This programme will also ensure renovation of at least 3 per cent. of the total floor area of the public buildings owned by state or local authorities;
- The Energy Efficiency Requirements for Purchasing Organisations When Purchasing Goods, Services or Buildings approved by the Government Decision No. 621 dated 17 June 2015;
- The Law on Increase of Energy Consumption Efficiency, adopted by the Parliament of the Republic of Lithuania, No. XII-2702 dated 11 November 2016. This law introduces an energy efficiency obligation system and combines it with other alternative measures to achieve the energy saving target by 2020; and
- As well as other legal acts, such as the Law on Energy, the Law on Heat Sector, the Law on Electricity and the Law on Natural Gas.

CO² Emissions

The European Energy Strategy establishes a number of headline targets for climate change and energy sustainability pertaining to the main targets of a 20 per cent. reduction in E.U. greenhouse gas emissions as compared to 1990 levels until 2020, and a 40 per cent. reduction by 2030.

The Lithuanian National Strategy for Climate Change Management Policy sets out the action plan for its implementation and defines measurable indicators for CO² reduction. As indicated above, it estimates the annual reduction of CO² emissions and the total reduction for the year 2020 as short-term climate change mitigation goals and also establishes a target to decrease CO² emissions by 8.53 million tons by 2020 within the sectors participating in the scheme for greenhouse gas emission allowance trading.

Additionally, the Operational Programme for E.U. Structural Funds Investments for 2014-2020 for Lithuania sets goals for the reduction of total annual greenhouse gas emissions, which imposes a target of 400,000 tons of CO² equivalent by 2023.

Transparency of Wholesale Electricity, Gas and Emission Allowances Trading

Wholesale gas and electricity prices are highly sensitive to the variations in production and transmission capabilities. Prices may be influenced by (i) the spread of false information on the availability of these capabilities or (ii) a fall in production. To detect and prevent such electricity and gas wholesale manipulations of markets, the E.U. enacted Regulation (EC) No. 1227/2011 on Wholesale Energy Market Integrity and Transparency (the “**REMIT**”), which, *inter alia*:

- prohibits the use of inside information when buying or selling on the wholesale energy markets;
- prohibits manipulative transactions and the spreading of incorrect information that give false or misleading signals about supply, demand, or prices;
- obliges energy traders to report their transaction data to the Agency for the Cooperation of Energy Regulators (the “**ACER**”). These data include the price, volumes, date and time of transactions, the name of the seller, the name of the buyer, and any other beneficiaries; and
- makes the ACER responsible for the independent monitoring of all wholesale energy trades. If market abuse is suspected, the ACER will request national regulators to investigate. It will also coordinate cross-border investigations.

The E.U. also enacted Regulation (EC) No. 596/2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (the “**MAR**”) to detect and prevent market manipulation and insider dealing on markets with emissions allowances (including public markets and auctions of emission allowances). The MAR introduced the following tools to prevent the aforesaid practices with respect to emission allowances:

- obligation on market participants to publish inside information relating to emissions allowances;
- obligation on market participants to prepare insider lists;

- obligation on market participants to disclose managers' transactions;
- obligation on market operators and investment firms (banks, brokers) to report suspicious transactions with emissions allowances;
- prohibition on the use of inside information when buying or selling emissions allowances at auction or on public markets; and
- Prohibition on manipulative transactions and the spreading of incorrect information that gives false or misleading signals about supply, demand, or prices.

The obligations to publish inside information, prepare insider lists and to disclose managers' transactions will apply solely to market participants emissions allowances above certain aggregate year CO₂ emissions or (ii) rated thermal input thresholds. These thresholds will be set by the Commission.

The Commission has prepared a new energy prices and costs report (published in 2016) providing an overview of the cost of energy, taxes, levies and subsidies. This should contribute to a more informed discussion on different energy price levels in Member States, the different components of energy prices, their influence on the competitiveness of European industry and investment in Europe and in their ability to influence consumer behaviour. As a first step, on 18 November 2015, the Commission presented a proposal for a Regulation of the European Parliament and of the Council on European Statistics on Natural Gas and Electricity Prices and repealing Directive 2008/92/EC a procedure to improve the transparency of gas and electricity prices charged to industrial end-users.

Legislation: the Republic of Lithuania

General Overview

The Lithuanian energy sector is governed by a wide range of laws and regulations which also implement the European legislation described above. The key law focusing solely on the energy sector is the Law on Energy of the Republic of Lithuania ("**the Law on Energy**") which was enacted in 1995 (a new version was enacted in 2002) and contains provisions implementing applicable E.U. legislation. The main provisions of the Law on Energy cover general energy-related activities, the basic principles of energy development and management, the effectiveness of energy and energy resources. The main legislative tools used by the Republic of Lithuania in the regulation of the energy market are as follows:

- the Law on Energy from Renewable Sources of the Republic of Lithuania governs the State management, regulation, supervision, and control of activities in the renewable energy sector, as well as designating the energy network operators, renewable energy producers under state regulation, their supervision, and control of their relationship with the performing institutions;
- the Law on Electricity of the Republic of Lithuania establishes the basic principles governing the management, transmission, organisation, control and supply of electricity, regulation of electricity producers, service providers and consumers, and introduces the provisions for the regulation of the State electricity sector, their supervision and control of institutions of mutual relations of electricity generation, transmission, distribution, supply and consumers' legitimate rights and interests;
- the Law on Energy Market Resources of the Republic of Lithuania establishes the basic principles for the organisation, administration, regulation, supervision and control of the Lithuanian energy resources market, governing the trade in biofuels and natural gas and providing auxiliary protection against fluctuations in the price of energy in public relations;
- the Law on Heat Sector of the Republic of Lithuania regulates the State management of heat, the operator's activities, its relationship with consumer's, networking, and responsibility;
- the Law on Financial Instruments for Climate Change Management establishes the persons engaged in economic activities resulting in greenhouse gas emissions, and the rights, duties and responsibilities of public institutions, the competence of the bodies from which these are comprised, as well as key requirements for the issue, suspension of validity, lifting of suspension and revocation of fluorinated greenhouse gases management certificates;
- the Law on Natural Gas of the Republic of Lithuania establishes the natural gas transmission, distribution, storage, liquefaction and supply-related relationships. This law establishes the rules relating to the organisation and functioning of the natural gas sector, natural gas market access, as well as the transmission, distribution, storage, liquefaction and licensing to supply natural gas, as well as licences to engage in market operator activity. This law also establishes the instruments designed to ensure proper supply of natural gas to ensure the reliability level and develop a common market in the E.U.;

- the Law on Liquefied Natural Gas Terminal of the Republic of Lithuania establishes the general principles and requirements for the launch of the liquefied natural gas terminal in the Republic of Lithuania, its performance and operation and the form of legal, financial and organisational conditions for a liquefied natural gas terminal project; and
- various secondary legislation which provides a framework for procedural aspects of the implementation of the Law on Energy and other laws.

Regulatory Authorities

The main regulatory institutions in the Lithuanian energy market are:

- the Government which develops and implements the State policy in the energy sector; approves the State regulated pricing principles; cooperates with foreign institutions in the energy market; represents the Republic of Lithuania in international organisations; and approves the energy market licensing rules;
- the Ministry of Energy which is responsible for the implementation of the National Energy Strategy, drafting energy supply related laws, implementation of the investment policy in the energy sector and developing a renewable energy sector in Lithuania;
- the NCC whose purpose is to ensure effective competition in the energy market and prevent discrimination between different customers and suppliers. The NCC is also responsible for setting the caps for State regulated energy prices/tariffs and approving the purchase price for electricity generated from renewable energy sources. The NCC's objectives include: (as far as possible within the limits of its prescribed role) to perform the functions of the State regulating district heating, natural gas, centralised supply of liquefied petroleum gas, electricity, renewable energy, drinking water supply and wastewater treatment sectors, to supervise and exercise control over regulated district heating, natural gas, centralised supply of liquefied petroleum gas, electricity, renewable energy, drinking water supply and wastewater treatment undertakings, as well as the proper implementation and upholding of consumer rights, and ensuring fair competition in the energy, drinking water and wastewater treatment sectors;
- the State Energy Inspectorate under the Ministry of Energy of the Republic of Lithuania (the “**Inspectorate**”), which exercises the State control over energy facilities and energy equipment in Lithuania. Its main purpose is to ensure the reliable, efficient and secure generation, supply and use of energy resources and energy. The Inspectorate issues licences for energy market activities, ensures compliance with the requirements for the installation and reconstruction of energy facilities; draws up the certificates granted to new installations; investigates accidents affecting the installations; exercises control over energy facilities, and over safety, performance, power of energy equipment, and reliability and efficiency of energy generation, transmission, distribution and supply; and
- the Ministry of Environment of the Republic of Lithuania is the main managing authority of the Government, which forms the country's State policy of environmental protection, forestry, utilisation of natural resources, geology and hydrometeorology, territorial planning, construction, provision of residents with housing, utilities and housing, as well as coordinates its implementation.

Electricity Sector

Licensing Regime

In the electricity energy sector the following activities are licensed (licences are issued by the NCC): transmission, distribution, and public supply. A public supply of electricity is carried out on the basis of legal obligation, in particular if a consumer has not chosen the electricity supplier or such supplier does not provide services, the electricity supply is guaranteed by the distribution system operator. Currently, this function is performed by the State-owned company ESO which is also the distribution network operator of electricity and natural gas (the “**DSO**”). The licences are issued for an unlimited period of time, except when the TSO is not yet licensed. In such cases a temporary licence for 12 (twelve) months is issued in order to ensure system reliability and stability. Requirements for companies seeking obtain a specific licence are defined in the Licensing rules for activities in electricity sector, adopted on 20 June 2012 by the Government. Persons, wishing to get, change, specify, issue a duplicate, stop or cancel certain licences must submit an application to the NCC and follow other requirements defined in the Licencing rules for activities in the electricity sector. Charges for these services are indicated in the rules approved by the Government.

Electricity Generation

Authorisation to Construct Power Plants

If a company wishes to construct a power plant with an installed electricity generation capacity, it must obtain an authorisation from the Inspectorate. Alongside the request submitted to the Inspectorate, the company should provide an environmental impact assessment report, health impact assessment, and the grid connection conditions received from the TSO or DSO. The procedure is simplified if the capacity of the facility is 10 MW or less. A permit is not necessary if a person intends to construct or develop the power plant facility with a capacity not exceeding 10 MW to produce electricity for private use.

Emission Charges

Lithuania has been successfully implementing its commitments to reduce the emissions of greenhouse gas by 8 per cent. below 1990 level during the period of 2008-2012 under the Kyoto Protocol-. By 2010, the greenhouse gas emissions in Lithuania had been reduced by 58 per cent. as compared to 1990. In order to ensure the implementation of the E.U. climate change policy milestones designated for short-term (by 2020), midterm (by 2030 and 2040) and long-term (by 2050) the Strategy for National Climate Change management Policy for 2013-2050 and the Plan of Measures for its Implementation have been adopted by Lithuania.

Emission Limits

Pursuant to Decree No. D1-528 of the Minister of Environment dated 15 July 2013, which implemented E.U. Directive 2010/75/EC on industrial emissions (on Integrated Pollution Prevention and Control) (the “**Industrial Emissions Directive**”) requires that Lithuania, as a Member State must impose more stringent NOX, sulphur dioxide and dust emission limits on combustion plants. The specific level of such emission limits depends on various factors, including total rated thermal input, the type of fuel used by the combustion plant or the date on which such plant was put into operation (or was granted a permit).

In December 2013, the Commission introduced the “Clean Air Policy Package” to reduce emissions and air pollution within the E.U. The package, *inter alia*, includes proposals for directives on (i) the reduction of national emissions of certain air pollutants by stipulating stricter national emission ceilings in the period from 2020 to 2030, provided that Member States will be obliged to propose the measures to meet these ceilings (the proposal for this directive was withdrawn by the Commission in December 2014); and (ii) the limitation of emissions of certain air pollutants emitted by medium combustion as a supplement to E.U. Directive 2010/75/EC on industrial emissions. The first proposal is still in the legislative process, as the European Parliament returned it for reconsideration to the committee responsible for the proposal, and the second proposal has been enacted as E.U. Directive 2015/2093 and is to be implemented by Member States by 19 December 2017.

Exceptions to the Emission Limits

Directive 2010/75/EC of the European Parliament and of the Council on industrial emissions lays down the rules on integrated prevention and control of pollution arising from industrial activities to prevent or, where that is not practicable, to reduce emissions into the air, water, and land and to prevent the generation of waste. This Directive imposes tighter emissions standards on existing combustion plants with a thermal input greater than 50 MW from 2016. During the period from 1 January 2016 to 30 June 2020, Member States may draw up and implement a transitional national plan covering combustion plants which were granted their first integrated pollution prevention and control permit before 27 November 2002 or the operators of which had submitted a complete application for a permit before that date, provided that the plant was put into operation no later than 27 November 2003. For each combustion plant, the plan must cover the emissions of one or more of the following pollutants: nitrogen oxides, sulphur dioxide, and dust. For gas turbines, only nitrogen oxides emissions are covered by the plan.

The Government, taking into account the reasonable concerns of the companies operating combustion plants, took advantage of the above provisions of the Directive allowing the submission of a transitional national plan to the Commission. This step was aimed at postponing the implementation of emissions standards until 30 June 2020 with respect to combustion plants included in the plan. This postponement is necessary to allow market participants to plan and allocate necessary investments without causing significant disproportionate price increase for consumers.

The following combustion plants are included in the plan submitted to the Commission: Kaunas Combined Heat and Power Plant, Combined Heat and Power Plant No. 2 of Vilnius Energija (two pollution sources), Combined Heat and Power Plant No. 3 and Ateities District Boiler House No. 8, Alytus District Boiler House of Alytaus Energija branch of Litesko and Marijampolė District Boiler House of Marijampolės Šiluma.

The Commission evaluated Lithuania's plan according to the established rules and approved it on 11 December 2013. The air pollution abatement measures listed in the plan must be implemented between 1 January 2016 and 30 June 2020 thereby ensuring the compliance with the annual thresholds of emissions of sulphur dioxide, nitrogen oxide and particulate matter specified in the plan for that period.

Since the plan is applicable to Lithuania, the requirements for each combustion plant laid down in the plan will be incorporated in the terms of the integrated pollution prevention and control permit issued to the particular plant. These permits are issued by the Ministry of Environment pursuant to the order approved by the Minister of Environment.

Carbon Compliance (Emission allowances)

History of Carbon Compliance Phase II

There are two sets of targets to evaluate: (1) the Kyoto Protocol targets for the period 2008-2012 (which has just ended) and (2) the 2020 targets for emissions not covered by the E.U. ETS.

Under the Kyoto Protocol, the emission reduction target for Lithuania for the period 2008-2012 were set at minus 8 per cent. based on 1990 levels of CO₂, CH₄ and N₂O. Lithuania successfully fulfilled these commitments. According to the National Greenhouse Gas Inventory Report 2012, greenhouse gas emissions amounted to 20.809 million tons of CO₂ (excluding the land use, land use change and forestry sectors) in 2010, which is 58 per cent. less than the level of the greenhouse gas emissions produced in 1990, which equalled 49.430 million tons of CO₂.

Current Carbon Compliance—Phase III

Directive 2009/29/EC amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community dated 23 April 2009, set out the basis for Phase III to the E.U. ETS, which began on 1 January 2013. Phase III introduced significant changes of the E.U. ETS, including (i) auctioning as the default method for allocation of emission allowances, (ii) a longer trading period (8 years, compared to 5 years under Phase II) and (iii) a greater harmonisation of the rules relating to the emissions allowances allocation. In addition, E.U. Member States no longer submit their national allocation plans for approval. In their place, the Commission set a single E.U. wide cap for available emission allowances. The cap for the year 2013 was 2.08 billion per annum; from 2013 until 2020, the cap is decreased each year by 1.74 per cent. of the average annual total quantity of emissions allowances issued by Member States between 2008 and 2012, which, in absolute terms, is an annual reduction of approximately 38.3 million emission allowances.

Allocation of Emissions Allowances During Phase III

With effect from 1 January 2013, Phase III rules prohibit the allocation of emissions allowances for free to electricity producers. In general, the electricity producers have to buy emissions allowances at auction or on the E.U. ETS market. From 2013, more than 40 per cent. of the emissions allowances are to be sold through auctions and this proportion will progressively increase in the following years.

There is an option for 10 E.U. Member States to provide electricity producers with transitional allocations of emissions allowances for free, if the conditions under Article 10(c) of the E.U. Directive 2003/87/EC, Establishing a Scheme for Greenhouse Gas Emission Allowance Trading within the Community and amending Council Directive 96/61/EC (the “**E.U. Directive 2003/87/EC**”) are satisfied (the “**Derogation**”). The E.U. legislation requires electricity producers which benefit from this exemption, to invest in the modernisation of their power plants. The value of these investments must mirror at least the value of the allocation of emissions allowances allocated for free. The transitional period expires on 31 December 2019. The E.U. Council communicated that it will consider further transitional allocation of emissions allowances until 2030.

To strengthen the functioning of the emission allowances market in the period from 2013 to 2020, the Commission has the power to amend the timetable of emissions allowances auctions (the back-loading of emissions allowances). To mitigate the negative impacts of an imbalance between supply of and demand for emission allowances on the E.U. ETS market, the Commission decided, in February 2014, to decrease the amount of the emissions allowance to be auctioned in 2014, 2015 and 2016 by 400, 300 and 200 million of the emissions allowances, respectively. According to E.U. decision of the European Parliament and of the Council in October 2015, allowances which have not been or will not be auctioned in 2014, 2015 and 2016 will be transferred to a market stability reserve that shall operate from January 2019. The reserve should address both the surplus of emission allowances and improve the system's resilience to major shocks by adjusting the supply of allowances to be auctioned. The effectiveness of the

market stability reserve will depend on the terms of a compromise reached among the E.U. Parliament, the E.U. Council and the Commission.

Renewable Energy Sources

History of Renewable Energy Sources

On 10 January 2007, the Commission launched its Climate and Energy Package for the E.U. to achieve a 20 per cent. reduction in greenhouse gas emissions by 2020. Based on the E.U. Renewable Energy Directive, Lithuania has undertaken to increase the share of renewable energy sources (the “**RES**”) in national energy consumption by up to 23 per cent. by 2020 and to increase the share of the RES in all modes of transport by up to at least 10 per cent. of consumption in the transport sector. The Law on Energy from Renewable Sources contains sectoral objectives: to increase the share of electricity produced from RES by up to at least 20 per cent. of national consumption, to increase the share of centrally supplied heat energy produced from RES by up to at least 60 per cent. of the heat energy balance, and to increase the share of RES used in households by up to at least 80 per cent. of the total energy consumption balance.

It should be noted that on 12 May 2011, the Law on Renewable Energy Resources of the Republic of Lithuania came into force, which listed as its the key objective to reach the stage where a minimum of 23 per cent. of the country’s overall final energy consumption is met by the use of RES. Under this law, the NCC was granted powers of regulation, surveillance and control over RES. In accordance with its new powers, the NCC passed and amended multiple legal acts.

Current Legislation

The main Lithuanian provisions relating to RES are set out in the Law on Renewable Energy Sources of the Republic of Lithuania. This legislation sets out how electricity from renewable sources is to be promoted mainly through a sliding feed-in tariff. The RES plants with installed capacity exceeding 10 kW acquire the guaranteed tariff rates through tenders. The producers of renewable electricity may also be eligible to apply for subsidies and loans from the Lithuanian Environmental Investment Fund and the Climate Change Special Programme, and are exempt from excise duty.

Renewable electricity generation in Lithuania is mostly supported by the feed-in tariff. A feed-in tariff is a minimum guaranteed unit price for electricity paid to the generators of electricity from RES which goes to supply public electricity grids. All electricity produced by renewable energy plants whose total installed capacity does not exceed 10 kW must be purchased at the tariff set by the NCC. Tariff rates are set by the NCC on a quarterly basis. Except for electricity generated from geothermal power, all forms of renewable electricity generation are eligible for this support scheme. In 2011, the Law on Energy from Renewable Sources introduced a cap on feed-in tariff payments for each eligible form of renewable electricity generation. This means that only a limited amount of electricity produced with a particular form of renewable electricity generation will be supported through the feed-in tariff scheme.

Guaranteed tariffs for renewable energy plants with a total installed capacity of more than 10 kW are awarded in auctions organised by the NCC. Each quarter the NCC sets the maximum tariff for the subsequent tender procedures.

Amendments to the Law on Renewable Energy Resources of the Republic of Lithuania came into force on 1 February 2013. As part of these, the NCC approved amendments to the Methodology for Setting the Tariffs of Electricity Produced by Using Renewable Energy Resources (approved on 22 February 2013, No. O3-41). The most important changes include the following:

- the tariffs must be recalculated four times per year. Originally, the tariffs for electricity produced by using RES were set for a year. The definition of a small power plant was changed: the installed capacity of a small power plant was limited to a maximum of 10 kW;
- the tariffs for excess electricity are to be applied to small power plants, and they must not be approved more often than 4 times per year. Before the amendments, the fixed tariffs were applied;
- the installed capacity of the connected facilities has been changed; and
- with regard to the fast improving technologies, the increase of their efficiency was replaced by the technological capacity ratios.

In 2015, the share of RES in the total energy balance of the country reached up to 25.86 per cent.

Transmission and Distribution of Electricity

History

A special purpose joint stock company Lietuvos energija was established in 1995. In 2001, the shareholders resolved to restructure Lietuvos energija, which was divided into a number of separate independent companies: Lietuvos Elektrinė, AB; Mažeikių Elektrinė, AB; Rytų Skirstomieji Tinklai, AB; Vakarų Skirstomieji Tinklai, AB. Lietuvos energija, UAB continued to operate as a transmission network operator and market operator. Liberalisation of the electricity sector in Lithuania began with the implementation of the Law on Electricity of the Republic of Lithuania in 2002. The vertically integrated company Lietuvos energija, UAB was divided into a separate transmission company, two distribution companies and two generation companies. Regulated third party access to the grid was ensured pursuant to the requirements of the Third Energy Package. The Law on Electricity of the Republic of Lithuania was amended in 2004 in order to ensure compliance with the requirements of the E.U. Second Electricity Directive that all commercial consumers would be free to choose a supplier. In 2009, Litgrid, AB was established as a new subsidiary of Lietuvos energija. The company was mainly responsible for electricity transmission. In the electricity sector, the ownership unbundling model was chosen by Lithuania to unbundle the State-owned TSO Litgrid, AB. Lithuania, thus, made use of the possibility provided for in Article 9(6) of the Electricity Directive to implement the ownership unbundling model by means of separate public bodies within the State.

Current Structure

Currently, following the implementation of the Third Energy Package in the electricity sector, Lithuanian transmission and distribution systems in the electricity sector are structured as follows:

- The TSO Litgrid, AB is a subsidiary of the State holding company EPSO-G, UAB which owns 97.5 per cent. of the shares in Litgrid AB, with the remaining 2.7 per cent. of shares owned by minority shareholders. EPSO-G, UAB is controlled by the Ministry of Energy of the Republic of Lithuania.
- The distribution system operator ESO is a subsidiary of the Issuer, which owns 94.98 per cent. of the shares in ESO, with the remaining 5.02 per cent. of shares owned by minor shareholders. The full ownership unbundling model has been implemented in the electricity transmission system.
- The management, accounting and legal unbundling models have been implemented in the distribution system.
- The Law on Electricity provides that all customers be given the option to choose an independent electricity supplier. The customer's choice is unrestricted except in instances where a customer's facility corresponds only to a particular category of capacity. With effect from 1 January 2015, customers have been free to choose (and change) electricity supplier and this market is fully liberalised.
- Public electricity supply, which is provided by the distribution system operator ESO, AB, ensures a guaranteed supply of electricity to customers that have not chosen an independent electricity supplier or whose chosen supplier fails to fulfil its obligations.

Participants

As per the above, the following categories of electricity market participants now operate in Lithuania:

- electricity generators (producers);
- the transmission grid operator (Litgrid, AB);
- the distribution system operator (ESO);
- electricity traders; and
- end-consumers.

Price of Electricity

The public electricity price and tariffs are set by the public supplier for six calendar months. Electricity is supplied to customers by both public and independent suppliers.

The electricity price currently consists of the following elements: the electricity purchase price; the transmission price; the PSO fee; distribution costs; the difference between the public supply price and the actual electricity purchase price, on the one hand, and the estimated electricity price in the previous period. The electricity purchase price is market based. By contrast, the transmission price is regulated by the NCC which sets upper price caps. The actual price (not to exceed the cap set by the NCC) is determined by the electricity TSO Litgrid, AB.

The PSO fee is paid for services which are in the public interest, as designed by the Government. According to the Law on Electricity of the Republic of Lithuania in order to implement the strategic goals of the national energy, economic and environmental policies and guarantee services which are on the public interest, the Government, in accordance with the provisions of the laws regulating the legal framework governing the operation of this and other energy sectors, may determine that the services which are in the public interest include:

- the generation of electricity from RES;
- the generation of electricity in a co-generation mode in combined power and heat generation plants where these plants supply heat to the heat systems and amount of energy saved is such that the combined heat and power generation may be considered cost effective;
- the production of electricity in plants whose electricity generation is deemed necessary to ensure the security of the energy supply;
- ensuring that a reserve of electricity system is maintained in plants whose operation is deemed necessary to ensure the energy security of the State;
- the development of electricity generation capacities that are strategically important for ensuring the security and reliability of the electricity system or energy independence of the State;
- the implementation of strategic electricity sector projects related to improving energy security by constructing new interconnectors with the electricity systems of other countries and/or connecting the electricity system of the Republic of Lithuania with the electricity systems of other Member States;
- operations to ensure the safe operation of technical instruments and the management of radioactive waste;
- distribution costs which are regulated by the NCC setting maximum price caps. Particular prices not exceeding the caps are determined by the electricity distributions system operator ESO; and
- public supply pricing which is regulated by the NCC setting maximum price caps. Particular prices not exceeding the caps are determined by the service providers.

The sale prices and reserve prices of the electricity producers and independent suppliers are not regulated except for cases when the NCC, after investigation, determines that such producer or independent supplier exercises a significant enough market power that it may affect competition. For these market participants the NCC could impose certain obligations. In 2012 the NCC has decided that LEG exercises a significant market power and determined price caps for reserve prices.

The NCC supervises the energy sector on behalf of the State, publishes the public electricity price and tariffs and lists of public and independent suppliers.

The NCC, in accordance with the Methodology on the Rate of Return on Investments, approved by the Commission Resolution No. O3-510 as of 22 September 2015, publishes data on the calculation of the rate of return on investments (the “WACC”). This Resolution applies to electricity, natural gas, heat and hot water supply sectors where state regulated prices are applicable. The data is to be used by electricity companies for setting the price caps for the regulatory period of 2017-2021. For the calculation of the WACC, the following factors are taken into consideration: capped debt servicing costs expressed as a percentage, return on equity expressed as a percentage, share of equity capital (optimal capital structure), share of debt capital (optimal capital structure), and tax rate.

Trading

Wholesale trade in the domestic market for electricity is conducted using two methods: trading under bilateral agreements and trading on the electricity exchange. The aim is to make trading on the exchange the main method by which wholesale electricity is supplied. Since 18 June 2012, wholesale trading on the Lithuanian Electricity Exchange has been administered by Nord Pool Spot AS, an operator of the Nordic and Baltic electricity exchanges.

Heating Energy Sector

The main legal acts regulating the heating energy sector are the Law on Heat Sector of the Republic of Lithuania and the National Heat Sector Development Programme for 2015-2021 (the “**Heat Programme**”) approved by the Government on 18 March 2015. The Heat Programme aims to assess and identify the primary objectives of the heating sector and the ways in which they can be implemented, taking into consideration domestic and international trends in the environmental and energy sectors as well as economic conditions. Lithuania’s primary strategic goal in the heating industry is to increase the efficiency of heat generation, transmission and consumption, as well as

(where economically reasonable), to replace imported natural gas used for the production of heat with sustainable local and renewable energy sources in order to reduce the costs of heat.

The Law on Heat Sector of the Republic of Lithuania requires the creation of effective competition in the heat sector. Therefore, it stipulates that heat suppliers must purchase from independent heat producers heat energy produced from renewable sources, as well as waste incineration and fossil fuel that fulfils environmental quality and reliability of supply requirements. The NCC sets rules and conditions for the purchase of heat from independent heat producers. In all cases, the price of heat energy purchased from independent heat producers cannot be higher than the comparative heat production costs of the heat supplier.

Lithuanian legislation provides that the activities of all heat suppliers are regulated by the energy market regulator, i.e. the NCC. The NCC approves the maximum prices of heat suppliers.

There are two types of heat producers:

- regulated heat producers which own or control heat production or cogeneration facilities that are financed either by E.U. funds, national financing sources for renewable energy, a state or municipal grant or subsidy, or have received feed-in tariffs for electricity production and independent heat producers or a group of independent heat producers producing more than 1/3 of district heating per year;
- non-regulated independent heat producers which are not subject to the control of the NCC and may set heat prices at their own discretion.

The following requirements apply in respect of regulated independent heat producers:

- the separation and allocation of costs, and heat pricing determined by the NCC;
- that heat prices be based on essential (State-regulated) costs of production; and
- costs of heat are controlled by the NCC which sets the maximum price regulated that independent heat producers can charge.

The NCC is engaged in the regulation of heat energy suppliers producing over 10 GWh of heat energy per year, while smaller heat suppliers are regulated by municipalities. A heat supplier and/or a regulated independent heat producer must provide the NCC with a justification for their prices, which are to be approved by the NCC.

New heat producers are entitled to enter the district heating market (as independent heat producers regardless of whether they are regulated or not) if they get access to the district heating system. In this case, they must submit an application to the district heating supplier in order get a connection between a heat production facility and the district heating system. The application must show that such a connection is feasible and complies with the economic and technical requirements of the district heating supplier.

A decision to refuse to provide a connection may be appealed to the NCC. In many cases, the NCC has overturned decisions by district heating suppliers and granted the requests of potential independent heat producers. Therefore, entering the district heating production market should be seen as a realistic opportunity.

Licensing requirements

Heat suppliers must hold a licence for the supply of heat. The NCC issues licences to those supplying at least 10 GWh of heat per year, taking into account recommendations provided by municipal authorities. It also has the power to suspend licences, and exercise control over licensed activities. The licences for suppliers of heat who provide less than 10 GWh of heat per year can be issued, suspended or cancelled by the city municipality. If a heat producer sells heat to a heat supplier, requirement to hold a licence is not applicable, but if a heat producer sells heat directly to consumers, the producer must have a heat supply licence. Meanwhile, a permit granted by a municipality is required in order to sell electricity produced by a combined heat and power plant.

Participants

As per the above, the following categories of heat market participants operate in Lithuania:

- suppliers of district heating;
- non-regulated independent heat producers;
- regulated independent heat producers; and
- end-consumers.

Heat Auctions

Heat is purchased through monthly auctions carried out by the district heating supplier. In this case, producers submit their price proposals for the next month. The following requirements apply in all cases:

- the price of heat purchased from independent heat producers cannot be higher than the comparative heat production costs of the heat supplier; and
- the price of heat purchased from an independent producer cannot be higher than the calculated prime cost of heat produced by an alternative heat source.

Gas Sector

The natural gas sector is governed by the E.U. Energy Regulation and, in particular, by the Third Energy Package which has been transposed into the Law on Natural Gas of the Republic of Lithuania and the Law on the LNG Terminal of the Republic of Lithuania. Lithuania has chosen to implement the full ownership unbundling model in the natural gas sector pursuant to the requirements of the respective Directives.

Licensing Regime

The following activities are licensed in the natural gas sector (licences are issued by the NCC):

- transmission;
- liquefaction;
- storage;
- distribution;
- system operator activities; and
- natural gas supply activities.

The licences are issued for an unlimited period of time. The NCC issues licences pursuant to the same security, reliability and non-discriminatory principles as applicable to the licensing regime for the electricity sector (please see “—*Electricity Sector—Licensing Regime*”).

Transmission and Distribution of Gas History

The Lithuanian natural gas market is not integrated with other E.U. Member States. Lithuania has the only connection with Belarus which is used for constant supplies. The connection with Latvia is meant only for emergency cases, i.e. ensuring uninterrupted gas supply in the event of a supply failure in the sole gas connection with Belarus. It is therefore not used for common gas supply activities. The existing gas connection with Belarus has sufficient technical capacities to meet customer needs, but dependency on the single connection is not ideal.

Lithuania does not have its own natural gas resources. Gas used to be imported to Lithuania by a single importer, OAO Gazprom, and supplied mainly by Lietuvos Dujos, AB and Dujotekana, UAB. The wholesale sector of the natural gas market did not see any significant changes until the liberalisation of the market in 2012 by the adoption of the Law on the LNG Terminal of the Republic of Lithuania and amendments to the Law on Natural Gas of the Republic of Lithuania.

The situation in the distribution market was similar to the one described above. Lietuvos dujos, AB had a 99 per cent. share of the distribution market. Six other companies were entitled to engage in distribution activities but provided distribution services only in individual regions, and their total share of the overall distribution market made up only 1 per cent.

On 10 April 2015, the NCC issued a statement that the gas transmission business ownership unbundling model of Amber Grid, AB was broadly consistent with the applicable provisions of the E.U. Third Energy Package and the Law on Natural Gas of the Republic of Lithuania. Amber Grid, AB was issued an open-ended gas transmission business licence and was designated as a TSO.

Lietuvos energija, UAB signed agreements with German company E.ON Ruhrgas International to acquire 38.9 per cent. of the shares in Lietuvos Dujos, AB and 11.76 per cent. of the shares in LESTO, AB. Lietuvos energija, UAB has since acquired a further 40.03 per cent. of the shares in Lietuvos Dujos through a tender procedure and now owns 96.63 per cent. of the shares in Lietuvos Dujos, AB.

ESO (the distribution system operator) was established in accordance with the terms of reorganisation approved by the extraordinary meeting of shareholders of LESTO, AB and Lietuvos Dujos, AB on 3 December 2015 pursuant

to which a contract was signed on 31 December 2015. On the basis of this contract, ESO took over all the assets, rights and obligations of LESTO, AB and Lietuvos Dujos, AB. ESO's core line of business is electricity supply and electricity and gas distribution.

Pursuant to the Regulation (EU) No. 994/2010 Concerning Measures to Safeguard the Security of Gas Supply and Repealing Council Directive 2004/67/EC, Member States were required to ensure that measures were taken by no later than 3 December 2014, to ensure that in the event of disruption of the single largest gas infrastructure, the capacity of the remaining infrastructure would be able to satisfy the total gas demand of the calculated area during a day of exceptionally high gas demand.

The Law on the LNG Terminal of the Republic of Lithuania was enacted in June 2012 and amended in June 2013 and November 2015. The Law on the LNG Terminal sets forth the general principles and requirements for the construction of the LNG Terminal in the territory of the Republic of Lithuania, its activities and operation, and establishing the legal, financial and organisational conditions for the implementation of the LNG Terminal project. The LNG Terminal has enabled the diversification of Lithuania's natural gas supply, increasing the security and reliability of this supply. The amendment to the Law on the LNG Terminal made in June 2013 provided that the building costs of the LNG Terminal, its infrastructure and the connection, which cannot be financed from other sources available to Klaipėdos Nafta, AB, as well as all the fixed operating costs of the LNG Terminal, its infrastructure and connection are included in the natural gas transmission price in accordance with the procedure established by the NCC as a supplemental element of natural gas supply security. The supplemental element is collected, administered and paid out to the LNG Terminal Operator or Klaipėdos Nafta, AB and designated supplier (LITGAS) by the natural gas TSO – Amber Grid, AB.

According to the amendment of the Law on the LNG Terminal of November 2015 reasonable costs incurred in supplying the required quantity of gas from the LNG Terminal are also included in the natural gas transmission price.

After the construction of the LNG Terminal in Klaipėda was finished, negotiations with Norwegian energy company Statoil ASA were completed and a five-year LNG supply contract was signed by LITGAS, the designated supplier, in August 2014. Statoil ASA is viewed as a reliable partner for alternative gas supply to Lithuania, providing Lithuania's gas market participants with an opportunity to choose alternative gas suppliers. Moreover, in 2016, other market participants – Achema, AB and LDT – concluded gas supply contracts with Statoil ASA.

Current Structure

Following the implementation of the applicable E.U. legislation and the transposition of the Third Energy Package, the Lithuanian transmission and distribution systems are structured as follows:

- in October 2014, natural gas transmission activities were completely separated from vertically integrated company Lietuvos Dujos, AB which was controlled by OAO Gazprom, E.ON Ruhrgas International and the Republic of Lithuania, and were transferred to a new company, Amber Grid, AB;
- Amber Grid, AB is the operator of Lithuania's natural gas transmission system and is in charge of the transmission of natural gas (transportation of natural gas through high-pressure pipelines) to system users, and the operation, maintenance and development of the natural gas transmission system. Amber Grid, AB is owned by UAB EPSO-G which holds 96.58 per cent. of its shares, with minority shareholders holding 3.42 per cent. of the shares;
- natural gas supply services were transferred to a new company, LDT, which has been ensuring the supply of natural gas to household customers, non-household customers and other consumers since 1 November 2014;
- natural gas distribution activities are carried out by ESO which was established by way of a merger between LESTO AB (which performed electricity distribution activities) and Lietuvos Dujos, AB (which acted as the natural gas distribution system operator). ESO is controlled by the Issuer which holds 94.98 per cent. of its shares, with minority shareholders holding the remaining 5.02 per cent.;
- on 27 November 2014, Klaipėdos Nafta, AB, which implemented the LNG Terminal project, received a natural gas liquefaction licence and undertook the activities of the LNG Terminal operator in 2015;
- management, accounting and legal separation has been implemented in respect of the distribution systems; and
- GET Baltic, UAB was the only company holding a natural gas market operator's licence in 2015. The main functions of the market operator include the organisation of secondary trading of natural gas on the natural gas exchange.

Price of Gas

Prices in the gas sector are either State-regulated or non-regulated. Prices are regulated by the setting of price caps by the NCC. In the natural gas sector, prices are regulated by setting price caps for transmission, liquefaction, storage, distribution, and guaranteed supply. By setting the exact service prices in the natural gas sector, the NCC regulates natural gas system balancing prices as well as the prices for the connection of new customers to the gas system. The NCC sets the price caps for a five-year term. The prices may be adjusted by the NCC, but no more than once per year except in cases provided for by the Law on Natural Gas of the Republic of Lithuania. The law stipulates that gas undertakings must set their specific gas tariffs for household customers for a period of six months.

The gas tariff per cubic metre consists of the price of imported gas, the costs associated with gas delivery to the customer (transmission and distribution), funds required to ensure security and reliability, the profit margin set for the supplier, and taxes.

The total price paid by the end customer consists of a variable tariff component calculated on the basis of consumed gas and fixed tariff component paid on a monthly basis in order to maintain the working capacity of the system and to ensure a reserve of power in the transmission pipelines, as each customer must be guaranteed to receive a quality service at any time. The fixed tariff includes expenditures on accounting and on the conclusion of contracts (price of supply). The structure of the fixed gas tariff consists of the fixed component of the gas supply price, the fixed component of the gas transmission price, and VAT.

Pursuant to the Methodology for Setting State-Regulated Prices in the Natural Gas Sector approved by Resolution No. O3-367 of the NCC of 13 September 2013, a price cap per capacity unit has been set and adjusted for transmission activities and the pricing model of entry-exit points has been applied since 2015.

The NCC also sets the regulatory mechanism for the calculation of the additional natural gas supply security component of the transmission price covering the fixed LNG Terminal operation costs, the supply costs of the designated supplier, the difference between the price of acquisition of the minimum annual gasified natural gas volume to ensure the mandatory activities of the LNG Terminal, the price of the sale thereof, and the administration costs of the LNG Terminal fund administrator. The security component is applied to natural gas system users and/or natural gas consumers for the natural gas consumption capacities necessary for ensuring their maximum daily needs of natural gas at the delivery points.

Material Environmental and other Related Regulation

The Law on Environmental Protection of the Republic of Lithuania sets out the main rights and duties of legal and natural persons in preserving biodiversity, ecosystems and the landscapes of the Republic of Lithuania to ensure a healthy and clean environment, the rational use of natural resources in the Republic of Lithuania, its territorial waters, continental shelf and economic zone, as well as liability and economic sanctions for legal persons committing environmental violations.

Integrated Pollution Prevention and Control

Directive 2008/1/EC of the European Parliament and of the Council Concerning Integrated Pollution Prevention and Control was adopted on 15 January 2008. In addition, Directive 2010/75/EU on Industrial Emissions (Integrated Pollution Prevention and Control) (the “**Industrial Emissions Directive**”) was adopted in 2010. The Industrial Emissions Directive, among other things, provides that Member States must set up a system of environmental inspections of the installations concerned and sets out the best techniques. Member States were required to transpose the Industrial Emissions Directive into their national law by 7 January 2013. Order No. D1-528 of the Minister of Environment of the Republic of Lithuania “Regarding the Issuance and Withdrawal of Integrated Pollution Prevention and Control Permits” (the “**IPPC Act**”) has implemented the Industrial Emissions Directive.

This IPPC Act also lays down rules designed to prevent or, where that is not practicable, reduce emissions into the air, water, and land and to prevent the generation of unnecessary waste, in order to achieve a high level of protection of the environment taken as a whole.

It should be noted that there are numerous other legal acts, such as the order of the Minister of Environment on the Issuance of Pollution Permits, the order of the Minister of Environment on the Waste Management Rules, etc. which implement the requirements for integrated pollution prevention and control.

General Liability

Under the legislation of the Republic of Lithuania and the E.U., liability can be administrative, criminal and civil depending on the damage to the environment. Liability for environmental damage can also be incurred under E.U.

environmental law. In the Republic of Lithuania, liability for environmental damage is governed by the Law on Environmental Protection, the Code of Administrative Violations of Law, the Criminal Code and other legal acts.

The “Polluter Pays” Principle

The Lithuanian Law on Environmental Protection has transposed E.U. Directive 2001/42/EC of the European Parliament into the legal system of the Republic of Lithuania for the assessment of the effects of certain plans and programmes on the environment.

In addition, the Law on Environmental Protection has implemented E.U. Directive 2004/35/CE on Environmental Liability with regard to the Prevention and Remedying of Environmental Damage. The purpose of this Directive is to establish a framework of environmental liability based on the “polluter pays” principle, to prevent and remedy environmental damage.

One of the main legal acts of the Republic of Lithuania implementing the “polluter pays” principle is the Law of the Republic of Lithuania on Pollution Tax. It stipulates that the taxes relating to environmental pollution from mobile polluting sources must be paid by natural and legal persons that pollute the environment as a result of their economic and/or commercial activities.

The “polluter pays” principle is also laid down in other legal acts of the Republic of Lithuania, such as the Law on Waste Management, the Law on the Management of Packaging Waste, and in other legal acts.

The National Sustainable Development Strategy of the Republic of Lithuania provides that one of the main visions of the State is to gradually transform the principles applied in the tax policy to comply with the “polluter pays” principle. Therefore, this principle is fully and properly implemented in the Republic of Lithuania.

Criminal Liability Towards the State

The Criminal Code of the Republic of Lithuania specifies crimes and criminal offences against the environment and human health and provides for criminal liability of legal persons as well as natural ones. Offenders can be punished by community service, a fine, restriction of liberty, arrest, or imprisonment for a term of up to three years or up to eight years for more serious crimes. The Criminal Code of the Republic of Lithuania provides for liability only for the most dangerous crimes against the environment (i.e. illegal possession of ozone-depleting substances or marine pollution from ships), which are not covered by other legislation. As previously mentioned, criminal liability applies to both natural and legal persons.

Civil Liability Towards a Third Party

As mentioned above, E.U. Directive 2004/35/CE has been implemented by the Lithuanian Law on Environmental Protection. In addition, this Directive has implemented a strict liability doctrine under which civil liability for environmental offences is imposed on legal persons. The Lithuanian Law on Environmental Protection also provides that civil liability is imposed regardless of the fault of legal persons for environmental damage, except in cases where damage to the environment is deemed negligible, i.e. the damage is insignificant.

Civil liability for environmental offenses may be applicable in conjunction with other forms of legal liability, i.e. criminal or administrative liability. Offenders found to be administratively or criminally liable are usually also required to pay compensation for damage to the environment caused by unlawful acts.

Administrative Liability Towards the State

Administrative liability is an independent type of legal responsibility that applies to natural and legal persons that have committed administrative violations. Administrative liability also entails statutory administrative sanctions to ensure compliance with the requirements of environmental law, to deal with environmental offences, and to enforce environmental law.

The Lithuanian Law on Environmental Protection specifies the cases in which administrative liability for environmental damage is imposed on legal persons, including legal persons from other countries and other organisations and their subsidiaries. Such liability under the Lithuanian Law on Environmental Protection is imposed where offences do not result in criminal liability of legal persons. The main purpose of administrative liability is to impose economic sanctions on legal persons for such breaches of environmental law.

The Code of Administrative Violations of Law of the Republic of Lithuania contains the highest number of provisions related to environmental protection and liability for breaches. It is mainly applied to natural persons. However, there are several offences for which legal persons are penalised under this legal act (in cases where the Criminal Code and/or the Lithuanian Law on Environmental Protection do not provide for liability). Breaches of the Code of

Administrative Violations of Law may result in fines ranging from EUR 30 to EUR 7,000. It should be noted that liability for administrative offences may be imposed in the form of a prohibition to engage in certain activities which impact upon the environment or confiscation of certain tools. The Code of Administrative Violations of Law also provides for the restriction or suspension of the licences required to pursue some economic activities which have an environmental impact in Lithuania.

Directive on the Deployment of Alternative Fuels Infrastructure

In January 2013, the Commission proposed a directive requiring Member States to adopt national policy frameworks for developing the market for alternative fuels and to ensure that minimum infrastructure is set up for their supply in road and water-borne transport. Each Member State should ensure the establishment of a defined minimum number of recharging points for electric vehicles by the end of 2020 (at least 10 per cent. of them publicly accessible). Ports should be equipped with shore-side electricity supply for vessels by the end of 2015. A sufficient number of hydrogen refuelling points should be set up (no further than 300 km apart) to allow hydrogen vehicles to move throughout the territory (by 2020 in Member States where this technology has already been introduced). The supply of LNG should be available for navigation along the core Trans-European Transport (“TEN-T”) network in maritime ports (2020) and inland ports (2025), and LNG refuelling points should sustain heavy-vehicle road transport along the TEN-T core network (refuelling points at least every 400 km by 2020). By the end of 2020, Member States should ensure that a sufficient number of natural gas (including bio-methane in gaseous form (“CNG”)) refuelling points are set up (at least every 150 km) to support CNG vehicles across the E.U. This Directive also requires harmonisation of technical specifications for alternative fuels, and common standards for refuelling and electric charging systems, and more information to consumers on the compatibility of fuels and vehicles.

The Directive requires Member States to develop national policy frameworks for the market development of alternative fuels and their infrastructure. It also provides for the use of common technical specifications for recharging and refuelling stations. Member States had to transpose the Directive into their national law and to submit their national policy frameworks by 18 November 2016.

In Lithuania, the Directive has not been transposed into national law yet. However, the transposition procedures are in progress. On 1 February 2017, the Government adopted Resolution No. 87 “Regarding the Implementation of Directive 2014/97/EU of the European Parliament and of the Council of 22 October 2014 on the Deployment of Alternative Fuels Infrastructure”. This Resolution sets out the responsibilities of the ministries involved and actions to be taken in order to ensure the proper transposition of the Directive.

Waste Management

Directive 31/1999 on the Landfill of Waste stipulates that Member States are obliged to reduce the amount of biodegradable municipal waste going to landfills to 35 per cent. of the total produced by 16 July 2016. In addition, the recently announced Circular Economy Strategy sets a binding landfill target to reduce landfill waste to a maximum of 10 per cent. of municipal waste by 2030. Scandinavian practice is even more ambitious than that – zero waste to landfill. In 2014, Lithuania landfilled 60 per cent. of municipal waste. The average landfilling rate in the E.U. was only 27.5 per cent. in 2014.

The objective of Lithuania is to decrease landfilled biodegradable municipal waste to 35 per cent. in 2020 and to 30 per cent. in 2023. In this context, Lithuania needs to develop and manage the necessary infrastructure for the public interests in order to attain the E.U. waste management goals and avoid possible liability of the State for failure to achieve the predefined reduction targets. The Commission promotes energy recovery from proper waste management and contribution to the E.U. strategy for smart, sustainable and inclusive growth. For the purpose of environmental protection, waste management must be carried out in accordance with a number of waste prevention and management priorities.

Waste Hierarchy Principle

The Law of the Republic of Lithuania on Waste Management provides the basic terms and definitions related to waste management, such as the definitions of waste, recycling and recovery. It explains when waste ceases to be waste and becomes a secondary raw material (the so-called end-of-waste criteria), and how to distinguish between waste and by-products.

Making the avoidance and reduction of waste generation a high priority encourages the community, industry, and government to reduce the number of virgin materials extracted and used. The goal is to maximise efficiency and avoid unnecessary consumption through behaviours such as: selecting items with the least packaging or that require the fewest resources to produce, avoiding disposable goods or single-use materials, buying products that are recycled, recyclable, repairable, refillable, reusable or biodegradable and using leftover food rather than throwing it away.

The second priority according to the waste hierarchy principle is resource recovery, which maximises the options for re-use, recycling, reprocessing and energy recovery. Where avoiding and reducing waste is not possible, the next most preferred option is to re-use the materials without further processing, avoiding the costs of energy and other resources required for recycling. Re-use (without further processing) and recycling (processing waste materials to make the same or different products) keeps materials in the productive economy and benefits the environment by decreasing the need for new materials and waste absorption. Where further recycling is not feasible, it may be possible to recover energy from the material and feed that back into the economy where this is acceptable to the community. According to the waste management hierarchy, landfilling is the least preferable option and should be limited to the necessary minimum.

Requirements and Limitations for Waste-fired Power Plants

On 31 January 2014, the Law on Waste Management was amended and supplemented with provisions stating that only objects of national significance may use or plan to use municipal waste (which remains after the sorting of waste containing energy value and which is unsuitable for processing) for power generation purposes. The law also specifies the competence and discretion of the Government to set the criteria for acknowledging waste management facilities to be projects of national significance.

The requirement regarding the ownership of shares in waste management facilities of national significance was established by the Government Resolution of 19 February 2014 amending the Provisions of Establishment and Acknowledgement of Waste Managing Objects of National Significance. New cumulative criteria were established by the Resolution for newly developed waste management facilities to be acknowledged as projects of national significance:

- the facility manages or is intended to manage the municipal waste of more than one municipal waste management region;
- at least 51 per cent. of shares or voting rights attached to the shares of the company(-ies) intending to establish such a facility are held by the State or a State-owned company;
- the facility uses or intends to use municipal waste (which remains after the sorting of waste containing energy value and which unsuitable for processing) for combined power and heat generation (cogeneration));
- the facility is implementing the goals and objectives set out in the National Energy Independence Strategy approved by Resolution No. XI-2133 of the Parliament of the Republic of Lithuania, and these measures are considered to be implementing the National Heat Sector Development Programme; and
- the facility complies with the provisions of the National Waste Management Plan related to the use of municipal waste (which remains after the sorting of waste containing energy value and which is unsuitable for processing) as fuel for energy production.

In May 2014, the Government acknowledged that Vilnius and Kaunas CHP waste incineration projects developed by Group companies have national economic significance to the Republic of Lithuania.

TAXATION

The following is a general description, inter alia, of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

The Republic of Lithuania Taxation

The following is a summary of certain Lithuanian tax consequences of ownership and disposition of Notes to a resident individual or a non-resident individual acting through a fixed base in Lithuania or a resident entity or a non-resident entity acting through a permanent establishment in Lithuania (the “**Lithuanian Holder**”) or a non-resident individual who is not acting through a fixed base in Lithuania or non-resident entity which is not acting through a permanent establishment in Lithuania that holds such Notes (the “**Non-Lithuanian Holder**”).

As used in the preceding sentence, a “**resident individual**” means an individual whose permanent place of residence is in Lithuania, or whose personal, social or economic interests are located in Lithuania or who is present in Lithuania for more than 183 days in the relevant tax period or more than 280 days in two consecutive tax periods, and a “**resident entity**” means an entity which is legally established in Lithuania, and a “**non-resident individual**” means an individual whose permanent place of residence is outside Lithuania, whose personal, social or economic interests are located outside Lithuania and who is present in Lithuania for less than 183 days in the relevant tax period and less than 280 days in two consecutive tax periods, and a “**non-resident entity**” means an entity which is not legally established in Lithuania. Taxation of interest income and capital gains received by non-resident entities acting through a permanent establishment in Lithuania is the same as that of resident entities defined above, therefore, it is not separately outlined in the further sections of this Base Prospectus. For relevant details on the taxation of Lithuanian permanent establishments as Noteholders, please refer to the taxation of resident entities

Taxation of Payments

Payments in respect of interest on the Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) to a resident individual will be subject to 15 per cent. personal income tax. The total amount of interest (including interest on the Notes) received during the calendar year not exceeding EUR 500 will not be subject to personal income tax.

Payments in respect of interest on the Notes to a resident entity will be included into calculation of its taxable profit. Taxable profit will be subject to 15 per cent. corporate income tax.

Payments in respect of interest on the Notes to a non-resident individual will be subject to 15 per cent. withholding tax in Lithuania.

Payments in respect of interest on the Notes to a non-resident entity which is registered or otherwise organised in a state of the European Economic Area or in a state with which the Republic of Lithuania has concluded and brought into effect double tax treaty, will not be subject to withholding tax in Lithuania. Payments in respect of interest on the Notes to a non-resident entity other than listed above will be subject to 10 per cent. withholding tax. Unless the Holder of a Note is identified and is eligible for exemption from withholding tax, payments of interest in respect of the Notes (which also includes as interest, if applicable, the difference between the redemption price and the issue price of the Notes) will be subject to 15 per cent. withholding tax to be withheld and paid to the budget of the Republic of Lithuania by the Issuer.

Taxation on Disposition of Notes

Capital gains (i.e. the difference between the sale price and acquisition costs) on disposal of the Notes received by a resident individual will be subject to 15 per cent. personal income tax. Any capital gains received from the sale of securities (including the Notes) during the calendar year not exceeding EUR 500 will not be subject to personal income tax. The tax relief will not apply if the sale proceeds are received from entities established in a tax haven or from individuals whose permanent place of residence is in a tax haven.

Capital gains (i.e. the difference between the sale price and acquisition costs) on disposal of the Notes received by a resident entity will be included into calculation of its taxable profit. Taxable profit will be subject to 15 per cent. corporate income tax.

The disposition of Notes by the Non-Lithuanian Holder will not be subject to any Lithuanian income or capital gains tax.

Registration and Stamp Duty

Transfers of Notes will not be subject to any registration or stamp duty in Lithuania. Prospective purchasers of Notes are advised to consult their own tax advisers concerning the overall Lithuanian tax consequences of the ownership of Notes.

Luxembourg Taxation

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisors as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject. Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax, Income Tax

Taxation of interest

There is no withholding tax for Luxembourg residents and non-residents on payments of interest in respect of the Notes, nor is any Luxembourg withholding tax payable on payments received upon repayment of the principal or upon an exchange of Notes except that in certain circumstances a withholding tax may be required to be paid on interest pursuant to the law of 23 December 2005, as amended (the “**Relibi Law**”).

Under the Relibi Law, a withholding tax of 20 per cent. applies on savings income in the form of interest paid or secured by a Luxembourg paying agent to the benefit of beneficial owners, who are individuals, resident in Luxembourg. For an individual Holder of the Notes who is a resident of Luxembourg and who acts in the course of the management of his/her private wealth, the 20 per cent. withholding tax is a final levy.

Furthermore, a Luxembourg resident individual who acts in the course of the management of his/her private wealth and who is the beneficial owner of an interest payment made by a paying agent established outside Luxembourg in an EU Member State or in a member of the European Economic Area may also, in accordance with the Relibi Law, opt for a final 20 per cent. levy (the “**20 per cent. Levy**”). In such case, the 20 per cent. Levy is calculated on the same amounts as for the payments made by Luxembourg resident paying agents.

A Holder of Notes is subject to Luxembourg income tax in respect of the interest paid or accrued on the Notes only if such Holder (i) is or is deemed to be a resident of Luxembourg for tax purposes and the interest falls within the scope of the 20 per cent. Levy but the holder has not opted for the application of the 20 per cent. Levy, (ii) is or is deemed to be a resident of Luxembourg for tax purposes and the interest has not been received by him/her in the course of the management of his/her private wealth, or (iii) such income is attributable to an enterprise or part thereof, which is carried on through a fixed place of business, a permanent establishment or a permanent representative in Luxembourg.

Responsibility for the withholding of tax in application of the Relibi Law is assumed by the Luxembourg paying agent (within the meaning of the Relibi Law).

The Proposed Financial Transactions Tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances,

including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which, remains unclear. Additional E.U. Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “**foreign financial institution**” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the Republic of Lithuania) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional notes that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of BNP Paribas and AB SEB Bankas (the “**Dealers**”). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and subscribed by, Dealers are set out in a Dealer Agreement dated 27 June 2017 (the “**Dealer Agreement**”) and made between the Issuer and the Dealers. If in the case of any Tranche of Notes the method of distribution is an agreement between the Issuer and a single Dealer for that Tranche to be issued by the Issuer and subscribed by that Dealer, the method of distribution will be described in the relevant Final Terms as “Non-Syndicated” and the name of that Dealer and any other interest of that Dealer which is material to the issue of that Tranche beyond the fact of the appointment of that Dealer will be set out in the relevant Final Terms. If in the case of any Tranche of Notes the method of distribution is an agreement between the Issuer and more than one Dealer for that Tranche to be issued by the Issuer and subscribed by those Dealers, the method of distribution will be described in the relevant Final Terms as “Syndicated”, the obligations of those Dealers to subscribe the relevant Notes will be joint and several and the names and addresses of those Dealers and any other interests of any of those Dealers which is material to the issue of that Tranche beyond the fact of the appointment of those Dealers (including whether any of those Dealers has also been appointed to act as Stabilising Manager in relation to that Tranche) will be set out in the relevant Final Terms.

Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be subscribed by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America:

Regulation S Category 1; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States or to U.S. persons.

In addition, until 40 days after the commencement of any offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Dealer has represented, warranted and agreed, and each future Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:
- (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

From 1 January 2018, unless the Final Terms in respect of any Notes specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one or more of the following:
- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Republic of Lithuania

Each Dealer has represented, warranted and agreed not to offer or sell any Notes in the Republic of Lithuania other than in compliance with the Law on Securities of the Republic of Lithuania and any other laws applicable in the Republic of Lithuania governing the issue, offering and sale of Notes.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, (the “**FIEA**”). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

General

Each Dealer has represented, warranted and agreed, and each future Dealer appointed under the Programme will be required to represent, warrant and agree that, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “*General*” above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Base Prospectus.

GLOSSARY

Cross-border interconnection point	Refers to the location in the transmission system, on the border between two countries or territories, where natural gas is transferred from the transmission system of one country or territory to the transmission system of another country or territory.
Customers of independent suppliers	Electricity distribution to corporate customers.
EA	Emission allowances.
NCC	National Control Commission for Prices and Energy.
Public and guaranteed supply	Electricity distribution to household customers.
Regulation power	Increasing or decreasing levels of electricity generation in accordance with TSO instructions when there is a deficit or surplus in the electricity system, respectively.
ROCE	Return on capital employed, which is equal to operating profit/(average amount of equity during the reporting period + average amount of borrowings during the reporting period).
ROE	Return on equity, which is equal to net comparable profit (loss) of a respective reporting period restated at annual value/average amount of equity during the reporting period.
SAIDI	Average duration of unplanned interruptions in electricity or gas transmission.
SAIFI	Average number of unplanned long interruptions per customer.
State Aid	Any intervention by a State or through State resources which (1) gives the recipient an advantage on a selective basis (2) will or may distort competition and (3) is likely to affect trade between E.U. Member States.
Virtual trading point	Refers to the location in the transmission system where transfer of title to natural gas occurs (without the obligation to transfer natural gas to a physical location).

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme was authorised by resolutions of the Board of Directors of the Issuer passed on 15 June 2017 and 20 June 2017. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Legal and Arbitration Proceedings

2. Save as disclosed in “*Description of the Group—Legal Proceedings*” set out on pages 98 to 99 herein, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries (together, the “**Group**”).

Significant/Material Change

3. Since 31 December 2016 there has been no material adverse change in the prospects of the Issuer or the Group. Since 31 March 2017 there has there been no significant change in the financial or trading position of the Issuer or the Group.

Auditors

4. UAB PricewaterhouseCoopers, which is registered on the list of authorised Lithuanian audit companies, administered by the Lithuanian Chamber of Auditors, under certificate No. 001273 with its registered office in Vilnius (J.Jasinskio 16B, LT—03163 Vilnius), audited the 2016 Financial Statements and issued an unqualified auditors’ report on the aforementioned financial statements.

In addition, PwC audited the 2015 Financial Statements and issued a qualified auditor’s report on the aforementioned financial statements. See “*Presentation of Financial Information of the Group—Qualification to 2015 Financial Statements*”.

UAB PricewaterhouseCoopers, independent auditors, holds audit company licence No. 001273. On behalf of PwC, the auditors’ report on the 2016 Financial Statements was signed by Vytenis Lazauskas, holding auditor’s certificate No. No.000536.

On behalf of PwC, the auditors’ report on the 2015 Financial Statements was signed by Rimvydas Jogėla, holding auditor’s certificate No. No.000457.

Documents on Display

5. Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the offices of the Issuer at Žvejų g. 14, LT-09310, Vilnius, Lithuania for 12 months from the date of this Base Prospectus:
 - (a) the constitutive documents of the Issuer;
 - (b) the most recently published consolidated audited annual financial statements of the Issuer and the most recently published interim financial statements (if any) of the Issuer (with a direct and accurate English translation thereof), in each case together with any audit or review reports prepared in connection therewith;
 - (c) the Agency Agreement;
 - (d) the Deed of Covenant;
 - (e) the Programme Manual (which contains the forms of the Notes in global and definitive form); and
 - (f) the Issuer-ICSDs Agreement (which is entered into between the Issuer and Euroclear and/or Clearstream, Luxembourg with respect to the settlement in Euroclear and/or Clearstream, Luxembourg of Notes in New Global Note or NSS form).

Clearing of the Notes

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche

will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Issue Price and Yield

7. Notes may be issued at any price. The issue price of each Tranche of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions and the issue price of the relevant Notes or the method of determining the price and the process for its disclosure will be set out in the applicable Final Terms. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Notes set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

Passporting

8. In addition to the applications already described in this Base Prospectus, the Issuer may, on or after the date of this Base Prospectus, make applications for one or more further certificates of approval under Article 18 of the Prospectus Directive as implemented in Luxembourg to be issued by the CSSF to the competent authority in any Member State.

Dealers transacting with the Issuer

9. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

Unaudited Condensed Consolidated Interim Financial Statements of the Issuer as at and for the three month period ended 31 March 2017

Consolidated Interim Statement of Financial Position	F-4
Consolidated Interim Statement of Comprehensive Income	F-5
Consolidated Interim Statement of Changes in Equity	F-6
Consolidated Interim Statement of Cash Flows	F-8
Notes to the Consolidated Interim Financial Statements	F-9

Audited Financial Statements of the Issuer as at and for the year ended 31 December 2016

Independent Auditors' Report	F-17
Consolidated Statement of Financial Position	F-22
Consolidated Statement of Profit or Loss and Other Comprehensive Income	F-24
Consolidated Statement of Changes in Equity	F-25
Consolidated Statement of Cash Flows	F-27
Notes to the Consolidated Financial Statements	F-28

Audited Financial Statements of the Issuer as at and for the year ended 31 December 2015

Auditors' Report	F-86
Consolidated Statement of Financial Position	F-90
Consolidated Statement of Profit or Loss and Other Comprehensive Income	F-92
Consolidated Statement of Cash Flows	F-93
Consolidated Statement of Changes in Equity	F-94
Notes to the Consolidated Financial Statements	F-96

2017

LIETUVOS ENERGIJA UAB

CONSOLIDATED AND COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION

COMPANY'S CONDENSED INTERIM FINANCIAL INFORMATION FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017, PREPARED ACCORDING TO INTERNATIONAL ACCOUNTING STANDARD 34, 'INTERIM FINANCIAL REPORTING' AS ADOPTED BY THE EUROPEAN UNION (UNAUDITED)



Group of energy companies | www.le.lt

CONTENTS

CONDENSED INTERIM FINANCIAL INFORMATION

Condensed interim statements of financial position	3
Condensed interim statements of comprehensive income	4
Condensed interim statements if changes in equity	5 – 6
Condensed interim statements of cash flows	7
Notes to the condensed interim financial information	8 – 15

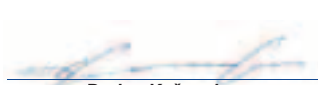
Translation note:

These condensed interim financial statements are 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 this document takes precedence over this translation.

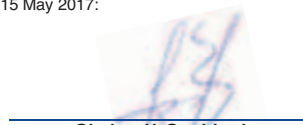
Condensed interim financial information was approved by Chief Executive Officer, Finance and Treasury Director and Head of Accounting Service Center of Verslo Aptarnavimo Centras UAB (acting under Order No IS17-20 of 22 February 2017) at 15 May 2017:



Dalius Misiūnas
Chief Executive Officer



Darius Kašauskas
Finance and Treasury Director



Giedruolė Guobienė
Head of Accounting Service Center
of Verslo Aptarnavimo Centras UAB
acting under Order No IS17-20 of 22
February 2017

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
At 31 March 2017

All amounts in thousands of euro unless otherwise stated

	Notes	Group		Company	
		2017.03.31	2016.12.31	2017.03.31	2016.12.31
ASSETS					
Non-current assets					
Intangible assets	3	28,060	32,261	-	-
Property, plant and equipment	3	1,771,384	1,770,814	352	348
Investment property		45,007	46,207	-	-
Investments in subsidiaries	4	-	-	1,177,229	1,172,187
Amounts receivable after one year		210,334	203,582	208,986	196,511
Other non-current assets		1,871	2,620	-	-
Deferred income tax asset		5,053	5,699	111	93
Total non-current assets		2,061,709	2,061,183	1,386,678	1,369,139
Current assets					
Inventories		37,873	38,117	-	-
Prepayments		21,753	6,967	1,082	5,011
Trade receivables		105,341	111,884	-	-
Other amounts receivable		20,961	29,363	63,436	14,294
Other current assets		4,384	4,606	-	-
Prepaid income tax		1,083	589	241	160
Short-term investments		-	-	3,768	4,902
Cash and cash equivalents		157,745	178,565	91	73
		349,140	370,091	68,618	24,440
Non-current assets held for sale		1,045	878	4,906	4,782
Total current assets		350,185	370,969	73,524	29,222
TOTAL ASSETS		2,411,894	2,432,152	1,460,202	1,398,361
EQUITY AND LIABILITIES					
Equity					
Share capital	5	1,212,156	1,212,156	1,212,156	1,212,156
Reserves		92,875	92,171	9,758	9,758
Retained earnings (deficit)		(16,258)	(35,952)	136,616	75,699
Equity attributable to owners of the parent		1,288,773	1,268,375	1,358,530	1,297,613
Non-controlling interests		49,783	51,172	-	-
Total equity		1,338,556	1,319,547	1,358,530	1,297,613
Liabilities					
Non-current liabilities					
Non-current borrowings	6	345,902	364,957	22,908	23,440
Finance lease liabilities		282	316	-	-
Grants and subsidies		282,573	284,929	-	-
Deferred income tax liabilities		42,518	40,481	-	-
Provisions	7	3,199	3,254	-	-
Deferred income		52,307	52,214	-	-
Other non-current amounts payable and liabilities		12,542	11,780	9,525	9,358
Total non-current liabilities		739,323	757,931	32,433	32,798
Current liabilities					
Current portion of long-term debts	6	84,843	90,008	2,131	2,131
Current borrowings	6	57,098	38,953	66,024	64,759
Current portion of finance lease liabilities		154	157	-	-
Trade payables		60,146	96,118	128	343
Advance amounts received		27,060	27,636	-	-
Income tax liabilities		12,957	9,355	-	-
Provisions	7	7,331	12,883	-	-
Other current amounts payable and liabilities		84,426	79,564	956	717
Total current liabilities		334,015	354,674	69,239	67,950
Total liabilities		1,073,338	1,112,605	101,672	100,748
TOTAL EQUITY AND LIABILITIES		2,411,894	2,432,152	1,460,202	1,398,361

The accompanying notes form an integral part of this condensed interim financial information.

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

	Notes	Group		Company	
		2017 m. I Q	2016 m. I Q	2017 m. I Q	2016 m. I Q
Revenue					
Sales revenue		302,825	328,052	631	821
Other income		6,795	7,047	-	-
Dividend revenue		-	-	61,455	30,311
Total revenue		309,620	335,099	62,086	31,132
Operating expenses					
Purchases of electricity, gas for trading and related services		(129,082)	(130,852)	-	-
Purchases of gas and heavy fuel oil		(96,615)	(95,430)	-	-
Depreciation and amortisation		(20,338)	(18,871)	-	(1)
Wages and salaries and related expenses		(20,185)	(22,216)	(983)	(743)
Repair and maintenance expenses		(3,880)	(4,556)	-	-
Revaluation of property, plant and equipment		(1,086)	-	-	-
Other expenses	8	(9,432)	(14,392)	(360)	(345)
Total operating expenses		(280,618)	(286,317)	(1,343)	(1,089)
Operating profit (loss)		29,002	48,782	60,743	30,043
Finance income		623	938	506	1,455
Finance costs		(1,425)	(1,975)	(365)	(262)
Profit (loss) before tax		28,200	47,745	60,884	31,236
Current year income tax (expense)/income		(3,500)	(6,541)	14	(166)
Deferred income tax (expense)/income		(2,681)	(5,924)	19	9
Net profit		22,019	35,280	60,917	31,079
Attributable to:					
Owners of the parent		20,398	32,026	60,917	31,079
Non-controlling interests		1,621	3,254	-	-
Other comprehensive income (loss)					
Items that will not be reclassified to profit or loss					
Gain (loss) on revaluation of non-current assets		-	-	-	-
Items that will not be reclassified to profit or loss, total		-	-	-	-
Items that will be reclassified to profit or loss					
Change in fair value of available-for-sale financial assets		-	(14)	-	(14)
Items that will be reclassified to profit or loss, total		-	(14)	-	(14)
Other comprehensive income (loss)		-	(14)	-	(14)
Total comprehensive income for the period		22,019	35,266	60,917	31,065
Attributable to:					
Owners of the parent		20,398	32,012	60,917	31,065
Non-controlling interests		1,621	3,254	-	-

The accompanying notes form an integral part of this condensed interim financial information.

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

Group	Notes	Equity attributable to owners of the Company					Total		
		Share capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings		Subtotal	Non-controlling interest
Balance at 1 January 2016		1,212,156	28,777	62,323	48	(49,264)	1,254,040	50,445	1,304,485
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	(14)	-	(14)	-	(14)
Total other comprehensive income (loss) for the period		-	-	-	(14)	-	(14)	-	(14)
Net profit for the period		-	-	32,026	-	32,026	32,026	3,254	35,280
Total comprehensive income for the period		-	-	-	(14)	32,026	32,012	3,254	35,266
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(1,166)	-	1,166	-	-	-
Transfer to reserves and movement in reserves		-	206	-	-	(206)	-	-	-
Dividends	9	-	-	-	-	-	-	(1,535)	(1,535)
Acquisition of shares from non-controlling interest		-	97	285	-	(556)	(174)	(767)	(941)
Acquisition of subsidiary (EURAKRAS UAB)		-	-	-	-	-	-	1,963	1,963
Balance at 31 March 2016		1,212,156	29,080	61,442	34	(16,834)	1,285,878	53,360	1,339,238
Balance at 1 January 2017		1,212,156	34,696	57,475	-	(95,952)	1,268,375	51,172	1,319,547
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	-	-	-	-	-
Total other comprehensive income (loss) for the period		-	-	-	-	-	-	-	-
Net profit for the period		-	-	20,398	-	20,398	20,398	1,621	22,019
Total comprehensive income for the period		-	-	-	-	20,398	20,398	1,621	22,019
Transfer of revaluation reserve to retained earnings (transfer of depreciation, net of deferred income tax)		-	-	(1,230)	-	1,230	-	-	-
Transfer to reserves and movement in reserves		-	1,934	-	-	(1,934)	-	-	-
Dividends	9	-	-	-	-	-	-	(3,010)	(3,010)
Balance at 31 March 2017		1,212,156	36,630	56,245	-	(16,258)	1,288,773	49,783	1,338,556

The accompanying notes form an integral part of this condensed interim financial information.

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

Company	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016		1,212,156	4,207	48	83,289	1,289,700
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	(14)	-	(14)
Total other comprehensive income for the period		-	-	(14)	-	(14)
Net profit for the period		-	-	-	31,079	31,079
Total comprehensive income for the period		-	-	(14)	31,079	31,065
Transfer to legal reserves		-	-	-	-	-
Balance at 31 March 2016		1,212,156	4,207	34	114,368	1,330,765
Balance at 1 January 2017		1,212,156	9,758	-	75,699	1,297,613
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	-	-
Total other comprehensive income (loss) for the period		-	-	-	-	-
Net profit for the period		-	-	-	60,917	60,917
Total comprehensive income for the period		-	-	-	60,917	60,917
Transfer to legal reserves		-	-	-	-	-
Balance at 31 March 2017		1,212,156	9,758	-	136,616	1,358,530

The accompanying notes form an integral part of this condensed interim financial information.

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

	Notes	Group		Company	
		2017 I Q	2016 I Q	2017 I Q	2016 I Q
Cash flows from operating activities					
Net profit for the period		22,019	35,280	60,917	31,079
Adjustments for non-monetary expenses (income):					
Depreciation and amortisation expenses	3	23,462	21,846	-	1
Impairment of property, plant and equipment		1,086	-	-	-
Revaluation of derivative financial instruments		1,492	-	-	-
Share of profit of associates and joint ventures		-	2	-	-
Impairment of financial assets (reversal of impairment)		(1,585)	586	-	-
Income tax expenses		6,181	12,465	(33)	157
(Depreciation) of grants		(3,124)	(2,975)	-	-
Increase (decrease) in provisions		(5,607)	(8,793)	-	-
Inventory write-down to net realizable value/ (reversal)		-	(20)	-	-
(Income) expenses on revaluation of emission allowances		3,417	4,744	-	-
(Gain) loss on disposal/write-off of property, plant and equipment		592	13	-	-
Elimination of results of financing and investing activities:					
Interest (income)		(427)	(805)	(506)	(1,456)
Interest expenses		1,355	1,424	206	146
Other finance (income) expenses		(126)	418	(61,296)	(30,194)
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		11,125	(2,410)	65	(253)
(Increase) decrease in inventories, prepayments and other current assets		(14,116)	30,355	-	(725)
Increase (decrease) in amounts payable, deferred income and advance amounts received		(18,886)	(51,243)	(551)	870
Income tax (paid)		(491)	(453)	-	-
Net cash flows from (used in) operating activities		26,367	40,434	(1,198)	(375)
Cash flows from investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(41,339)	(24,219)	(4)	-
Disposal of property, plant and equipment and intangible assets		1,490	1,274	-	-
Loans (granted)		-	-	(4,000)	(500)
Loans repaid		-	4,504	4,300	4,575
(Acquisition) disposal of subsidiaries		-	(33,158)	(165)	(34,985)
Grants received		-	8	-	-
Interest received		84	29	41	486
Net cash flows from (used in) investing activities		(39,765)	(51,562)	172	(30,424)
Cash flows from financing activities					
Proceeds from borrowings		13,038	44,357	1,265	25,571
Repayments of borrowings		(24,192)	(17,701)	-	-
Finance lease payments		(37)	(42)	-	-
Interest paid		(1,313)	(1,611)	(221)	(176)
Dividends paid		-	(124)	-	-
Net cash flows from (used in) financing activities		(12,504)	24,879	1,044	25,395
Increase (decrease) in cash and cash equivalents (including overdraft)		(25,902)	13,751	18	(5,404)
Cash and cash equivalents (including overdraft) at the beginning of the period		178,565	122,810	73	13,179
Cash and cash equivalents (including overdraft) at the end of the period		152,663	136,561	91	7,775

The accompanying notes form an integral part of this condensed interim financial information.

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

1 Accounting principles

Condensed interim financial information of the Lietuvos Energija UAB (hereinafter - the Company) and consolidated condensed interim financial information of the Company and its subsidiaries (hereinafter – the Group) for a three-month period ended 31 March 2017 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable to interim financial reporting (International Accounting Standard (IAS) 34, 'Interim financial reporting'). This unaudited condensed interim financial information should be read together with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS as adopted by the EU.

Financial year of Company and other Group companies coincides with the calendar year.

The accounting policies applied in the preparation of this condensed interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2016.

Income tax

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

New and amended standards, and interpretations

There are no new standards, amendments and interpretations that are mandatory for the Group and the Company with effect from 2017, and that would have a material impact on the Group's and Company's financial information.

The Group and Company's management do not believe the newly published standards, amendments and interpretations that are mandatory for the Group's and Company's reporting periods beginning on or after 1 January 2017 will have a material impact on the Group's and Company's financial statements.

Accounting policies applied to significant transactions within the Group in relation to the Group's restructuring are described in Note 2.

2 Critical accounting estimates and judgements used in the preparation of financial statements

Accounting estimates and judgments are continuously reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial information according to International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosures of contingencies. Changes in the underlying assumptions, estimates and judgments may have a material effect on this financial information. The accounting estimates applied in preparing the condensed interim financial information are consistent with those used in preparing the annual financial statements for the year ended 31 December 2016.

3 Intangible assets and property, plant and equipment

Movement on Group's account of intangible assets and property, plant and equipment is presented below:

Group	Intangible assets	Property, plant and equipment
Net book value at the beginning of the period	32,261	1,770,814
Acquisitions	245	25,908
Sales	-	(249)
Write-offs/Emission allowances utilised	(1)	(703)
Impairment/reversal of impairment	-	(1,086)
Emission allowances grants received	110	-
Revaluation of emission allowances	(3,417)	-
Reclassification (to) finance lease	-	(609)
Reclassification from other assets to property, plant and equipment/intangible assets	38	(38)
Reclassification to assets held for sale	-	(369)
Reclassification from investment property	-	(9)
Reclassification from inventories	-	11
Depreciation/amortisation	(1,176)	(22,286)
Net book value at the end of the period	28,060	1,771,384

Movement on Company's account of intangible assets and property, plant and equipment is presented below:

Company	Intangible assets	Property, plant and equipment
Net book value at the beginning of the period	-	348
Acquisition	-	4
Net book value at the end of the period	-	352



Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

4 Investments in subsidiaries and other investments

Movement of the Company's account of investments in subsidiaries during 1 quarter of 2017 is presented below:

Company	Investments in subsidiaries
Net book value at the beginning of the period	1,172,187
Increase and payment of share capital	5,165
Reclassification to Non-current assets held for sale	(123)
Net book value at the end of the period	1,177,229

Changes in share capital and acquisition of subsidiaries

Increase and reduction of share capital of the Group's company's, recoupment of operating losses, payments for increase of share capital during the period from 1 January to 31 March 2017 and balances of unpaid share capital as at 31 March 2017:

Subsidiary	Issue date	Amount of shares, pcs*	Nominal price	Nominal value of issued shares, EUR'000	Paid during 2017 IQ	Unpaid by 31 March 2017	Date of articles amendment
Increase and reduction of share capital							
UAB Vilniaus kogeneracinė jėgainė	19 December 2016	68,965,518	0,29	20,000	5,000	-	19 January 2017
UAB Energijos Sprendimų centras	29 August 2016	520,000	1,00	520	165	7	7 September 2016
Total					5,165	7	

* there is stated amount of shares that belong to the Company

At 19 December 2016 the Company paid EUR 5,000 thousand of UAB Vilniaus kogeneracinė jėgainė contribution in authorized capital. New Articles of Association of UAB Vilniaus kogeneracinė jėgainė, related to the increase of the authorized capital, are registered by state Register of Legal Entities at 19 January 2017, consequently, EUR 5,000 thousand, at 31 December 2016 accounted for as Prepayments, in 2017 were reclassified to the Company's Investments in subsidiaries.

Decision to sell VšĮ Energetikų mokymų centras

At 2 February 2017 the shareholder of the Company has decided to start selling procedure VšĮ Energetikų mokymų centras. At 31 March 2017 investment in VšĮ Energetikų mokymų centras is accounted for as "Non-current assets held for sale" in the statement of financial position. Book value of the investment at 31 March 2017 amounts to 123 thousand EUR. The Company's assessment shows that carrying amount of the investment does not exceed the potential selling price, net of the sale costs.

Decision to sell Duomenų logistikos centras, UAB

In November 2016 the shareholder of the Company has decided to start selling procedure of Duomenų Logistikos Centras, UAB, decision is aimed on further Group concentration on the main activities. Disposal process is expected to be finished by the middle of 2017. At 31 December 2016 investment in Duomenų Logistikos Centras is accounted for as "Non-current assets held for sale" in the statement of financial position. Book value of the investment at 31 March 2017 amounts to 4,705 thousand EUR. The Company's assessment shows that carrying amount of the investment does not exceed the potential selling price, net of the sale costs.

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
 NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
 For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

4 Investments in subsidiaries and other investments (continued)

As at 31 March 2017 the Company's investments in subsidiaries comprised:

Company name	Acquisition cost	Impairment	Contributions against loss	Carrying amount	Ownership interest (%)	Effective Group ownership interest (%)
AB Energijos Skirstymo Operatorius	710,921	-	-	710,921	94.98	94.98
Lietuvos energijos gamyba, AB	299,935	-	-	299,935	96.75	96.75
UAB EURAKRAS	17,058	-	-	17,058	75.00	75.00
UAB Lietuvos dujų tiekimas	8,369	-	-	8,369	100.00	100.00
NT Valdos, UAB	89,377	(9,036)	-	80,341	100.00	100.00
UAB Technologijų ir inovacijų centras	3,218	-	-	3,218	50.00	97.80
UAB Energetikos paslaugų ir rangos organizacija	9,137	(7,320)	-	1,817	100.00	100.00
Tuulenergia OU	6,659	-	-	6,659	100.00	100.00
Energijos tiekimas, UAB	23,906	-	-	23,906	100.00	100.00
UAB LITGAS	12,641	(785)	-	11,856	100.00	100.00
UAB Elektroninių mokėjimų agentūra	758	-	-	758	100.00	100.00
UAB Verslo aptarnavimo centras	295	-	-	295	51.00	97.00
UAB VAE SPB	1,014	(1,369)	445	90	100.00	100.00
UAB Vilniaus kogeneracinė jėgainė	6,003	-	-	6,003	100.00	100.00
UAB Energijos Sprendimų centras	513	-	-	513	100.00	100.00
UAB Kauno kogeneracinė jėgainė	5,487	-	-	5,487	51.00	51.00
Lietuvos energijos paramos fondas	3	-	-	3	100.00	100.00
	1,195,294	(18,510)	445	1,177,229		

As at 31 December 2016 the Company's investments in subsidiaries comprised:

Company name	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Ownership interest (%)	Effective Group ownership interest (%)
AB Energijos Skirstymo Operatorius	710,921	-	-	710,921	94.98	94.98
Lietuvos energijos gamyba, AB	299,935	-	-	299,935	96.75	96.75
UAB EURAKRAS	17,058	-	-	17,058	75.00	75.00
UAB Lietuvos dujų tiekimas	8,369	-	-	8,369	100.00	100.00
NT Valdos, UAB	89,377	(9,036)	-	80,341	100.00	100.00
UAB Technologijų ir inovacijų centras	3,218	-	-	3,218	50.00	97.80
UAB Energetikos paslaugų ir rangos organizacija	9,137	(7,320)	-	1,817	100.00	100.00
Tuulenergia OU	6,659	-	-	6,659	100.00	100.00
Energijos tiekimas, UAB	23,906	-	-	23,906	100.00	100.00
UAB LITGAS	12,641	(785)	-	11,856	100.00	100.00
VšĮ Energetikų mokymų centras	309	(186)	-	123	100.00	100.00
UAB Elektroninių mokėjimų agentūra	758	-	-	758	100.00	100.00
UAB Verslo aptarnavimo centras	295	-	-	295	51.00	97.00
UAB VAE SPB	1,014	(1,369)	445	90	100.00	100.00
UAB Vilniaus kogeneracinė jėgainė	1,003	-	-	1,003	100.00	100.00
UAB Energijos Sprendimų centras	348	-	-	348	100.00	100.00
UAB Kauno kogeneracinė jėgainė	5,487	-	-	5,487	51.00	51.00
Lietuvos energijos paramos fondas	3	-	-	3	100.00	100.00
	1,190,438	(18,696)	445	1,172,187		

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

5 Share capital

As at 31 March 2017 and 31 December 2016 the Company's share capital comprised EUR 1,212,156,294. As at 31 March 2017 and 31 December 2016 the Company's share capital was divided in to 4,179,849,289 ordinary shares with par value EUR 0,29 each.

As at 31 March 2017 and 31 December 2016 share capital was fully paid.

6 Borrowings

	Group		Company	
	2017.03.31	2016.12.31	2017.03.31	2016.12.31
Non-current				
Bank borrowings	345,902	364,957	22,908	23,440
Current				
Current portion of non-current borrowings	84,843	90,008	2,131	2,131
Current borrowings	52,014	38,948	43,038	38,948
Loans from related parties (cash pool)	-	-	22,986	25,811
Bank overdrafts	5,082	-	-	-
Accrued interest	2	5	-	-
Total borrowings	487,843	493,918	91,063	90,330

All borrowings of the Group bear variable interest rates with repricing intervals of up to 6 months.

7 Provisions

	Group		Company	
	2017.03.31	2016.12.31	2017.03.31	2016.12.31
Non-current	3,199	3,254	-	-
Current	7,331	12,883	-	-
Carrying amount	10,530	16,137	-	-

Group	Emission allowance liabilities	Provisions for employee benefits	Provisions for onerous contracts	Total
At 1 January 2017	1,316	4,529	10,292	16,137
Increase (decrease) during the period	-	-	-	-
Utilised during the period	32	(795)	(4,436)	(5,199)
Increase (decrease) due to change in assumptions	(378)	(30)	-	(408)
At 31 March 2017	970	3,704	5,856	10,530

Provisions for onerous gas supply contracts at the end of 2016 amounted to EUR 10,292 thousand. Upon acquisition of natural gas supply operations, the Group company Lietuvos Dujų Tiekimas UAB assumed an obligation to transfer the discount, which was received retrospectively on natural gas import price during January 2013–April 2014, to the end users in future periods. As at 31 March 2017 the Group adjusted the adjusted provision in respect of onerous part of contracts for household and non-household users in amount of EUR 4,436 thousand by taking into account the prerequisites for the execution of the contracts at the financial reporting date.

8 Other expenses

	Group		Company	
	2017 1 Q	2016 1 Q	2017 1 Q	2016 1 Q
Revaluation and provisions of emission allowances	3,776	5,952	-	-
Taxes	1,747	1,716	6	8
Customer service	987	962	-	-
Motor vehicles	937	808	24	29
Telecommunication and IT services	872	742	58	45
Write-offs of property, plant and equipment	702	574	-	-
Utility services	648	666	14	19
Rent	331	546	32	45
Expenses of low-value inventory items	191	214	-	-
Personnel development	121	92	14	17
Consulting services	101	186	37	82
Business trips	88	97	7	13
Public relations and marketing	68	131	18	16
Impairment of inventories (reversal)	(31)	(20)	-	-
Impairment/(Reversal) of impairment of receivables	(1,585)	388	-	-
Business support services	-	-	66	39
Other expenses	479	1,338	84	32
	9,432	14,392	360	345

9 Dividends

Group's companies declared dividends during the period from 1 January to 31 March 2017:

Announcement Date	Dividends declared by	Dividends distributed for the period	Dividends per share, Eur	Amount of dividends declared	The Company's dividend revenue	Dividends allocated to the non – controlling interest
24 March 2017	AB Energijos Skirstymo Operatorius	July – December 2016	0.05786	51,763	49,166	2,597
24 March 2017	Lietuvos energijos gamyba, AB	July – December 2016	0.02	12,702	12,289	413
				64,465	61,455	3,010

Group's companies declared dividends during the period from 1 January to 31 March 2016:

Announcement Date	Dividends declared by	Dividends distributed for the period	Dividends per share, Eur	Amount of dividends declared	The Company's dividend revenue	Dividends allocated to the non – controlling interest
29 March 2016	AB Energijos Skirstymo Operatorius	July – December 2015	0.0342	30,596	29,061	1,535
30 March 2016	NT Valdos UAB	2015 year	0.4231	1,250	1,250	-
				31,846	30,311	1,535

The Company did not announce distribution of dividends during first quarter of 2017 and 2016.

10 Transactions with related parties

As at 31 March 2017 and 31 December 2016 the parent company was the Republic of Lithuania represented by Ministry of Finance. For the purpose of disclosure of related parties, the Republic of Lithuania does not include central and local government authorities. The disclosures comprise transactions and their balances with the parent company, subsidiaries (Company's transactions), associates and all entities controlled by or under significant influence of the state (transactions with these entities are disclosed only if they are material), and management.

Group's transactions with related parties

The Group's transactions with related parties during the period from 1 January to 31 March 2017 and balances arising on these transactions as at 31 March 2017 are presented below:

Related party	Amount payable	Amounts receivable	Finance income	Sales	Finance expenses	Purchases
	2017.03.31	2017.03.31	2017 I Q	2017 I Q	2017 I Q	2017 I Q
EPSO-G, UAB	-	202,307	378	3	-	-
Litgrid AB	11,576	5,487	-	12,783	41	28,895
BALTPPOOL UAB	13,519	14,632	-	22,270	-	23,128
TETAS, UAB	2,837	382	9	369	-	2,945
LITGRID Power Link Service, UAB	-	10	-	25	-	-
Amber Grid, AB	6,123	3,209	-	7,981	-	7,500
GET Baltic	-	267	-	125	-	278
Group's associates and other related parties	-	130	2	28	-	55
Total	34,055	226,424	389	43,584	41	62,801

The Group's transactions with related parties during the period from 1 January to 31 March 2016 and balances arising on these transactions as at 31 December 2016 are presented below:

Related party	Amounts payable	Amounts receivable	Finance income	Sales	Finance expenses	Purchases
	2016.12.31	2016.12.31	2016 I Q	2016 I Q	2016 I Q	2016 I Q
EPSO-G UAB	-	210,414	789	2	-	-
Litgrid AB	11,429	5,058	-	12,396	-	26,898
BALTPPOOL UAB	14,945	3,941	-	16,346	-	27,789
TETAS UAB	4,132	337	-	291	-	2,004
LITGRID Power Link Service, UAB	-	19	-	175	-	-
AB Amber Grid	5,669	3,430	-	28	-	9,715
GET Baltic	745	2,538	-	-	-	-
Group's associates and other related parties	-	295	-	32	-	770
Total	36,920	226,032	789	29,095	-	67,176

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

10 Transactions with related parties (continued)

Company's transactions with related parties

The Company's transactions with related parties during the period from 1 January to 31 March 2017 and balances arising on these transactions as at 31 March 2017 are presented below:

Related parties	Loans payable 2017.03.31	Amounts payable 2017.03.31	Loans receivable 2017.03.31	Amounts receivable 2017.03.31	Finance income 2017 I Q	Sales 2017 I Q	Finance expenses 2017 I Q	Purchases 2017 I Q
Subsidiaries								
AB Energijos Skirstymo Operatorius	229	5,334	-	49,366	49,166	251	(30)	-
Lietuvos energijos gamyba AB	12,921	3,891	-	13,414	12,289	92	(39)	-
UAB Lietuvos dujų tiekimas	-	-	-	5	-	26	(4)	-
NT Valdos, UAB	4,650	39	-	24	-	33	(7)	(89)
UAB Energetikos paslaugų ir rangos organizacija	-	-	625	6,341	14	27	-	-
UAB Verslo aptarnavimo centras	-	30	-	22	-	29	-	(72)
Energijos tiekimas UAB	-	-	-	18	2	36	-	-
UAB LITGAS	2,676	1	-	15	-	28	(1)	-
UAB Technologijų ir inovacijų centras	-	26	-	8	-	19	-	(56)
UAB VAE SPB	-	-	-	1	-	1	-	-
VšĮ Energetikų mokymų centras	-	-	-	1	-	4	-	-
Tuulenergia OU	-	-	4,927	57	81	-	-	-
UAB Duomenų logistikos centras	-	55	-	2	-	6	-	-
UAB EURAKRAS	1,172	1	-	11	31	2	(2)	-
UAB Vilniaus kogeneracinė jėgainė	1,338	1	-	7	-	14	(1)	-
UAB Elektroninių mokėjimų agentūra	-	-	-	20	-	7	-	-
UAB Kauno kogeneracinė jėgainė	-	-	-	50	-	41	(1)	-
UAB Energijos Sprendimų centras	-	-	-	20	-	16	-	-
Other related parties								
EPSO-G UAB	-	-	-	202,307	378	-	-	-
Total	22,986	9,378	5,552	271,689	61,961	632	(85)	(217)

During the period from 1 January to 31 March 2017 the Company accounted for EUR 61,455 thousand of dividend revenue from subsidiaries.

The Company's transactions with related parties during the period from 1 January to 31 March 2016 and balances arising on these transactions as at 31 December 2016 are presented below:

Related parties	Amounts payable 2016.12.31	Amounts receivable 2016.12.31	Finance income 2016 I Q	Sales 2016 I Q	Finance expenses 2016 I Q	Purchases 2016 I Q
Subsidiaries						
AB Energijos Skirstymo Operatorius	5,823	235	29,061	452	111	-
„Lietuvos energijos gamyba“ AB	17,202	1,099	-	182	87	-
UAB Lietuvos dujų tiekimas	6,008	24	-	83	-	-
NT Valdos, UAB	4,946	33	1,250	50	-	87
UAB Energetikos paslaugų ir rangos organizacija	-	2,967	-	39	-	-
UAB Verslo aptarnavimo centras	79	26	-	-	-	40
Energijos tiekimas UAB	-	28	-	5	-	-
UAB LITGAS	-	18	590	-	-	-
UAB Technologijų ir inovacijų centras	62	20	-	-	-	43
UAB VAE SPB	-	1	-	-	-	-
VšĮ Energetikų mokymų centras	-	2	-	-	-	-
Tuulenergia OU	-	4,902	49	-	-	-
UAB Duomenų logistikos centras	54	7	8	11	-	-
UAB EURAKRAS	1,067	14	-	-	-	-
UAB Vilniaus kogeneracinė jėgainė	-	5,011	-	-	-	-
UAB Elektroninių mokėjimų agentūra	-	11	-	-	-	-
UAB Kauno kogeneracinė jėgainė	-	80	-	-	-	-
Other related parties						
EPSO-G UAB	-	210,410	789	-	-	-
Total	35,241	224,888	31,747	822	198	170

During the period from 1 January to 31 March 2016 the Company accounted for EUR 30,311 thousand of dividend revenue from subsidiaries.

Lietuvos energija, UAB, Company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

10 Transactions with related parties (continued)

Management compensation:

	Group		Company	
	2017 I Q	2016 I Q	2017 I Q	2016 I Q
Salaries and other short-term benefits	950	747	180	124
Whereof: Termination benefits and benefits to Board Members	110	65	18	-
Number of management staff	67	70	11	10

Management includes heads of administration and their deputies.

11 Segment reporting

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

In the opinion of the Management, the Group has three operating segments:

- Supply and distribution of electricity, gas distribution (running by Energijos Skirstymo Operatorius, AB);
- Electricity generation (running by Lietuvos Energijos Gamyba AB, Eurakras UAB, Tuuleenergia OU);
- Electricity and gas trade (running by Lietuvos Dujų Tiekimas UAB, Energijos Tiekimas UAB, Litgas UAB).

To Other segments are allocated:

- support services (NT Valdosa UAB, Technologijų ir Inovacijų centras UAB, Verslo aptarnavimo centras UAB);
- other non-core activities (UAB Energetikos paslaugų ir rangos organizacija, Duomenų logistikos centras, UAB, VŠĮ Energetikų mokymo centras);
- special purpose entities which are responsible for implementation of assigned projects and construction of new cogeneration plants (VAE SPB UAB, Kauno Kogeneracinė Jėgainė UAB and Vilniaus Kogeneracinė jėgainė);
- service entities (Elektroninių mokėjimų agentūra, UAB, UAB Energijos Sprendimų centras);
- also parent company Lietuvos Energija UAB, which does not constitute separate operating segment, however is disclosed separately, as its net profit exceeds 10% of net profit of all profit reporting segments. Support service entities and special purpose entities are aggregated as none of them individually meet criteria of an operating segment.

The Group has single geographical segment – Republic of Lithuania, electricity sales in Latvia and Estonia are considered not significant. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of revenue and expenses. The primary performance measure is EBITDA, which is calculated based on the financial statements in accordance with IFRS and adjusted to selected items which are not recognized under IFRS. The Board of the group does not monitor assets and liabilities of the segments.

Group information about operating segments during I quarter of 2017 is provided below:

2017 I Q	Supply and distribution of electricity, gas distribution	Electricity generation	Electricity and gas trade	Other segments		Elimination of intercompany transactions and consolidation eliminations	Total
				Parent Company	Other segments		
Revenue from external customers	152,348	26,191	113,592	-	5,465	12,024	309,620
Revenue from other segments	16,138	8,138	32,273	62,086	11,525	(130,160)	-
Total revenue	168,486	34,329	145,865	62,086	16,990	(118,136)	309,620
Expenses	(134,867)	(28,448)	(153,932)	(1,343)	(17,389)	55,361	(280,618)
Including:							
Depreciation and amortization	(12,223)	(5,715)	(282)	-	(1,990)	(128)	(20,338)
Impairments and write-offs	749	(4,872)	(49)	-	29	-	(4,143)
Unrealized gain (loss) on revaluation of derivatives	-	-	(1,492)	-	-	-	(1,492)
Management adjustments*	1,829	-	14,504	-	-	-	16,333
EBITDA	46,922	16,468	8,260	60,743	1,562	(62,647)	71,308
Operating profit (loss)	33,619	5,881	(8,067)	60,743	(399)	(62,775)	29,002
Interest income	26	37	39	506	16	(197)	427
Interest (expenses)	(416)	(650)	(145)	(206)	(136)	198	(1,355)
Other financial income (expenses)	219	128	(9)	(159)	(51)	(2)	126
Profit (loss) before income tax	33,448	5,396	(8,182)	60,884	(570)	(62,776)	28,200
Income tax	(4,942)	(483)	(691)	33	(212)	114	(6,181)
Net profit (loss)	28,506	4,913	(8,873)	60,917	(782)	(62,662)	22,019
Total assets	1,113,503	872,720	152,808	1,460,202	189,413	(1,376,752)	2,411,894

Lietuvos energija, UAB, Company code 301844044, Žveju g. 14, LT-09310 Vilnius, Lithuania
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
For the three-month period ended 31 March 2017

All amounts in thousands of euro unless otherwise stated

11 Segment reporting (continued)

Group information about operating segments during I quarter of 2016 is provided below:

2016 I Q	Supply and distribution of electricity, gas distribution	Electricity generation	Electricity and gas trade	Other segments		Elimination of intercompany transactions and consolidation eliminations	Total
				Parent Company	Other segments		
Revenue from external customers	164,571	49,944	122,023	1	5,890	(7,330)	335,099
Revenue from other segments	17,881	5,515	20,275	31,131	11,917	(86,719)	-
Total revenue	182,452	55,459	142,298	31,132	17,807	(94,049)	335,099
Expenses	(145,808)	(36,136)	(127,684)	(1,089)	(19,177)	43,577	(286,317)
<i>Including:</i>							
<i>Depreciation and amortization</i>	(11,072)	(5,826)	(27)	-	(1,970)	24	(18,871)
<i>Impairments and write-offs</i>	(1,149)	(5,857)	18	-	(10)	-	(6,998)
<i>Unrealized gain (loss) on revaluation of derivatives</i>	-	-	102	-	-	-	102
<i>Management adjustments*</i>	(6,108)	-	(990)	-	-	-	(7,098)
EBITDA	42,757	31,006	13,531	30,043	610	(50,496)	67,451
Operating profit (loss)	36,644	19,323	14,614	30,043	(1,370)	(50,472)	48,782
Interest income	51	62	29	1,455	-	(792)	805
Interest (expenses)	(473)	(850)	(675)	(145)	(81)	800	(1,424)
Other financial income (expenses)	149	(431)	26	(117)	(37)	(8)	(418)
Profit (loss) before income tax	36,371	18,104	13,994	31,236	(1,488)	(50,472)	47,745
Income tax	(5,573)	(3,884)	(2,821)	(157)	(117)	87	(12,465)
Net profit (loss)	30,798	14,220	11,173	31,079	(1,605)	(50,385)	35,280
Total assets at 31 March 2016	1,052,723	904,953	125,742	1,421,901	153,780	(1,311,300)	2,347,799

*Management adjustments applied while arriving at EBITDA are related to Gazprom gas price reduction and excessive profits from regulated activities recognition (Electricity and gas trade segment).

12 Events after the reporting period

Declared dividends

Based on the Lithuanian Finance Ministry's Order issued on 12 April 2017, the Company's set of consolidated financial statements for 2016 was approved, and EUR 59,752 thousand dividends for the state-owned shares of the Company for period of 2016 July – December were declared.

The ordinary general meeting of shareholders of Energijos tiekimas UAB was held on 4 April 2017 where it was decided to approve the profit appropriation for 2016 and distribution of EUR 10,000 thousand dividends. Dividends attributable to the Company amount to EUR 10,000 thousand.

The ordinary general meeting of shareholders of UAB LITGAS was held on 3 April 2017 where it was decided to approve the profit appropriation for 2016 and distribution of EUR 3,000 thousand dividends. Dividends attributable to the Company amount to EUR 3,000 thousand.



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

Independent auditor's report

To the shareholder of Lietuvos Energija UAB

Our opinion

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

What we have audited

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

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

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania

T: +370 (5) 239 2300, F: +370 (5) 239 2301, Email: vilnius@lt.pwcc.com, www.pwcc.com/lt

PricewaterhouseCoopers UAB, company code 111473315, is a private company registered with the Lithuanian Register of Legal Entities.



Other information

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



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

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

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

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
General Manager
Auditor's Certificate No.000457

Vytenis Lazauskas
Auditor's Certificate No.000536

Vilnius, Republic of Lithuania
3 April 2017



CONSOLIDATED AND
COMPANY'S FINANCIAL
STATEMENTS

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS

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

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



Dalius Misiūnas
Chief Executive Officer



Darius Kašauskas
Finance and Treasury Director



Giedruolė Guobienė
Verslo Aptarnavimo Centras UAB, Head of
Accounting Services Centre acting under Order No
ISI7-20 of 22 February 2017



Lietuvos Energija UAB, company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

All amounts in EUR thousands unless otherwise stated

	Notes	31 December 2016	Group 31 December 2015
ASSETS			
Non-current assets			
Intangible assets			
Property, plant and equipment	5	32,261	21,539
Investment property	6	1,770,814	1,631,117
Amounts receivable after one year	7	46,207	48,519
Other non-current assets	9	203,582	244,426
Deferred income tax assets	10	2,620	3,288
	20	5,699	6,488
Total non-current assets		2,061,183	1,955,377
Current assets			
Inventories	11	38,117	39,974
Prepayments	11	6,967	40,170
Trade receivables	12	111,884	107,066
Other amounts receivable	13,14	29,363	20,977
Other current assets	26	4,606	798
Prepaid income tax		589	5,757
Short-term investments	15	-	4,561
Cash and cash equivalents	16	178,565	164,341
		370,091	383,644
		878	209
Non-current assets held for sale		370,969	383,853
Total current assets		2,432,152	2,339,230
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Equity			
Share capital	17	1,212,156	1,212,156
Reserves	18	92,171	91,148
Retained earnings (accrued deficit)		(35,952)	(49,264)
Equity attributable to owners of the parent		1,268,375	1,254,040
Non-controlling interests		51,172	50,445
Total equity		1,319,547	1,304,485
Liabilities			
Non-current liabilities			
Non-current borrowings	19	364,957	277,805
Finance lease liabilities		316	473
Grants and subsidies	21	284,929	296,437
Deferred income tax liabilities	20	40,481	26,648
Provisions	23	3,254	5,084
Deferred revenue	22	52,214	53,602
Other non-current amounts payable and liabilities	24	11,780	9,033
Total non-current liabilities		757,931	669,062
Current liabilities			
Current portion of non-current borrowings	19	90,008	99,023
Current borrowings	19	38,953	43,232
Current portion of finance lease liabilities		157	155
Trade payables	25	96,118	92,119
Advance amounts received		27,636	39,386
Income tax liabilities		9,355	1,314
Provisions	23	12,883	23,333
Other current amounts payable and liabilities	26	79,564	67,101
Total current liabilities		354,674	365,663
Total liabilities		1,112,605	1,034,745
TOTAL EQUITY AND LIABILITIES		2,432,152	2,339,230



Lietuvos Energija UAB, company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

All amounts in EUR thousands unless otherwise stated

	Notes	Company	
		31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	348	286
Investments in subsidiaries	8	1,172,187	1,102,286
Amounts receivable after one year	9	196,511	238,975
Deferred income tax assets	20	93	50
Total non-current assets		1,369,139	1,341,597
Current assets			
Prepayments	12	5,011	6
Other amounts receivable	13,14	14,294	4,760
Prepaid income tax		160	-
Short-term investments	15	4,902	4,561
Cash and cash equivalents	16	73	13,179
		24,440	22,506
Non-current assets held for sale		4,782	77
Total current assets		29,222	22,583
TOTAL ASSETS		1,398,361	1,364,180
EQUITY AND LIABILITIES			
Equity			
Share capital	17	1,212,156	1,212,156
Reserves	18	9,758	4,255
Retained earnings (accumulated deficit)		75,699	83,289
Total equity		1,297,613	1,299,700
Liabilities			
Non-current liabilities			
Non-current borrowings	19	23,440	-
Other non-current amounts payable and liabilities	24	9,358	17,873
Total non-current liabilities		32,798	17,873
Current liabilities			
Current portion of non-current borrowings	19	2,131	-
Current borrowings	19	64,759	-
Trade payables	25	343	443
Advance amounts received		-	28
Income tax liabilities		-	223
Other current amounts payable and liabilities	26	717	45,913
Total current liabilities		67,950	46,607
Total liabilities		100,748	64,480
TOTAL EQUITY AND LIABILITIES		1,398,361	1,364,180

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2016	2015	2016	2015
Revenue					
Revenue	27,38	1,070,542	1,048,021	1,802	1,992
Other revenue	28	31,098	47,745	2	2
Dividends	35	-	-	69,525	93,825
Total revenue		1,101,630	1,095,766	71,329	95,819
Operating expenses					
Purchases of electricity, gas for trade and related services	29	(691,738)	(761,490)	-	-
Purchases of gas and heavy fuel oil for production		(35,689)	(12,511)	-	-
Depreciation and amortisation	5,6,21	(78,518)	(74,237)	(9)	(9)
Wages and salaries and related expenses		(86,065)	(93,705)	(3,372)	(2,735)
Repair and maintenance expenses		(22,765)	(27,196)	-	-
Revaluation of Property, plant and equipment, and investment property	6,7	336	(1,277)	-	-
Reversal of impairment of investments in subsidiaries	8	-	-	20,869	16,216
Impairment of Property, plant and equipment	6	(566)	(30,133)	-	-
Other expenses	30	(39,274)	(30,124)	(5,973)	(1,771)
Total operating expenses		(954,279)	(1,030,673)	11,521	11,707
Finance income	31	3,720	5,632	13,526	6,060
Finance costs	32	(6,856)	(6,549)	(1,232)	(2,321)
Profit (loss) before tax		144,215	64,176	95,144	111,265
Current year income tax expense	34	(13,373)	(2,140)	(23)	(262)
Deferred income tax (expense)/benefit	20, 34	(12,404)	(6,740)	34	14
Net profit (loss)		118,438	55,296	95,155	111,017
Attributable to:					
Owners of the parent		108,105	49,216	95,155	111,017
Non-controlling interests		10,333	6,080	-	-
	Notes	Group		Company	
		2016	2015	2016	2015
Other comprehensive income (loss) Items that will not be reclassified subsequently to profit or loss					
Gain (loss) on revaluation of non-current assets		385	1,080	-	-
Items that will not be reclassified subsequently to profit or loss, total		385	1,080	-	-
Items that will be reclassified subsequently to profit or loss					
Change in fair value of available-for-sale financial assets		(48)	(26)	(48)	(26)
Items that will be reclassified subsequently to profit or loss, total		(48)	(26)	(48)	(26)
Other comprehensive income (loss)		337	1,054	(48)	(26)
Total comprehensive income (loss) for the year		118,775	56,350	95,107	110,991
Attributable to:					
Owners of the parent		108,442	50,256	95,107	110,991
Non-controlling interests		10,333	6,094	-	-



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

All amounts in EUR thousands unless otherwise stated

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



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

All amounts in EUR thousands unless otherwise stated

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



STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

	Notes	Group		Company	
		2016	2015	2016	2015
Cash flows from operating activities					
Net profit for the year		118,438	55,296	95,155	111,017
Adjustments for non-monetary expenses (Income):					
Depreciation and amortisation	5,6	90,925	86,439	3	3
Impairment of intangible assets and property, plant and equipment	6,21	566	30,133	-	-
Impairment of financial assets	7	1,019	(2,289)	-	-
Result of revaluation of property, plant and equipment		(214)	1,407	-	-
Revaluation of derivative financial instruments	26	(122)	(130)	-	-
Impairment of investments in subsidiaries and associates/(reversal)	30	(2,036)	-	-	-
Share of (profit) of associates and joint ventures	8	-	13	(20,869)	(16,216)
(Gain) loss on disposal of investments in subsidiaries and associates					
Income tax expense (benefit)	34	25,777	8,880	-	-
(Depreciation) of grants	21	(12,407)	(12,202)	(11)	248
Increase (decrease) in provisions		(10,481)	13,819	-	-
Inventory write-down expenses (income)	11	275	(1,077)	-	-
(Gain) loss on disposal/write-off of non-current assets (other than financial assets)					
Emission allowance revaluation expenses (income)		2,285	3,710	(9)	-
Emission allowances utilised	5	3,246	(970)	-	-
Elimination of results of financing and investing activities:					
Interest (income)	31	(2,858)	(4,957)	(3,871)	(6,060)
Interest expenses	32	5,760	4,456	732	419
Other finance (income) costs		234	1,418	(78,680)	(91,925)
Changes in working capital:					
(Increase) decrease in trade receivables and other amounts receivable		3,803	26,902	3,265	(3,315)
(Increase) decrease in inventories, prepayments and other current assets		31,057	(16,209)	(5)	(3)
Increase (decrease) in amounts payable, deferred income and advance amounts received		(3,188)	(60,158)	1,191	322
Income tax (paid)		(2,229)	(12,624)	(255)	-
Net cash flows from (used in) operating activities		251,692	125,428	(3,354)	(5,508)
Cash flows from investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(172,946)	(148,722)	(65)	(280)
Disposal of property, plant and equipment and intangible assets		4,327	306	-	-
Loans (granted)	9,15	-	-	(5,191)	-
Loan repayments received		29,201	96	29,500	-
(Acquisition) disposal of investments in subsidiaries and associates	8, 26	(27,378)	125	(104,726)	(54,627)
Grants received		2,157	9,362	-	-
Bonds redeemed		4,534	145	4,534	131
Interest received		2,858	4,629	4,289	6,507
Change in non-controlling interest resulting from changes in the Group's structure		-	(320)	-	-
Dividends received	35	-	-	69,525	93,825
Net cash flows from (used in) investing activities		(157,247)	(134,379)	(2,134)	45,556
Cash flows from financing activities					
Proceeds from borrowings		172,189	282,048	90,330	-
Repayments of borrowings		(96,689)	(282,031)	-	-
Finance lease payments		(165)	120	-	-
Interest paid		(5,760)	(4,329)	(754)	(372)
Dividends paid	35	(100,537)	(82,055)	(97,194)	(57,844)
Increase in share capital of Kauno Kogeneracine Jégaime UAB		1,317	-	-	-
Acquisition of non-controlling interest		(9,055)	-	-	-
Net cash flows from (used in) financing activities		(38,690)	(66,227)	(7,618)	(58,216)
Increase (decrease) in cash and cash equivalents (including overdraft)		55,755	(75,178)	(13,106)	(18,168)
Cash and cash equivalents (including overdraft) at the beginning of the year	16	122,810	197,988	13,179	31,347
Cash and cash equivalents (including overdraft) at the end of the year	16	178,565	122,810	73	13,179

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

All amounts in EUR thousands unless otherwise stated

1 General information

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

Annual Improvements to IFRSs 2012 (effective for annual periods beginning on or after 1 February 2015). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately performance condition and service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. The changes did not have material impact on the financial statements.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The Group has considered the clarification and concluded that it follows the clarification, therefore no impact.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group and the Company have considered the clarification and concluded that there no entities, providing key management personnel services to the Group and the Company, therefore the amendment did not have impact on the financial statements.

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

Equity Method in Separate Financial Statements - Amendments to IAS 27 (effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Company has considered the amendment and decided to keep the existing accounting policies.



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

All amounts in EUR thousands unless otherwise stated

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

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

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

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

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

Financial assets are required to be classified into three measurement categories; those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in

credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2019). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

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

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019; not yet endorsed by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amendment has clarified the requirements on recognition of deferred tax assets for unrealized losses on debt instruments. The entity will have to recognise deferred tax asset for unrealized losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

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



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

All amounts in EUR thousands unless otherwise stated

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation clarifies that the date of transaction, i.e. the date when the exchange rate is determined, is the date on which the entity initially recognizes the non-monetary asset or liability from advance consideration. However, the entity needs to apply judgement in determining whether the prepayment is monetary or non-monetary asset or liability based on guidance in IAS 21, IAS 32 and the Conceptual Framework.

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

2.2 Consolidation

Consolidation

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

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

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

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

Business combinations

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

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

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

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

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

2.3 Investments in subsidiaries (Company)

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



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

All amounts in EUR thousands unless otherwise stated

2.4 Investments in associates

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

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

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

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

2.5 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

2.6 Property, plant, and equipment

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

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

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

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

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

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



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

All amounts in EUR thousands unless otherwise stated

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

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

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

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

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

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

2.7 Intangible assets

(a) Patents and licenses

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

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

(b) Computer software

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

(c) Emission allowances

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

(d) Other intangible assets

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

2.8 Impairment of non-financial assets

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

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

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

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

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

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

2.9 Investment property

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

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

2.10 Non-current assets held for sale

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

2.11 Financial assets

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



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

All amounts in EUR thousands unless otherwise stated

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

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

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

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

2.12 Derivative financial instruments

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

2.13 Inventories

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

2.14 Cash and cash equivalents

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

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



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

All amounts in EUR thousands unless otherwise stated

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

2.15 Share capital

Ordinary shares are classified as equity.

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

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

2.16 Trade payables

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

2.17 Borrowings

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

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

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

2.18 Income tax and deferred income tax

Income tax

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

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

In 2016 and 2015, a standard income tax rate of 15% was applicable to the companies in Lithuania. Tax losses can be carried forward for indefinite period, except for losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company terminates the activities that caused these losses, except when the Company discontinues its activities due to the reasons that are beyond the Company's control. The losses from disposal of securities

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

Deferred income tax

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

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

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

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

Current and deferred income tax

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

2.19 Employee benefits

Social security contributions

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

Termination benefits

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



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

All amounts in EUR thousands unless otherwise stated

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

Long-term employee benefits

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

2.20 Provisions

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

Provisions for onerous contract

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

2.21 Revenue and expense recognition

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

Revenue from sale of electricity to end customers

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

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

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

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

Regulation of tariffs and profitability

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

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

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

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

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

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

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

Tariffs for import and export of electricity are not regulated.

Revenue from provision of PSO services

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

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

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



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

All amounts in EUR thousands unless otherwise stated

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

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

Revenue from distribution and supply of natural gas

Revenue from non-household customers for the distribution of natural gas is recognised on a monthly basis with reference to the readings of measuring devices reported by the customers or, if such readings have not been reported by the customers, with reference to the quantities of gas calculated according to the methodology for the calculation of quantities of natural gas approved by the distributor. Revenue from non-household customers for supply of natural gas is recognised on a monthly basis with reference to the readings of measuring devices reported by the customers and checked by the distribution system operator (on an accrual basis). Revenue from household customers is recognised on a monthly basis with reference to the readings of measuring devices reported by the customers and taking into account the adjustments for mismatches between the quantities of gas declared and the quantities of gas actually consumed (on an accrual basis).

Revenue from supply of liquefied natural gas

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

Revenue from the LNGT security component

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

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

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

Reload and storage services

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

Construction contracts

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

Income from new customer connection

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

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

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

Revenue from sale of services

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

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

Income from sale of goods

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

Interest income

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

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

All amounts in EUR thousands unless otherwise stated

Dividend income

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

Lease income

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

Expense recognition

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

2.22 Emission allowances

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

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

Intangible assets

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

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

Government grant

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

Provision for the utilisation of emission allowances

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

Lending of emission allowances

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

2.23 Leases

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

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

Where the Company and (or) the Group are lessors

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

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

Where the Company and (or) the Group are lessees

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

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

2.24 Grants and subsidies

Asset-related grants

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



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

All amounts in EUR thousands unless otherwise stated

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

Income-related grants

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

2.25 Dividend distribution

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

2.26 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of income or economic benefits is probable.

2.27 Events after the reporting period

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

2.28 Related parties

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

2.29 Inter-company offsetting

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

2.30 Fair value

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

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

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

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

2.31 Segment reporting

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

2.32 Financial guarantee contracts

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

2.33 Put option arrangements

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

3 Financial risk management

3.1 Financial risk factors

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

Market risk

Foreign exchange risk

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



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

All amounts in EUR thousands unless otherwise stated

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

Interest rate risk

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

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

	Group	Increase/decrease, percentage points	(Decrease)/increase in profit
2016		+0.3/-0.3	(63)/63
2015		+0.3/-0.3	(42)/42
	Company	Increase/decrease, percentage points	(Decrease)/increase in profit
2016		+0.3/-0.3	56/(56)
2015		+0.3/-0.3	51/(51)

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

Fair values of financial instruments

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

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

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

As at 31 December 2016, the carrying amount of the Group's and the Company's amounts receivable on disposal of Litgrid AB (Notes 9, 13) was equal to EUR 205,793 thousand (31 December 2015: EUR 238,975 thousand), and the fair value amounted to approx. EUR 203,004 thousand (31 December 2015: EUR 247,350 thousand). The fair value was determined on the basis of discounted cash flows using a discount rate of 1.43% (31 December 2015: 1.00%). Their fair value is attributed to Level 3 in the fair value hierarchy.

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

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

Credit risk

The Group's and the Company's exposure to credit risk arises from operating activities of the companies (trade and other amounts receivable) and from financing activities (cash and cash equivalents, loans granted).

The Group is not exposed to significant credit risk concentration related to trade receivables and other amounts receivable. Principally all trade receivables and other amounts receivable of the Company are due from related parties (see Note 37). 31 December 2016 other receivables of the Company and the Group principally consist of the EPSO-G outstanding receivables for sale of Litgrid AB shares in 2012 (Notes 4, 9, 13).

The priority objective of the Group's and the Company's treasury management is to ensure security of funds and maximize return on investments in pursuance of this objective. Risk of counterparties defaulting is managed by entering into transactions with reliable financial institutions with a long-term credit rating (in foreign currency) not lower than 'A-' according to the rating agency Fitch Ratings (or an equivalent rating of other rating agencies).

The credit risk on cash in banks is limited because the Group and the Company conduct transactions with the banks with high credit ratings assigned by international credit rating agencies. The Group and the Company hold cash balances and time deposits in accounts of the major banks in Lithuania assigned with a long-term credit rating not lower than 'A-' according to the rating agency Fitch Ratings.



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

All amounts in EUR thousands unless otherwise stated

The maximum exposure to credit risk as at 31 December 2016 and 31 December 2015 was equal to the carrying amount of financial assets and nominal amounts of guarantees.

	Note	Group		Company	
		2016	2015	2016	2015
Loans and receivables:					
Trade receivables	12	111,884	107,066	-	-
Financial lease	14	9,590	3,262	-	-
Amounts receivable on emission allowances lent	9	157	214	-	-
Other non-current receivables less impairment	9	1,409	2,028	40	-
Accrued revenue for gas and electricity sales	9,13	6,367	10,880	-	-
Amount receivable on revision of Kauno energetikos remontas UAB shares price	13	-	-	1,067	-
Other amounts receivable less impairment	13	3,618	3,695	1,016	4,549
Loan receivables	9,15	599	29,765	7,802	29,000
Amount receivable on disposal of Litgrid AB	9,13	205,793	209,975	205,793	209,975
Available-for-sale financial assets:					
Government bonds	15	-	4,534	-	4,534
Financial assets at fair value through profit or loss					
Derivative financial instruments	26	4,606	-	-	-
Cash and cash equivalents	16	178,565	122,810	73	13,179
		522,588	494,229	215,791	261,264
Off-balance sheet commitments:					
Open guarantees issued	36	-	-	35,630	67,430
Total		522,588	494,229	251,621	328,694

Liquidity risk

The liquidity risk is managed by planning future cash flows of each Group company and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support their operating activities. The refinancing risk is managed by ensuring that borrowings are repaid from available cash, from cash flows expected from operating activities of the Group, and from unwithdrawn committed credit facilities which have to be repaid in later periods.

As at 31 December 2016, the Group's current ratio (total current assets / total current liabilities) and quick ratio ((total current assets – inventories) / total current liabilities) were 1.046 and 0.938, respectively (31 December 2015: 1.05 and 0.94, respectively).

31 December 2016 the Company's current ratio (total current assets / total current liabilities) was 0.43. Given that at 31 December 2016, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 71,052 thousand (Note 19) the Company's management considers as appropriate application of the going concern principle to the Company's financial statements.

The guarantee issued by the Company to LTGAS UAB in the amount of EUR 67,430 thousand as at 31 December 2015 was intended to serve as a security under the credit facility agreements signed by LTGAS UAB with the credit institutions and under the long-term liquefied natural gas (LNG) purchase agreements signed with the LNG suppliers. The guarantee expired on 23 February 2016.

The Company issued securities and guarantees in the amount of EUR 35,830 thousand as at 31 December 2016 to secure the fulfilment of obligations of the Group companies to credit institutions and other creditors (note 36).

The table below summarizes the Group's and the Company's financial liabilities by category:

	Reference to undiscou nted cash flows		Group		Company	
			2016	2015	2016	2015
Financial liabilities measured at amortised cost						
Borrowings (Note 19)	a		493,918	420,060	90,330	-
Finance lease liabilities	b		473	628	-	-
Non-current trade payables (Note 24)	c		813	1,529	-	-
Trade payables (Note 25)	d		96,118	92,119	343	443
Amounts payable for property, plant and equipment (Note 26)	e		34,149	31,994	45	-
Current amounts payable for acquired shares of subsidiaries	f		-	-	-	45,552
Put option redemption liability (Note 26)	g		4,481	-	-	-
Other amounts payable and liabilities (Note 26)	h		4,244	3,425	49	361
Financial liabilities at fair value through profit or loss						
Non-current amounts payable for the acquired shares of subsidiaries (Note 24)	i		-	-	9,272	17,819
Derivative financial instruments (Note 26)	j		3,758	-	15	-
Off-balance sheet commitments:						
Open guarantees issued	k		-	-	35,830	67,430
Total			640,003	549,881	135,869	131,605

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

All amounts in EUR thousands unless otherwise stated

The table below summarizes the maturity profile of the Group's and the Company's financial liabilities under the contracts (based on contractual undiscounted payments of interest-bearing financial liabilities and the carrying amounts of other financial liabilities):

Group	2016				
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities (a, b)	10,312	122,565	304,171	70,002	
Trade payables (c, d)	55,458	40,680	813	-	
Other amounts payable (e-h)	38,393	4,481	-	42,874	
Derivative financial instruments (i)	-	3,758	-	3,758	
At 31 December 2016	104,163	171,464	304,984	70,002	
				650,613	
Group	2015				
Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	
Interest-bearing borrowings, finance lease and other liabilities (a, b)	60,067	87,945	224,223	60,661	432,896
Trade payables (c, d)	91,954	255	674	765	93,648
Other amounts payable (e-h)	32,507	2,912	-	-	35,419
Derivative financial instruments (i)	-	-	-	-	-
At 31 December 2015	184,528	91,112	224,897	61,426	561,963
Company	2016				
Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	
Interest-bearing borrowings, finance lease and other liabilities (a, b)	696	66,595	11,531	13,067	91,889
Trade payables (c, d)	343	-	-	-	343
Other amounts payable (e-h)	45	-	-	-	45
Payables for acquired shares of subsidiaries (f, h)	-	-	9,272	-	9,272
Derivative financial instruments (i)	-	-	15	-	15
Open guarantees issued (k)	35,830	-	-	-	35,830
At 31 December 2016	36,914	66,595	20,818	13,067	137,394
Company	2015				
Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	
Interest-bearing borrowings, finance lease and other liabilities (a, b)	-	-	-	-	-
Trade payables (c, d)	443	-	-	-	443
Other amounts payable (e, g)	361	-	-	-	361
Payables for acquired shares of subsidiaries (f, h)	-	45,552	17,819	-	63,371
Derivative financial instruments (i)	-	-	-	-	-
Atvros garantijos (k)	67,430	-	-	-	67,430
At 31 December 2015	68,234	45,552	17,819	-	131,605

3.2 Capital risk management

Pursuant to the Lithuanian Law on Companies, the authorised share capital of a public limited liability company must be not less than EUR 40 thousand, the authorised share capital of a private limited liability company must be not less than EUR 2.5 thousand, and the shareholders' equity must be not lower than 50% of the company's authorised share capital. As at 31 December 2016 and 2015, the Company and all Group companies, except for Energetiku Mokymo Centras VSI (Public Institution Training Centre for Energy Specialists), complied with these requirements. The latter company has obtained a confirmation from the Company certifying that financial support will be provided for not less than 12 months after the approval of its financial statements.

When managing the capital risk in a long run, the Group seeks to maintain an optimal capital structure of subsidiaries to ensure a consistent implementation of capital cost and risk minimization objectives. The Group companies form their capital structure in view of internal factors relating to operating activities, the expected capital expenditures and developments and in view of business strategy of the Group companies, as well as based on external current or expected factors significant to operations relating to markets, regulation and local economic situation.

On 27 December 2016, the Board of Lietuvos Energija UAB group approved a common dividend policy, which sets uniform principles for the payment of dividends for all the group companies. The dividend policy is one of capital risk management tools. Based on the newly approved policy, distribution of dividends proposed by the Company and the Group companies will depend on the ratio of return on equity and net profit earned. According to the dividend policy, appropriation of profit for the payment of dividends for the financial year or a period shorter than the financial year will depend on the ratio of return on equity, availability of financial resources for the payment of dividends, implementation of economic projects important for the State and other circumstances. Between 60% and 85% of net profit is appropriated for the payment of dividends, depending on the ratio of return on equity at the end of the reporting period. A company is not obliged to distribute dividends when it incurs net loss. The Company and the Group companies will not pay any dividends when its financial debts at the end of the reporting period are equal to or exceed four times EBITDA amount for the last twelve months as from the end of the reporting period. Dividends will not be paid if a company's equity (after the payment of dividends) becomes lower than the sum of its share capital, legal reserve, revaluation reserve and reserve for acquisition of own shares, and also if the Company and/or the Group companies becomes insolvent or would become insolvent upon payment of dividends. The Company and the Group companies will also be able not to pay dividends if its ratio of financial debts-to-equity becomes equal to or exceeds 1.0.



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

All amounts in EUR thousands unless otherwise stated

4 Critical accounting estimates and judgements used in the preparation of the financial statements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements according to International Financial Reporting Standards as adopted by the European Union requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. Change in the underlying assumptions, estimates and judgements may have a material effect on these consolidated financial statements of the Group and stand-alone financial statements of the Company.

Revaluation of property, plant and equipment

The Group accounts for Land, Buildings, Structures and machinery, Motor vehicles, Other property, plant and equipment and Construction in progress at revalued amount in accordance with International Accounting Standard 16 'Property, plant and equipment'.

Revaluation of Property, plant and equipment stated at revalued amount are performed regularly, using independent appraisers' revaluations when there is indication, that market value of assets has changed significantly due to internal or external factors.

Recent revaluations by the group of assets were performed:

Group	Recent revaluation performed
Land	2013
Buildings	2016
Structures and machinery	2014
Motor vehicles	2014
Other property, plant and equipment	2014
Construction in progress	2014

In 2016 the Group has performed revaluation of Buildings. Revaluations were performed by independent valuer using the comparable sales price approach and the income approach. Based on revaluation results value increase of EUR 575 thousands was recognised. Detailed revaluation results are disclosed in Note 6.

As at 31 December 2016, other Group assets stated at revalued amounts were not revalued, because there were no indications of a significant difference between the net book amount and market value of assets stated at revalued amount.

In 2016 the Group has performed a separate assessment for Buildings, Structures and machinery and construction in progress which are employed in electricity supply and distribution activities performed by subsidiary Energijos Skirstymo Operatorius AB, i.e. the assessment whether there is an indication, that market value of these assets has changed significantly due to internal or external factors. The carrying amount of assessed assets was EUR 849 million as at 31 December 2016. The fair value of these assets was tested by making cash flow forecast for the period until 2056, because the electricity supply activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – electricity lines (useful life of 40 years).

Key assumptions used in making cash flow forecast in 2016 were as follows:

- When setting the price cap for electricity distribution services for 2017 in its Report of 14 October 2016, the NCC approved the rate of return on investments equal to 4.94% for this period. This rate is used to determine return on investments for the period 2017–2020. The rate of return on investments of 4.32% is applied to the entire remaining cash flow forecast period (based on calculation data publicly available on the NCC's website);
- A pre-tax discount rate of 5.53% was used for discounting cash flows;
- Operating expenses of Energijos Skirstymo Operatorius AB for the period 2017–2025 are planned with reference to long-term plans approved by Energijos Skirstymo Operatorius AB. Starting from 2026, changes are planned in view of the projected changes in the average annual consumer price index and work pay;
- Part of operating expenses incurred by Energijos Skirstymo Operatorius AB is not included in the regulated prices of distribution and supply activities in accordance with the provisions of the Electricity Description;
- It is considered that additional profit will be earned during different regulatory periods as a result of the planned operational efficiency of Energijos Skirstymo Operatorius AB (such possibility is established by law);
- Investments are shown for the period 2017–2020 under the approved strategy of Energijos Skirstymo Operatorius AB, and for the period 2021–2025 under the approved ten-year investment plan. Starting from 2026, investments are reduced proportionately in the electricity operating segment assuming that all items of technological assets that are currently depreciated or will become depreciated over the period until 2055 will be recovered until 2055;
- The cost of capital (return on investments and depreciation of non-current assets) is calculated and considered when determining the prices of distribution services for other regulatory periods in accordance with the long-run average incremental cost (LRAIC) model approved by the Commission;
- Possible positive cash flows from ongoing legal disputes were not included in the assessment by Energijos Skirstymo Operatorius AB.

Having performed the fair value test, the Group concluded that there would be an immaterial increase (up to 5%) in the carrying amount of property, plant and equipment used in the electricity supply and distribution (EUR 849 million) and accordingly decided not to make any adjustments to the fair value of assets. Sensitivity analysis for these assets as of 31 December 2016 is presented below:

Sensitivity analysis scenario I: Establishment of the level of revenue as from 2021 and introduction of a 10% lower rate of return on investments equal to 3.89% by the Commission would result in decrease in the fair value of property, plant and equipment as of 31 December 2016 down to EUR 757 million during the forecast period.

Sensitivity analysis scenario II: Changes in the current regulatory environment and the Commission's abolishment of possibilities to generate additional profit due to operational efficiency would result in decrease in the fair value of property, plant and equipment as of 31 December 2016 down to EUR 832 million.

Value assessment was also performed for Buildings, Structures and machinery and construction in progress with carrying value of EUR 756 million as at 31 December 2015 which are employed in electricity supply and distribution activities and no significant change in fair value was identified. Key assumptions used in making cash flow forecast in 2015 are described in subsection "LESTO AB and Lietuvos Dujos AB as at 31 December 2015".

The revaluation of Motor vehicles was performed in 2014. Selected freight (special) motor vehicles were valued by independent valuator using the comparable price method, the values of other freight (special) motor vehicles were established by management with reference to values determined by the valutors. Valuation of cars was conducted by management with reference to the market values.



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

All amounts in EUR thousands unless otherwise stated

Impairment of property, plant and equipment carried using the cost method

The Group accounts for Gas distribution pipelines, Gas technological equipment and installations, Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant, Structures and machinery of Thermal Power Plant, Wind power plants and IT and telecommunication equipment at cost. In 2016 and 2015 the Group considered impairment of property, plant and equipment as described below.

a) *Review for impairment of Gas distribution pipelines, Gas technological equipment and installations*

Gas distribution pipelines, Gas technological equipment and installations are managed by Company subsidiary Energijos Skirstymo Operatorius, AB. In 2016 the recoverable amount of these assets was tested for impairment by making cash flow forecast for the period until 2071, because the gas distribution activity is regulated on the basis of regulated asset base, which mostly consists of assets with long useful life – gas pipelines (useful life of 55 years).

Key assumptions used by the Group in making cash flow forecast in 2016 were as follows:

1. When setting the price cap for natural gas distribution services for 2014–2018, the Commission approved the rate of return on investments equal to 7.09% for this period. This rate is used to determine return on investments for the period 2016–2018. The rate of return on investments of 4.32% is applied to the entire remaining cash flow forecast period (based on calculation data publicly available on the Commission's website);
2. A pre-tax discount rate of 5.53% was used for discounting cash flows;
3. Operating expenses of Energijos Skirstymo Operatorius AB for the period 2017–2025 are planned with reference to long-term plans approved by Energijos Skirstymo Operatorius AB. Starting from 2026, changes are planned in view of the projected changes in the average annual consumer price index and work pay;
4. Part of operating expenses incurred by Energijos Skirstymo Operatorius AB is not included in the regulated prices of distribution and supply activities in accordance with the provisions of the Commission 18 July 2013 resolution No. O3-316 "Description of requirements on natural gas companies accounting separation, cost allocation and accounting separation";
5. It is considered that additional profit will be earned during different regulatory periods as a result of the planned operational efficiency of Energijos Skirstymo Operatorius AB (such possibility is established in the Methodology);
6. Investments are shown for the period 2017–2020 under the approved strategy of Energijos Skirstymo Operatorius AB, and for the period 2021–2025 under the approved ten-year investment plan. Starting from 2026 until 2071, investments are planned to be maintained at the level that existed in 2025;

Having considered all the above-mentioned assets used in gas distribution business, the Group concluded that the recoverable amount of property, plant and equipment used in the gas distribution activities is higher than its carrying values and that no impairment exist as of 31 December 2016.

At the reporting date of 31 December 2015, the Group also assessed whether the recoverable amount of its property, plant and equipment used in the gas distribution activities is higher than its carrying values and concluded that no impairment existed as of 31 December 2015. The assessment was based on discounted cash flows calculated in accordance with the legal acts and methodologies regulating the distribution and supply activities in force as at the 31 December 2015 as disclosed in section on

impairment test for subsidiaries, subsection LESTO AB and Lietuvos Dujos AB as at 31 December 2015.

b) *Review for impairment of "Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant" and "Structures and machinery of Thermal Power Plant"*

Property, plant and equipment classes "Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant" and "Structures and machinery of Thermal Power Plant" are managed by Company's subsidiary Lietuvos Energijos Gamyba, AB

As at 31 December 2016, the Group's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets, and did not identify any impairment indications in respect of property, plant and equipment of:

1. "Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant" that includes sites of Kruonis Pumped Storage Power Plant and Kaunas Agirdas Brazauskas Hydroelectric Power Plant;
2. "Structures and machinery of Thermal Power Plant" that includes sites of Reserve Power Plant, Combined-Cycle Unit, the new Blotuel and Steam Boiler Plants (hereinafter collectively "the Elektrėnai Complex").

As at 31 December 2016, in respect of individual items of assets of Lietuvos Energijos Gamyba AB there was recognized impairment of EUR 613 thousand and reversal of impairment of EUR 45 thousand.

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

In view of the decision of management of Lietuvos Energijos Gamyba AB on dismantling units 5 and 6 of the Reserve Power Plant at the end of 2015, Lietuvos Energijos Gamyba AB recognised impairment loss of EUR 36,734 thousand equal to the net book amount of units 5 and 6 of the Reserve Power Plant.

As at 31 December 2015, impairment test was carried out for other property, plant and equipment of "Structures and machinery of Thermal Power Plant", and impairment was not identified.

The "Structures and machinery of Thermal Power Plant" (Elektrėnai Complex) is treated as a single cash generating unit based on the following:

- The transmission system operator treats each power plant as a single generating unit irrespective of the number of individual units that constitute the power plant;
- All units of the Reserve Power Plant and Combined-Cycle Unit can be used for both, electricity generation and provision of capacity reserve services. The situation of which unit at a specific moment is used for electricity generation or launching of capacity reserve depends on the system's needs, the technical condition of the units (e.g. scheduled repair works, disruptions in operations of units), potential disruptions in supply of natural gas, etc.;
- Production of electricity and thermal power and provision of capacity reserve services at the Elektrėnai Complex are considered to be regulated activities;



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

All amounts in EUR thousands unless otherwise stated

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

- The new Biofuel and Steam Boiler Plants also supply thermal power that is necessary to support the infrastructure of the Elektrėnai Complex and activate the electricity generation units of the Elektrėnai Complex;
- When establishing the prices for the regulated services, the NCC takes into account all variable and fixed costs of the Reserve Power Plant and Combined-Cycle Unit, allocates and compensates a part of these costs against capacity reserve revenue and the remaining part against the PSO funds. The electricity buy-up price is established for electricity produced at the Elektrėnai Complex. The Biofuel and Steam Boiler Plants provide the same services as the electricity generation units of the Elektrėnai Complex. Part of fixed and variable costs and assets of these Plants is allocated to PSO and tertiary capacity reserve services provided by electricity generation units of the Elektrėnai Complex. The price of PSO and tertiary capacity reserve services is determined for the whole Elektrėnai Complex collectively rather than for individual facilities.

The recoverable amount of 3 cash generating units was estimated with reference to the value-in-use calculations. These calculations take into account the pre-tax cash flow forecasts based on the financial budgets approved by the management for the period of five years. Continuous cash flow is estimated using the discounted cash flow in the fifth year.

The management of Lietuvos Energijos Gamyba AB estimated the projected operating profit in view of historical data, forecasts of position in the market and effective legal acts.

- Key assumptions used in performing the impairment test as at 31 December 2015 were as follows:
- The value in use was estimated with reference to the most up-to-date budget for the year 2016, the financial plan covering the period 2017-2020, the projected pre-tax discounted cash flows using a pre-tax weighted average cost of capital (WACC) of 6.26%. The WACC was estimated with reference to long-term borrowing cost in the market and the effective average Euro Interbank Offered Rate (EURIBOR);
 - Cash flow forecasts are prepared by the management as a result of financial projections based on the financial performance results, market development expectations and regulatory environment. The projections of revenue from regulated activities also take into account the depreciation expenses of property, plant and equipment and the return on investments, which is calculated on the value of assets used in the regulated activities. When estimating the return on investments, the management used the rate of return on investments set by the Commission for the year 2016, which was 5.35%.

As a result of the analysis, management Lietuvos Energijos Gamyba AB determined that it was not necessary to recognise any impairment losses as at 31 December 2015, except for the impairment losses for units 5 and 6 of the Reserve Power Plant accounted for in "Structures and machinery of Thermal Power Plant". Had the discount rate increased by 0.5 p.p. in 2015, the value in use of the "Structures and machinery of Thermal Power Plant" would exceed the carrying amount.

Impairment tests for subsidiaries

Although the shares of the Company's subsidiaries Energijos Skirstymo Operatorius AB and Lietuvos Energijos Gamyba AB are traded on Vilnius Stock Exchange, the Group's management believes this

market is not active enough so that the quoted stock prices could be treated as equivalent to the fair value of investments in subsidiaries at the reporting date.

Energijos Skirstymo Operatorius AB as at 31 December 2016

As at 31 December 2016, impairment test was carried out to determine the recoverable value (based on fair value less costs of disposal) of investment in shares of Energijos Skirstymo Operatorius AB using the discounted cash flow method. The established recoverable value was higher than cost of investment and as the result impairment in amount of EUR 37.5 million was reversed; the reversal is caused by changes in rate of return and discount rate as well as by merger of two companies into one. Initially, the impairment was recorded in 2014 with respect of shares of LESTO AB and in 2015 with respect of shares of Lietuvos Dujos AB. After the reversal, the carrying value of investment (which is its acquisition cost) equals EUR 710.9 million (EUR 673.6 million as at 31 December 2015).

The discounted cash flows were calculated in line with the legal acts and methodologies regulating gas distribution, electricity distribution and supply activities and effective as at 31 December 2016.

The impairment test of investment in Energijos Skirstymo Operatorius AB was performed by the Company based on the following key assumptions:

- The cash flow forecast for the gas distribution business covered the period until 2071, because the gas distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (55 years); a continuous cash flow has been estimated beyond the year 2071.
- The cash flow forecast for the electricity distribution business covered the period until 2056, as the electricity distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (40 years) – electricity lines; a continuous cash flow has been estimated beyond the year 2056.
- The rate of return on investments for the gas business was set by the NCC as 7.09% for the years 2016-2018 and 4.32% for the year 2019 and beyond, which was calculated with reference to the components approved by the NCC.
- The rate of return on investments for the electricity business was set by the NCC as 4.94% for the years 2016-2020 and 4.32% for the year 2021 and beyond, which was calculated with reference to the components approved by the NCC.
- A pre-tax discount rate of 5.53% was used for discounting cash flows
- Operating expenses are reduced annually by 4% until 2025, and they are no longer reduced and are indexed in 2026 and beyond.
- Investments are shown for the period 2017–2025 under the approved ten-year investment plan. Starting from 2026, investments remain stable in the gas business. During 2026-2030, investments in the electricity business remain stable, and as from 2031 they are reduced proportionately to match LRAIC.
- Possible positive cash flows from ongoing legal disputes were not included by the Company in the assessment.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

- The changes in discount rates have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in discount rate would not result in change in reversal of impairment (at a discount rate of 5.03% or would result in impairment of EUR 45.6 million (at a discount rate of 6.03%)).
- The rate of return on investments (starting from 2019 for the gas distribution business and 2021 for the electricity supply and distribution business) has a significant impact on the result of valuation. The sensitivity analysis showed that a 1 p.p. change would result in impairment of EUR 46.3 million (at a rate of return of 3.82%) or would result in change of reversal of impairment (at a



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

All amounts in EUR thousands unless otherwise stated

rate of return of 4.82%). If the rate of return on investments did not change (i.e. remain at 7.09% level for the gas business starting from 2019 and at 4.94% level for the electricity business starting from 2021), there would be no changes in the reversal of impairment.

LESTO AB and Lietuvos Dujos AB as at 31 December 2015

As at 31 December 2015, the Company tested for impairment its investment in subsidiary LESTO AB using the discounted cash flow method and recognised reversal of impairment of EUR 38.9 million, which largely resulted from changes in the regulatory environment. Following the reversal of impairment, the investment's recoverable amount (which is equivalent to its fair value) was equal to EUR 522.0 million as at 31 December 2015.

Discounted cash flows were calculated in accordance with the following legal acts and methodologies regulating the distribution and supply activities, effective as at 31 December 2015:

1. Methodology for Setting Price Caps for Electricity Transmission, Distribution and Public Supply Services and Public Energy Price Caps ("the Methodology") approved by the Commission's Resolution No O3-3 of 15 January 2015 and amended by Resolution No O3-572 of 29 October 2015;
2. Description of the Requirements for Accounting Separation and Cost Allocation of Electric Power Sector Companies and Requirements Related to Accounting Separation ("the Description") approved by the Commission's Resolution No O3-112 of 29 April 2014 and amended by Resolution No O3-507 of 18 September 2015;
3. Methodology for Setting the Rate of Return on Investments ("the WACC Methodology") approved by the Commission's Resolution No O3-510 of 22 September 2015.

The impairment test of investment in LESTO AB was performed by the Company based on the following key assumptions:

1. The cash flow forecast covered the period until 2055, because the distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (40 years) - electricity lines;
2. When determining the price cap for the distribution services for 2016-2020 in Certificate No O5-16 of 29 October 2015, the Commission approved the rate of return on investments equal to 5.24% for this period. This rate was used to determine the return on investments over the entire cash flow forecast period;
3. The cash flows were discounted using a pre-tax discount rate of 6.6%;
4. LESTO AB's operating expenses for 2016-2020 were projected according to the approved long-term plans of LESTO AB. Starting from 2021, the changes were estimated in view of the forecast changes in the average annual consumer price index and the work pay prevailing at the time of the assessment;
5. Based on the provisions of the Description, a part of operating expenses incurred by LESTO AB is not included in the regulated prices of the distribution and supply activity;
6. It was assumed that in different regulatory periods additional profit would be earned as a result of the planned performance efficiency (such possibility is established in the Methodology);
7. Investments were projected for the period 2016-2025 under the approved ten-year investment plan. Starting from 2026, investments were reduced proportionately under the assumption that all items of technological assets that are currently fully depreciated or will become fully depreciated over the period until 2055 will be recovered until 2055;
8. LESTO AB's cost of capital (return on investments and depreciation of non-current assets) was calculated and taken into account when determining the prices for electricity distribution and supply services for other regulatory periods, in accordance with the long-run average incremental cost (LRAC) model (hereinafter "the Model") and in view of paragraph 7 of the Methodology.

9. The Company did not take into account the potential favorable outcomes from the litigation processes (note 36).

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The changes in discount rates have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in discount rate would result in increase in impairment reversal up to EUR 101.9 million (at discount rate of 6.10%) or in impairment of EUR 17.0 million (at discount rate of 7.10%);
2. If for the periods starting from 2021, the return on investments set by the Commission when determining the revenue level for LESTO AB was 10% lower (i.e. equal to 4.72%), the forecast revenue of LESTO AB (for the period 2016-2055) would be lower by EUR 318 million. This would result in additional impairment of EUR 23,3 million.

As at 31 December 2015, the Company tested for impairment its investment in subsidiary Lietuvos Dujos AB using the discounted cash flow method and recognised impairment of EUR 20.4 million, which largely resulted from changes in the regulatory environment. The Company estimated the fair value and value in use of the investment, and determined that the value in use was higher and, therefore, treated as the recoverable amount of the investment. Following the impairment, the recoverable amount of the investment was equal to EUR 151.6 million as at 31 December 2015 (31 December 2014: EUR 174,8 million).

For the impairment test of investment in Lietuvos Dujos AB, the Company used the following key assumptions:

1. The value in use was estimated with reference to the financial plan covering the period 2016-2020, the projected pre-tax discounted cash flows using a pre-tax weighted average cost of capital (WACC) of 6.60%;
2. Cash flow forecasts were prepared by the management in the course of financial projections based on the financial performance results, market development expectations and regulatory environment. The projections of revenue from regulated activities also took into account the depreciation expenses of property, plant and equipment and the return on investments, which was calculated on the value of assets used in the regulated activities. When estimating the return on investments, the management used the rate of return on investments set by the Commission, which was 7.09% for the years 2016-2018 and 5.59% for the year 2019 and beyond;
3. The value in use calculations included only the investments necessary to maintain the current asset base and approved under the financial plan, whereas the fair value calculations included the investments intended for the development and modernization of the asset base;
4. The forecast cash flows were calculated with reference to historical data, natural gas consumption forecasts and effective legal acts.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The rate of return on investments (starting from 2019) has a significant impact on the result of valuation. The sensitivity analysis showed that a 1 p.p. change would result in increase in impairment up to EUR 35,4 million (at rate of return of 4.59%) or decrease in impairment down to EUR 5,4 million (at rate of return of 6.59%), if starting from 2019 the rate of return on investments did not change (i.e. remain at 7.09% level), the recoverable amount would be equivalent to the fair value, which would be equal to EUR 178,2 million (representing EUR 6,2 million surplus of the recoverable amount over the cost of investment);
2. The changes in discount rate also have a significant impact on the result of valuation. The sensitivity analysis showed that a 1 p.p. change in discount rate would result in increase in



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

All amounts in EUR thousands unless otherwise stated

impairment by up to EUR 34.4 million (at discount rate of 7.60%) or decrease in impairment by up to EUR 1.9 million (at discount rate of 5.60%).

Litgas UAB

As at 31 December 2016, the Company tested for impairment its investment in subsidiary LITGAS UAB using the discounted cash flow method and accounted for the reversal of impairment of EUR 307 thousand. Following the reversal of impairment, the recoverable amount of investment (i.e. its fair value) amounted to EUR 11,856 thousand (31 December 2015: EUR 11,549 thousand).

On 3 October 2016, the Company acquired 33.3% of shares of Litgas UAB from Klaipėdos Nafta AB, and as a result the Company's shareholding in Litgas UAB is 100%. The value of the transaction was based on the valuation report issued on 18 August 2016 by independent property valuer Deloitte Versio Konsultacijos UAB. As at 31 December 2016, the Company accounted for 100% shareholding in Litgas UAB at the value of the transaction (33.3% of shares were acquired for EUR 3,952 thousand, and the value of 100% shareholding is EUR 11,856 thousand). This resulted in reversal of impairment of EUR 307 thousand as at 31 December 2016.

As at 30 June 2015, the Company tested for impairment its investment in subsidiary Litgas UAB using the discounted cash flow method. Discounted cash flows were calculated in accordance with the effective legal acts and methodologies regulating the activity of the designated supplier and taking into consideration the most probable scenario for the development of the natural gas trade activity and uncertainties existing in the liquefied natural gas industry. Discounted cash flows were calculated using a discount rate of 9.72%, which is established as the required return on the share capital. As a result of the analysis, the Company's management determined that the impairment of the investment in Litgas UAB was equal to EUR 1,092 thousand as at 30 June 2015 and 31 December 2015.

NT Valdos UAB

As at 31 December 2016, the Company carried out impairment test in respect of investment in subsidiary NT Valdos UAB using the discounted cash flow method and recognised impairment of EUR 9.0 million, which was largely caused by probable slowdown in future growth rate. Following the recognition of impairment, the recoverable amount (i.e. the value in use) of investment was EUR 80.3 million (31 December 2015: EUR 89.4 million).

The impairment test of investment in NT Valdos UAB was performed by the Company based on the following key assumptions:

1. Actual results for 2016 were used in the valuation as the basis for terminal value calculation.
2. Cash flows were discounted at a discount rate of 5.8% (post-tax).
3. Annual growth rate was 2.5%.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The changes in discount rate have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in discount rate would result in no impairment (at a discount rate of 5.3%) or would result in increase in impairment up to EUR 22.1 million (at a discount rate of 6.3%).
2. The changes in annual growth rate also have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in annual growth rate would result in increase in impairment up to EUR 22.4 million (at a growth rate of 2.0%) or would result in no impairment (at a growth rate of 3.0%).

The Company acquired NT Valdos UAB in 2015 and as at 31 December 2015 there were no impairment indications.

Energetikos Paslaugų ir Rangos Organizacija UAB

As at 31 December 2016, the Company carried out impairment test in respect of its investment in subsidiary Energetikos Paslaugų ir Rangos Organizacija UAB due to its worse results than planned for 2016. The test was performed using the discounted cash flow method, as the result impairment of EUR 7,320 thousand was recognised. Following the recognition of impairment, the carrying value of investment was EUR 1,817 thousand (i.e. its fair value) (31 December 2015: EUR 9,137 thousand).

The impairment test of investment in Energetikos Paslaugų ir Rangos Organizacija UAB was performed by the Company based on the following key assumptions:

1. Budget for 2017 was used in the valuation.
2. Cash flows were discounted at a discount rate of 9.8% (post-tax).
3. Annual growth rate was 2.0%.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The changes in discount rate have a significant impact on the result of valuation. The sensitivity analysis showed that a 1.0 p.p. change in discount rate would result in decrease in impairment to EUR 5.8 million (at a discount rate of 8.8%) or would result in increase in impairment up to EUR 8.4 million (at a discount rate of 10.8%).
2. The changes in annual growth rate also have a significant impact on the result of valuation. The sensitivity analysis showed that a 1.0 p.p. change in annual growth rate would result in increase in impairment up to EUR 8.1 million (at a growth rate of 1.0%) or would result in decrease in impairment to EUR 6.3 million (at a growth rate of 3.0%).

VAE SPB UAB

As at 31 December 2016, the Company carried out impairment test in respect of its investment in subsidiary VAE SPB UAB and recognised impairment of EUR 201 thousand for the investment (2015: EUR 1,168 thousand). Following the recognition of impairment, the recoverable amount (i.e. the fair value) of investment was EUR 90 thousand (31 December 2015: EUR 291 thousand).

Energetiku Mokymo Centras VšĮ

As at 31 December 2016, the Company carried out impairment test in respect of its investment in subsidiary Energetiku Mokymo Centras VšĮ using discounted cash flow method and recognised impairment of EUR 186 thousand for the investment which was caused worse 2016 results than planned. Following the recognition of impairment, the recoverable amount (i.e. the fair value) of investment was EUR 123 thousand (31 December 2015: EUR 309 thousand).

Investments to other subsidiaries

There were no impairment indicators for investments in other subsidiaries.



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

All amounts in EUR thousands unless otherwise stated

Goodwill impairment assessment "EURAKRAS"

In 2016 the Company has accounted for EUR 1,461 thousand goodwill recognised on acquisition of UAB EURAKRAS. The Company carried out goodwill impairment test, applying the value in use method. Test of goodwill impairment completed applying following key assumptions:

1. Cash flow projection compiled for period up to 2045 as standard operating periods of wind parks are 30 years;
2. Production volume is constant and determined according to research of wind park completed by third-party;
3. For the first twelve years of operation price of the electricity is 70.96 EUR / MWh, based on the preferential rate. After the expiry of the preferential rate period, there is used rate determined according to research of wind park completed by third-party;
4. Discounting cash flows applied 5.0 per. the discount rate (after tax).

Results of carried out test do not indicate presence of goodwill impairment

Judgements regarding retaining control over Kauno Kogeneracinė Jėgainė

On 15 March 2016, the share capital of subsidiary Kauno Kogeneracinė Jėgainė (hereinafter "KKJ") was increased. Following the increase in share capital, the Company holds 51% of shares of KKJ, and the remaining 49% of shares are held by FORTUM HEAT LIETUVA UAB (hereinafter FORTUM).

Both shareholders have signed the Shareholders' Agreement under which key decisions over the business should be taken unanimously by the shareholders and / or by the Board which consist of equal number of delegates from both shareholders and one independent member. If the shareholders fail to reach the consensus on the deadlock situation, the Company has an option to buy (call option) all the shares of KKJ held by FORTUM, whereas FORTUM has an option to sell (put option) to the Company its shareholding in KKJ, the calculation of redemption value is defined in the agreement.

In the Group's management view the call option gives to the Group control over KKJ, and call option's strike value approximates the fair value within the limits of the materiality (materiality threshold is based on the best assessment practices to +/- 15% of the market value) of the price to be paid by the Company to FORTUM for buyout of KKJ shares owned by FORTUM, and thus gives to the Group control over KKJ.

At 31 December 2016 the Group accounted for Eur 4,481 thousand put option redemption liability (Note 26) which is measured as net present value of the single future cash outflow, that will be paid out to FORTUM for KKJ shares in a deadlock situation if put option is realised.

Contingent consideration on disposal of Litgrid AB

In year 2012 shares of Litgrid AB held by the Company were transferred to a newly established private limited liability company EPSO-G UAB in return for a certain consideration based on the market value of shares established by independent valuers. The independent valuer determined the market value in respect of 97.5% of shares of Litgrid AB using the income approach.

The purchase-sale agreement of shares of Litgrid AB provides for a Contingent consideration to the final price, the amount of which depends on return of regulated asset base of Litgrid AB in 2014-2018. On 24 September 2014 the Government approved the *Principles for determining the prices regulated by the state in the sector of electricity energy* and on 15 January 2015 the Commission approved a new (LRAIC) regulation methodology. On 19 January 2015, the Commission approved the price caps for electricity transmission via high voltage networks for the period 2016-2020. In 2016, due to

decreased rate of return on Litgrid AB regulated asset base, as approved by the Commission. In view of these regulatory changes, the Company and the Group assessed the Contingent consideration and concluded that according to the purchase-sale agreement of shares of Litgrid AB, the Contingent consideration was negative at 31 December 2016 and amounted to EUR 4,182 thousand, at 31 December 2015 Contingent consideration equal to zero. In the statement of financial position receivable on disposal on Litgrid AB was reduced as the sales price was adjusted by the change in the contingent consideration." (Note 9).

Contingent consideration is measured at level 3 of fair value hierarchy.

The Company performed the sensitivity analysis of receivables, for sale of Litgrid AB shares, in respect of changes in unobservable inputs. Investment rate of return in 2018 has a significant impact on the outcome of the assessment. Sensitivity analysis shows that:

- a) 0.5 p. p. fluctuation would cause negative value of EUR 5.6 million when applied 4.43% rate of return, or
- b) zero value when applied 5.43% rate of return.

Contingent consideration for the shares of NT Valdos UAB

In April 2015, the Company acquired the shares of NT Valdos UAB from LESTO AB, Lietuvos Energijos Gamyba AB, Duomenų Logistikos Centras UAB and Litgrid AB, thereby resulting in 100% direct control over NT Valdos UAB.

The Contingent consideration to the basic sale price set for the acquired shares is payable by 31 March 2019, the amount of which will vary depending on the financial performance of NT Valdos UAB, the maximum value will be EUR 19,400 thousand and the minimum value would equal zero. At acquisition date, the Company accounted the maximum amount of the Contingent consideration payable in 2019, ie EUR 19,400 thousand. When estimating the cost of investments, the Company recognised the Contingent consideration at present value as at the date of acquisition, which was equal to EUR 17,506 thousand. The Contingent consideration was discounted to present value using an average interest rate set by the Bank of Lithuania on borrowings in excess of EUR 1,000 thousand, which was equal to 2.85% at the date of acquisition. As at 31 December 2016, the Company reviewed the actual and projected performance results of NT Valdos UAB and concluded that the Contingent consideration should be reduced, because the performance results of NT Valdos UAB were not likely to achieve the level that was expected on initial recognition. Based on the Company's estimate, the fair value of Contingent consideration for the shares of NT Valdos UAB amounted to EUR 9,257 thousand as at 31 December 2016 (31 December 2015: EUR 17,819 thousand).

Contingent consideration is measured at level 3 of fair value hierarchy.

Contingent consideration for the shares of Kauno Energetikos Remontas UAB

On 31 March 2015, the Company signed the share purchase-sale agreement with Lietuvos Energijos Gamyba AB, under which it acquired 100% (i.e. 15,244,112) of ordinary registered shares of Kauno Energetikos Remontas UAB.

Kauno Energetikos Remontas UAB is implementing the biofuel boiler plant project. If the expected loss of the project increases or decreases by more than EUR 50 thousand, the purchase price of KER will adjusted downwards or upwards, accordingly by 89% of the change.

As at 31 December 2015, in view of the fact that the loss from the biofuel boiler plant project increased, the Company's management estimated that the acquisition cost of the shares of Kauno Energetikos



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

All amounts in EUR thousands unless otherwise stated

Remontas UAB should be EUR 436 thousand lower. The Company reduced accordingly the acquisition cost of investment in Kauno Energetikos Remontas UAB from EUR 4,778 thousand to EUR 4,342 thousand.

As at 31 December 2016, a loss was estimated on the implementation of the Biofuel Boiler House Project and the Company recognised EUR 619 thousand amounts receivable from seller for the shares (Notes 13, 31).

Contingent consideration is measured at level 3 of fair value hierarchy.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. However, other factors, such as technical or commercial obsolescence and physical wear and tear, result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following key factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions.

Accrued revenue

Revenue from household customers is recognised when meter data is decaired and payments are received. Accordingly, at the end of each reporting period the amount of income earned but not yet paid by household customers is estimated and accrued by the management of the Group company operating the distribution networks. Accrued revenue is estimated as 1/3 of total payments for electricity received in December. Accrued revenue is based on past experience and average term of settlement for electricity. The management has estimated that the majority of household customers declare and make payments for the electricity consumed on approx. the 20th day of the month, while electricity is supplied for a full month (30 or 31 days). Consequently, the electricity consumed during the remaining 10 days is proportionally calculated referring to the total volume of electricity provided to the electricity supply network (the actually known variable) and the total volume of electricity declared by household customers during December and multiplied by the average rate per 1 kWh (Note 13).

New customer connection fees

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

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

Payments made by customers for the connection to the Company's gas system are recorded as accrued deferred revenue in the statement of financial position and recognised as revenue over the

useful life of the capitalised property, plant and equipment concerned. Such revenue is shown under the line item 'Sales revenue' in the statement of comprehensive income.

Accounting methods applied to account for fees paid by new customers for the connection to the electricity and gas system differ depending on the pricing of these services:

- the fee for the connection to the electricity network is determined on the basis of fees and methodologies approved by the Lithuanian legal acts and regulatory authorities; the service is deemed to be provided upon the connection of the customer to the electricity network;
- the fee for the connection of non-household customers to the gas system is determined on the basis of fees and methodologies approved by the Lithuanian legal acts and regulatory authorities, however, the connection agreement of the customer who connects a new natural gas system stipulates a minimum quantity of gas to be transported via a non-household customer or new natural gas system and the minimum capacities which ensure that the new customer or new natural gas system connected does not increase the price cap for the existing customers, as well as the procedure for calculating a fee for the minimum quantities of gas to be transported by a non-household customer or natural gas system and for the minimum capacities and the periodicity of payments if a new customer connecting a new natural gas system transports lower quantities or orders lower capacities than those specified in the new customer connection agreement. When approving the connection fees for household natural gas customers, the NCC assesses the return on investments intended for the connection of new price cap level of natural gas distribution system (investments should not exceed the current price cap) under the same principle as that used for non-household natural gas customers, yet not on individual customer-by-customer basis, but by establishing a connection fee collectively. In this case, the service provided to non-household and household customer is continuous in nature and it relates to contractual obligations and future consumption levels, and therefore, revenue is split over the depreciation period of property, plant and equipment concerned.

Impairment of amounts receivable

Impairment losses for amounts receivables are determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectible according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the management could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Amounts receivable are assessed to determine their value and impairment individually or collectively in a group of similar receivables. In case of individually assessed receivables for impairment, the Group takes into account the available or accessible data from external sources of information on market trends and forecasts, the possible credit enhancements (collateral) provided for receivables and events providing evidence of impairment of receivables such as, for example, fulfilment of contractual terms, the borrower's actual performance, etc. In case of collectively assessed receivables for impairment, the Group takes into account the historical statistics, and reviews annually whether the provisioning rates used for collectively assessed receivables are in line with the historical data of impairment of receivables, and that the provisioning rates used for collectively assessed receivables are approved for the upcoming year.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Accrued revenue from PSO and capacity reserve service fees

Part of funds for PSO and tertiary capacity reserve services are allocated for the maintenance of infrastructure of the Elektrónai Complex and for the compensation of the necessary trial costs of electricity generation facilities. Infrastructure maintenance costs cover fuel, emission allowance and other production costs that are incurred in the course of generation of heat which is necessary to support infrastructure, as well in the course of generation electricity which is consumed by the Elektrónai Complex, and gas consumption capacity taxes. Allocated amount of PSO funds and the price for capacity reserve services are Group. In the Group's financial statements, income from these services is recognised on accrual basis based on actually incurred costs.

As at 31 December 2016, the Group recognised PSO funds of EUR 9,404 thousand within 'Other non-current amounts payable and liabilities' (Note 24) to be refunded in 2018 (31 December 2015: PSO funds of EUR 7,018 thousand to be refunded in 2017). PSO funds of EUR 177 thousand to be refunded in 2017 arose from lower than established actual fixed and variable costs incurred in the provision of regulated services. As at 31 December 2016, non-current amount payable was carried at amortised cost using the effective interest rate approach. When discounting the payable PSO funds during the period of refunding, a discount rate of 1.02% was used, and discounting effect of EUR 185 thousand was recognised within 'Other financial income'.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

5 Intangible assets

Group	Patents and licenses	Computer software	Emission allowances	Other intangible assets	Goodwill	Total
At 31 December 2014						
Acquisition cost	2,891	9,395	10,531	526	-	23,343
Accumulated amortisation	(1,535)	(6,194)	-	(280)	-	(8,009)
Net book amount	1,356	3,201	10,531	246	-	15,334
Net book amount at 31 December 2014	1,356	3,201	10,531	246	-	15,334
Additions	87	403	-	2,191	-	2,681
Reclassified to/from PP&E categories	1	1,501	-	(1,423)	-	79
Write-offs	-	(91)	-	-	-	(91)
Emission allowances utilised (Note 23)	-	-	(2,992)	-	-	(2,992)
Revaluation of emission allowances	-	-	2,144	-	-	2,144
Return of emission allowances lent	-	-	4,615	-	-	4,615
Grant received on emission allowances	-	-	2,140	-	-	2,140
Amortisation charge	(592)	(1,746)	-	(33)	-	(2,371)
Net book amount at 31 December 2015	852	3,268	16,438	981	-	21,539
At 31 December 2015						
Acquisition cost	2,836	10,760	16,438	1,259	-	31,293
Accumulated amortisation	(1,984)	(7,492)	-	(278)	-	(9,754)
Net book amount	852	3,268	16,438	981	-	21,539
Net book amount at 31 December 2015	852	3,268	16,438	981	-	21,539
Increase on acquisition of subsidiaries (Note 33)	14,900	-	-	-	1,461	16,361
Additions	44	588	9	2,470	-	3,111
Reclassified to/from PP&E categories	1,031	1,544	-	(2,442)	-	133
Emission allowances utilised (Note 23)	-	-	(2,999)	-	-	(2,999)
Revaluation of emission allowances	-	-	(3,346)	-	-	(3,346)
Grant received on emission allowances	-	-	1,733	-	-	1,733
Amortisation charge	(1,673)	(2,544)	(1)	(53)	-	(4,271)
Net book amount at 31 December 2016	15,154	2,856	11,834	956	1,461	32,261
At 31 December 2016						
Acquisition cost	17,957	13,572	11,838	1,435	1,461	46,263
Accumulated amortisation	(2,803)	(10,716)	(4)	(479)	-	(14,002)
Net book amount	15,154	2,856	11,834	956	1,461	32,261

The fair value of emission allowances is determined with reference to the prices available on the active market, and accordingly, it is within Level 1 of the fair value hierarchy. At the end of each reporting period, emission allowances are measured with reference to year-end market prices.

In 2016 the Group accounted for Patents and Licenses identified in business combination that comprise License to produce electricity with incentive rate. Fair value of the License, at the moment of business acquisition, was determined to be EUR 14,900 thousand, amortisation period of the License are set to 11 years. Carrying value of the License at 31 December 2016 is 13,762 thousand EUR.



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

All amounts in EUR thousands unless otherwise stated

6 Property, plant and equipment

The Group related disclosures on Property, plant and equipment

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, Gas technological equipment and installations	Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant	Wind power plants	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
At 31 December 2014												
Cost or revalued amount	2,011	68,190	658,802	111,201	204,418	-	921,772	19,330	24,283	13,382	44,424	2,067,813
Accumulated depreciation	-	(1,242)	(4,891)	(1,779)	(71,405)	-	(341,814)	(1,542)	(10,870)	(1,497)	-	(435,040)
Accumulated impairment	-	-	-	-	-	-	(11,461)	-	-	-	(223)	(11,684)
Net book amount	2,011	66,948	653,911	109,422	133,013	-	568,497	17,788	13,413	11,885	44,201	1,621,089
Net book amount at 31 December 2014	2,011	66,948	653,911	109,422	133,013	-	568,497	17,788	13,413	11,885	44,201	1,621,089
Additions	-	44	1,133	15	18	-	1,045	7,325	1,274	377	136,508	147,739
Revaluation	-	1,308	125	-	-	-	-	(29)	-	-	-	1,404
Disposals	-	(612)	(56)	-	-	-	-	(330)	(93)	(424)	(21)	(1,536)
Write-offs	-	(14)	(2,605)	(4)	-	-	-	(1)	(15)	(17)	(43)	(2,699)
Reclassifications between groups	-	3,658	109,715	9,533	722	-	34,572	10	8,036	(3,863)	(162,383)	-
Reclassified to assets, intangible assets	-	-	-	-	-	-	-	-	(15)	-	(64)	(79)
Reclassified to assets held for sale	-	(11,973)	(559)	-	-	-	-	(46)	-	-	-	(46)
Reclassified to investment property	-	-	-	-	-	-	-	-	-	-	-	(12,532)
Reclassified to finance lease (Note 14)	-	-	-	-	28	-	175	48	(3)	-	146	394
Reclassified from (to) inventories	-	-	-	-	-	-	(36,734)	(6)	-	-	-	(36,740)
Impairment	-	-	-	-	-	-	148	-	-	-	-	148
Reversal of impairment	-	-	-	-	-	-	(25,426)	(4,923)	(4,704)	(1,902)	-	(84,068)
Depreciation charge	-	(3,380)	(32,093)	(3,686)	(7,954)	-	-	-	-	-	-	-
Net book amount at 31 December 2015	2,011	55,979	729,571	115,280	125,827	-	542,277	17,879	17,893	6,056	18,344	1,631,117
At 31 December 2015												
Cost or revalued amount	2,011	60,698	766,198	120,742	205,122	-	887,174	23,801	34,604	8,145	18,567	2,127,062
Accumulated depreciation	-	(4,719)	(36,627)	(5,462)	(79,295)	-	(307,330)	(5,922)	(16,711)	(2,089)	-	(458,155)
Accumulated impairment	-	-	-	-	-	-	(37,567)	-	-	-	(223)	(37,790)
Net book amount	2,011	55,979	729,571	115,280	125,827	-	542,277	17,879	17,893	6,056	18,344	1,631,117

(Cont'd on next page)



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

All amounts in EUR thousands unless otherwise stated

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines, Gas technological equipment and installations	Structures and machinery of Hydro Pumped Storage Power Plant	Wind power plants	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total	(cont'd)
Net book amount at 31 December 2015	2,011	55,979	729,571	115,280	125,827	-	542,277	17,879	17,893	6,056	18,344	1,631,117	
Additions	-	129	862	7	8	-	89	13,282	4,564	708	152,311	171,960	
In-kind contributions received	-	-	-	-	-	-	-	-	-	-	3,954	3,954	
Revaluation	-	674	(99)	-	-	-	-	-	-	-	-	575	
Disposals	-	(621)	(247)	-	-	-	(2)	(206)	(30)	(4)	(10)	(1,120)	
Write-offs	-	(8)	(3,337)	(12)	-	-	(2)	(9)	(22)	(3)	-	(3,393)	
Reclassifications between groups	-	687	114,970	14,112	1,338	-	1,834	-	1,021	1,996	(135,958)	0	
Reclassified to assets, intangible assets	-	-	-	-	-	-	-	(1,351)	(8)	-	(125)	(133)	
Reclassified to assets held for sale	-	(226)	(9)	-	-	-	-	-	-	-	(2,812)	(1,580)	
Reclassified to investment property	-	3,430	(191)	-	-	-	-	(7,617)	-	-	427	427	
Reclassified to finance lease (Note 14)	-	-	-	-	51	-	(36)	-	(11)	-	840	844	
Reclassified from (to) inventories	-	-	-	-	-	-	(613)	-	-	-	-	(613)	
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	
Reversal of impairment	-	-	2	-	-	-	45	-	-	-	-	47	
Depreciation charge	-	(2,364)	(35,926)	(4,461)	(7,975)	(1,684)	(23,361)	(4,736)	(4,433)	(1,714)	-	(86,654)	
Increase on acquisition of subsidiary (Note 33)	365	602	-	-	-	62,029	-	-	1	3	-	63,000	
Net book amount at 31 December 2016	2,376	58,282	805,602	124,926	119,249	60,345	520,231	17,242	18,975	7,042	36,544	1,770,814	
At 31 December 2016													
Cost or revalued amount	2,376	65,579	876,992	134,046	206,492	62,029	888,633	27,725	39,315	10,904	36,767	2,350,858	
Accumulated depreciation	-	(7,297)	(71,390)	(9,120)	(87,243)	(1,684)	(330,267)	(10,483)	(20,340)	(3,862)	-	(541,686)	
Accumulated impairment	-	-	-	-	-	-	(38,135)	-	-	-	(223)	(38,358)	
Net book amount	2,376	58,282	805,602	124,926	119,249	60,345	520,231	17,242	18,975	7,042	36,544	1,770,814	

In 2016 and 2015, the Group's property, plant and equipment (excluding structures and machinery of Hydro Power Plant, Pumped Storage Power Plant and Thermal Power Plant (Combined Cycle Unit, Reserve Power Plant), gas distribution pipelines, gas technological equipment, wind power plans, and IT and telecommunication equipment) was accounted for at revalued amount.



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

All amounts in EUR thousands unless otherwise stated

In 2016, the Group performed revaluation of buildings with carrying amount of EUR 34,200 thousand and structures and machinery with carrying amount of EUR 800 thousand with reference to the Reports on Assessment of Market Value of Immovable Property prepared by independent property valuer InReal UAB; the assets were valued using the sales comparison approach (analogous sales price) and the income approach.

The table below contains information on the results of revaluation performed in 2016:

Group	Decrease in other comprehensive income and revaluation reserve in equity			Total revaluation effect
	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss		
Increase (decrease) in carrying amount	453	122		575
	453	122		575

The table below contains information on the results of revaluation performed in 2015:

Group	Decrease in other comprehensive income and revaluation reserve in equity			Total revaluation effect
	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss		
Increase (decrease) in carrying amount	1,274	130		1,404
	1,274	130		1,404

In the opinion of the Group's management, the carrying amount of assets stated at revalued amount as at 31 December 2016 did not differ significantly from their fair value. The table below presents the distribution of the Group's property, plant and equipment based on the fair value hierarchy levels as at 31 December 2016 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	2,032	344	2,376
Buildings	-	6,237	52,045	58,282
Structures and machinery	-	3,174	802,428	805,602
Motor vehicles	-	14,708	2,534	17,242
Other property, plant and equipment	-	95	6,947	7,042
Construction in progress	-	-	36,544	36,544
Total	-	36,112	890,976	927,088

The table below presents distribution of the Group's property, plant and equipment based on fair value hierarchy levels as at 31 December 2015 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Land	-	1,880	79	1,959
Buildings	-	6,891	49,088	55,979
Structures and machinery	-	3,078	725,519	728,597
Motor vehicles	-	16,881	971	17,852
Other property, plant and equipment	-	118	5,475	5,593
Construction in progress	-	-	12,297	12,297
Total	-	28,848	793,429	822,277

Land was mostly attributed to Level 2 of the fair value hierarchy. The valuation was based on the market approach.

Buildings were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of buildings attributed to Level 2 was based on the comparative value method approach. The valuation of assets attributed to Level 3 was based on the income approach, comparative value method approach, the cost approach or mix of these approaches.

Structures and machinery were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of assets within Level 2 was based on the market approach. The valuation of assets within Level 3 was based on the income approach, comparative value method approach, the cost approach or mix of these approaches. The valuation was based on data and information available to the valuer to make accurate forecasts of future cash flows.

Motor vehicles were attributed to Levels 2 and 3 of fair value hierarchy. The valuation was based on the market approach and cost approach.

Construction in progress and other PP&E were mostly attributed to Level 3 of fair value hierarchy, valuation was based on income method or depreciated replacement cost method. The management considers, that cost of these assets approximate its fair value.

During 2016, the Group companies did not capitalize any interest expenses on borrowings intended to finance development of non-current assets (2015: EUR 111 thousand). The average capitalised interest rate was 0.29% in 2015.

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2016, the Group's commitments to purchase or construct property, plant and equipment amounted to EUR 362 million (31 December 2015: EUR 20.1 million).

As at 31 December 2016, the Group had pledged to the banks its property, plant and equipment in amount of EUR 353,686 thousand (31 December 2015: EUR 345,297 thousand) (Note 19).

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

All amounts in EUR thousands unless otherwise stated

The Company related disclosures on Property, plant and equipment

Company	Other PP&E	Construction in progress	Total
At 31 December 2014			
Cost or revalued amount	28	-	28
Accumulated depreciation	(19)	-	(19)
Net book amount	9	-	9
Net book amount at 31 December 2014	9	-	9
Additions	-	280	280
Depreciation charge	(3)	-	(3)
Net book amount at 31 December 2015	6	280	286
At 31 December 2015			
Cost or revalued amount	28	280	308
Accumulated depreciation	(22)	-	(22)
Net book amount	6	280	286
Net book amount at 31 December 2015	6	280	286
Additions	-	65	65
Depreciation charge	(3)	(3)	(3)
Net book amount at 31 December 2016	3	345	348
At 31 December 2016			
Cost or revalued amount	28	345	373
Accumulated depreciation	(25)	-	(25)
Net book amount	3	345	348

7 Investment property

Group	Investment property
Carrying amount at 31 December 2014	37,394
Reclassification from property, plant and equipment	12,532
Increase in value	515
Decrease in value	(1,922)
Carrying amount at 31 December 2015	48,519
Carrying amount at 31 December 2015	48,519
Reclassification from property, plant and equipment	(427)
Increase in value	4,323
Decrease in value	(4,109)
Disposal	(2,059)
Carrying amount at 31 December 2016	46,207

In 2016, the Group's income from lease of investment property amounted to EUR 2,707 thousand (2015: EUR 2,652 thousand).

In 2016 and 2015 the Company had no investment property.

The table below presents distribution of the Group's investment property based on fair value hierarchy

levels as at 31 December 2016 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Buildings	-	-	44,756	44,756
Structures	-	-	1,451	1,451
Total	-	-	46,207	46,207

The table below presents distribution of the Group's investment property based on fair value hierarchy levels as at 31 December 2015 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	
Buildings	-	-	47,148	47,148
Structures	-	-	1,371	1,371
Total	-	-	48,519	48,519

The fair value of investment property as at 31 December 2016 and 2015 was determined in November 2016 and December 2015, respectively. Valuations were carried out by independent property valuers using the market approach and income approach. Investment property is attributed to Level 3 of fair value hierarchy. The valuation was based on data and information available to the valuer for making accurate forecasts of future cash flows. Future cash inflows were estimated with reference to comparable object rental prices, adjusted for location, condition and other factors affecting the value, and with reference to the actual rental prices of the subject object, adjusted for the occupancy rate. In the opinion of the Group's management, the value of investment property determined using the above-mentioned approach represented its fair value as at 31 December 2016 and 2015.

8 Investments in subsidiaries and associates

Reorganisation of subsidiaries

On 1 January 2016, LESTO AB and Lietuvos Dujos AB were reorganised by way of merger under Art. 2.97(4) of the Lithuanian Civil Code, as a result of which a new entity Energijos Skirstymo Operatorius AB (ESO) was founded. As from 11 January 2016, the shares of ESO have been quoted on the Main List of NASDAQ OMX Vilnius stock exchange. Following the reorganisation, ESO took over from LESTO AB and Lietuvos Dujos AB all their non-current and current assets, non-current and current financial and other liabilities, amounts receivable and payable under the agreements signed between LESTO AB and Lietuvos Dujos AB, including any other otherwise arising obligations.

Following the merger of LESTO AB and Lietuvos Dujos AB, the Group's effective ownership interest in Energijos Skirstymo Operatorius AB is 94.98%.

On 1 January 2016, ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB were reorganised by way of merger, as a result of which ELEKTROS TINKLO PASLAUGOS UAB and



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

All amounts in EUR thousands unless otherwise stated

Kauno Energetikos Remontas UAB ceased to exist as legal entities and a new entity was founded under the name of Energetikos Pasiučių ir Rangos Organizacija UAB.

Foundation of subsidiaries

On 9 February 2016, the Company founded a new entity Energijos Sprendimų Centras UAB with the authorised share capital of EUR 10 thousand, which is divided into 10,000 ordinary registered shares with the nominal value of EUR 1 each. The total issue price of shares was equal to EUR 150 thousand. Energijos Sprendimų Centras UAB provides energy saving (efficiency) services and is engaged in development of renewable energy sources. The Articles of Association of Energijos Sprendimų Centras UAB were registered with the Register of Legal Entities on 17 February 2016.

Increase and decrease in share capital, acquisitions of subsidiaries

During 2016 there was increased share capitals of subsidiaries and covered losses are as follows:

Subsidiary	Issue date	Amount of shares, pcs,*	Nominal value of issued shares, EUR/000	Paid during 2016, EUR/000	Unpaid by 31 December 2016	Date of articles amendment
UAB Vilniaus kogeneracinė įėgainė	19 December 2016	68,965,518	0.29	20,000	5,000	19 January 2017
UAB Energijos Sprendimų centras	29 August 2016	520,000	1.00	520	348	172 September 2016
UAB Lietuvos dujų tiekimas	19 May 2016	25,862,070	0.29	7,500	7,500	13 June 2016
UAB Kauno kogeneracinė įėgainė	15 March 2016	5,484,292	1.00	5,484	5,484	- 2016
Energijos tiekimas UAB	23 December 2015	16,240,000	1.00	16,240	7,240	December 2015
UAB Elektroninių mokėjimų agentūra	1 December 2015	434,000	1.00	434	262	December 2015
Cover of losses UAB VAE SPB					131	-
Total			50,178	25,965	15,172	

*There is stated amount of shares that belong to the Company

During 2015 increased (decreased) share capitals of subsidiaries and covered losses are as follows:

Subsidiary	Issue date	Amount of shares (cancelled), pcs,*	Nominal price	Nominal value of issued shares, EUR/000	Paid (received) during 2015, EUR/000	Unpaid by 31 December 2015	Date of articles amendment
UAB Vilniaus kogeneracinė įėgainė	19 February 2015	10,000	0.29	3	3	-	19 February 2015
UAB Vilniaus kogeneracinė įėgainė	4 July 2015	3,450,000	0.29	1,000	1,000	-	4 July 2015
UAB Kauno kogeneracinė įėgainė	19 February 2015	10,000	0.29	3	3	-	19 February 2015
UAB „ELEKTROS TINKLO PASLAUGOS“ tiekimas	24 April 2015	(10,000)	0.29	(2,900)	(2,900)	-	20 April 2015
UAB Energijos tiekimas	14 October 2015	785,500	1	783	783	-	14 October 2015
UAB Energijos tiekimas	23 December 2015	16,240,000	1	16,240	9,000	7,240	23 December 2015
UAB Elektroninių mokėjimų agentūra	24 August 2015	347,104	1	347	347	-	28 August 2015
UAB Elektroninių mokėjimų agentūra	26 October 2015	350,000	1	350	87	263	6 November 2015
Total				15,826	8,323	7,503	

*There is stated amount of shares that belong to the Company

During 2015 the Company acquired shares of indirectly, through other subsidiaries, controlled companies:

Date	Amount of shares acquired, pcs,*	Base purchase price	Contingent consideration	Share of Equity acquired, percent	Acquired from
31 March 2015	15,244,112	4,342	-	-	„Lietuvos energijos gamyba“, AB
31 March 2015	750,000	6,883	-	-	„Lietuvos energijos gamyba“, AB
31 March 2015	18,904	7,695	-	-	„Lietuvos energijos gamyba“, AB
27 April 2015	1,692,666	41,176	11,120	57.30	LESTO AB
27 April 2015	1,292,897	29,987	8,099	41.73	„Lietuvos energijos gamyba“, AB
27 April 2015	17,384	424	114	0.59	UAB Duomenų logistikos centras
27 April 2015	10,193	252	67	0.35	Litgrid AB
19 August 2015	100	61	-	-	UAB „Kauno energetikos remontas“
Total		90,820			19,400



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

All amounts in EUR thousands unless otherwise stated

The recognised price premium for the shares of NT Valdos UAB amounting EUR 19,400 thousand as of 31 December 2015 and payable 2019, was discounted to the present value at an average interest rate of 2.65% published by the Bank of Lithuania, and the discounting effect on initial recognition of investment amounted to EUR 1,895 thousand. As a result of transactions concluded in 2015 the Company acquired 100% control over the shares of NT Valdos UAB.

Change in ownership interest

On 15 March 2016, the Company's subsidiary Kauno Kogeneracinė Jėgainė UAB issued 10,756,300 ordinary registered shares with the nominal value of EUR 1 each. The total issue price of all new shares amounted to EUR 10,756 thousand. The Company acquired 5,494,292 new shares with the nominal value of EUR 1 each by making cash contribution of EUR 5,484 thousand. Following the transaction, the Company holds 51% of shares of Kauno Kogeneracinė Jėgainė UAB. Accordingly, the remaining 49% of Kauno Kogeneracinė Jėgainė UAB are held by FORTUM HEAT LIETUVA UAB which supplied EUR 3,954 thousand property contribution to the long-term tangible assets (Note 6), and EUR 1,317 thousand was paid up with bank transfer, in total EUR 5,271 thousand. An amount indicated in the Group's statement of changes in equity line "Increase in share capital of Kauno Kogeneracinė Jėgainė UAB" comprise the increase of non-controlling interest of EUR 5,271 thousand net of EUR (4,481) thousand redemption liability which may arise to the controlling shareholder under the put option provided to the non-controlling shareholder (Notes 4,26), in total EUR 790 thousand.

On 3 October 2016 the Company signed a share purchase-sale agreement with Klaipėdos Nafta AB under which it acquired 15,000,000 ordinary registered shares of Litgas UAB representing 33.33% of its share capital. The cost of acquisition of shares amounted to EUR 3,952 thousand. Following the transaction, the Company holds 100% of shares of Litgas UAB.

Buyout of shares to ensure compliance with the ruling of the Supreme Court of Lithuania

Under the Finance Minister's Order of 12 January 2016, the Company is obliged to implement the Lithuanian Government Resolution No 1126 of 26 October 2015 *On buyout of shares* (the Resolution), and to buy out (obtain ownership title to) the shares of the Lietuvos Energijos Gamyba AB (former AB LIETUVOS ELEKTRINE) from minority shareholders following the reorganisation of AB LIETUVOS ENERGIJA and AB LIETUVOS ELEKTRINE, and which were not disposed to any third parties.

On 9 February 2016, the date for initiation of buyout of shares was published. The price of one ordinary registered share of Lietuvos Energijos Gamyba AB to be bought out was equal to EUR 1,2959.

On 31 December 2016, the Company obtained ownership title to additional 3,938,240 shares for EUR 5,103 thousand of Lietuvos Energijos Gamyba AB, as a result of which the Company's ownership interest in Lietuvos Energijos Gamyba AB increased up to 96.75% as at 31 December 2016. The Company has no further commitments for acquisition of Lietuvos Energijos Gamyba AB shares.

Decision on disposal of Duomenų Logistikos Centras UAB

In November 2016, the Company's shareholder made a decision to initiate disposal of Duomenų Logistikos Centras UAB, thereby contributing to further attempts of identifying clearly the Group's activities and focusing on the main ones. The disposal is expected to be finalized by the middle of 2017. As at 31 December 2016, the Company included the carrying amount of investment in Duomenų Logistikos Centras UAB within non-current assets held for sale in the statement of financial position. The subsidiary is consolidated in the Group financial statements. As at 31 December 2016, the carrying

amount of investment was EUR 4,705 thousand. In the opinion of the Company's management, the carrying amount of investment does not exceed the potential sale price, less transaction costs.

Impairment of investments in subsidiaries (reversals)

Based on results of impairment test of investments, performed in 2016, following impairment losses (reversal of impairment losses) were recognized in year 2016:

Subsidiary	Carrying value 31 December 2016	Carrying value 31 December 2015	Impairment (loss) reversal	Acquired shares from NCI	Covered losses
NT Valdos UAB	80,337	89,373	(9,036)	-	-
Energijs Skirstymo Operatorius AB ¹	710,921	673,616	37,305	-	-
Energijs Paslaugų ir Rangos Organizacija UAB ²	1,817	9,137	(7,320)	-	-
LITGAS UAB	11,856	7,597	307	3,952	-
VšĮ Energeitkų mokymo centras	123	309	(186)	-	-
VAE SPB UAB	90	164	(74)	-	131
Total			20,869	3,952	131

Based on results of impairment test of investments, performed in 2015, following impairment losses (reversal of impairment losses) were recognized in year 2015:

Subsidiary	Carrying value 31 December 2015	Carrying value 31 December 2014	Impairment (loss) reversal	Acquired shares from NCI	Covered losses
LESTO AB	522,005	483,093	38,912	-	-
AB Lietuvos dujos [*]	151,611	172,047	(20,436)	-	-
UAB LITGAS	7,597	8,689	(1,092)	-	-
UAB VAE SPB	164	297	(133)	-	725
Iš viso			16,216		725



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

All amounts in EUR thousands unless otherwise stated

The Group's structure as at 31 December 2016:

Company name	Country of business	Company type	Group's effective ownership interest, % (equal to percentage of voting rights)	Non-controlling interests' effective ownership interest, % (equal to percentage of voting rights)	Profile of activities
Lietuvos Energija UAB	Lithuania	Parent company	-	-	Holding company
Enerģijas Skirstymo Operatorius AB	Lithuania	Subsidiary	94.98	5.02	Supply and distribution of electricity and natural gas, operation, maintenance and management of distribution networks and assurance of their security and reliability.
Lietuvos Enerģijos Gamyba AB	Lithuania	Subsidiary	96.75	3.25	Electricity generation, supply, import, export and trade.
EURAKRAS UAB	Lithuania	Subsidiary	75.00	25.00	Development of wind power plants.
Lietuvos Dujų Tiekimas UAB	Lithuania	Subsidiary	100.00	-	Gas supply.
NT Valdos UAB	Lithuania	Subsidiary	100.00	-	Operation of real estate, other related activities and provision of services.
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.80	2.20	Provision of IT, telecommunication and other services.
Enerģeitikos Paslaugų ir Rangos Organizacija UAB	Lithuania	Subsidiary	100.00	-	Transfer of electricity voltage, technical maintenance and operation of electric equipment of distribution network.
Tuulenergija OU	Estonia	Subsidiary	100.00	-	Development and construction of wind farms, and electricity generation.
Enerģijos tiekimas UAB	Lithuania	Subsidiary	100.00	-	Supply of electricity and natural gas.
LITGAS UAB	Lithuania	Subsidiary	100.00	-	Supply of liquefied natural gas via the terminal and trade in natural gas.
Enerģeitikų Mokymo Centras VšĮ	Lithuania	Subsidiary	100.00	-	Professional development and continuing training of energy specialists.
Elektroninių Mokėjimų Agentūra UAB (former Gotfilas UAB)	Lithuania	Subsidiary	100.00	-	Provision of payment collection services.
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	97.00	3.00	Organisation and execution of public procurement, accounting, legal, personnel administration and customer support services.
VAE SPB UAB	Lithuania	Subsidiary	100.00	-	Business consulting and other management activities.
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.00	-	Modernisation of district heating supply in Vilnius city.
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.60	20.40	Provision of IT and telecommunication support services
Enerģijos Sprendimų Centras UAB	Lithuania	Subsidiary	100.00	-	Provision of energy saving services, implementation of development of renewable energy sources and other related works.
Geton Energy OÜ	Estonia	Indirectly controlled subsidiary	100.00	-	Electricity supply.
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.00	-	Electricity supply.
Lietuvos Enerģija Support Fund	Lithuania	Subsidiary	100.00	-	Provision of support for projects, initiatives and activities of public interest.
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	51.00	49.00	Modernisation of district heating supply in Kaunas city.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The Group's structure as at 31 December 2015:

Company name	Country of business	Company type	Group's effective ownership interest, % (equal to percentage of voting rights)	Non-controlling interests' effective ownership interest, % (equal to percentage of voting rights)	Profile of activities
Lietuvos Energija UAB	Lithuania	Parent company	-	-	Holding company
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.13	3.87	Electricity generation, supply, import, export and trade
LESTO AB	Lithuania	Subsidiary	94.39	5.61	Electricity supply and distribution to end users
Lietuvos Dujos AB	Lithuania	Subsidiary	96.64	3.36	Provision of natural gas distribution services, rational development of natural gas distribution infrastructure
NT Valdos UAB	Lithuania	Subsidiary	100.00	-	Disposition of real estate, other related activities and provision of related services; lease of motor vehicles and provision of related services
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.64	20.36	IT and telecommunication support services
Elektrės Tinklo Pasiūgos UAB	Lithuania	Subsidiary	100.00	-	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid
Kauno Energetikos Remontas UAB	Lithuania	Subsidiary	100.00	-	Repairs of energy equipment, manufacturing of metal structures
LITGAS UAB	Lithuania	Subsidiary	66.67*	33.33*	Supply of liquefied natural gas via terminal and trade in natural gas
Elektroninių Mokėjimų Agentūra UAB (formerly Gotitas UAB)	Lithuania	Subsidiary	100.00	-	Provision of payment collection services
Energijos Tiekimas UAB	Lithuania	Subsidiary	100.00	-	Supply of electricity and natural gas
Energetikų Mokymo Centras VŠĮ	Lithuania	Subsidiary	100.00	-	Professional training and development of energy specialists
Geton Energy OU	Estonia	Indirectly controlled subsidiary	100.00	-	Electricity supply
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.00	-	Electricity supply
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.80	2.20	IT and telecommunication support services
VAE SPB UAB	Lithuania	Subsidiary	100.00	-	Business and other management consultations; development of a new nuclear power plant project in Visaginas
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	97.00	3.00	Public procurement, accounting and employment relations administration services
Lietuvos Dujų Tiekimas UAB	Lithuania	Subsidiary	100.00	-	Purchase (import) of natural gas and sales to end users
Lithuanian Energy Support Fund	Lithuania	Subsidiary	100.00	-	Provision of support for projects, initiatives and activities of public interest
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.00	-	Modernisation of district heating sector in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.00	-	Modernisation of district heating sector in Kaunas city

* The Group's effective ownership interest in all companies as at 31 December 2015 was equal to the percentage of voting rights held, except for LITGAS UAB, in which the Group holds 100% of voting rights.



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

All amounts in EUR thousands unless otherwise stated

As at 31 December 2016, the Company held ownership interest in the following Group companies:

Group company	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Ownership interest (%)
Subsidiaries:					
Enerģijas Skirstymo Operatorius AB ¹	710,921	-	-	710,921	94.98
Lietuvos Enerģijas Gamyba AB	299,935	-	-	299,935	96.75
EURAKRAS UAB	17,058	-	-	17,058	75.00
Lietuvos Dujų Tiekimas UAB	8,369	-	-	8,369	100.00
NT Valdos UAB	89,373	(9,036)	-	80,337	100.00
Technologijų ir Inovacijų Centras UAB	3,218	-	-	3,218	50.00
Enerģetikos Paslaugų ir Rangos Organizacija UAB ²	9,137	(7,320)	-	1,817	100.00
Tuulenerģija OU	6,659	-	-	6,659	100.00
Enerģijas Tiekimas UAB	23,906	-	-	23,906	100.00
LITGAS UAB	12,641	(785)	-	11,856	100.00
Enerģetikių Mokymų Centras VšĮ	309	(186)	-	123	100.00
Elektroninių Mokymų Agentūra UAB	758	-	-	758	100.00
Verslo Aplarnavimo Centras UAB	295	-	-	295	51.00
VAE SPB UAB	1,018	(1,369)	445	94	100.00
Vilniaus Kogeneracinė Jėgainė UAB	1,003	-	-	1,003	100.00
Enerģijos Sprendimų Centras UAB	348	-	-	348	100.00
Kauno Kogeneracinė Jėgainė UAB	5,487	-	-	5,487	51.00
Lietuvos Enerģija Support Fund	3	-	-	3	100.00
	1,190,438	(18,696)	445	1,172,187	

As at 31 December 2015, the Company held ownership interest in the following Group companies:

Group company	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Ownership interest (%)
Subsidiaries:					
LESTO AB	538,874	(16,869)	-	522,005	94.39
Lietuvos Enerģijos Gamyba AB	294,832	-	-	294,832	96.13
Lietuvos Dujų AB	172,047	(20,436)	-	151,611	96.64
NT Valdos UAB	89,373	-	-	89,373	100.00
Enerģijos Tiekimas UAB	16,666	-	-	16,666	100.00
LITGAS UAB	8,689	(1,092)	-	7,597	66.67
ELEKTROS TINKLO PASLAUGOS UAB	4,795	-	-	4,795	100.00
Kauno Enerģetikos Remontas UAB	4,342	-	-	4,342	100.00
Duomenų Logistikos Centras UAB	7,268	(2,563)	-	4,705	79.64
Technologijų ir inovacijų Centras UAB	3,218	-	-	3,218	50.00
VAE SPB UAB	1,018	(1,168)	314	164	100.00
Lietuvos Dujų Tiekimas UAB	869	-	-	869	100.00
Elektroninių Mokymų Agentūra UAB	495	-	-	495	100.00
Enerģetikių Mokymo Centras VšĮ	309	-	-	309	100.00
Verslo Aplarnavimo Centras UAB	295	-	-	295	51.00
Lietuvos Enerģija Support Fund	3	-	-	3	100.00
Vilniaus Kogeneracinė Jėgainė UAB	1,004	-	-	1,004	100.00
Kauno Kogeneracinė Jėgainė UAB	3	-	-	3	100.00
	1,144,100	(42,128)	314	1,102,286	



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

The Group's investments in associates and joint ventures as at 31 December 2016 and 2015 were as follows:

Group	2016		2015	
	Carrying amount	Group's interest held (%)	Carrying amount	Group's interest held (%)
Geoterma UAB	2,142	23.44	2,142	23.44
Total	2,142		2,142	
Group's share of loss of associates	(2,142)		(2,142)	
Carrying amount	-		-	

As at 31 December 2016, the Group did not account for its share of loss of associate Geoterma UAB, because amount of loss exceeded the Group's cost of investment. The share of loss not recognised amounted to EUR 438 thousand (2015: EUR 331 thousand).

The table below presents the financial position and financial performance results of associates as at and for the year ended 31 December 2016 (unaudited):

	Assets	Liabilities	Sales revenue	Net profit/(loss) for the year
Geoterma UAB	6,042	7,390	1,228	(456)

The table below presents the financial position and financial performance results of associates as at and for the year ended 31 December 2015 (unaudited):

	Assets	Liabilities	Sales revenue	Net profit/(loss) for the year
Geoterma UAB	7,037	7,782	1,252	(329)



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

All amounts in EUR thousands unless otherwise stated

Summarized statement of financial position of the Group companies that has non-controlling interests as at 31 December 2016 and 2015:

Company name Year	Current assets and liabilities		Non-current assets and liabilities		Total net non-current assets	Net assets
	Assets	Liabilities	Assets	Liabilities		
AB Energijos Skirstymo Operatorius¹						
31 December 2016	80,886	(182,514)	995,392	(243,716)	751,676	650,048
31 December 2015	137,423	(211,443)	903,427	(227,001)	676,426	602,406
Lietuvos Energijos Gamyba AB						
31 December 2016	150,910	(47,334)	668,520	(416,530)	251,980	355,566
31 December 2015	129,658	(54,741)	703,816	(435,833)	267,983	342,900
UAB EURAKRAS						
31 December 2016	4,657	(2,696)	44,905	(25,544)	19,361	21,322
31 December 2015	-	-	-	-	-	-
Technologijų ir Inovacijų Centras UAB						
31 December 2016	2,979	(3,221)	7,180	(47)	7,133	6,891
31 December 2015	4,397	(2,836)	5,262	(39)	5,223	6,684
Duomenų Logistikos Centras UAB						
31 December 2016	995	(1,353)	5,278	(335)	4,943	4,585
31 December 2015	2,534	(3,576)	5,837	(408)	5,429	4,387
LITGAS UAB						
31 December 2016	48,397	(23,697)	30	-	30	24,730
31 December 2015	46,358	(29,331)	33	-	33	17,060
Versio Apatarnavimo Centras UAB						
31 December 2016	2,443	(1,788)	72	-	72	727
31 December 2015	1,067	(637)	35	-	35	465
Kauno Kogeneracinė Jėgainė UAB						
31 December 2016	6,248	(328)	4,703	-	4,703	10,623
31 December 2015	2	-	-	-	-	2

(1) Data as at 31 December 2015 cover the items from the statements of financial positions of LESTO AB and Lietuvos Dujos AB.

(2) Data as at 31 December 2015 cover the items from the statements of financial positions of ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB.

The table above is prepared based on the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

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

All amounts in EUR thousands unless otherwise stated

Summarized statement of profit or loss and other comprehensive income of the Group companies that has non-controlling interests for 2016 and 2015:

Company name/ Year	Revenue	Profit (loss) before income tax expense (benefit)	Income tax expense (benefit)	Net profit (loss) from continuing operations	Other comprehensive income (loss)	Total comprehensive income (loss) for the year	Profit (loss) attributable to non-controlling interest	Dividends paid to non-controlling interest
Energijos Skirstymo Operatorius AB¹								
2016	647,425	105,400	(14,638)	90,762	-	90,762	4,554	2,164
2015	635,966	99,266	(14,805)	84,461	443	84,904	4,421	3,184
Lietuvos Energijos Gamyba AB								
2016	172,922	48,330	(8,355)	39,975	-	39,975	1,396	887
2015	214,395	3,889	(4,120)	(231)	-	(231)	(9)	943
EURAKRAS UAB								
2016	4,984	1,584	80	1,664	-	1,493	373	-
2015	-	-	-	-	-	-	-	-
Technologijų ir Inovacijų Centras UAB								
2016	14,500	311	95	406	-	406	9	-
2015	14,362	531	(74)	457	-	457	10	-
Duomenų Logistikos Centras UAB								
2016	4,359	166	(7)	159	-	159	41	-
2015	4,893	(149)	(12)	(161)	-	(161)	(33)	63
LITGAS UAB								
2016	101,781	10,415	(1,551)	8,864	-	8,864	1,641	398
2015	209,294	5,796	(873)	4,923	-	4,923	-	-
Versio Aptarnavimo Centras UAB								
2016	9,724	314	(52)	262	-	262	8	-
2015	3,826	53	12	65	-	65	2	-
Kauno Kogeneracinė Jėgainė UAB								
2016	-	(157)	22	(135)	-	(135)	-	-
2015	-	(2)	-	(2)	-	(2)	-	-

(1) Data as at 31 December 2015 cover the items from the statements of financial positions of LESTO AB and Lietuvos Dujos AB.

(2) Data as at 31 December 2015 cover the items from the statements of financial positions of ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energijos Remontas UAB.

The table above is prepared based on the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.

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

All amounts in EUR thousands unless otherwise stated

Summarized statement of cash flows of the Group companies that has non-controlling interests for the years 2016 and 2015:

Company name/ Year	Cash flows from operating activities	Income tax (paid) recovered	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase (decrease) in cash flows	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of the year
Energijos Skirstymo Operatorius AB								
2016	180,180	(36)	180,144	(123,794)	(51,524)	4,826	5,836	10,662
2015	148,149	(9,765)	138,384	(86,132)	(57,466)	(5,214)	11,050	5,836
Lietuvos Energijos Gamyba AB								
2016	60,513	-	60,513	14,499	(42,143)	32,869	66,176	99,045
2015	27,193	(1,829)	25,364	8,597	(43,535)	(9,574)	75,750	66,176
EURAKRAS UAB								
2016	2,828	-	2,828	(1,766)	680	1,742	580	2,322
2015	-	-	-	-	-	-	-	-
Technologijų ir Inovacijų Centras UAB								
2016	2,782	(162)	2,620	(2,982)	(202)	(564)	862	288
2015	2,649	(377)	2,272	(1,677)	478	1,073	(211)	862
Duomenų Logistikos Centras UAB								
2016	1,495	-	1,495	(227)	(2,391)	(1,123)	1,474	351
2015	1,216	-	1,216	(2)	(632)	582	892	1,474
LITGAS UAB								
2016	29,778	(896)	28,882	1	(2,436)	26,447	(16,636)	9,811
2015	(19,367)	-	(19,367)	-	(2,105)	(21,472)	4,836	(16,636)
Verslo Aptarnavimo Centras UAB								
2016	175	(25)	150	-	(2)	148	379	527
2015	57	-	57	(3)	31	85	294	379
Kauno Kogeneracinė Jėgainė UAB								
2016	(150)	-	(150)	(524)	6,802	6,128	2	6,130
2015	(1)	-	(1)	-	3	2	-	2

(1) Data as at 31 December 2015 cover the items from the statements of financial positions of LESTO AB and Lietuvos Dujos AB

(2) Data as at 31 December 2015 cover the items from the statements of financial positions of ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energietikos Remontas UAB.

The table above is prepared based on the financial statements of subsidiaries adjusted for consolidation purposes and presents data before intercompany eliminations.



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

All amounts in EUR thousands unless otherwise stated

9 Amounts receivable after one year

Amounts receivable after one year consist of as follows:

	Group		Company	
	2016	2015	2016	2015
Amount receivable on disposal of Litgrid AB (Notes 4, 13, 39)	193,571	209,975	193,571	209,975
Financial lease (Note 14)	7,600	1,938	-	-
Deposited guarantees	943	941	-	-
Unbilled accrued revenue from electricity-related sales (Note 4)	246	533	-	-
Amounts receivable on emission allowances lent	157	214	-	-
Loan granted	599	29,738	2,900	29,000
Other non-current receivables	1,388	2,176	40	-
Total	204,500	245,515	196,511	238,975
Less: impairment allowance	(922)	(1,089)	-	-
Carrying amount	203,582	244,426	196,511	238,975

Information on the fair value of amount receivable from EPSO-G on disposal of Litgrid AB is presented in Note 3.1. The key terms of the amount receivable from EPSO-G on disposal of Litgrid AB were reviewed in 2014 and 2016 in relation to repayment terms and variable part of interest rate. Interest rate is based on 1 year EURIBOR.

According to agreement between the Company and EPSO-G during 2017-2021 period EPSO-G will pay EUR 79,607 thousand and final repayment of EUR 130,368 thousand (subject to final recalculation of the price premium) will take place in 2022. The non-current amount receivable is presented net of Contingent consideration (Note 4) which had negative value of EUR 4,182 thousand as at 31 December 2016 (zero as at 31 December 2015)

During 2016 the Company extended repayment term of loan provided to subsidiary UAB "Energetikos paslaugu ir rangos organizacija" with the carrying value at 31 December 2016 of EUR 2,940 thousand including EUR 40 thousand accrued interest receivable.

At 31 December 2015 the Company and the Group accounted for EUR 29,000 thousand of loan receivable from EPSO-G UAB that was scheduled for repayment at 31 May 2018. Interest rate of loan was based on 1 year EURIBOR. During first half of 2016, UAB "EPSO-G" prematurely repaid the EUR 29,000 thousand loan, and received proceeds are accounted for as "Loan repayments received" in statement of cash flows.

Movements on the impairment allowance of amounts receivable during the years ended 31 December 2016 and 2015.

	Group		Company	
	2016	2015	2016	2015
At 1 January	1,089	1,242	-	-
Impairment	11	-	-	-
Reversal of impairment	(178)	(153)	-	-
At 31 December	922	1,089	-	-

10 Other non-current assets

Other non-current assets consist of as follows:

	Group		Company	
	2016	2015	2016	2015
Right to receive emission allowances in future	3,288	5,087	-	-
Less: impairment	(668)	(1,799)	-	-
Carrying amount	2,620	3,288	-	-

As at 31 December 2011, 400,000 emission allowances were lent under the terms of a lending agreement concluded on 1 December 2009 with STX Services BV. The agreement expires in 2021. On 16 April 2012, additional 650,000 emission allowances were lent under the terms of a lending agreement signed on 13 April 2012 with CF Partners (UK) LLP. On 7 April 2015, CF Partners (UK) LLP returned 650,000 emission allowances. Impairment of emission allowances was estimated with reference to the market prices of emission allowances as at 31 December 2016 and 2015.

11 Inventories

	Group		Company	
	2016	2015	2016	2015
Natural gas	28,514	29,471	-	-
Consumables, raw materials and spare parts	6,772	5,979	-	-
Electricity and gas meters	-	775	-	-
Heavy fuel oil	5,025	5,519	-	-
Other	961	1,110	-	-
Total	41,272	42,854	-	-
Less: write-down allowance	(3,155)	(2,880)	-	-
Carrying amount	38,117	39,974	-	-

As from 2016 the Group classifies electricity and gas meters in the category of property, plant and equipment. As a result, the electricity meters that were classified in the category of inventories as at 31 December 2015 were reclassified to property, plant and equipment.



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

All amounts in EUR thousands unless otherwise stated

The Group's inventories expensed during the year ended 31 December 2016 were as follows:

	Group		Company	
	2016	2015	2016	2015
Natural gas	250,735	355,471	-	-
Heavy fuel oil	494	1,916	-	-
Other inventories	17,650	16,500	-	-
Total	268,879	373,887	-	-

Inventories expensed in 2016 decreased compared to 2015 as a result of re-negotiated agreement with Statoil ASA leading to lower annual LNG acquisition and realization volumes and lower prices.

Movements on the account of inventory write-down to net realisable value during 2016 and 2015 were as follows:

	Group		Company	
	2016	2015	2015	2014
Carrying amount at 1 January	2,880	3,957	-	-
Additional impairment	400	106	-	-
Reversal of impairment	(125)	(1,183)	-	-
Carrying amount at 31 December	3,155	2,880	-	-

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2016 amounted to EUR 4,436 thousand (31 December 2015: EUR 16,964 thousand).

Movements on the account of inventory write-down to net realisable value were recognised in the statement of comprehensive income within 'Other expenses'.

As at 31 December 2016, no inventories had been pledged by the Company and the Group. As at 31 December 2015, the Company's subsidiary LITGAS UAB had pledged to Swedbank AB all its current inventories of goods and all rights of claim arising from sale of liquefied natural gas, as an asset complex. As at 31 December 2015, the Group's inventories pledged as collateral amounted to EUR 20,000 thousand (Note 19).

The Group's and the Company's prepayments as at 31 December 2016 and 2015 were as follows:

	Group		Company	
	2016	2015	2016	2015
Prepayments for natural gas	101	28,200	-	-
Deposits related to power exchange	4,539	8,669	-	-
Prepaid expenses	901	1,154	4	1
Prepayments for services	1,110	249	7	5
Payment for share capital issue of Vilniaus Kogeneracinė Jėgaminė UAB (Note 8)	-	-	5,000	-
Other prepayments	316	1,898	-	-
Total	6,967	40,170	5,011	6

As at 31 December 2015, the Group's prepayments mostly consisted of prepayments for natural gas of subsidiary Lietuvos Dujų Tiekimas UAB in amount of EUR 26.9 million relating to the minimum quantity of natural gas not consumed during 2014. This quantity of natural gas was consumed by

Lietuvos Dujų Tiekimas UAB during 2016, thereby leading to significantly lower amount of prepayments for natural gas as at 31 December 2016.

12 Trade receivables

	Group		Company	
	2016	2015	2016	2015
Receivables on sales of electricity in Lithuania	76,941	69,706	-	-
Receivables on sales of gas from non-household users	30,907	30,577	-	-
Receivables on sales of gas from household users	2,887	2,563	-	-
Receivables on contract works	1,960	4,320	-	-
Receivable for the sales of heat	1,574	1,689	-	-
Receivables for rent of property	1,508	1,245	-	-
Receivables on exports of electricity and electricity manufactured abroad	1,228	253	-	-
Receivables for information technology and telecommunications services	735	868	-	-
Other trade receivables	5,219	8,823	-	-
Total	122,959	120,044	-	-
Less: impairment of trade receivables	(11,075)	(12,978)	-	-
Carrying amount	111,884	107,066	-	-

As at 31 December 2016, Lietuvos Dujų Tiekimas UAB had a credit agreement with AB SEB bank for the maximum credit amount of EUR 30 million. As at 31 December 2016, amount of EUR 1,207 thousand was withdrawn as a security under the agreement performance guarantee issued by AB SEB bank. Deadline for the repayment of credit is 31 December 2017. To secure the repayment of credit, Lietuvos Dujų Tiekimas UAB pledged to the bank – all claim rights against amounts receivable under the agreement on supply of natural gas. The maximum amount that can be pledged is EUR 9.0 million.

Movements on the account of provision for impairment during 2016 and 2015 were as follows:

	Group		Company	
	2016	2015	2016	2015
At 1 January	12,978	14,391	-	-
Impairment charge for the year	1,381	2,009	-	-
(Reversal) of impairment	(3,284)	(3,422)	-	-
At 31 December	11,075	12,978	-	-

Impairment of receivables was recognised in the statement of comprehensive income within 'Other expenses'.

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

All amounts in EUR thousands unless otherwise stated

The table below presents the ageing analysis of trade receivables that were not identified as doubtful:

	Group		Company	
	2016	2015	2016	2015
Not past due	99,703	89,896	-	-
Up to 30 days	5,034	7,923	-	-
30-60 days	1,635	2,186	-	-
60-90 days	614	954	-	-
90-120 days	306	381	-	-
Over 120 days	4,592	5,726	-	-
Carrying amount	111,884	107,066	-	-

The fair values of trade receivables as at 31 December 2016 and 2015 approximated their carrying amount.

13 Other amounts receivable

	Group		Company	
	2016	2015	2016	2015
Value added tax	5,412	5,611	-	211
Unbilled accrued revenue from electricity sales (including related VAT)	6,121	5,286	-	-
Accrued revenue for gas	-	5,061	-	-
Current portion of finance lease	1,990	1,324	-	-
Amount receivable on disposal of Litgrid AB (Notes 4,9,39)	12,222	-	12,222	-
Amount receivable on revision of Kauno energetikos remontas UAB shares price (Notes 4,31)	-	-	1,056	-
Other amounts receivable	3,905	3,944	1,016	4,549
Total	29,650	21,226	14,294	4,760
Less: impairment for other amounts receivable	(287)	(249)	-	-
Carrying amount	29,363	20,977	14,294	4,760

The fair value of other amounts receivable as at 31 December 2016 and 2015 approximated their carrying amount.

14 Finance lease

The table below presents analysis of the Group's financial lease receivables :

	Group		Company	
	2015	2016	2015	2015
Minimal lease payments				
The next year	2,582	1,473	-	-
Years 2 through 5 combined	5,789	2,092	-	-
Beyond five years	3,954	-	-	-
Total	12,325	3,565	-	-
Unearned finance income				
The next year	(592)	(149)	-	-
Years 2 through 5 combined	(1,457)	(154)	-	-
Beyond five years	(686)	-	-	-
Total	(2,735)	(303)	-	-
Total	9,590	3,262	-	-

Group during 2015 and 2016 entered into vehicles repurchase agreements, that specify repurchase consideration for vehicles used by the Group for long-term rental services. Repurchase amount of vehicle at 31 December 2016 is EUR 3,472 thousand (31 December 2015 is EUR 1,691 thousand). Periods for execution of vehicles repurchase agreements are in range from 1 to 5 years.

With respect to (1) assessment of income from long-term lease (2) the leased asset residual values at the end of the lease term (3) the consideration that will be received on repurchase of vehicles, in 2016 reclassification of tangible assets to the long-term financial leasing amounted to EUR 7,617 thousand. Eur (2015 - EUR 1,957 thousand).

The Group do not earns any contingent rent revenue related to financial lease agreements.



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

All amounts in EUR thousands unless otherwise stated

15 Investments

As at 31 December 2016, the Group and the Company had no long-term investments.

As at 31 December 2016 and 2015, the Group's and the Company's short-term investments comprised as follows:

	Group		Company	
	2016	2015	2016	2015
Available-for-sale financial assets	-	4,534	-	4,534
Loan receivables	-	-	4,702	-
Interest receivable	-	27	200	27
Carrying amount	-	4,561	4,902	4,561

As at 31 December 2015, the Group's and the Company's available-for-sale financial assets consisted of LTL-denominated Lithuanian Government bond that were redeemed in 2016. As at 31 December 2015, the weighted average annual interest rate on bonds was 1.67%.

During 2016 the Company has provided a loan to the subsidiary Tuuleenergia OU (note 39), its repayment date was set as 31 December 2016 and in 2017 the loan was prolonged (note 39).

Fair value of investments

As at 31 December 2015, Lithuanian Government bonds were stated at fair value. The fair value of debt securities was attributed to Level 1 in the fair value hierarchy and it was determined with reference to the highest bid price (including interest accrued thereon) offered for the respective debt securities by one of three commercial banks in Lithuania, available as at 31 December 2015.

The Available-for-sale investment was redeemed in 2016.

16 Cash and cash equivalents

	Group		Company	
	2016	2015	2015	2015
Cash at bank and on hand	178,565	164,341	73	13,179
Carrying amount	178,565	164,341	73	13,179

For the purpose of cash flow statement, cash and cash equivalents, and bank overdrafts were as follows:

	Group		Company	
	2016	2015	2016	2015
Cash and cash equivalents	178,565	164,341	73	13,179
Bank overdrafts	-	(41,531)	-	-
Carrying amount	178,565	122,810	73	13,179

The fair value of cash and cash equivalents as at 31 December 2016 and 2015 approximated their carrying amount.

Under the loan agreements signed with the banks, the Group has pledged current and future cash inflows to bank accounts (Note 19). As at 31 December 2016, the balance of cash pledged amounted to EUR 139 thousand (31 December 2015: EUR 2,400 thousand).

17 Equity

As at 31 December 2016 and 2015, the Company's share capital amounted to EUR 1,212,156 thousand. As at 31 December 2015, the Company's share capital was divided into 4,179,849,289 ordinary registered shares with the nominal value of EUR 0.29 each.

As at 31 December 2016 and 2015, all the shares were fully paid up.

Pursuant to the Lithuanian Law on Adoption of the Euro and the provisions of the Procedure for Conversion of Share Capital to Euros of the Central Securities Depository of Lithuania (Lietuvos Centrinis Vertybiu Popieriu Depozitoriumas AB), on 1 January 2015 the Company's share capital was converted to euros. The difference on conversion of the nominal value of shares from LTL to EUR amounted to EUR 1,588 thousand, which was accounted for by the Company in profit or loss of the statement of comprehensive income. The difference on conversion was reported within finance costs in the statement of comprehensive income.

18 Reserves

Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Companies in Lithuania are required to transfer 5% of net profit from distributable profit until the total reserve reaches 10% of the share capital. The legal reserve cannot be used for the payment of dividends and it is formed to cover future losses only.

As at 31 December 2016, the Group's legal reserve amounted to EUR 34,696 thousand (31 December 2015: EUR 28,777 thousand).

In 2016, the Company transferred EUR 5,551 thousand (2015: EUR 4,207 thousand) to the legal reserve. The Company's legal reserve as at 31 December 2016 did not reach 10% of the share capital.

Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment due to increase in value. The revaluation cannot be used to cover losses.

As at 31 December 2016, the Group's revaluation reserve amounted to EUR 57,475 thousand (31 December 2015: EUR 62,323 thousand).

This reserve was not formed by the Company as company's property, plant and equipment is carried at cost.

Other reserves

Other reserves are formed on the decision of shareholders and can be redistributed on appropriation of next year profits. No other reserves were formed by the Group as at 31 December 2016. As at 31 December 2015, the Group's other reserves included the change in fair value of available-for-sale financial assets amounting to EUR 48 thousand.

The Company accounts for the changes in fair value of available-for-sale financial assets within other reserves. No other reserves were formed by the Company as at 31 December 2016 (31 December 2015: EUR 48 thousand).



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

All amounts in EUR thousands unless otherwise stated

19 Borrowings

	Group		Company	
	2016	2015	2016	2015
Non-current				
Bank borrowings	364,957	277,805	23,440	-
Current				
Current portion of non-current borrowings	90,008	99,023	2,131	-
Current borrowings	38,948	1,490	64,759	-
Letters of credit	-	206	-	-
Bank overdrafts	-	41,531	-	-
Accrued interest	5	5	-	-
Total borrowings	493,918	420,060	90,330	-

All borrowings of the Group bear variable interest rates with repricing intervals of up to 6 months.

In 2016 the Company has obtained a loan from SEB for the Company's business development funding - the acquisition of wind farms. The loan is set to a variable interest rate, the review period is 3 months. The loan balance at 31 December 2016 is EUR 25,571 thousand.

The Company's current borrowings include:

- Loan payable to SEB bank under credit line agreement in amount of EUR 38,948 thousand.
- Funds borrowed under an intercompany borrowing and lending agreement (Note 36) in amount of Eur 25,811 thousand.

Non-current borrowings grouped by maturity:

	Group		Company	
	2016	2015	2016	2015
Between 1 and 2 years	112,341	57,138	2,131	-
Between 2 and 5 years	181,793	161,052	6,393	-
After 5 years	70,823	59,615	14,916	-
Total	364,957	277,805	23,440	-

The carrying amounts of the Group and the Company borrowings are denominated in Euros.

As at 31 December 2016 and 2015, the fair value of borrowings approximated their carrying amount, except for borrowings of Lietuvos Energijos Gamyba AB with the carrying amounts of EUR 132,459 thousand and EUR 145,674 thousand, respectively. The fair value of these borrowings was approx. EUR 127,743 thousand as at 31 December 2016 (31 December 2015: EUR 137,590 thousand). The fair value was measured as present value of discounted cash flows at a discount rate of 2.37% (31 December 2015: 2.46%). The fair value of borrowings is attributed to Level 2 in the fair value hierarchy.

The loan agreements contain financial and non-financial covenants that the individual Group companies are obliged to comply with. All Group companies complied with the covenants as at 31 December 2016 and 2015.

To secure the repayment of certain borrowings, the Group has pledged its property, plant and equipment (Note 6), inventories (Note 11) and cash balances (Note 16).

As at 31 December 2016, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 180,412 thousand (31 December 2015: EUR 135,955 thousand).

As at 31 December 2016, the Company's balance of credit and overdraft facilities not withdrawn amounted to EUR 71,052 thousand.

In 2016 the Company and the Group entered into credit agreement with European investment bank (Note 36) and entered into equity obligations. The Company is committed to:

- The State of Lithuania, directly or indirectly, will retain control over the Company; the Company's financial commitments that are not secured with collateral (a pledge or guarantee) will not exceed EUR 300,000 thousand
- The Group is committed to:
 - Group net debt-to-equity ratio will not exceed one;
 - Net debt and EBITDA ratio will not exceed four;
 - the Group's borrowing's and Property, plant and equipment ratio will not exceed the rate of 0.40.



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

All amounts in EUR thousands unless otherwise stated

20 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax relates to the same fiscal authority. Movements on the accounts of deferred income tax assets and liabilities during the reporting period were as follows:

Group	At 31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2015	Recognised in other comprehensive income	Increase on acquisition of subsidiary	At 31 December 2016
Deferred income tax assets							
Difference on recognition of revenue from new customer connection services	349	(183)	-	166	(182)	-	(16)
Deferred income	6,143	(1,692)	-	4,451	(2,267)	-	2,184
Accrued expenses	634	1,349	-	1,983	(1,487)	-	496
Impairment of assets	5,460	(203)	-	5,257	(146)	-	5,111
Tax losses not utilised	4,080	1,130	-	5,210	3,694	52	8,956
Difference of financial and tax value of assets identified in business combination	-	-	-	-	2,785	-	2,785
Other expenses	-	-	-	-	(649)	72	(577)
Deferred income tax assets before write-down to net realisable value	16,666	401	-	17,067	1,748	124	18,939
Less: write-down to net realisable value	-	(3,241)	-	(3,241)	(5,019)	-	(8,260)
Deferred income tax assets, net	16,666	(2,840)	-	13,826	(3,271)	124	10,679
Deferred income tax liabilities							
Valuation of PP&E (increase/decrease in value) and differences in depreciation rates	17,241	5,178	191	22,610	9,354	67	32,080
Tax relief on acquisition of PP&E	3,732	(1,023)	-	2,709	(533)	-	2,176
Increase in value of assets	14	-	(4)	10	(1)	-	-
Accrued expenses	(1)	1	-	-	(166)	-	(166)
Difference on recognition of revenue from new customer connection services	2,825	(37)	-	2,788	(39)	-	2,749
Effects from revaluation of financial assets	-	-	-	-	689	-	689
Difference of financial and tax value of assets identified in business combination	-	-	-	-	(171)	-	(171)
Other	6,088	(219)	-	5,869	-	2,235	2,064
Deferred income tax liability, net	29,899	3,900	187	33,986	9,133	58	45,461
Deferred income tax, net	(13,233)	(6,740)	(187)	(20,160)	(12,404)	(2,160)	(34,782)

Group statement of financial position presented separately deferred tax assets (EUR 5,699 thousand) and deferred tax liabilities (EUR 40,481 thousand) if they relate to different subsidiaries; the net balance of deferred tax is liability of EUR 34,782 thousand.



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

All amounts in EUR thousands unless otherwise stated

Company	At 31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2015	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2016
Deferred income tax assets							
Accrued expenses	45	14	-	59	34	-	93
Deferred income tax assets, net	45	14	-	59	34	-	93
Deferred income tax liabilities							
Valuation result of financial assets	13	-	(4)	9	-	(9)	-
Deferred income tax liability, net	13	-	(4)	9	-	(9)	-
Deferred income tax, net	32	14	4	50	34	9	93

As at 31 December 2016, the Group did not recognise deferred income tax on accumulated tax loss from operations of EUR 55,067 thousand (31 December 2015: EUR 21,607 thousand).

21 Grants and subsidies

The balance of grants comprises grants to finance acquisition of assets, funds received from the International Fund for Support of Decommissioning of Ignalina Nuclear Power Plant, from the EU structural funds, and property, plant and equipment and intangible assets received in return for no consideration from the Government of the Republic of Lithuania. Movements on the account of grants in 2016 and 2015 were as follows:

Group	Asset-related grants			Grants for emission allowances	Total
	Other projects of the Group	Projects for renovation, improvement of environmental and security standards			
Balance at 31 December 2014	35,386	269,063	-	-	304,449
Depreciation of property, plant and equipment	(1,539)	(10,663)	-	-	(12,202)
Grants received	10,656	-	2,139	-	12,795
Emission allowances utilised	-	-	(2,108)	-	(2,108)
Grants reversed	(38)	(6,459)	-	-	(6,497)
Balance at 31 December 2015	44,465	251,941	31	-	296,437
Depreciation of property, plant and equipment	(1,609)	(10,798)	-	-	(12,407)
Grants received	424	-	1,733	-	2,157
Emission allowances utilised	-	-	(1,257)	-	(1,257)
Grants reversed	(1)	-	-	-	(1)
Balance at 31 December 2016	43,279	241,143	507	-	284,929

Amortisation of grants is included to profit and loss and charged against the depreciation expenses of the related property, plant and equipment. Grants reversed are reported within revaluation/impairment of assets and these expenses are presented net of grants reversed.

As described in Note 4, the Group made a decision on dismantling of Units 5 and 6 of the Reserve Power Plant, therefore at 31 December 2015 the Group recognised impairment loss of the long term assets "Property, plant and equipment" in the amount of EUR 36.7 million, and deferred income from the grant related to the item of "Property, plant and equipment" was recognised in income in full amount

of EUR 6,459 thousand. Net result of recognized impairment and income from reversed grants was included to profit and loss.



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

All amounts in EUR thousands unless otherwise stated

22 Deferred revenue

	Group		Company	
	2016	2015	2016	2015
At 1 January	53,602	53,973	-	-
Received during the period	1,156	2,136	-	-
Utilised during the period	(2,544)	(2,507)	-	-
At 31 December	52,214	53,602	-	-

Deferred revenue represents income from connection of new customers to natural gas system and to the electricity grid.

Income from connection of new customers to natural gas system is recognised over the average useful life of related items of property, plant and equipment.

As from 1 July 2009, all income from connection of new customers to the electricity grid and from relocation of electricity network facilities is recognised in the period when the works are performed. Until 1 July 2009, deferred revenue was recognised over the average useful life of related items of property, plant and equipment (see Notes 2.21 and 4).

Income from connection of customers is included to revenue line in profit and loss.

23 Provisions

	Group		Company	
	2016	2015	2016	2015
Non-current	3,254	5,084	-	-
Current	12,883	23,333	-	-
Carrying amount	16,137	28,417	-	-

Group	Provisions for onerous contracts	Emission allowance liabilities*	Provisions for employee benefits	Other provisions	Total
At 31 December 2014	8,105	2,839	3,397	86	14,427
Increase during the period	13,263	3,888	807	38	17,996
Utilised during the period (Note 5)	-	(2,992)	(1,094)	30	(4,056)
Decrease/increase on change of assumptions	-	-	79	(29)	50
At 31 December 2015	21,368	3,735	3,189	125	28,417
Increase during the period	8,100	580	839	-	9,519
Utilised during the period (Note 5)	(19,176)	(2,989)	(32)	-	(22,207)
Decrease/increase on change of assumptions	-	-	533	(125)	408
At 31 December 2016	10,292	1,316	4,529	-	16,137

Provisions for employee benefits include a statutory retirement benefit payable to the Group's employees. The balance of provisions at the reporting date is reviewed with reference to actuarial calculations to ensure that estimation of retirement benefit liabilities is as much accurate as possible. The liabilities are recognised at discounted value using the market interest rate.

Provisions for onerous contracts include provisions for gas supply contracts under which the gas sale price will be lower compared to gas acquisition cost. At the end of 2016, these provisions amounted to EUR 10,262 thousand (2015: EUR 21,368 thousand). Upon acquisition of natural gas supply operations, the Group company Lietuvos Duji Tiekimas UAB assumed an obligation to transfer the discount, which was received retrospectively on natural gas import price during January 2013–April 2014, to the end users in future periods. As at 31 December 2016 and 2015, the Group has calculated the provision in respect of onerous part of contracts for household and non-household users, by taking into account the prerequisites for the execution of the contracts at the financial reporting date. Key assumptions used in estimating provisions for onerous contracts were as follows:

- Provisions for onerous contracts with household users were accounted for, with reference to forecast sales volumes and prices agreed with the NCC for the first half of 2017;
- Provisions for onerous contracts with non-household users were accounted for with reference to forecast sales volumes under the contracts signed with individual non-household users at the end of 2016. No discount rate is used in estimating the provisions for non-household users due to a relatively short period of realization of provisions.



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

All amounts in EUR thousands unless otherwise stated

24 Other non-current amounts payable and liabilities

	Group		Company	
	2016	2015	2016	2015
PSO services fees received in advance	9,219	7,018	-	-
Non-current trade payables	813	1,529	-	-
Non-current amounts payable for the acquired shares of subsidiaries	-	61	9,272	17,819
Derivative financial instruments (Note 26)	851	-	-	-
Other	897	425	86	54
Carrying amount	11,780	9,033	9,358	17,873

The current portion of PSO service fees received in advance was classified as advance amounts received (EUR 177 thousand as at 31 December 2016 and EUR 14,633 thousand as at 31 December 2015).

As of 31 December 2016 the Company has accounted for reversal of contingent consideration payable for acquisition of NT Valdios, UAB in amount EUR 9,036 thousand (Note 31), as in the opinion of management there is indication, that maximum financial results, set in the agreement will not be achieved. The contingent consideration is based on normalized EBITDA for 2018, while forecasting its level the Company considered actual results of NT Valdios, UAB in 2016, forecasts for 2017 and projected growth of Lithuanian GDP.

25 Trade payables

	Group		Company	
	2016	2015	2016	2015
Amounts payable for electricity and heavy fuel oil	48,600	43,353	-	-
Amounts payable for construction works, services	10,113	11,874	-	-
Amounts payable for gas	28,046	30,817	-	-
Other amounts payable	9,359	6,075	343	443
Carrying amount	96,118	92,119	343	443

26 Other current amounts payable and liabilities

	Group		Company	
	2016	2015	2016	2015
Employment-related liabilities	6,561	7,615	612	-
Accrued expenses and deferred revenue for electricity and gas	1,666	470	-	-
Amounts payable for property, plant and equipment	34,149	31,994	45	-
Taxes (other than income tax)	9,224	14,066	11	-
Accrued expenses and deferred revenue	16,283	9,405	-	-
Derivative financial instruments	2,907	-	-	-
Current amounts payable for acquired shares of subsidiaries	-	126	-	45,552
Put option redemption liability	4,481	-	-	-
Other amounts payable and liabilities	4,293	3,425	49	361
Carrying amount	79,564	67,101	717	45,913

Derivative financial instruments

The Group's and the Company's assets and liabilities, related to derivative financial instruments are:

	Group		Company	
	2016	2015	2016	2015
Other current assets				
Derivative financial instruments linked to the market price of electricity	4,593	-	-	-
Derivative financial instrument linked to the market price of gas	13	-	-	-
Total	4,606	-	-	-
Other non-current amounts payable and liabilities				
Interest rate swaps (Note 24)	851	-	15	-
Other current amounts payable and liabilities				
Interest rate swaps	493	-	-	-
Derivative financial instruments linked to the market price of electricity	2,414	-	-	-
Total	3,758	-	15	-



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

All amounts in EUR thousands unless otherwise stated

Profit (loss) related to sales and revaluation of derivative financial instruments are summarized as follows:

	Group		Company	
	2016	2015	2016	2015
Profit earned on sale of derivative financial instruments	2,686	-	-	-
Loss incurred on sale of derivative financial instruments	(1,797)	-	-	-
Realized profit (loss) on sales of derivative financial instruments	889	-	-	-
Revaluation of derivative financial instruments	2,036	-	(15)	-
profit (loss) on revaluation of derivative financial instruments	2,036	-	(15)	-
Net result	2,925	-	(15)	-

At 1 January 2016 The Company's subsidiary Enerģijas tiekimas UAB joined the electricity derivatives exchange NASDAQ Commodities. Enerģijas tiekimas UAB is currently the only Lithuanian electricity provider, active in the stock market. Trading of derivative products can reduce electricity price fluctuation risks, as well as to carry out commercial activities, making use of fluctuations in market prices. Enerģijas tiekimas UAB performs the market maker functions in respect of financial instruments linked to Latvian electricity market prices (EPAD Riga).

Derivative financial instruments fair value determination

The Group and the Company accounts for derivative financial instruments at fair value. At 31 December 2016, The Group accounted for EUR 4,606 thousand of derivatives assets and EUR 3,758 thousand, of derivative liabilities. Derivative assets and liabilities breakdown of the fair value hierarchy levels as at 31 December 2016 are:

Group	Prices quoted in active markets		Inputs observable either directly or indirectly,		Total
	1 level	2 level	3 level	Unobservable inputs	
Assets:					
Derivative financial instruments linked to the market price of electricity	3,822	771	-	-	4,593
Derivative financial instrument linked to the market price of gas	-	13	-	-	13
Liabilities:					
Derivative financial instruments linked to the market price of electricity	(1,142)	(1,272)	-	-	(2,414)
Interest rate swaps	-	(1,344)	-	-	(1,344)
	2,680	(1,832)	-	-	848

Group attributes to 1 fair value hierarchy level those derivative financial instruments that are purchased in the Nasdaq Commodities Exchange and are linked to the market price of electricity. Value of these derivative financial instruments is assessed according to prices published by Nasdaq Commodities Exchange.

Group attributes to 2 fair value hierarchy level those derivative financial instruments linked to Lithuania – Latvia and Estonia – Finland trade area prices. Derivative financial instruments purchased directly from other market participants (Over-the-counter contracts) and acquired Physical Transmission Rights are evaluated on the basis of the Nasdaq stock exchange Commodities prices adjusting with impact of trade areas potential risks determined by experts.

The interest swap fair value is determined using the discounted cash flow method and corresponds to 2 level of the fair value hierarchy.

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

All amounts in EUR thousands unless otherwise stated

27 Sales revenue

	Group		Company	
	2016	2015	2016	2015
Revenue from sale of electricity	773,344	719,523	-	-
Revenue from sale of gas	282,040	314,685	-	-
Other sales revenue	15,158	13,813	1,802	1,992
Total	1,070,542	1,048,021	1,802	1,992

28 Other revenue

	Group		Company	
	2016	2015	2016	2015
Repair services	8,960	25,128	-	-
IT and communication services	5,090	5,476	-	-
Lease income	7,242	6,294	-	-
Financial lease interest revenue (Note 14)	402	114	-	-
Other	9,394	10,773	2	2
Total	31,088	47,745	2	2

The Group companies provide repair services that comprise maintenance, operation, repair and construction of electricity voltage transmission and distribution network electricity equipment.

The Group provides motor vehicle and real estate operating leases under contracts concluded for definite period, which may be extended for additional period ranging from several hours to several years. Income from lease of motor vehicles and real estate is recognised as income in profit or loss on a proportionate basis over the lease period.

29 Purchase of electricity, gas for trade and related services

	Group		Company	
	2016	2015	2016	2015
Costs of purchases of gas for trade	236,159	345,504	-	-
Purchases of electricity and related services	446,887	396,156	-	-
Purchases of subcontract services	8,692	19,830	-	-
Total	691,738	761,490	-	-

30 Other expenses

	Group		Company	
	2016	2015	2016	2015
Taxes	6,684	6,528	53	45
Telecommunications and IT services	3,622	3,725	232	222
Customer service	3,399	2,745	-	-
Write-offs of PP&E (Notes 5.6)	3,393	2,790	-	-
Expenses on revaluation and provisions for emission allowances	3,278	(382)	-	-
Utility services	2,310	1,667	71	55
Lease	2,107	2,351	180	159
Write-down allowance for inventories (reversal) (Note 11)	275	(1,077)	-	-
Expenses (income) on impairment of other non-current assets (Note 10)	(1,131)	(329)	-	-
Impairment allowance for amounts receivable (reversal) (Notes 9,12,13)	2,189	(1,807)	4,181	-
Impairment of goodwill (Note 33)	296	-	-	-
Other expenses	12,852	13,913	1,256	1,290
Carrying amount	39,274	30,124	5,973	1,771

31 Finance income

	Group		Company	
	2016	2015	2016	2015
Interest income	2,858	4,957	3,871	6,060
Late payment interest income	470	-	-	-
Derivative financial instruments revaluation result (Note 26)	136	-	-	-
Other finance income (Note 24)	256	675	9,655	-
Total	3,720	5,632	13,526	6,060

The Company's interest income mostly relates to a loan granted to EPSO-G UAB.

As disclosed in Note 4:

- After the year-end adjustment of the estimate of the Contingent consideration related to the acquisition of shares of subsidiary NT Valdos UAB, the Company recognised revenue of EUR 9,036 in other financing activities;
- Implementation of the Biofuel Boiler House Project resulted with incurred loss that triggered renegotiation of price the Company paid for UAB „Kauno energetikos remontas“ shares results of which enabled the Company recognised EUR 619 thousand of Other finance income and corresponding receivable from seller (Notes 4,13).



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

All amounts in EUR thousands unless otherwise stated

32 Finance costs

	Group		Company	
	2016	2015	2016	2015
Interest expenses	5,760	4,456	732	419
Share capital conversion expenses	-	1,588	-	1,588
Derivative financial instruments	370	-	-	-
revaluation result (Note 26)	726	-	-	-
Other finance costs	-	505	500	314
Total	6,856	6,549	1,232	2,321

33 Business combinations

One of the Group development areas is considered to be investments in renewable energy, therefore in 2016 the Group has acquired two wind parks.

On 18 January 2016, the Company acquired 209,662 ordinary registered shares of EURAKRAS UAB representing 75% of the share capital of EURAKRAS UAB and 75% of voting rights during the General Meeting of Shareholders. The cost of acquisition of shares amounted to EUR 17,058 thousand. EURAKRAS UAB, a Lithuanian company acquired, operates a park of 8 wind turbines with the overall capacity of 24 MW, located in Geišiai and Rotuliai II villages, Jurbarkas district.

On 20 January 2016, the Company acquired 100% of ordinary registered shares of Estonian company HOB OU and 43.28% of ordinary registered shares of Estonian company Tuuleenergia OU for the total amount of EUR 11,350 thousand (including redeemed current borrowings of EUR 4,681 thousand from shareholders). HOB OU owns 56.72% of shares of Tuuleenergia OU, therefore, following this transaction the Company holds 100% of shares of Tuuleenergia OU. Tuuleenergia OU operates a park of 6 wind turbines with the overall capacity of 18.3 MW, located in Mali and Tamba, Estonia.

Intangible assets have been identified in the acquired EURAKRAS UAB, namely the right to produce electricity at a higher tariff, which under the Group assessment amount to EUR 14,900 thousand.



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

All amounts in EUR thousands unless otherwise stated

The Group had 12 months from the date of the acquisition of the businesses of EURAKRAS UAB, HOB OU and Tuuleenergia OU, during which it had to review and determine fair values of assets and liabilities. On business combination, assets and liabilities of EURAKRAS UAB, HOB OU and Tuuleenergia OU were identified with the following fair values at the date of acquisition.

	EURAKRAS UAB	HOB OU and Tuuleenergia OU	Total
Intangible assets	14,900	-	14,900
Property, plant, and equipment	32,363	30,636	62,999
Other non-current amounts receivable	-	605	605
Deferred tax assets	75	-	75
Inventories and prepayments	13	-	13
Amounts receivable within one year	320	499	819
Cash and cash equivalents	580	154	734
Non-current liabilities	(24,001)	(18,586)	(42,587)
Deferred income tax liability	(2,235)	-	(2,235)
Current liabilities	(1,219)	(6,945)	(8,164)
Net assets	20,796	6,363	27,159
Non-controlling interest	5,199	-	5,199
Goodwill arising on business combination	1,461	296	1,757
Write-off of goodwill	-	(296)	(296)
Purchase consideration paid	17,058	6,659	23,717
Net cash outflow on acquisition of subsidiaries:			
Cash paid for shares to selling shareholders	(17,058)	(6,659)	(23,717)
Repayment of company loans to shareholders	-	(4,691)	(4,691)
Cash and cash equivalents at acquired companies	580	154	734
Net cash flow	(16,478)	(11,196)	(27,674)

The value of non-controlling interest (25 per cent of UAB EURAKRAS shares) was determined as proportionate share in the fair value of net assets acquired.

The group accounted for net result (profit) for UAB Eurakras and Tuuleenergia OU amounting to EUR 493 thousand and EUR 801 thousand appropriately in its consolidated statement of comprehensive income for 2016. Revenue of Eurakras and Tuuleenergia OU in the consolidated statement of comprehensive income amounted to EUR 4,984 thousand and EUR 3,319 thousand EUR appropriately.

On 22 July 2016 subsidiaries HOB OU and Tuuleenergia OU were reorganised by way of merger. HOB OU was merged with Tuuleenergia OU and ceased its activities as a legal entity.

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

All amounts in EUR thousands unless otherwise stated

34 Income tax expenses

Income tax expenses for the period comprise year period income tax and deferred income tax.

Profit for 2016 was subject to income tax at a rate of 15% (similarly as in 2015) in accordance with the Lithuanian regulatory legislation on taxation.

	Group		Company	
	2016	2015	2016	2015
Current year income tax expenses	13,373	2,140	23	262
Deferred income tax expenses (benefit)	12,404	6,740	(34)	(14)
Income tax expenses (benefit) recognised in profit or loss	25,777	8,880	(11)	248

Income tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Company:

	Group		Company	
	2016	2015	2016	2015
Profit (loss) before tax	148,113	64,176	89,326	111,265
Income tax expenses (benefit) at tax rate of 15%	22,217	9,626	14,899	16,690
Expenses not deductible for tax purposes	7,010	6,664	1,161	3,469
Income not subject to tax	(4,489)	(1,846)	(16,071)	(19,911)
Adjustment of income tax on disposal of part of business*	-	(8,539)	-	-
Income tax relief for the investment project	(4,098)	(863)	-	-
Adjustments in respect of prior years	48	21	-	-
Tax losses utilised	70	19	-	-
Unrecognised deferred tax on tax losses	5,019	3,798	-	-
Income tax expense (benefit)	25,777	8,880	(11)	248

*Restatement of income tax is related to acquisition of natural gas supply operations by Lietuvos Dujų Tiekimas UAB from Lietuvos Dujos AB in 2014 (see Note 4 Change in treatment of tax goodwill).

Adjustment of income tax on disposal of part of business

Natural gas supply business was transferred between Group subsidiaries at market value as determined by independent valuers - EUR 17,510 thousand, whereas the carrying amount of net assets of the supply activity was equal to EUR 74,434 thousand at the date of business acquisition. The difference between of EUR 74,434 thousand was treated by the acquirer as a negative goodwill and was taxed with current income tax in 2014. In 2015 the acquirer received the binding decision of the Tax Authorities, whereby the difference should not be treated as negative tax goodwill, and

accordingly, no income tax should be assessed thereon. Since the tax effects of the business acquisition transaction (amounting to EUR 8,539 thousand in 2014) was recognised by the Group within profit or loss in the statement of comprehensive income, the adjusted income tax amount in 2015 (based on the binding decision of the Tax Authorities) was also recognised as adjustment to profit or loss.

35 Dividends

Dividends declared by the Company in 2016 and 2015:

	2016		2015	
	EUR thousands	Dividends per share	EUR thousands	Dividends per share
Dividends declared by Lietuvos energija, UAB	97,194	0.0233	57,844	0.0138
Number of shares	4,179,849,289		4,179,849,289	

Dividends declared by the Group companies in 2016:

	Dividends declared by		Dividends received by	
	Lietuvos Energija UAB Group	Non-controlling interest	Lietuvos Energija UAB Group	Total
Lietuvos Energijos Gamyba AB	26,422	887	27,309	
Energijos Skirstymo Operatorius AB	40,957	2,164	43,121	
NT Valdos UAB	1,250	-	1,250	
LITGAS UAB	796	398	1,194	
Technologijų ir Inovacijų Centras UAB	196	4	200	
Total	69,621	3,453	73,074	

Dividends declared by the Group companies in 2015:

	Dividends declared by		Dividends received by	
	Lietuvos Energija UAB Group	Non-controlling interest	Lietuvos Energija UAB Group	Total
Lietuvos Energijos Gamyba AB	23,444	943	24,387	
LESTO AB	31,924	1,898	33,822	
Lietuvos Dujos AB	37,054	1,287	38,341	
Energijos Tiekimas UAB	1,155	-	1,155	
Duomenų Logistikos Centras UAB	248	63	311	
Total	93,825	4,191	98,016	



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

All amounts in EUR thousands unless otherwise stated

Representation of comparative information for 2015

In 2016 the Company has changed presentation of dividend income in the statement of comprehensive income and has reclassified accordingly comparative information for 2015. Impact of reclassification on Company's statement of comprehensive income in 2015:

	2015 (reported)	Reclassification	2015 (reclassified)
Revenue	1,992	-	1,992
Other revenue	2	-	2
Dividends	-	93,825	93,825
Total revenue	1,994	93,825	95,819
Total operating expenses	11,707	-	11,707
Finance income	99,885	(93,825)	6,060
Finance costs	(2,321)	-	(2,321)
Profit (loss) before tax	111,265	-	111,265
Income tax and deferred income tax expense	(248)	-	(248)
Net profit	111,017	-	111,017
Other comprehensive income	(26)	-	(26)
Total comprehensive income for the period	110,991	-	110,991

36 Contingent liabilities and off-balance sheet commitments

Guarantees issued and received by the Company

Name of subsidiary	Note	Issued to	Issue date	Maturity	Max. amount of guarantee	Exposure on 2016.12.31	Exposure on 2017.12.31
UAB „EURAKRAS“		AB SEB bank	2016.04.05	-	-	24,929	-
UAB „EURAKRAS“		AB SEB bank	2016.04.05	-	-	836	-
UAB „Enerģijas tīklims“		Eesti Energia Aktsiaselts	2016.08.25	-	2,000	-	-
UAB Vilniaus kogeneracinė jėgainė	a	European investment bank „Lietuvos energija“, UAB Group	2016.12.05	-	-	-	-
UAB „Lietuvos energija“, UAB Group	b	companies Suppliers of liquefied natural gas terminal	2016	2017.12.31	-	10,065	-
UAB LITGAS			2014.10.03	2015.12.31	100,000	-	67,430
					112,065	35,830	67,430

(a) On 5 December 2016, the Company and the European Investment Bank (Luxembourg) signed a guarantee and indemnity agreement under which the Company secured fulfillment of all current and future obligations of subsidiary Vilniaus Kogeneracinė Jėgainė in amount of EUR 190,000 thousand under the credit agreement signed on 5 December 2016 with the European Investment Bank for the term of 17 years. Guarantee cover all kinds of payables related to utilization of provided loan. Maximal amount of guarantee is not defined. As at 31 December 2016, no amount was withdrawn by Vilniaus Kogeneracinė Jėgainė UAB from the credit of the European Investment Bank.

(b) During 2016 The Company and the Group companies entered intercompany borrowing and lending agreement (cash pool). Under the agreement, part of a group company agree to lend each other their funds, which are virtually transferred to the Group's corporate account, and that consideration be provided to each the Group's member using peer lending platform. Peer lending platform services provided by the commercial bank Swedbank AB with whom the Group entered group account agreement. According to the intercompany borrowing and lending agreement members of the group can borrow for periods not longer than one year, and determined interest rate is equal to the lowest of proposed commercial bank interest rate. As at 31 December 2016 total amount of lend and borrowed cash inside the Group was EUR 35,890 thousand, including EUR 25,825 thousand borrowed by the Company.



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

All amounts in EUR thousands unless otherwise stated

Contractual commitments

Under the provisions of the natural gas supply agreement with Gazprom OAO (the agreement was taken over on business acquisition), in 2015 Lietuvos Dujų Tiekimas UAB did not consume 59 million m³ of gas compared to the established minimum natural gas consumption volume of 960 million m³ (2014: 128.3 million m³ compared to 1 billion m³). Under the provisions of the agreement, Lietuvos Dujų Tiekimas UAB can further consume it over the next 3 years, provided the contractual payment and natural gas consumption commitments have been fulfilled. In 2015 Lietuvos Dujų Tiekimas UAB made a prepayment of EUR 26.9 million for part of natural gas not consumed in 2014 (Note 11). The prepaid quantity of natural gas was fully used in 2016.

In May 2014, Lietuvos Dujos AB and Gazprom OAO signed an agreement regarding the reduction of the price for natural gas imported by Lietuvos Dujos AB for the period from 1 January 2013 to 31 December 2015. Natural gas import price reduction effects for the period from 1 January 2013 to 30 April 2014 relates to household and non-household natural gas users. Natural gas import price difference effect on non-household users is expected to be transferred to the users during 2015-2016 or beyond, the difference effect to household users is expected to be transferred during 2015-2016-2017. The unused balance of price difference amounted to EUR 19.0 million as at 31 December 2016. In respect of this amount a provision for onerous contracts is recognized (note 23)

On 3 August 2015, Lietuvos Dujų Tiekimas UAB, Lietuvos Dujos AB and Gazprom OAO signed a tripartite agreement, under which all rights and obligations pertaining to the natural gas supply agreement (which was concluded on 16 December 1999 between Gazprom OAO and Lietuvos Dujos AB) were officially passed to Lietuvos Dujų Tiekimas UAB.

In December 2016, Lietuvos Dujų Tiekimas UAB and PAO Gazprom agreed on supply of natural gas in 2017. The agreement contains 'take-or-pay' clause under which Lietuvos Dujų Tiekimas UAB has a commitment to purchase the agreed minimum quantity of natural gas. Based on forecast consumption data, Lietuvos Dujų Tiekimas UAB plans to purchase all agreed quantity of natural gas during 2017.

Based on its Resolution No Q3-305 of 14 October 2016 *On recalculating the price caps for electricity distribution services provided by Energijos Skirstymo Operatorius AB through medium and low voltage networks for the year 2017*, the Commission set the price cap for the distribution service for 2017 on the basis of Report No O5-258 of 13 October 2016 where it also stated that in the period 2014–2015 Energijos Skirstymo Operatorius AB earned additional return on investments amounting to EUR 84,961.6 thousand, which exceeded the level of profit permitted by the Commission. The Commission decided to adjust the price caps for the distribution services for 2017 by 1/3 of the 2014–2015 return on investments presented in excess of the level of profit permitted by the Commission. Consequently, the Commission established the level of revenue from distribution activities for 2017, which was lower by EUR 28,320.5 thousand. It was decided that the remaining amount of 2014–2015 return on investments in excess of the level of profit permitted by the Commission will be reflected by adjusting the price caps of the electricity distribution services to be set for the Company for the upcoming year of the regulatory period, but not later than by the end of the regulatory period. In the opinion of management of Energijos Skirstymo Operatorius AB, an excess profit was earned in 2016, the exact amount of which and its impact on future tariffs will be known later.

Legal disputes

Legal dispute between Energijos Skirstymo Operatorius AB and the NCC

In November 2014 and January 2015 Energijos Skirstymo Operatorius AB filed a complaint to Vilnius Regional Administrative Court with request to annul certain resolutions of the Commission and to oblige the Commission to eliminate the violations committed determining the price caps for electricity distribution through medium and low voltage networks. Violations committed determining the price caps for electricity distribution resulted in lower revenue earned. Vilnius Regional Administrative Court rejected complaint in its entirety. Energijos Skirstymo Operatorius AB filed an appeal in 2016. The favorable resolution of the dispute would result in higher price caps and higher revenue in future periods.

In July 2015, Energijos Skirstymo Operatorius AB filed a complaint to Vilnius Regional Administrative Court with request to annul the Commission's resolution regarding the breach of the terms of regulated activities by Energijos Skirstymo Operatorius AB, whereby it was concluded that Energijos Skirstymo Operatorius AB breached the terms of licensed activities, namely, that expenses allocated by Energijos Skirstymo Operatorius AB to regulated distribution and public supply services were on no valid grounds higher than Energijos Skirstymo Operatorius AB was actually allowed to allocate. In its complaint, Energijos Skirstymo Operatorius AB also requested that the Court recognise the penalty of EUR 300 thousand as ungrounded. The favorable resolution of the dispute would result in higher price caps and higher revenue in future periods.

Legal dispute between Energijos Skirstymo Operatorius AB and Vinius Energija UAB

Vinius Energija UAB (the claimant) filed a claim to Vilnius County Court, whereby it requested to award damages of EUR 9,284 million from Energijos Skirstymo Operatorius AB. According to the claimant, it incurred losses of EUR 9,284 million, because in 2014 Energijos Skirstymo Operatorius AB purchased only that volume of supported electricity, which was produced under the technical minimum mode at the thermal power plants owned by the claimant. The Group does not account for provision in respect of claim because Description of PSO Services do not stipulate that the respondent is obliged to purchase full volume of electricity produced at thermal power plants. At 17 March 2017 plaintiff revised scope of the claim and applies for EUR 10,712 thousand damage compensation award. Closest court hearing will be held at 29 May 2017.

Legal dispute between Lietuvos Dujos AB and the Lithuanian Ministry of Energy

On 25 March 2011, the Lithuanian Ministry of Energy demanded Vilnius Regional Court initiate investigation of operations of Lietuvos Dujos AB and investigate if operations of Lietuvos Dujos AB, Board Members and/or the Managing Director were inappropriate. On 3 September 2012 Vilnius Regional Court ruled in favor of the claimant to initiate investigation of operations of Lietuvos Dujos AB. In 2016 The Lithuanian Ministry of Energy, Lietuvos Energija and Energijos Skirstymo Operatorius AB (which took over rights and obligations of Lietuvos Dujos AB) signed peaceful court settlement agreement, as well as the request on waiver of the claim. On 30 March 2016, the Lithuanian Supreme Court accepted the waiver of claim, approved the peaceful settlement agreement and terminated the civil case.



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

All amounts in EUR thousands unless otherwise stated

Legal dispute between Lietuvos Dujų Tiekimas UAB and Vlniaus Energija UAB

On 23 January 2015, Vlniaus Energija UAB filed EUR 15,200 thousand claim to Lietuvos Dujų Tiekimas UAB regarding the amendment to the pricing rules and awarding of the overpaid amount for natural gas acquired. On 21 January 2016, the court of first instance passed the ruling whereby the claim of Vlniaus Energija UAB was dismissed. On 19 February 2016, Vlniaus Energija UAB filed an appeal. Based on its decision of 17 November 2016, the court of appeal left the ruling of the court of first instance unchanged, i.e. the claim was dismissed.

Legal dispute between Lietuvos Dujų Tiekimas UAB and Amilina UAB

In 2015, Lietuvos Dujų Tiekimas UAB customer Amilina AB filed a claim regarding the amendment to the pricing rules established in the natural gas supply agreements and award of overpaid amount for the acquired natural gas. On 7 October 2016, Vilnius County Court resolved to reject the claim of Amilina AB, whereby it requested the court to award amount of EUR 1,038 thousand from the Company. On 4 November 2016, Amilina AB filed an appeal of EUR 1,038 thousand to the Court of Appeal of Lithuania.

Legal disputes between Lietuvos Energijos Gamyba AB and the Commission

Lietuvos Energijos Gamyba AB appealed the Commission's Resolution No O3-757 of 7 August 2014 *On survival results of electricity generation market*. The Commission's Resolution, stated that Lietuvos Energijos Gamyba AB is an undertaking having significant power in the market of electricity generation services. On 17 October 2016, the Lithuanian Supreme Administrative Court adopted a decision to accept the Lietuvos Energijos Gamyba AB's appeal and to repeal the disputed provisions of the Commission's Resolution. No further remedy exists against the court's decision and Lietuvos Energijos Gamyba AB shall not further be regarded as an undertaking having significant power in the market of electricity generation.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court with request to annul the Commission's Resolution No O3-818 of 30 September 2014. On 21 September 2015, Vilnius Regional Administrative Court made a decision to reject Lietuvos Energijos Gamyba AB's complaint. Based on the above-mentioned Resolution, Lietuvos Energijos Gamyba AB's revenue from PSO service fees for the year 2015 was reduced by EUR 6.14 million, and its revenue from capacity reserve services was reduced by EUR 3.72 million. On 20 December 2016, the Lithuanian Supreme Administrative Court adopted a decision to reject Lietuvos Energijos Gamyba AB's appeal. The case was closed and no further remedy exists against the court's decision. The management of Lietuvos Energijos Gamyba AB intends to refer to the court with request to renew the proceedings.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions No O3-852 of 17 October 2014 and No O3-866 of 30 October 2014. Adopted by the Commission resolution required to reduce revenue from supported electricity produced by EUR 6.14 million, and to reduce revenue from capacity reserve services by EUR 7.44 million during 2015 – 2016 period. The Group does not account for any provision in respect of decisions adopted by Resolutions because estimates of return on investments given in the resolutions are inaccurate and incorrect.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolutions *No O3-840 of 19 December 2014* and *No O3-866 of 30 October 2014* and No O3-939 of 19 December 2014. Adopting those resolutions the Commission reduced the budget of PSO services fees allocated to Lietuvos Energijos Gamyba AB for the year 2015 by EUR 5,440

thousand. The Group management then decided to account for the above-mentioned reduction of revenue in the Group's consolidated financial statements for 2015. On 5 December 2016, Vilnius Regional Administrative Court accepted the Company's appeal and repealed the disputed provisions of the Resolution. The Group will account for decision of court after the Commission will adopt request to implement the court's decision.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolution No O3-875 of 30 October 2014, Resolution No O3-934 of 11 December 2014 and Resolution No O3-875 of 30 October 2014. The above mentioned resolutions of the Commission had unilaterally established price components for heat produced by the Lietuvos Energijos Gamyba AB using inaccurate calculations of the return on investment. At 17 November 2015 Vilnius Regional Administrative Court made a decision not favorable to Lietuvos Energijos Gamyba AB. At 17 March, 2017 Supreme Administrative Court of Lithuania rejected Company's appeal. Whereas the Lietuvos Energijos Gamyba AB has applied the price unilaterally set by the Commission, therefore the decision of the Supreme Administrative Court of Lithuania will not have a direct impact on the Company's financial results.

Legal disputes of Tuuleenergia

In 2006 Varbla municipal government issued occupancy permits to Tuuleenergia OU to erect two Tamba wind turbines. In 2013, appeal was presented to Tallinn Administrative Court to annul occupancy permits issued by Varbla municipal government at the reason of erected wind turbines are not in accordance with detailed spatial plan and also the noise was not in satisfactory conditions. Appeal was not satisfied by Tallinn Administrative Court and also by Tallinn Circuit Court in the second instance in 2015. Cassation appeal was satisfied by Supreme Court in 2016. As a result occupancy permits were annulled and at the moment the Company has no any occupancy permits until all procedures will be filled for receiving new occupancy permits. Although court ruling is negative, it is important to note that the ruling itself does not entail an instruction to dismantle the windmills. The judgement emphasizes that there is a need for a new proceeding in order to issue lawful permits for the turbines. The Court found that all the arguments relating to discrepancies regarding the geographical positioning of the turbines are not founded. Thus, it can be derived from judgement that the turbines can be positioned where they stand at the moment, however the question remains how the windmills affect neighboring properties and whether there should be restrictions imposed on operating of the turbines.

Tax audits

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

Commitment to pay for share capital increase of the subsidiary

On 19 December 2016, the Company, being a sole shareholder, passed a decision to increase the share capital of Vlniaus Kogeneracinė Jėgėnė UAB by EUR 20,000 thousand through the issue of 68,965,518 new ordinary registered shares with the nominal value of EUR 0.29 each. The initial contribution, i.e. 1/4 of the subscribed value of shares, amounting to EUR 5,000 thousand was paid by Lietuvos Energija UAB on 27 December 2016. The remaining part of the price for subscribed shares will be paid by the Company within 12 months from the date on which the share subscription agreement was signed (Note 8).



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

All amounts in EUR thousands unless otherwise stated

37 Related-party transactions

As at 31 December 2016 and 2015, the sole shareholder was the Republic of Lithuania represented by the Lithuanian Ministry of Finance. For the purposes of disclosure of related parties, the Republic of Lithuania excludes central and local government authorities. The disclosures comprise transactions and balances of these transactions with the shareholder, subsidiaries (the Company's transactions), associates and all entities controlled by or under significant influence of the state (transactions with these entities are disclosed only if they are material), and key management and their close family members.

The Group's transactions with related parties during 2016 and year-end balances arising on these transactions as at 31 December 2016 are presented below:

Related parties	Finance income (costs)	Amounts payable	Amounts receivable	Sales	Purchases
EPSO-G UAB	2,653	-	210,414	32	-
Litgrid AB	(79)	11,429	5,058	50,987	102,436
BALTPPOOL UAB	-	14,945	3,941	66,494	91,143
TETAS UAB	66	4,132	337	1,597	14,690
Amber Grid AB	-	5,669	3,430	36,658	35,130
LITGRID Power Link Service UAB	-	-	19	175	-
GET Baltic	-	745	2,538	3,735	3,228
Associates and other related parties of the Group	-	-	295	884	-
Total	2,640	36,920	226,032	160,562	246,627

The Group's transactions with related parties during 2015 and year-end balances arising on these transactions as at 31 December 2015 are presented below:

Related parties	Finance income (costs)	Amounts payable	Amounts receivable	Sales	Purchases
EPSO-G UAB	3,919	-	239,959	6	-
Litgrid AB	(2)	6,997	2,370	21,638	64,395
BALTPPOOL UAB	-	15,253	10,700	82,939	92,458
TETAS UAB	110	4,042	183	1,693	15,382
Amber Grid AB	-	77	34	316	8,594
Associates and other related parties of the Group	-	232	138	304	1,483
Total	4,027	26,601	253,384	106,896	182,312

The major sale and purchase transactions with related parties in 2016 and 2015 comprised transactions with the entities controlled by the Lithuanian Ministry of Finance: Litgrid AB and BALTPPOOL UAB. The Group's purchases from these entities mainly included purchases of electricity, capacity, transmission, PSO services and gas. Sales transactions included sales of electricity, capacity and PSO services.

Amount receivable from EPSO-G UAB represents unpaid amount on disposal of Litgrid AB, the outstanding balance of the loan granted and interest accrued thereon. Finance costs include interest charged during the year.

Transactions with other state-owned entities included regular business transactions and therefore they are not disclosed.

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

Related parties	Finance income	Finance costs	Amounts payable	Amounts receivable	Sales	Purchases
Subsidiaries						
Enerģijas Skirstymo Operatorius AB	5,180	401	5,823	235	750	-
Lietuvos Enerģijas Gamyba AB	4,391	353	17,202	1,099	219	-
EURAKRAS UAB	94	3	1,067	14	5	-
Lietuvos Dujų Tiekimas UAB	-	37	6,008	24	108	-
NT Valdės UAB	3	2	4,946	33	118	342
Technologijų ir Inovacijų Centras UAB	-	2	-	20	39	225
Duomenų Logistikos Centras UAB	53	4	54	7	-	-
Enerģetiskos Paslaugų ir Rangos Organizacija UAB	28	-	-	2,967	127	-
Tuulenerģija OU	211	-	-	4,902	-	-
Enerģijos Tiekimas UAB	3	2	-	18	69	-
LITGAS UAB	816	-	-	2	37	-
Public institution, Training Centre for Energy Specialists	-	-	-	2	10	-
Elektroninių Mokejimų Agentūra UAB	-	-	-	11	43	-
Veršio Aptarnavimo Centras UAB	2	-	79	26	118	275
VAE SPB UAB	-	-	-	1	2	-
Vilniaus Kogeneracinė Jėgainė UAB	-	-	-	5,011	114	-
Kauno Kogeneracinė Jėgainė UAB	-	-	-	80	66	-
Other related parties						
EPSO-G UAB	2,653	-	-	210,410	-	-
Total	13,434	802	35,241	224,888	1,854	842

The company's sales to related parties during 2016 amounts to EUR 1,854 thousand. EUR, while sales revenue in 2016 is EUR 1,802 thousand. The difference of EUR 52 thousand comprise compensated expenses for goods and services purchased on behalf of the Company but actually used to benefit related parties.

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

All amounts in EUR thousands unless otherwise stated

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

Related parties	Finance income	Finance costs	Amounts payable	Amounts receivable	Sales	Purchases
Subsidiaries						
LESTO AB	-	402	34,682	144	645	58,906
Lietuvos Energijos Gamyba AB	-	324	28,253	-	350	48,520
Lietuvos Dujos AB	-	-	-	119	369	-
Lietuvos Dujų Tiekimas UAB	-	-	-	47	160	-
LITGAS UAB	2,003	-	-	170	30	-
NT Valdos UAB	-	-	35	39	109	294
Kauno Energetikos Remontas UAB	-	-	-	102	85	61
Verslo Aptarnavimo Centras UAB	-	-	-	3	199	35
Energijos Tiekimas UAB	-	-	-	20	48	-
ELEKTROS TINKLO PASLAUGOS UAB	-	-	-	2,939	78	-
Technologijų ir Inovacijų Centras UAB	-	-	8	26	215	44
VAE SPB UAB	-	-	-	4	22	-
Energetikų mokymų centras VšĮ	-	-	-	13	26	11
Duomenų Logistikos Centras UAB	-	2	321	-	29	529
Other related parties	3,919	-	-	239,957	6	-
EPISO-G UAB	-	2	188	-	-	312
Litgrid AB	-	730	63,487	243,563	2,371	108,712
Total	5,922	730	63,487	243,563	2,371	108,712

In 2015, sales included sales of management services that the Company started rendering to the Group entities.

The dividends declared in 2016 and 2015 are disclosed in Note 35.

Compensation to key management:

	Group		Company	
	2016	2015	2016	2015
Salaries and other short-term benefits to management personnel	3,615	4,517	711	700
Whereof: Termination benefits and benefits to Board Members	360	733	73	92
Number of management staff	66	71	11	10

Management in the table above includes heads of administration and their deputies of all the subsidiaries.

38 Segment reporting

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

In the opinion of the Management, the Group has three operating segments:

- Supply and distribution of electricity, gas distribution (running by Energijos Skirstymo Operatorius, AB);
- Electricity generation (running by Lietuvos Energijos Gamyba AB, Eurakras UAB, Tuulenergija OU);
- Electricity and gas trade (running by Lietuvos Dujų Tiekimas UAB, Energijos Tiekimas UAB, Litgas UAB).

To Other segments are allocated:

- support services (NT Valdos UAB, Energetikos paslaugų ir rangos organizacija UAB, Technologijų ir inovacijų centras UAB, Verslo aptarnavimo centras UAB);
- other non-core activities (UAB Energetikos paslaugų ir rangos organizacija, Duomenų logistikos centras, UAB, VšĮ Energetikų mokymo centras);
- special purpose entities which are responsible for implementation of assigned projects and construction of new cogeneration plants (VAE SPB UAB, Kauno Kogeneracinė Jėgainė UAB and Vilniaus Kogeneracinė jėgainė);
- service entities (Elektroninių mokymų agentūra, UAB, UAB Energijos sprendimų centras);
- also parent company Lietuvos Energija UAB, which does not constitute separate operating segment, however is disclosed separately, as its net profit exceeds 10% of net profit of all profit reporting segments. Support service entities and special purpose entities are aggregated as none of them individually meet criteria of a an operating segment.

The Group has single geographical segment – Republic of Lithuania, electricity sales in Latvia and Estonia are considered not significant. The chief operating decision-maker monitors the results with reference to the financial reports that have been prepared using the same accounting policies as those used for the preparation of the financial statements in accordance with IFRS, i.e. information on profit or loss, including the reported amounts of revenue and expenses. The primary performance measure is EBITDA, which is calculated based on the financial statements in accordance with IFRS and adjusted to selected items which are not recognized under IFRS. The Board of the group does not monitor assets and liabilities of the segments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

Group information about operating segments in 2016 is provided below:

2016	Supply and distribution of electricity, gas distribution	Electricity generation	Electricity and gas trade	Other segments		Elimination of intercompany transactions and consolidation eliminations	Total
				Parent Company	Other segments		
Revenue from external customers	599,137	161,362	352,141	-	25,265	(36,275)	1,101,630
Revenue from other segments	50,926	19,863	36,850	71,329	56,938	(235,906)	-
Total revenue	650,063	181,225	388,991	71,329	82,203	(272,181)	1,101,630
Expenses							
Thereof: depreciation and amortization	(542,077)	(127,873)	(379,885)	11,521	(85,181)	169,216	(954,279)
Thereof: impairments and write-offs	(46,028)	(23,468)	(71,100)	(3)	(6,201)	302	(78,518)
Thereof: unrealized gain on revaluation of derivatives	(9,129)	(3,853)	(144)	16,688	142	(15,386)	(11,682)
Management adjustments*	-	-	2,036	-	-	-	2,036
	-	-	19,000	-	-	-	19,000
EBITDA	163,143	80,693	27,314	66,165	5,081	(87,881)	254,515
Operating profit (loss)	107,986	53,352	9,106	82,850	(2,978)	(102,965)	147,351
Interest income	176	208	151	3,871	9	(1,557)	2,858
Interest (expenses)	(1,739)	(3,201)	(1,295)	(732)	(353)	1,560	(5,760)
Other financial income (expenses)	1,002	356	34	9,155	(210)	(10,571)	(234)
Profit (loss) before income tax	107,425	50,715	7,996	95,144	(3,532)	(113,533)	144,215
Income tax	(14,923)	(8,446)	(5,209)	11	(452)	3,242	(25,777)
Net profit (loss)	92,502	42,269	2,787	95,155	(3,984)	(110,291)	118,438
Total assets	1,113,186	886,118	150,814	1,398,361	188,864	(1,305,191)	2,432,152

*Management adjustments applied while arriving at EBITDA are related to Gazprom gas price reduction and excessive profits from regulated activities recognition (Electricity and gas trade segment).



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

All amounts in EUR thousands unless otherwise stated

Group information about operating segments in 2015 is provided below:

2015	Supply and distribution of electricity, gas distribution		Electricity generation	Electricity and gas trade	Other segments		Elimination of intercompany transactions and consolidation eliminations	Total
	Parent Company	Other segments						
Revenue from external customers	595,447		143,271	375,658	(4)	40,098	(58,704)	1,095,766
Revenue from other segments	42,778		71,124	138,071	95,823	61,640	(409,436)	-
Total revenue	638,225		214,395	513,729	95,819	101,738	(468,140)	1,095,766
Expenses								
Thereof: depreciation and amortization	(536,167)		(208,634)	(540,434)	11,707	(103,379)	346,234	(1,030,673)
Thereof: impairments and write-offs	(43,848)		(22,443)	(109)	(3)	(8,107)	273	(74,237)
Thereof: unrealized gain (loss) on revaluation of derivatives	(3,473)		(29,956)	345	16,216	1,491	(15,010)	(30,387)
Management adjustments*	-		-	46,000	-	-	-	-
	-		-	-	-	-	-	46,000
EBITDA	149,379		58,160	19,059	91,313	4,975	(107,169)	215,717
Operating profit (loss)	102,058		5,761	(26,705)	107,526	(1,641)	(121,906)	65,093
Interest income	268		193	281	6,060	14	(1,859)	4,957
Interest (expenses)	(2,049)		(1,984)	(2,285)	(419)	(162)	2,443	(4,456)
Other financial income (expenses)	295		(81)	213	(1,902)	16	41	(1,417)
Profit (loss) before income tax	100,572		3,889	(28,496)	111,265	(1,773)	(121,281)	64,177
Income tax	(15,090)		(4,120)	648	(248)	194	9,736	(8,880)
Net profit (loss)	85,482		(231)	(27,848)	111,017	(1,579)	(111,545)	55,297
Total assets	1,078,800		833,474	165,419	1,364,180	160,429	(1,263,072)	2,339,230

*Management adjustments applied while arriving at EBITDA are related to Gazprom gas price reduction and excessive profits from regulated activities recognition (Electricity and gas trade segment).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

All amounts in EUR thousands unless otherwise stated

39 Events after the reporting period

Increase of the authorised share capital of Vilniaus Kogeneracinė Jėgainė UAB

On 19 January 2017, a new version of the Articles of Association of Vilniaus Kogeneracinė Jėgainė UAB related to the increase in authorised share capital up to EUR 20,000 thousand by issuing 88,965,518 new registered shares with the nominal value of EUR 0.29 per share was registered with the Register of Legal Entities.

Bank borrowing

On 27 January 2017, the Company's subsidiary Energijos Skirstymo Operatorius AB and SEB Bankas AB signed the agreement for a long-term loan of EUR 77 million. The loan will be used to refinance financial liabilities of Energijos Skirstymo Operatorius AB and finance its working capital. The loan repayment term is 10 years and it is subject to a variable interest rate of 3 months EURIBOR.

Appeal in respect of the NCC's Resolution

On 9 January 2017, Vilnius Regional Administrative Court accepted the appeal of Lietuvos Energijos Gamyba AB, whereby it requested to repeal paragraph 1 of the NCC's Resolution No. 03-391 of 29 November 2016 *On determining cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2017*. Based on paragraph 1 of the Resolution, application of a proportionate cost allocation approach to electricity costs of Kruonis PSHP that are attributed to secondary capacity reserve services for the year 2017 is ungrounded and does not take into account the technical characteristics of the plant, since when assuring secondary emergency active capacity reserve services, two units of Kruonis PSHP are used (with total capacity of 450 MW), whereas the costs of Lietuvos Energijos Gamyba AB are compensated only in respect of 400 MW capacity. In the opinion of Lietuvos Energijos Gamyba AB, the above-mentioned paragraph 1 of the NCC's Resolution is ungrounded.

Guarantees issued

On 18 January 2017, the Company and SEB PANK AS, which represents the creditors' consortium consisting of SEB PANK AS and Nordea Bank AB Estonia Branch, signed the guarantee agreement, under which the fulfilment of obligations of Tuuleenergia OU assumed by the credit agreement signed with the consortium was secured. As at 31 December 2016, liabilities of Tuuleenergia OU, the fulfilment of which is secured by the guarantee issued by the Company, amounted to EUR 18,842 thousand.

Early repayment

On 1 March 2017 the Company received EUR 4,300 thousand early repayment from EPSO-G UAB which paid for Litgrid AB shares (Notes 4,9,13).

Loans provided

On 25 January 2017 the Company provided EUR 4,000 thousand loan to its subsidiary Energetikos paslaugu ir rangos organizacija UAB to refinance its current debts. Loan is scheduled for final repayment at 31 December 2019.

On 13 February 2017 the Company has prolonged the EUR 4,927 thousand loan to its subsidiary Tuuleenergia OU. Loan is scheduled for final repayment at 13 February 2028.

Distribution of dividends

The ordinary general meeting of shareholders of AB „Energijos skirstymo operatorius“ was held on 24 March 2017 where it was decided to approve the profit appropriation for 2016 and to allocate EUR 0,05786 per share in dividends, in total EUR 51,765 thousand in dividends.

The ordinary general meeting of shareholders of „Lietuvos energijos gamyba“, AB was held on 24 March 2017 where it was decided to approve the profit appropriation for 2016 and to allocate EUR 0,02 per share in dividends, in total EUR 12,702 thousand in dividends.

Bonds placement plans

At 1 March 2017 the Group announced a plan to issue EUR 200,000 thousand bonds emission. Obtained funds will be utilized in development of green energy projects. Currently, there is launched screening of bonds' distributor, who will be responsible for planning of placement and distribution of bond emission. It is planned that the first placement of bonds, under favorable market conditions, will take place in 2017.



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

Independent Auditor's Report

To the shareholder of Lietuvos Energija UAB

Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of Lietuvos Energija UAB ("the Company") and its subsidiaries ("the Group") set out on pages 73 to 135, which comprise the stand-alone and consolidated statements of financial position as of 31 December 2015 and the stand-alone and consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*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*

PricewaterhouseCoopers UAB, company code 111473315, is a private company registered with the Lithuanian Register of Legal Entities



Basis for qualified opinion

According to the Group's accounting policy, property, plant and equipment (except for the Power Plants, distribution networks and related installations, gas technological equipment and constructions, information technology and telecommunication equipment) are carried at revalued amounts, being their fair values as of the date of revaluation less subsequent accumulated depreciation and impairment losses. As explained in note 4, Group's management has assessed the fair values of property plant and equipment as of 31 December 2014 and accounted for the related revaluation. The management did not determine the fair values of property, plant and equipment with carrying amount of EUR 1,303 million as of 31 December 2013, although impairment indicators existed as of that date. Consequently, we were unable to assess in which period the revaluation results should have been recognised, and by which amount the depreciation expense of the comparative period presented in these financial statements should have been adjusted. Our audit opinions on the financial statements for the years ended 31 December 2014 and 2013 were modified accordingly. Our opinion on the current period's financial statements is therefore modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

As of 31 December 2014, the Group's management assessed the recoverable amount of goodwill and recognised an impairment loss. The management did not determine the recoverable amount of goodwill with carrying amount of EUR 51.6 million as of 31 December 2013, although impairment indicators existed as of that date. Consequently, we were unable to assess in which period the impairment loss should have been recognised, and by which amount the goodwill impairment loss of the comparative period presented in these financial statements should have been adjusted. Our audit opinions on the financial statements for the years ended 31 December 2014 and 2013 were modified accordingly. Our opinion on the current period's financial statements is therefore modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

The Company accounts for its investments in subsidiaries at cost less impairment losses. As of 31 December 2014, the Company's management assessed the recoverable amount of investments in subsidiaries and recognised an impairment loss. The management did not determine the recoverable amount of investments with carrying amount of EUR 504.7 million as of 31 December 2013, although impairment indicators existed as of that date. Consequently, we were unable to assess in which period the impairment loss should have been recognised, and by which amount the impairment loss of the comparative period presented in these financial statements should have been adjusted. Our audit opinions on the financial statements for the years ended 31 December 2014 and 2013 were modified accordingly. Our opinion on the current period's financial statements is therefore modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.



Qualified opinion

In our opinion, except for the effects of the matters referred to in *Basis for qualified opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated annual report for the year ended 31 December 2015 set out on pages 3 to 68 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2015.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
7 April 2016

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS

for the year ended 31 December 2015,
prepared according to International Financial Reporting Standards as adopted by the European Union,
presented together with independent auditor's report



The Company's and the Group's consolidated financial statements were approved by Lietuvos Energija UAB management and signed on 7 April 2016:

Dalius Misiūnas
Chief Executive Officer

Darius Kašauskas
Finance and Treasury Director

Edita Steponavičienė
Verslo Aptarnavimo Centras UAB, Director of
Accounting Department acting under Order No V-020 of
24 April 2015

Lietuvos Energija UAB, company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION

At 31 December 2015

All amounts in EUR thousands unless otherwise stated

	Notes	Group	
		At 31 December 2015	At 31 December 2014
ASSETS			
Non-current assets			
Intangible assets	6	21,539	15,334
Property, plant and equipment	7	1,631,117	1,621,089
Prepayments for non-current assets	8	48,519	37,394
Investment property	9	-	-
Investments in subsidiaries	10	243,153	123
Investments in associates	15	-	4,696
Amounts receivable after one year	11	3,288	7,574
Long-term investments	20	6,488	8,203
Other non-current assets		1,955,377	1,935,232
Deferred income tax assets			
Total non-current assets			
Current assets			
Inventories	12	39,974	53,013
Prepayments	12	40,170	9,338
Trade receivables	13	107,066	130,534
Other amounts receivable	14	20,977	21,557
Other current assets		798	645
Prepaid income tax		5,757	7,247
Short-term investments	15	4,561	15
Cash and cash equivalents	16	164,341	211,019
		383,644	433,368
Non-current assets held for sale		209	576
Total current assets		383,853	433,944
TOTAL ASSETS		2,339,230	2,369,176
EQUITY AND LIABILITIES			
Equity			
Share capital	17	1,212,156	1,210,568
Reserves	18	91,148	92,039
Retained earnings (deficit)		(49,264)	(42,547)
Equity attributable to owners of the parent		1,254,040	1,260,060
Non-controlling interests		50,445	48,830
Total equity		1,304,485	1,308,890
Liabilities			
Non-current liabilities			
Non-current borrowings	19	277,805	250,015
Finance lease liabilities		473	42
Grants and subsidies	21	296,437	304,449
Deferred income tax liabilities	20	26,648	21,436
Provisions	23	5,084	8,543
Deferred income	22	53,602	53,973
Other non-current amounts payable and liabilities	24	9,033	17,550
Total non-current liabilities		669,082	656,008
Current liabilities			
Current portion of long-term debts	19	99,023	128,076
Current borrowings	19	43,232	13,456
Current portion of finance lease liabilities		155	18
Trade payables	25	92,119	142,405
Advance amounts received		39,366	40,030
Income tax liabilities		1,314	12,032
Provisions	23	23,333	5,884
Other current amounts payable and liabilities	26	67,101	62,377
Total current liabilities		365,663	404,278
Total liabilities		1,034,745	1,060,286
TOTAL EQUITY AND LIABILITIES		2,339,230	2,369,176

Lietuvos Energija UAB, company code 301844044, Žvejų g. 14, LT-09310 Vilnius, Lithuania
STATEMENT OF FINANCIAL POSITION

At 31 December 2015

All amounts in EUR thousands unless otherwise stated

	Notes	Company	
		At 31 December 2015	At 31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	7	286	9
Subsidiaries and other investments	9	1,102,286	968,386
Amounts receivable after one year	10	238,975	239,375
Long-term investments	15	-	4,696
Deferred income tax assets		50	32
Total non-current assets		1,341,597	1,212,098
Current assets			
Prepayments	12	6	3
Trade receivables	13	-	-
Other amounts receivable	14	4,760	2,102
Short-term investments	15	4,561	15
Cash and cash equivalents	16	13,179	31,347
		22,506	33,467
Non-current assets held for sale		77	77
Total current assets		22,583	33,544
TOTAL ASSETS		1,364,180	1,245,642
EQUITY AND LIABILITIES			
Equity			
Share capital	17	1,212,156	1,210,568
Reserves	18	4,255	74
Retained earnings (deficit)		63,289	34,323
Total equity		1,299,700	1,244,965
Liabilities			
Non-current liabilities			
Other non-current amounts payable and liabilities	24	17,873	23
Total non-current liabilities		17,873	23
Current liabilities			
Trade payables	25	443	188
Advance amounts received		28	-
Income tax liabilities		223	159
Other current amounts payable and liabilities	26	45,913	307
Total current liabilities		46,607	654
Total liabilities		64,480	677
TOTAL EQUITY AND LIABILITIES		1,364,180	1,245,642

STATEMENT OF CASH FLOWS
For the year ended 31 December 2015
All amounts in EUR Thousands unless otherwise stated

	Notes	Group		Company	
		At 31 Dec 2015	At 31 Dec 2014	At 31 Dec 2015	At 31 Dec 2014
Cash flows from operating activities					
Net profit (loss) for the year		55,296	(279,961)	111,017	84,141
Adjustments for non-monetary expenses (income):					
Depreciation and amortisation	6,7	86,439	143,880	3	4
Impairment of goodwill	7	-	51,562	-	-
Impairment of intangible assets and property, plant and equipment	21	30,133	-	-	-
Impairment of financial assets	8	(2,289)	-	-	-
Revaluation of investment property		1,407	-	-	-
Result of revaluation of property, plant and equipment		(130)	416,501	-	-
Impairment of investments in subsidiaries and associates/(reversal)	30	-	-	(16,216)	58,344
Share of (profit) of associates and joint ventures	9	13	(291)	-	-
(Gain) loss on disposal of investments in subsidiaries and associates		(21)	-	-	-
Income tax expense (benefit)	34	8,880	(53,571)	-	135
(Depreciation) of grants	21	(12,202)	(11,963)	-	-
Increase (decrease) in provisions		13,819	2,426	-	-
Inventory write-down expenses (income)	12	(1,077)	(822)	-	-
(Gain) loss on disposal/write-off of non-current assets (other than financial assets)		3,710	3,963	-	-
Emission allowance revaluation expenses (income)		(370)	-	-	-
Emission allowances utilised	6	2,992	2,908	-	-
Elimination of results of financing and investing activities:					
Interest (income)	31	(4,957)	(4,693)	(6,060)	(4,870)
Interest expenses	32	4,456	6,991	419	116
Other finance (income) costs		1,418	106	(91,923)	(141,847)
Changes in working capital:					
Increase/ decrease in trade receivables and other amounts receivable		26,902	(20,705)	(3,315)	(52)
(Increase) decrease in inventories, prepayments and other current assets		(16,209)	35,828	(3)	-
Increase (decrease) in amounts payable, deferred income and advance amounts received		(60,159)	3,370	322	(11)
Income tax (paid)		(12,624)	(14,142)	-	-
Net cash flows from (used in) operating activities		125,428	281,407	(5,508)	(4,040)
Cash flows from investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(148,722)	(142,848)	(280)	(3)
Disposal of property, plant and equipment and intangible assets		306	1,495	-	(28,000)
Loans (granted)		96	(29,000)	-	-
Loan repayments received		125	5,779	(54,627)	(20,218)
(Acquisition) disposal of investments in subsidiaries and associates		9,362	6,987	-	-
Grants received		145	47,181	131	47,181
Bonds redeemed		4,629	3,893	6,507	4,205
Interest received		(320)	1,924	-	-
Change in non-controlling interest resulting from changes in the Group's structure		-	-	93,825	141,720
Dividends received	35	-	-	-	-
Acquisition of LESTO AB shares from minority shareholders	9	-	-	-	(34,142)
Acquisition of Lietuvos Dujos AB shares	33	-	(102,746)	-	(139,411)
Net cash flows from (used in) investing activities		(134,379)	(207,335)	45,556	(29,668)
Cash flows from financing activities					
Proceeds from borrowings		282,048	98,149	-	14,623
Repayments of borrowings		(282,031)	(40,685)	-	(14,623)
Finance lease payments		120	(28)	-	-
Interest paid		(4,329)	(6,875)	(372)	(116)
Dividends paid		(62,035)	(35,230)	(57,844)	(24,604)
Acquisition of LESTO AB shares from minority shareholders	35	-	-	-	-
Increase in share capital of LITGAS UAB	9	-	(34,142)	-	-
Reduction of share capital of Duomenų Logistikos Centras UAB		-	4,014	-	-
Reduction of share capital of Duomenų Logistikos Centras UAB		-	(2,731)	-	-
Net cash flows from (used in) financing activities		(66,227)	(17,328)	(68,216)	(24,720)
Increase (decrease) in cash and cash equivalents (including overdraft)		(75,179)	56,744	(18,168)	(68,428)
Cash and cash equivalents (including overdraft) at the beginning of the year	16	197,988	141,244	31,347	89,775
Cash and cash equivalents (including overdraft) at the end of the year	16	122,810	197,988	13,179	31,347

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015
All amounts in EUR Thousands unless otherwise stated

Group	Notes	Equity attributable to owners of the Group							Total
		Share capital	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	
Balance at 1 January 2014		1,177,932	22,322	210,721	188,678	(15,248)	1,584,405	197,466	1,781,871
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	74	-	74	-	74
Revaluation of property, plant and equipment, net of deferred income tax		-	-	(156,617)	-	-	(156,617)	(9,276)	(165,893)
Total other comprehensive income (loss) for the year		-	-	(156,617)	74	-	(156,543)	(9,276)	(165,819)
Net profit (loss) for the year		-	-	(261,428)	-	(261,428)	(261,428)	(18,533)	(279,961)
Total comprehensive income (loss) for the year		-	-	(156,617)	74	(261,428)	(417,971)	(27,809)	(445,780)
Transfer of revaluation reserve to retained earnings (transfer or depreciation, net of deferred income tax)		-	-	(14,579)	-	14,579	-	-	-
Dividends		-	362	-	(188,703)	188,341	(24,604)	(10,626)	(35,230)
Increase in share capital	35	32,636	-	-	-	-	32,636	-	32,636
Acquisition of shares from non-controlling interest		-	1,678	28,105	(2)	54,154	83,935	(118,077)	(34,142)
Acquisition of subsidiary		-	-	-	-	-	-	8,040	8,040
Reduction of share capital of Duomenų Logistikos Centras UAB		-	-	-	-	-	-	-	-
Increase in share capital of LITGAS UAB		-	-	-	-	-	-	(2,654)	(2,654)
Disposal of supply business from Lietuvos Dujos AB to Lietuvos Dujų Tiekimas UAB		-	-	-	-	1,659	1,659	(1,659)	3,935
Other structural changes		-	-	-	-	-	-	214	214
Balance at 31 December 2014		1,210,568	24,362	67,630	47	(42,547)	1,260,060	48,830	1,308,890
Balance at 1 January 2015		1,210,568	24,362	67,630	47	(42,547)	1,260,060	48,830	1,308,890
Revaluation of property, plant and equipment, net of deferred income tax		-	-	1,066	-	-	1,066	14	1,080
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	-	(26)	-	(26)	-	(26)
Total other comprehensive income (loss) for the year		-	-	1,066	(26)	-	1,040	14	1,054
Net profit (loss) for the year		-	-	-	-	49,216	49,216	6,080	55,296
Total comprehensive income (loss) for the year		-	-	1,066	(26)	49,216	50,256	6,094	56,350
Transfer of revaluation reserve to retained earnings (transfer or depreciation, net of deferred income tax)		-	-	(6,614)	-	6,614	-	-	-
Dividends	35	-	4,413	-	27	(4,440)	-	9	9
Share capital conversion result		-	-	-	-	(57,844)	(57,844)	(4,191)	(62,035)
Acquisition of shares from non-controlling interest	17	1,588	-	-	-	-	1,588	-	1,588
Correction of previous year errors for Kauno Energetikos Remontas UAB		-	2	141	-	(166)	(23)	(297)	(320)
Balance at 31 December 2015		1,212,156	28,777	62,323	48	(49,264)	1,254,040	50,445	1,304,485

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015
All amounts in EUR Thousands unless otherwise stated

Company	Notes	Share capital	Legal reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2014		1,177,932	-	-	(25,214)	1,152,718
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	74	-	74
Total other comprehensive income (loss) for the year		-	-	74	-	74
Net profit for the year		-	-	-	84,141	84,141
Total comprehensive income for the year		-	-	74	84,141	84,215
Increase in share capital		32,636	-	-	-	32,636
Dividends		-	-	-	(24,604)	(24,604)
Balance at 31 December 2014	35	1,210,568	-	74	34,323	1,244,965
Balance at 1 January 2015		1,210,568	-	74	34,323	1,244,965
Change in fair value of available-for-sale financial assets, net of deferred income tax		-	-	(26)	-	(26)
Total other comprehensive income (loss) for the year		-	-	(26)	-	(26)
Net profit for the year		-	-	-	111,017	111,017
Total comprehensive income for the year		-	-	(26)	111,017	110,991
Transfer to reserves		-	4,207	-	(4,207)	-
Dividends	35	-	-	-	(57,844)	(57,844)
Share capital conversion effect	17	1,588	-	-	-	1,588
Balance at 31 December 2015		1,212,156	4,207	48	83,289	1,299,700

1 General information

Lietuvos Energija UAB (hereinafter "the Company") is a private limited liability company registered in the Republic of Lithuania. The address of the Company's registered office is Žvejų g. 14, LT-09310, Vilnius, Lithuania. The Company is a limited liability profit-seeking entity registered on 28 August 2008 with the Register of Legal Entities managed by the public institution the Centre of Registers. Company code: 3011844044, VAT payer's code LT10004278519. The Company has been established for an indefinite period.

The Company is a parent company, which is responsible for the management and coordination of activities of group companies engaged in electric power and heat production and supply, electric power import, export, distribution and trade, natural gas distribution and supply, as well as in service and development of electric energy industry.

The Company analyses the activities of group companies, represents the whole group, implements its shareholders' rights and obligations, defines operation guidelines and rules, and coordinates the

The Group consists of Lietuvos Energija UAB and subsidiaries directly or indirectly controlled by the Company:

Company name	Office address	Effective ownership interest at 31 Dec 2015 (%)	Share capital (EUR '000) at 31 Dec 2015	Profile of activities
Lietuvos Energijos Gamyba AB	Elektrinės g. 21, Elektrėnai	96.1	184,174	Electricity generation, supply, import, export and trade
AB LESTO	Aguonų g. 26, Vilnius	94.4	175,144	Electricity supply and distribution to end users
Lietuvos Dujos AB	Aguonų g. 24, Vilnius	96.6	84,289	Natural gas supply and distribution to end users
NT Valdos UAB	Geologų g. 16, Vilnius	100.00	85,550	Operation of real estate, other related activities and provision of services
Duomenų Logistikos Centras UAB	A. Juozapavičiaus g. 13, Vilnius	79.6	4,028	Support services for information technology and telecommunications
ELEKTROS TINKLO PASLAUGOS UAB	Motorų g. 2, Vilnius	100.00	2,582	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid
Kauno Energetikos Remontas UAB	Chemijos g. 17, Kaunas	100.00	4,421	Repairs of energy equipment, manufacturing of metal structures
LITGAS UAB	Žvejų g. 14, Vilnius	66.66	13,050	Supply of liquid natural gas via terminal and trade in natural gas (100% of votes)
Elektroninių Mokėjimų Agentūra UAB (former Goititas UAB)	Žvejų g. 14, Vilnius	100.00	437	Provision of payment collection services
Energijos tiekimas UAB	P. Lukšio g. 1, Vilnius	100.00	10,000	Supply of electricity and natural gas
Energetikų Mokymo Centras VšĮ	Jeruzalės g. 21, Vilnius	100.00	85	Professional development and continuing training of energy specialists
Geton Energy OU	Narva mnt 5, 10117 Tallinn	100.00	35	Supply of electricity
Geton Energy SIA	Bezdzeļņu 12, LV-1048, Rīga	100.00	28	Supply of electricity
Technologiju ir Inovaciju Centras UAB	A. Juozapavičiaus g. 13, Vilnius	97.8	6,440	Provision of IT, telecommunication and other services
VAE SPB UAB	Smolensko g. 5, Vilnius	100.00	293	Business and other management consultations
Verslo Aptarnavimo Centras UAB	P. Lukšio g. 5 b, Vilnius	97.0	580	Organisation and execution of public procurement, accounting, legal and personnel administration services
Lietuvos Dujų Tiekimas UAB	Žvejų g. 14, Vilnius	100.00	870	Gas supply
Lithuanian Energy Support Fund	Žvejų g. 14, Vilnius	100.00	3	Provision of support for projects, initiatives and activities of public interest
Vilniaus Kogeneracinė Jėgainė UAB	Žvejų g. 14, Vilnius	100.00	1,003	Modernisation of district heating supply in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Žvejų g. 14, Vilnius	100.00	3	Modernisation of district heating supply in Kaunas city

As at 31 December 2015, the Group and the Company had 5,379 and 78 employees, respectively (31 December 2014: 5,602 and 61 employees, respectively).

activities in the fields of finance, law, strategy and development, human resources, risk management, audit, technology, communication and other.

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

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

Company's shareholder	31 December 2015	31 December 2014
	Share capital	Share capital
	%	%
Republic of Lithuania represented by the Lithuanian Ministry of Finance	1,212,156	1,210,568
	100.00	100.00

The Company's management approved these financial statements on 7 April 2016. The Company's shareholders have a statutory right to approve or not to approve these financial statements and require that management prepare a new set of financial statements.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Company's and the Group's financial statements for the year ended 31 December 2015 are summarised below.

2.1 Basis of preparation

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

The Group's and the Company's financial statements as at and for the year ended 31 December 2015 have been prepared on a historical cost basis, except for property, plant and equipment measured at revalued amount, investment property, emission allowances and certain financial instruments measured at fair value.

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

The following IFRSs and amendments were adopted by the Company for the first time in the financial year ended 31 December 2015:

IFRIC 21, 'Taxes'

The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. This interpretation had no impact on the Company's/Group's financial statements.

Annual improvements to 2013 IFRSs

The improvements consist of changes to four standards.

- The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption, a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
- The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.
- IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-

occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. These amendments had no impact on the Company's/ Group's financial statements.

Other standards, amendments and interpretations that became effective for the financial year beginning on 1 January 2015 were not relevant to the Company/Group.

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

Other new standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2016 that have not been adopted in preparing these financial statements:

IFRS 9, Financial Instruments: Classification and measurement'

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.

This standard is effective for annual periods beginning on or after 1 January 2018; not yet endorsed by the EU. The Company/Group is currently assessing the impact of the new standard on the financial statements.

Annual improvements to 2012 IFRSs

- The improvements consist of changes to seven standards.
- IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
- IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.
- IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
- The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
- IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

These improvements are effective for annual periods beginning on or after 1 February 2015. The Company/Group is currently assessing the impact of these amendments on its financial statements.

IFRS 15, 'Revenue from contracts with customers'

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.

The standard is effective for annual periods beginning on or after 1 January 2018; not yet endorsed by the EU. The Company/Group is currently assessing the impact of this standard on its financial statements.

Annual improvements to 2014 IFRSs

- The amendments impact 4 standards.
 - IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.
 - The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.
 - The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.
 - IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".
- These improvements are effective for annual periods beginning on or after 01 January 2016. The Company/Group is currently assessing the impact of these amendments on its financial statements.

Disclosure initiative – Amendments to IAS 1

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

These amendments are effective for annual periods beginning on or after 1 January 2016. The Company/Group is currently assessing the impact of these amendments on its financial statements.

IFRS 16, 'Leases'

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

This standard is effective for annual periods beginning on or after 1 January 2019; not yet endorsed by the EU. The Company/Group is currently assessing the impact of the new standard on its financial statements.

Other standards and amendments that have been published but not yet effective are expected not to have significant impact on the Group/Company.

2.2 Consolidation

Consolidation

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

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

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

Business combinations

IFRS 3, 'Business combinations' is not applied to business combinations involving entities under common control, therefore, for the purpose of these financial statements business combinations involving entities under common control were accounted for using the 'pooling of interest' method.

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

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

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

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

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

2.3 Investments in subsidiaries (Company)

A subsidiary is an entity directly or indirectly controlled by a parent company. In the parent company's balance sheet investments in directly controlled subsidiaries are stated at acquisition cost less impairment loss, where the investment's carrying amount in the parent company's balance sheet exceeds its estimated recoverable amount.

2.4 Investments in associates and joint ventures

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

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

In the consolidated financial statements of the Group results of operations, assets and liabilities of associates are accounted for using an equity method, except when the investment is classified as held-for-sale and it is recognised according to IFRS 5 'Non-current assets held for sale and discontinued operations'. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the investee, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's share of assets in that associate are not recognised, unless the Group had incurred legal or indirect obligations or made payments on behalf of the associate or joint venture.

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

Financial guarantees provided for the liabilities of the associates are initially recognised as an investment in associates at estimated fair value and as a financial liability in the balance sheet. The fair value is estimated as the difference between the fair value of the liability secured with guarantee and the fair value of analogous liability not secured with guarantee. Subsequent to initial recognition this financial liability is amortised and recognised as income depending on the related amortisation / repayment of the associate's financial liability to the bank. If there are indications that the associate may fail to fulfil its obligations to the bank, a financial liability of the Company is accounted for at the higher of amortised cost and the value estimated according to IAS 37, 'Provisions, contingent liabilities and contingent assets'.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Until 6 November 2015, the Group had ownership interest in joint venture GET Baltic UAB, which was jointly controlled and the venturers had a contractual arrangement that established joint control over the economic activities of the entity. In the financial statements the Group recognised its ownership interest in the joint venture using the equity method. Under the equity method, the value of the

investment in a joint venture was measured in the statement of financial position at the cost as adjusted to recognise changes in the Group's share of the net assets of the investee. The Group's share of the results of operations of the joint venture was recognised in the income statement. The Group's share of unrealised gains or losses arising from transactions between the Group and the joint venture owned by it, were eliminated.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in the euros (EUR), which is the Company's functional and presentation currency as from 1 January 2015. On 1 January 2015, Lithuania became a full-fledged member of the euro zone and the national currency the litas was replaced by the euro. The euro was adopted at exchange rate of 3.4528 litas to 1 euro.

(b) Transactions and balances

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

2.6 Property, plant, and equipment

Property, plant and equipment is stated at cost or revalued amount. Property, plant and equipment, including categories of assets of the Hydro Power Plant, Pumped Storage Power Plant, structures and machinery of Thermal Power Plant (Combined Cycle Unit and Reserve Power Plant), gas distribution pipelines, gas technological equipment, as well as IT and telecommunication equipment, is accounted for at cost less accumulated depreciation and impairment. All other property, plant and equipment are shown at revaluated amounts, based on periodic (at least every 5 years) valuations by external independent valuers or by the Group's management, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Cost includes replacement costs of components of property, plant and equipment when incurred and when these costs meet the recognition criteria of property, plant and equipment. 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. All other repairs and maintenance costs charged to the statement of comprehensive income as incurred.

Increases in the carrying amount arising on revaluation of property, plant and equipment are recognised in other comprehensive income and credited to the revaluation reserve in shareholders' equity. If the carrying amount of property, plant and equipment increases after revaluation and the carrying amount of these assets has suffered impairment in previous periods as a result of which expenses were recognised, the amount of the increase in the assets' carrying amount, net of depreciation, is deducted from expenses which were included in the statement of comprehensive income in previous periods and the remaining amount of the increase is credited against the revaluation reserve. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation reserve directly in equity, all other decreases are charged to profit or loss in the statement of comprehensive income. Each year the

difference between depreciation based on the revalued amount of the asset (when the carrying amount increases after revaluation) charged to profit or loss in the statement of comprehensive income and depreciation based on the asset's original acquisition cost is transferred from revaluation reserve to retained earnings, net of deferred income tax.

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

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

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

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

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

When property is retired or otherwise disposed of, the cost and related accumulated depreciation are derecognised and any related gains or losses are included in profit or loss in the statement of comprehensive income. Gains or losses on disposal of property, plant and equipment are determined

as proceeds received on disposal less the book value of assets disposed. When revalued assets are disposed, the corresponding portion of revaluation reserve is transferred to retained earnings (deficit). Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with these costs will flow to the Group and the Company and the costs can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

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

2.7 Intangible assets

(a) Patents and licences

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

(b) Computer software

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

(c) Emission allowances

For detailed description of accounting policy for emission allowances see Note 2.23.

(d) Other intangible assets

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

2.8 Impairment of non-financial assets

At each reporting date, the Group/Company reviews the book values of its property, plant and equipment and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, otherwise they are allocated to the smallest groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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 the item of comprehensive income.

2.9 Investment property

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

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

2.10 Non-current assets held for sale

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

2.11 Financial assets

The Group/Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans granted and receivables. The classification of financial assets is based on the purpose of financial assets acquired, the management's intentions and whether the investments are quoted in active market. The management determines the classification of financial assets at initial recognition.

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets traded in active market with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest rate method.

Effective interest rate method is used to calculate amortised cost of financial assets and allocate interest income over the relevant period. The effective interest rate exactly discounts estimated future cash inflows or outflows to net carrying amount of financial assets over the expected life of the financial instrument or a shorter period, if necessary.

Available-for-sale financial assets

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

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

Loans and receivables

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

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

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

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

2.12 Derivative financial instruments

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

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method, except for natural gas and liquefied natural gas, the cost of which is determined using the weighted average costing method. The cost of inventories comprises purchase

price, taxes (other than those subsequently recoverable by the Group and the Company from the tax authorities), transportation, handling and other costs directly attributable to the acquisition of inventories. Cost does not include borrowings costs. Net realisable value is the estimated selling price in the ordinary course of business, less attributable variable selling expenses.

2.14 Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown under liabilities within current borrowings in the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity.

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

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

2.16 Trade payables

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

2.17 Borrowings

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

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

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

2.18 Income tax and deferred income tax

Income tax

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

Current income tax is calculated on profit for the year, net of deferred income tax. Calculation of income tax is based on requirements of the Lithuanian regulatory legislation on taxation.

In 2015 and 2014, a standard income tax rate of 15% was applicable to the companies in Lithuania. Tax losses can be carried forward for indefinite period, except for losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company terminates the activities that caused these losses, except when the Company discontinues its activities due to the reasons that are beyond the Company's control. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax

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

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

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

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

Current and deferred income tax

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

2.19 Employee benefits

Social security contributions

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

Termination benefits

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

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

Long-term employee benefits

Each employee of retirement age who terminates his/her employment with the Group and the Company upon retirement is entitled to receive a payment equal to 2-6 monthly salaries according to Lithuanian laws and the terms of the collective employment agreement. A liability for such pension benefits is recognised in the statement of financial position and it reflects the present value of these benefits at the date of the balance sheet. The aforementioned non-current liability for pension benefits to employees at the date of the statement of financial position is estimated with reference to actuarial valuations using the projected relative unit method. The present value of the defined non-current liability for pension benefits to employees is determined by discounting the estimated future cash flows using the effective interest rates as set for government bonds denominated in a currency in which the benefits will be paid to employees and that have maturity term similar to that of the related liability.

2.20 Provisions

Provisions are recognised when the Group/Company has a legal obligation or irrevocable commitment as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group/Company expects that provision amount in part or in full will be compensated, e.g. under the insurance contract, 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 based on the interest rates for the period and taking into account specific risks associated with the provision as

appropriate. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance costs.

Provisions for onerous contract

Provisions for onerous contract represent liabilities that are initially recognised at fair value and subsequently at the end of each reporting period they are measured at present value using the effective interest rate method.

2.21 Revenue and expense recognition

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

Revenue from sale of electricity to end customers

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

Revenue from electricity sales to household customers is recognised when electricity is supplied and payment for it is made. An estimate of accrued revenue is made to record electricity supplied but not yet declared by household customers at the end of each reporting period. This estimate is based on historical experience and average payment for electricity period by the customers.

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

Regulation of tariffs and profitability

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

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

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

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

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

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

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

Tariffs for import and export of electricity are not regulated.

Revenue from provision of PSO services

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

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

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

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

Revenue from distribution and supply of natural gas

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

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

Construction contracts

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

Income from new customer connection

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

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

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

Revenue from sale of services

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

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

Income from sale of goods

Income from sale of goods is recognised when all risks associated with loss or damage to goods, as well as any incremental costs arising from events occurring subsequent to the delivery of goods to the

carrier or to the agreed place of destination, are transferred from the Group to a buyer under the standard sale terms (INCOTERMS) agreed with the buyer, and the recoverability of the related amounts receivable is reasonably certain.

Interest income

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

Dividend income

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

Lease income

Lease income is recognised on a proportionate basis over the lease period.

Expense recognition

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

2.22 Emission allowances

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

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

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

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

Intangible assets

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

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

Government grant

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

Provision for the utilisation of emission allowances

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

Lending of emission allowances

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

2.23 Leases

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

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

Where the Company and/or the Group are lessors

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

Where the Company and/or the Group are lessees

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

Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Financial lease

A finance lease is a lease whereby a company (a lessee) pays the total price of the asset and interest over the lease term and usually becomes the owner of the asset at the end of the lease term. Following the transfer of the asset to the lessee under the lease contract, the lessor records amounts receivable after one year at the amount which is equal to net investment in finance lease. The amount equal to net investment in finance lease is shown as non-current financial assets. At the end of the reporting period long-term debts to be covered within one year are reclassified to current amounts receivable. Amounts receivable by the lessor should be measured at the end of the reporting periods and if necessary reduced by the amounts of doubtful amounts receivable.

Assets acquired under finance leases are depreciated over the estimated useful lives of assets. If the Group does not intend to exercise the option to acquire the asset leased at the end of the lease term, the asset is depreciated over the shorter of the useful life of the asset and the lease term.

2.24 Grants and subsidies

Asset-related grants

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

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

Income-related grants

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

Payments made by users for the connection to the Group's gas system are recorded as deferred income and recognised as income over the depreciation period of the capitalised assets concerned. Such income is shown in the line item 'Sales revenue' of the income statement.

2.25 Dividend distribution

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

2.26 Contingencies

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

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

2.27 Events after the reporting period

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

2.28 Related parties

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

2.29 Inter-company offsetting

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

2.30 Fair value

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

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

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

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

3 Financial risk management

3.1 Financial risk factors

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

Market risk

Foreign exchange risk

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

In 2015, the Group companies used derivative financial instruments intended to manage the foreign exchange risk. These instruments, however, were expired at the end of 2015, and no new instruments were used.

Interest rate risk

The Group's income and cash flows are affected by fluctuations in market interest rates because most of the Group's loans and borrowings had variable interest rates as of 31 December 2015. The Group has financial assets measured at fair value with fixed interest rates, therefore, it is exposed to fair value interest rate risk. Time deposits bear fixed interest rate, therefore, they are not affected by interest rate risk.

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

	Group	Increase/decrease in percentage points	(Decrease)/increase in profit
2015		+0.3/-0.3	(42)/42
2014		+0.5/-0.5	(65)/65
	Company	Increase/decrease in percentage points	(Decrease)/increase in profit
2015		+0.3/-0.3	51/(51)
2014		+0.5/-0.5	115/(115)

Fair values of financial instruments

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

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

The carrying amount of the Group's and the Company's financial assets and financial liabilities approximated their fair value except for mortgage loans granted (see Note 10), borrowings of the Group company Lietuvos Energijos Gamyba AB (see Note 19) and amounts receivable on disposal of Litgrid AB.

As at 31 December 2015, the carrying amount of the Group's and the Company's amounts receivable on disposal of Litgrid AB (see Note 10) was equal to EUR 238,975 thousand (31 December 2014: EUR 238,975 thousand), and the fair value amounted to approx. EUR 247,350 thousand (31 December 2014: EUR 241,350 thousand). The fair value was determined on the basis of discounted cash flows using 1.00% (31 December 2014: 1.40%) discount rate. Their fair value is attributed to Level 3 in the fair value hierarchy.

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

- The carrying amount of current trade and other receivables, current trade and other payables and current interest-bearing borrowings approximates their fair value.
- The fair value of non-current interest-bearing borrowings (including current and non-current portion) is estimated by discounting contractual future cash flows at interest rate established based on the quoted market price for the same or similar loans or on the current rates available for debt with the same maturity profile. The fair value of the mentioned borrowings, except for mortgage loans (see Note 10), borrowings of Lietuvos Energijos Gamyba AB (see Note 19) and amounts receivable from Litgrid AB, approximates their carrying amounts.

Credit risk

The Group's and the Company's exposure to credit risk arises from operating activities of the companies (trade and other amounts receivable) and from financing activities (cash and cash equivalents, time deposits, loans granted).

The Group is not exposed to significant credit risk concentration related to trade receivables and other amounts receivable. Principally all trade receivables and other amounts receivable of the Company are due from related parties (see Note 37). Loans granted of the Company and the Group principally consist of the loan granted to EPSO- G (see Note 37).

The Group and the Company temporarily invest free liquid funds only in low-risk money market instruments and debt securities, i.e. time deposits, debentures, Lithuanian government bonds. The priority objective of the Group's and the Company's treasury management is to ensure security of funds and maximise return on investments in pursuance of this objective. Risk of counterparties defaulting is managed by entering into transactions with reliable financial institutions with a long-term

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

credit rating (in foreign currency) not lower than 'A-' according to the rating agency Fitch Ratings (or an equivalent rating of other rating agencies).

The credit risk on cash in banks is limited because the Group and the Company conduct transactions with the banks with high credit ratings assigned by international credit rating agencies. The Group and the Company hold cash balances and time deposits in accounts of the major banks in Lithuania assigned with a long-term credit rating not lower than 'A-' according to the rating agency Fitch Ratings. The maximum exposure to credit risk as at 31 December 2015 and 31 December 2014 was equal to the carrying amount of financial assets.

	Group		Company	
	2015	2014	2015	2014
Trade and other amounts receivable:				
Trade and other receivables	125,878	151,597	4,549	1,602
Loans granted and receivables	239,707	239,761	238,975	238,974
Available-for-sale financial assets:				
Available-for-sale financial assets	4,548	4,711	4,561	4,711
Cash and cash equivalents	164,341	211,019	13,179	31,347
Total	534,474	607,088	261,264	276,634
Off-balance sheet commitments:				
Open guarantees issued	67,430	73,645	67,430	73,645
Total	67,430	73,645	67,430	73,645

Liquidity risk

The liquidity risk is managed by planning future cash flows of each Group company and ensuring sufficient cash and availability of funding through committed credit facilities and overdrafts to support their operating activities. The refinancing risk is managed by ensuring that borrowings over a certain period were repaid from available cash, from cash flows expected from operating activities of the Group companies over that period, and from unwithdrawn committed credit facilities which have to be repaid in later periods.

As at 31 December 2015, the Group's current ratio (total current assets / total current liabilities) and quick ratio (total current assets – inventories) / total current liabilities) were 1.05 and 0.94, respectively (31 December 2014: 1.07 and 0.94, respectively)

The guarantee granted by the Company to LITGAS UAB, which was intended to serve as a security under the credit facility agreements signed by LITGAS UAB with the credit institutions and under the long-term liquefied natural gas (LNG) purchase agreements signed with the LNG suppliers, expired on 23 February 2016.

The table below summarises the Group's and the Company's financial liabilities by category:

	Group	Company
--	-------	---------

	2015	2014	2015	2014
Amounts payable measured at amortised cost				
Borrowings and finance lease liabilities	420,688	391,607	-	-
Trade payables (Note 25) and non-current amounts payable (Note 24)	93,648	143,788	45,995	188
Other amounts payable	35,545	32,147	361	307
Liabilities measured at fair value				
Total	549,881	567,542	17,819	495

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

The table below summarises the maturity profile of the Group's and the Company's financial liabilities under the contracts (based on contractual undiscounted payments of interest-bearing financial liabilities and the carrying amounts of other financial liabilities):

Group	2015				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities	60,067	87,945	224,223	60,661	432,896
Trade payables	91,954	255	674	765	93,648
Other amounts payable	32,507	2,912	-	-	35,419
At 31 December 2015	184,528	91,112	224,897	61,426	561,963

Group	2014				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities	59,566	123,312	164,563	56,633	404,074
Trade payables	141,612	792	1,383	-	143,787
Other amounts payable	32,148	-	-	-	32,148
At 31 December 2014	233,326	124,104	165,946	56,633	580,009

Company	2015				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities	-	45,552	19,400	-	64,952
Trade payables	443	-	-	-	443
Other amounts payable	361	-	-	-	361
At 31 December 2015	804	45,552	19,400	-	65,756

Company	2014				Total
	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Interest-bearing borrowings, finance lease and other liabilities	-	-	-	-	-
Trade payables	188	-	-	-	188
Other amounts payable	307	-	-	-	307
At 31 December 2014	495	-	-	-	495

3.2 Capital risk management

Pursuant to the Lithuanian Law on Companies, the authorised share capital of a public limited liability company must be not less than EUR 40 thousand, the authorised share capital of a private limited liability company must be not less than EUR 2.5 thousand, and the shareholders' equity must be not lower than 50% of the company's authorised share capital. As at 31 December 2015 and 2014, the Company and all Group companies, except for Energetiku Mokymo Centras VSI (Public Institution Training Centre for Energy Specialists), complied with these requirements. The latter company has obtained a confirmation from Lietuvos Energija UAB certifying that financial support will be provided for not less than 12 months after the approval of its financial statements.

When managing the capital risk, the Group companies seek to maintain an optimal capital structure in a long run to ensure a consistent implementation of capital cost and risk minimisation objectives. The Group companies form their capital structure in view of internal factors relating to operating activities, the expected capital expenditures and developments and in view of business strategy of the Group companies, as well as based on external current or expected factors significant to operations relating to markets, regulation and local economic situation.

4 Critical accounting estimates and judgements used in the preparation of the financial statements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements according to International Financial Reporting Standards as adopted by the European Union requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and costs and contingencies. Change in the underlying assumptions, estimates and judgements may have a material effect on these consolidated financial statements of the Group and stand-alone financial statements of the Company.

Revaluation and impairment of assets

The Group accounts for property, plant and equipment (except for assets of power plants, gas distribution pipelines, gas technological equipment and IT and telecommunication equipment) at revalued amount in accordance with International Accounting Standard 16 'Property, plant and equipment'.

Revaluation of assets of subsidiaries, except for LESTO AB, and fair value measurement

As at 31 December 2015, an independent valuation at the Group level was carried out in respect of Lietuvos Dujos AB (buildings), Kauno Energetikos Remontas UAB and NT Valdos UAB (buildings and structures). The valuation of assets was conducted by independent valuers.

Property, plant and equipment of subsidiary Lietuvos Dujos AB was measured at fair value on business combination (Note 33). In September 2015, the whole category of buildings was subject to revaluation with reference to the value determined by independent property valuers – Korporacija Matinkai UAB and Ober-Haus Nekilnojamas Turtas UAB. The valuation was performed using the sales comparison approach. In the opinion of management of Lietuvos Dujos AB, in 2015 there were no significant changes in the fair value of other categories of property, plant and equipment that are stated at revalued amounts.

As at 31 December 2014, property, plant and equipment of subsidiary Lietuvos Dujos AB was measured at fair value on business combination (Note 33).

As at 31 December 2015, the fair value of property, plant and equipment of subsidiary Kauno Energetikos Remontas UAB was determined by independent valuer using the sales comparison approach (analogous sale prices) in respect of the category of immovable property. Valuation of other categories of assets was carried out using in parallel the sales comparison and the replacement cost methods. Assets that were evaluated using the replacement cost method were tested for impairment, as a result of which no indications of impairment were identified.

In November 2015, valuation of all buildings and structures of subsidiary NT Valdos UAB was carried out by independent valuer InReal UAB using the sales comparison approach (analogous sale prices) and the income approach. In the opinion of management of NT Valdos UAB, the adjusted values of these assets under the above-mentioned approach as at 1 December 2015 approximated their fair value as at 31 December 2015.

As at 31 December 2014, independent valuation of assets was performed at the Group with respect to NT Valdos UAB (buildings, structures and motor vehicles), LESTO AB and Lietuvos Dujos AB (buildings, structures and motor vehicles). The valuation was carried out by independent valuation companies and the Group's valuation specialists.

As at 31 December 2015, other Group companies did not carry out valuation of assets stated at revalued amounts, because revaluations were performed not more than 4 years ago and there are no indications of a significant difference between the net book amount and market value of assets stated at revalued amount.

Revaluation of assets of LESTO AB in 2015

As at 31 December 2015, LESTO AB reviewed its property, plant and equipment for any significant differences between the carrying amount and the fair value. The fair value was determined by

management using the income approach. In the opinion of management, the fair value of assets did not differ significantly from the carrying amount, and accordingly no revaluation result was recognised. The fair value of assets of LESTO AB and the recoverable amount of investment in LESTO AB were determined for the purpose of the Company's separate financial statements using the same assumptions which are described in more detail in section *Valuation of investments in subsidiaries in the Company's separate financial statements*.

Revaluation of assets of LESTO AB in 2014

LESTO AB accounts for its property, plant and equipment at revalued amount in accordance with IAS 16, 'Property, plant and equipment'. As part of the implementation of the provisions of paragraph 31 of IAS 16, in 2014 the Company carried out valuation of its property, plant and equipment with reference to the valuation report delivered by Ernst & Young Baltic UAB, and determined the fair value of property, plant and equipment (including construction in progress) equal to EUR 683 million as at 31 December 2014. It was concluded that the fair value of property, plant and equipment was EUR 618 million lower than the net book amount of EUR 1,301 million as at 31 December 2014. A significant change in the fair value of property, plant and equipment was mainly caused by application of economic obsolescence. In view of the decisions adopted during 2009-2015 by the National Control Commission for Prices and Energy (the Commission) and based on economic obsolescence estimates (using the income approach for valuation of assets), the value of property, plant and equipment of LESTO AB was lower than that determined under the cost approach.

Valuation of property, plant and equipment of LESTO AB was carried out using the income approach and cost approach. Valuation of assets was carried out in the following stages: (i) replacement cost of new assets was determined; (ii) physical and functional obsolescence of assets was estimated; (iii) possible recoverability of assets was assessed (using the income approach).

The assessment under the income approach was based on the following key assumptions of LESTO AB:

When determining the price cap for the distribution services for 2016-2020 in its Certificate No O5-16 of 19 January 2015, the Commission approved the rate of return on investments equal to 6.79% for this period; This rate was used to determine return on investments in 2016. The rate of return on investments equal to 6.13% as established by the Commission was used in 2015. In respect of the remaining forecast cash flow period (2017-2024), the rate of return on investments equal to 7.5% as calculated by the Company was used assuming that the Company's legal claim would be satisfied in terms of application of improper rate of return on investments;

Cash flows were discounted using a pre-tax discount rate of 7.5%;

Operating expenses of LESTO AB for 2016-2020 were projected according to the approved long-term plans of LESTO AB. Starting from 2012, the changes were projected in view of the projected changes in the average annual consumer price index and the changes in work pay at the time of valuation;

It was assumed that additional profit will be earned in individual regulatory periods due to the planned operational efficiency of the company;

Investments for 2015-2024 were estimated in view of the approved ten-year investment plan;

In the opinion of LESTO AB, the amount of EUR 16.46 million, by which LESTO AB's revenue for 2015 was reduced by the Commission, was reasonably included in the operating expenses of the regulated activity for 2011–2013, and assumed that the court would pass a favourable ruling for LESTO AB, and the aforementioned amount would be included by the Commission in the level of LESTO AB's revenue for 2017.

In the opinion of LESTO AB, the additional component in the regulated asset base as set in the Procedure for Determining Regulated Prices in Electric Energy Sector approved by the Lithuanian Government Resolution of 24 September 2014 ("the Government Resolution"), which is calculated as the difference between the carrying amount of the assets and the regulated asset base and which arose as at 30 June 2014, had to be included in the cost of capital when determining the level of revenue of LESTO AB for 2015-2016. LESTO AB filed a claim to the court regarding the inclusion of the aforementioned additional component in the level of revenue, and included the cash flows relating to the additional component of the regulated asset base in forecast cash flows with probability of 50%.

In 2014, LESTO AB performed the sensitivity analysis on fair value measurement in respect of changes in unobservable inputs using the following scenarios:

Sensitivity analysis scenario I: as a result of changes in the current regulatory environment and when determining the level of LESTO AB's revenue by the Commission for the period 2017-2024, the return on investment in respect of the additional component of the regulated asset base (as approved under the Government Resolution) would not be taken into consideration, and accordingly, LESTO AB's revenue for the forecast period (2015-2024) would be EUR 122.22 million lower and the fair value of PP&E would be EUR 601 million lower.

Sensitivity analysis scenario II: as a result of rejection of LESTO AB's claim by judicial authorities, whereby LESTO AB appealed against the Commission's Resolution No O3-944 of 19 December 2014. On the Amendment to the Commission's Resolution No O3-845 of 17 October 2014. *On recalculating the price caps for electricity distribution services provided by LESTO AB through medium and low voltage networks for the year 2015*, on the basis of which the Company's revenue from the distribution activity was reduced by the amount of EUR 16.46 million, LESTO AB's revenue for the forecast period (2015-2024) would be EUR 16.46 million lower and the fair value of PP&E would be EUR 669 million lower.

Sensitivity analysis scenario III: as a result of changes in the current regulatory environment and when determining the level of LESTO AB's revenue by the Commission for the period 2017-2024, the return on investment (at 100% extent) in respect of the additional component of the regulated asset base (as approved under the Government Resolution) would be taken into consideration, and accordingly, LESTO AB's revenue for the forecast period (2015-2024) would be EUR 120 million higher and the fair value of PP&E would be EUR 762.6 million higher.

Impairment of assets measured at cost

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

As at 31 December 2015 and 31 December 2014, the Group's management tested for impairment the property, plant and equipment of Krutonis Pumped Storage Power Plant and Kaunas Hydro Power Plant named after Algirdas Brazauskas and did not identify any impairment indications thereon.

In view of Lietuvos Energijos Gamyba AB's management decision at the end of 2015 on dismantling of units 5 and 6 of the Reserve Power Plant, the Group recognised impairment loss of EUR 36.7 million equal to the net book amount of units 5 and 6 of the Reserve Power Plant as at 31 December 2015.

In view of Lietuvos Energijos Gamyba AB's management decision at the end of 2014 on dismantling of units 1 and 2 of the Reserve Power Plant, the Group recognised impairment loss of EUR 11.5 million equal to the net book amount of units 1 and 2 of the Reserve Power Plant as at 31 December 2014.

As at 31 December 2015 and 2015, the rest of property, plant and equipment of the Reserve Power Plant, Combined Cycle Unit and the new Biofuel and Steam Boiler Houses (hereinafter "the Elektrėnai Complex") was tested for impairment, as a result of which it was determined that the recoverable amount of assets of the Elektrėnai Complex exceeded the carrying amount equal to EUR 542 million as at 31 December 2015 (31 December 2014: the recoverable amount of the Elektrėnai Complex exceeded the carrying amount equal to EUR 590 million). Consequently, no impairment loss was recognised.

The Elektrėnai Complex is treated as a single cash generating unit due to the following reasons:

- The transmission system operator treats each power plant as a single cash generating unit irrespective of the number of individual units that constitute the power plant.
- All units of the Reserve Power Plant and the Combined Cycle Unit can be used for both, electricity generation and provision of capacity reserve services. The situation of which unit at a specific moment is used for electricity generation or activation of capacity reserve depends on the system's needs, the technical condition of the units (e.g. scheduled repair works, disruptions in operations of units), potential disruptions in supply of natural gas, etc. Electricity and thermal power generation and provision of capacity reserve services at the Elektrėnai Complex are considered to be regulated activities.
- The new Biofuel and Steam Boiler Houses share the same infrastructure with other facilities of the Elektrėnai Complex (electricity connections, heating networks, other pipelines, pumps, chemical bar, etc.), which accounts for the major part of all assets operated by the Elektrėnai Complex. The steam boilers have been mounted in the same building as the old units of the Elektrėnai Complex, and the main purpose of the steam boilers (representing 99.3% of assets of the steam boiler) is to activate the electricity generation units of the Elektrėnai Complex in "cold season" operation mode and to produce steam energy that is necessary to maintain the infrastructure of the Elektrėnai Complex.
- The new Biofuel and Steam Boiler Houses supply thermal power that is necessary to maintain the infrastructure of the Elektrėnai Complex and activate the electricity generation units of the Elektrėnai Complex.
- When establishing the prices for the regulated services, the National Control Commission for Prices and Energy ("the Commission") takes into account all variable and fixed costs of the Reserve Power Plant and the Combined Cycle Unit, allocates and compensates a part of these costs against capacity reserve revenue and the remaining part against the PSO service fees. The electricity buy-up price is established for electricity produced at the Elektrėnai Complex. The Biofuel and Steam Boiler Houses provide the same services as the electricity production facilities of the Elektrėnai Complex. Part of fixed and variable costs and assets of the Boiler Houses is allocated to PSO and tertiary capacity reserve services

provided by electricity production units of the Elektrėnai Complex. The price for PSO and tertiary capacity reserve services is determined for the whole Elektrėnai Complex collectively rather than for individual facilities.

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

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

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

1. The value in use was estimated with reference to the most up-to-date budget for the year 2016, the financial plan covering the period 2017-2020, the projected pre-tax discounted cash flows using a pre-tax weighted average cost of capital (WACC) of 6.26% (2014: 6.53%). The WACC was estimated with reference to long-term borrowing cost in the market and the effective average Euro Interbank Offered Rate (EURIBOR).
2. Cash flow forecasts are prepared by the management as a result of financial projections based on the financial performance results, market development expectations and regulatory environment. The projections of revenue from regulated activities also take into account the depreciation expenses of property, plant and equipment and the return on investments, which is calculated on the value of assets used in the regulated activities. When estimating the return on investments, the management used the rate of return on investments set by the Commission for the year 2016, which was 5.35%.

As a result of the analysis, the Group's management determined that it was not necessary to recognise any impairment losses as at 31 December 2015 and 2014, except for the impairment losses for units 5 and 6 of the Reserve Power Plant. Had the discount rate increased by 0.5 p.p. in 2015 and 2014, the value in use of the Elektrėnai Complex would exceed the carrying amount.

Valuation of investments in subsidiaries in the Company's separate financial statements

Although the shares of the Company's subsidiaries LESTO AB, Lietuvos Energijos Gamyba AB and Lietuvos Dujos AB are traded on Vilnius Stock Exchange, the Group's management believes this market is not active enough so that the quoted stock prices could be treated as equivalent to the fair value of investments in subsidiaries at the reporting date.

LESTO AB

As at 31 December 2015, the Company tested for impairment its investment in subsidiary LESTO AB using the discounted cash flow method and recognised reversal of impairment of EUR 38.9 million, which largely resulted from changes in the regulatory environment. Following the reversal of impairment, the investment's recoverable amount (which is equivalent to its fair value) was equal to EUR 522.0 million as at 31 December 2015 (31 December 2014: EUR 483.1 million).

Discounted cash flows were calculated in accordance with the following legal acts and methodologies regulating the distribution and supply activities, effective as at 31 December 2015:

1. Methodology for Setting Price Caps for Electricity Transmission, Distribution and Public Supply Services and Public Energy Price Caps ("the Methodology") approved by the

2. Commission's Resolution No O3-3 of 15 January 2015 and amended by Resolution No O3-572 of 29 October 2015;
3. Description of the Requirements for Accounting Separation and Cost Allocation of Electric Power Sector Companies and Requirements Related to Accounting Separation ("the Description") approved by the Commission's Resolution No O3-112 of 29 April 2014 and amended by Resolution No O3-507 of 18 September 2015;
4. Methodology for Setting the Rate of Return on Investments ("the WACC Methodology") approved by the Commission's Resolution No O3-510 of 22 September 2015.

The impairment test of investment in LESTO AB was performed by the Company based on the following key assumptions:

1. The cash flow forecast covered the period until 2055, because the distribution activity is regulated on the basis of the regulated asset base, which mostly consists of assets with long useful life (40 years) - electricity lines;
2. When determining the price cap for the distribution services for 2016-2020 in Certificate No O5-16 of 29 October 2015, the Commission approved the rate of return on investments equal to 5.24% for this period. This rate was used to determine the return on investments over the entire cash flow forecast period;
3. The cash flows were discounted using a pre-tax discount rate of 6.6%;
4. LESTO AB's operating expenses for 2016-2020 were projected according to the approved long-term plans of LESTO AB. Starting from 2021, the changes were estimated in view of the forecast changes in the average annual consumer price index and the work pay prevailing at the time of the assessment.
5. Based on the provisions of the Description, a part of operating expenses incurred by LESTO AB is not included in the regulated prices of the distribution and supply activity;
6. It was assumed that in different regulatory periods additional profit would be earned as a result of the planned performance efficiency (such possibility is established in the Methodology);
7. Investments were projected for the period 2016-2025 under the approved ten-year investment plan. Starting from 2026, investments were reduced proportionately under the assumption that all items of technological assets that are currently fully depreciated or will become fully depreciated over the period until 2055 will be recovered until 2055;
8. LESTO AB's cost of capital (return on investments and depreciation of non-current assets) was calculated and taken into account when determining the prices for electricity distribution and supply services for other regulatory periods, in accordance with the long-run average incremental cost (LRAC) model (hereinafter "the Model") and in view of paragraph 7 of the Methodology;
9. The Company did not take into account the potential favourable outcomes from the litigation processes.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The changes in discount rates have a significant impact on the result of valuation. The sensitivity analysis showed that a 0.5 p.p. change in discount rate would result in increase in impairment reversal up to EUR 101.9 million (at discount rate of 6.10%) or in impairment of EUR 17.0 million (at discount rate of 7.10%).

2. If for the periods starting from 2021, the return on investments set by the Commission when determining the revenue level for LESTO AB was 10%, lower (i.e. equal to 4.72%), the forecast revenue of LESTO AB (for the period 2016-2055) would be lower by EUR 318 million. This would result in additional impairment of EUR 23.3 million.

As at 31 December 2014, the Company performed the impairment test in respect of its investment in the subsidiary LESTO AB and recognised impairment of EUR 55.8 million. The impairment test in respect of the investment in LESTO AB took into consideration the assumptions used in long-term forecasts (as described in section 'Revaluation of assets of LESTO AB in 2014', with additional adjustments made to cash flows to reflect the development prospects of LESTO AB as a company (i.e. not only the cash flows generated from property, plant and equipment). Discounted cash flows were adjusted in view of net financial debt and investments in subsidiaries.

Lietuvos Dujos AB

As at 31 December 2015, the Company tested for impairment its investment in subsidiary Lietuvos Dujos AB using the discounted cash flow method and recognised impairment of EUR 20.4 million, which largely resulted from changes in the regulatory environment. The Company estimated the fair value and value in use of the investment, and determined that the value in use was higher and, therefore, treated as the recoverable amount of the investment. Following the impairment, the recoverable amount of the investment was equal to EUR 151.6 million as at 31 December 2015 (31 December 2014: EUR 174.8 million). For the impairment test of investment in Lietuvos Dujos AB, the Company used the following key assumptions:

1. The value in use was estimated with reference to the financial plan covering the period 2016-2020, the projected pre-tax discounted cash flows using a pre-tax weighted average cost of capital (WACC) of 6.60%.
2. Cash flow forecasts were prepared by the management in the course of financial projections based on the financial performance results, market development expectations and regulatory environment. The projections of revenue from regulated activities also took into account the depreciation expenses of property, plant and equipment and the return on investments, which was calculated on the value of assets used in the regulated activities. When estimating the return on investments, the management used the rate of return on investments set by the Commission, which was 7.09% for the years 2016-2018 and 5.59% for the year 2019 and beyond.
3. The value in use calculations included only the investments necessary to maintain the current asset base and approved under the financial plan, whereas the fair value calculations included the investments intended for the development and modernisation of the asset base.
4. The forecast cash flows were calculated with reference to historical data, natural gas consumption forecasts and effective legal acts.

The Company performed the sensitivity analysis on the impairment test in respect of changes in unobservable inputs:

1. The rate of return on investments (starting from 2019) has a significant impact on the result of valuation. The sensitivity analysis showed that a 1 p.p. change would result in increase in impairment up to EUR 35.4 million (at rate of return of 4.59%) or decrease in impairment down to EUR 5.4 million (at rate of return of 7.10%). If starting from 2019 the rate of return on investments did not change (i.e. remain at 7.09% level), the recoverable amount would

be equivalents to the fair value, which would be equal to EUR 178.2 million (representing EUR 6.2 million surplus of the recoverable amount over the cost of investment);

2. The changes in discount rate also have a significant impact on the result of valuation. The sensitivity analysis showed that a 1 p.p. change in discount rate would result in increase in impairment up to EUR 34.4 million (at discount rate of 7.60%) or decrease in impairment down to EUR 1.9 million (at discount rate of 5.60%).

Lietuvos Energijos Gamyba AB

As at 31 December 2015, the Company tested for impairment its investment in subsidiary Lietuvos Energijos Gamyba AB and determined no impairment in respect of the investment as at 31 December 2015. As at 31 December 2015, in the opinion of the Company's management there were no indications of impairment in respect of the investment in Lietuvos Energijos Gamyba AB.

Duomenų Logistikos Centras UAB

As at 31 December 2015, the Company tested for impairment its investment in subsidiary Duomenų Logistikos Centras UAB and determined no impairment in respect of the investment as at 31 December 2015. As at 31 December 2015, in the opinion of the Company's management there were no indications of impairment in respect of the investment in Duomenų Logistikos Centras UAB.

VAE SPB UAB

As at 31 December 2015, the Company tested for impairment its investment in subsidiary VAE SPB UAB and recognised impairment of EUR 1,168 thousand.

LITGAS UAB

As at 30 June 2015, the Company tested for impairment its investment in subsidiary Litgas UAB using the discounted cash flow method. Discounted cash flows were calculated in accordance with the effective legal acts and methodologies regulating the activity of the designated supplier and taking into consideration the most probable scenario for the development of the natural gas trade activity and uncertainties existing in the liquefied natural gas industry. Discounted cash flows were calculated using a discount rate of 9.72%, which is established as the required return on the share capital. As a result of the analysis, the Company's management determined that the impairment of the investment in Litgas UAB was equal to EUR 1,092 thousand as at 30 June 2015 and 31 December 2015.

As at 31 December 2015, there were no indications of impairment in respect of other investments in subsidiaries of the Company.

Consideration paid on disposal of Litgrid AB

As part of the implementation of the requirements of the Law on Electricity, the Lithuanian Government passed Resolution No 826 on 4 July 2012. Regarding the establishment of the private limited liability company and investment of state-owned assets, whereby the Ministry of Energy was committed to establish a private limited liability company and make all necessary decisions in order to transfer the shares of Litgrid AB held by Lietuvos Energija UAB to a newly established private limited liability company EPSO-G UAB in return for a certain consideration based on the market value of shares established by independent valuers. The independent valuer determined the market value in respect of 97.5% of shares of Litgrid AB using the income approach.

The purchase-sale agreement of shares of Litgrid AB provide for a premium to the final price, the amount of which depends on the regulatory environment in the future periods. On 15 January 2015, the Commission approved a new regulation methodology (LRAIC) under which the Commission set the price caps for Litgrid AB's transmission services via high voltage networks for the period 2016-2020. On 21 September 2015, the Commission approved the amendments to the methodology, under which the price caps for electricity transmission via high voltage networks were recalculated for the period 2016-2020 and approved under Resolution of 19 October 2015. In view of the above-mentioned developments, the Company assessed the price premium and determined that according to the purchase-sale agreement of shares of Litgrid AB the price premium was equal to zero as at 31 December 2015 and 2014.

Assessment of price premiums in establishing the acquisition cost of shares

Price premium for the shares of NT Valdos UAB

In April 2015, the Company acquired the shares of NT Valdos UAB from LESTO AB, Lietuvos Energijos Gamyba AB, Duomenų Logistikos Centras UAB and Litgrid AB, thereby resulting in 100% direct control over NT Valdos UAB. See Note 9 for a more detailed information on share acquisition transactions.

The premium to the basic sale price established for the acquired shares is payable by 31 March 2019, the amount of which may vary depending on the financial performance of NT Valdos UAB. The maximum amount of the price premium is equal to EUR 19,400 thousand. The Company's management assumed that NT Valdos UAB will achieve the financial performance targets, and accounted for the maximum price premium of EUR 19,400 thousand within amounts payable. The price premium was discounted to present value using an average interest rate set by the Bank of Lithuania on borrowings in excess of EUR 1,000 thousand, which was equal to 2.65% at the date of discounting. The acquisition cost of the investment in NT Valdos UAB was reduced by the amount of discounting. The discounting effect will subsequently be recognised as finance costs.

Price premium for the shares of Kauno Energijos Remontas UAB

On 31 March 2015, the Company signed the share purchase-sale agreement with Lietuvos Energijos Gamyba AB, under which it acquired 100% (i.e. 15,244,112) of ordinary registered shares of Kauno Energijos Remontas UAB.

Kauno Energijos Remontas UAB on the commission of Lietuvos Energijos Gamyba AB implements the biofuel boiler plant project, in respect of which a provision of EUR 3,853 thousand was recognised in the financial statements of Kauno Energijos Remontas UAB as at 31 December 2014. If the loss from the biofuel boiler plant project increases or decreases by more than EUR 50 thousand, the purchase-sale price of shares of Kauno Energijos Remontas UAB will be adjusted by 89% of the amount of this change.

As at 31 December 2015, in view of the fact that the loss from the biofuel boiler plant project increased, the Company's management estimated that the acquisition cost of the shares of Kauno Energijos Remontas UAB should be EUR 436 thousand lower. The Company reduced accordingly the

acquisition cost of investment in Kauno Energijos Remontas UAB from EUR 4,778 thousand to EUR 4,342 thousand.

Change in tax treatment of goodwill

Based on the purchase-sale agreement dated 15 October 2014, Lietuvos Dujos AB transferred its natural gas supply activities (together with related assets, rights and obligations) to Lietuvos Dujų Tiekimas UAB. Based on the transfer-acceptance statements, the title of ownership to part of operations (natural gas supply activities) was passed to Lietuvos Dujų Tiekimas UAB on 31 October 2014. Under the purchase-sale agreement, Lietuvos Dujų Tiekimas UAB paid for the natural gas supply activities (together with related assets, rights and obligations) a price which corresponded to the market value of natural gas supply business determined by independent valuers - EUR 17,510 thousand. Whereas the carrying amount of net assets of the supply activity was equal to EUR 74,434 thousand at the date of business acquisition. The significant difference between the consideration paid and the carrying amount of net assets of the acquired business arose from the requirements of the International Financial Reporting Standards, according to which the impact of a retrospective reduction of the price for natural gas imported from Gazprom PAO for non-household customers for the period from 1 January 2013 to 30 April 2014 could not be recognised as expenses of the current period.

In assessing the tax risk and in view of the correspondence between the Company and the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania ("the Tax Authorities"), the difference between the value of the acquired net assets related to the natural gas supply activity (EUR 74,434 thousand) and the market value of the natural gas supply activity established by the independent valuer (EUR 17,510 thousand) was treated by the Company as a negative goodwill and income tax was assessed thereon in 2014.

Seeking to clarify the tax aspects of this transaction, Lietuvos Dujų Tiekimas UAB requested that the Tax Authorities submit a binding decision, because the investigated tax issues are directly related to future natural gas sale transactions, though they are affected by the retrospective reduction of the price for imported natural gas previously received from Gazprom OAO.

On 30 April 2015, Lietuvos Dujų Tiekimas UAB received the binding decision of the Tax Authorities, whereby, considering a number of circumstances of the transaction, the difference between the value of the acquired net assets related to the natural gas supply activity and the market value of the natural gas supply activity established by the independent valuer should not be treated as negative goodwill, and accordingly, no income tax should be assessed thereon. Since the tax effects of the business acquisition transaction (amounting to EUR 8,539 thousand in 2014) was recognised by the Group within profit or loss in the statement of comprehensive income, the adjusted income tax amount in 2015 (based on the binding decision of the Tax Authorities) was also recognised as adjustment to profit or loss in the statement of comprehensive income.

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the experience with similar assets. However, other factors, such as technical or commercial obsolescence and physical wear and tear, result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following key factors are considered: (a) expected usage of the assets;

(b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Accrued revenue

Revenue from household customers is recognised when payments are received. Accordingly, at the end of each reporting period the amount of income earned but not yet paid by household customers is estimated and accrued by the management of the Group company operating the distribution networks. Accrued revenue is estimated as 1/3 of total payments for electricity received in December. Accrued revenue is based on past experience and average term of settlement for electricity. The management has estimated that the majority of household customers declare and make payments for the electricity consumed on approx. the 20th day of the month, while electricity is supplied for a full month (30 or 31 days). Consequently, the electricity consumed during the remaining 10 days is proportionally calculated referring to the total volume of electricity provided to the electricity supply network (the actually known variable) and the total volume of electricity declared by household customers during December and multiplied by the average rate per 1 kWh (Note 14).

Consumption of overdeclared electricity

With effect from 2015 and beginning of 2016, the Group reduced the prices for electricity, however, a part of household customers declared more electricity than they have actually consumed. The Group has estimated the overdeclared amount. In 2014 and 2015, the estimated difference was accounted for as advance amounts received.

Accounting for customer connection fees

Until 1 July 2009, the Group recognised customer connection fees to the electricity network as deferred revenue. Such deferred revenue was recognised as income over the period of 31 days, i.e. an average useful life of electricity equipment installed by the Group on connection of new customers to the grid. The Group is the only provider of electricity distribution services to the customers across the entire territory of Lithuania, therefore management believes that the period of customer relations is close to infinite. As a result, the average useful life of electricity equipment installed by the Group upon customer connection is used as the best estimate of the period over which the customer connection fees are recognised as income.

After 1 July 2009, based on IFRIC 18 interpretation, the newly connected customers to the grid do not obtain any additional future benefits as compared to the rest of customers, consequently, the provision of customer connection services is treated as completed and income from connection is recognised upon the connection of a new customer. (Note 22).

The Group recognises customer connection fees to the gas system as deferred revenue, i.e. customer connection fees received after 30 June 2014 when the gas distribution network operator became part of the Group. Such deferred revenue is recognised as income over the period of 55 years, i.e. an average useful life of gas network equipment installed upon the connection of new customers. The Company is the only provider of electricity distribution services to the customers from 41 municipalities of Lithuania, therefore management believes that the period of customer relations is close to infinite. As a result, the average useful life of gas equipment installed by the Group upon customer connection is used as the best estimate of the period over which the customer connection fees are recognised as income.

Impairment of amounts receivable

Impairment losses for amounts receivables are determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectible according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the management could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Amounts receivable are assessed to determine their value and impairment individually or collectively in a group of similar receivables. In case of individually assessed receivables for impairment, the Group takes into account the available or accessible data from external sources of information on market trends and forecasts, the possible credit enhancements (collateral) provided for receivables and events providing evidence of impairment of receivables such as, for example, fulfilment of contractual terms, the borrower's actual performance, etc. In case of collectively assessed receivables for impairment, the Group takes into account the historical statistics, and reviews annually whether the provisioning rates used for collectively assessed receivables are in line with the historical data of impairment of receivables, and that the provisioning rates used for collectively assessed receivables are approved for the upcoming year.

Provisions for the utilisation of emission allowances

The Group estimates provisions for utilisation of emission allowances based on the actual emissions over the reporting period multiplied by the market price for one unit of emission allowances. The quantity of actual emissions is approved by a responsible state authority during four months after the end of the year. Based on historic experience, the Group's management does not expect any significant differences to arise between the estimated provision at 31 December 2015 and the quantity of emissions which will be approved in 2016.

Accrued revenue from PSO service fees

The variable part of PSO service fees is estimated with reference to variable costs incurred during the reporting period. The producers ensuring the security of electric power supply and reserves of energy system, submit their PSO service fee estimates to the Commission which include breakdown of variable electric power production costs – natural gas, heavy fuel oil, emission allowance costs, and costs for reagent desulphurisation. The variable part of PSO service fees for the upcoming calendar year is estimated based on the expected variable costs for the production of the approved quota of the sponsored electricity.

In view of the differences between the approved and actual costs of regulated activity in 2015 and restatements for the effects of the legally disputed resolutions of the Commission on revenue from regulated activities for 2015, the management of the Group recognised refundable PSO amount of EUR 7,018 thousand as at 31 December 2015 within 'Other non-current amounts payable and liabilities' to be compensated during 2017 (31 December 2014: refundable amount of EUR 14,706 thousand within 'Other non-current amounts payable and liabilities' to be compensated during 2016) (Note 24).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

Accrued revenue from capacity reserve services

Based on Methodology for establishing the prices for electricity and capacity reserve services approved by Resolution No. O3-229 of the Commission, the Group's management accounted for receivable amount of capacity reserve services equal to EUR 533 thousand as at 31 December 2015 under the line item 'Other non-current amounts payable and liabilities' to be compensated during 2017 (Note 10) (31 December 2014: receivable amount of capacity reserve services equal to EUR 697 thousand was recognised under the line item 'Other amounts receivable after one year' to be compensated during 2016).

5 Reclassification of comparative information

As from 2015, the Group reports the costs of purchases of gas for trade within 'Purchases of electricity, gas for trade and related services'. Until 31 December 2014, these costs were reported together with the costs of 'Purchases of gas and heavy fuel oil'. In order to ensure comparability of information, the comparative figures (for 2014) were reclassified.

As from 2015, the Group reports the costs of subcontracting and material for construction work within 'Repair and maintenance expenses' in the statement of comprehensive income. Until 31 December 2014, these costs were reported within 'Other expenses'. In order to ensure comparability of information, the comparative figures (for 2014) were reclassified.

	2014		
	Before reclassification	Reclassification of purchases of gas for trade	Reclassification of subcontracting and material for construction work
Sales revenue	926,065	-	-
Other income	46,624	-	-
Total revenue	972,689	-	-
Purchases of electricity, gas for trade or related services	(387,673)	(148,854)	-
Purchases of gas and heavy fuel oil for production	(224,707)	148,854	-
Depreciation and amortisation	(131,917)	-	-
Wages and salaries and related expenses	(76,534)	-	-
Repair and maintenance expenses	(29,924)	-	-
Revaluation of non-current assets	(416,501)	-	(4,797)
Other expenses	(96,344)	-	4,797
Total operating expenses	(1,363,600)	-	-
Operating profit (loss)	(390,911)	-	-

	Before reclassification	Reclassification of purchases of gas for trade	2014 Reclassification of subcontracting and material for construction work	Before reclassification
Negative goodwill on acquisition of Lietuvos Dujos AB	44,660	-	-	44,660
Share of result of investment under the equity method	43,209	-	-	43,209
Re-measurement of investment under the equity method	(28,379)	-	-	(28,379)
Finance income	5,422	-	-	5,422
Finance costs	(7,824)	-	-	(7,824)
Share of results of other associates	291	-	-	291
Profit (loss) before tax	(333,532)	-	-	(333,532)
Current year income tax expense	(15,394)	-	-	(15,394)
Deferred income tax (expense)/income	68,965	-	-	68,965
Net profit (loss)	(279,961)	-	-	(279,961)
Attributable to:				
Owners of the parent	(261,428)	-	-	(261,428)
Non-controlling interests	(18,533)	-	-	(18,533)
Total other comprehensive income (loss)	(165,819)	-	-	(165,819)
Total comprehensive income (loss) for the year	(445,780)	-	-	(445,780)
Attributable to:				
Owners of the parent	(417,972)	-	-	(417,972)
Non-controlling interests	(27,808)	-	-	(27,808)

6 Intangible assets

Group	Patents and licenses	Computer software	Emission allowances	Other intangible assets	Goodwill	Total
At 31 December 2013						
Acquisition cost	265	5,319	8,313	1,340	51,676	66,913
Accumulated amortisation	(25)	(3,522)	-	(116)	(94)	(3,757)
Net book amount	240	1,797	8,313	1,224	51,582	63,156
Net book amount at 31 December 2013						
Additions	240	1,797	8,313	1,224	51,582	63,156
Reclassified to/from PP&E	1,164	266	-	691	2,121	2,121
Increase on acquisition of subsidiary	29	1,968	-	(1,635)	-	362
Emission allowances utilised/Write-offs	313	314	-	-	-	627
Grant received	-	-	(2,908)	-	-	(2,908)
Disposals	-	-	2,328	-	-	2,328
Impairment	-	(75)	-	(4)	-	(79)
Revaluation of emission allowances	-	-	2,798	-	(51,582)	(51,582)
Amortisation charge	(390)	(1,069)	-	(30)	-	(1,489)
Net book amount at 31 December 2014	1,356	3,201	10,531	246	-	15,334
At 31 December 2014						
Acquisition cost	2,891	9,395	10,531	526	-	23,343
Accumulated amortisation	(1,535)	(6,194)	-	(280)	-	(8,009)
Net book amount	1,356	3,201	10,531	246	-	15,334
Net book amount at 31 December 2014						
Additions	1,356	3,201	10,531	246	-	15,334
Reclassified to/from PP&E	87	403	-	2,191	-	2,681
Write-offs	1	1,501	-	(1,423)	-	79
Emission allowances utilised	-	(91)	-	-	-	(91)
Revaluation of emission allowances	-	-	(2,992)	-	-	(2,992)
Return of emission allowances lent	-	-	2,144	-	-	2,144
Grant received (emission allowances)	-	-	4,615	-	-	4,615
Amortisation charge	(592)	(1,746)	-	(33)	-	(2,371)
Net book amount at 31 December 2015	852	3,268	16,438	981	-	21,539
At 31 December 2015						
Acquisition cost	2,836	10,760	16,438	1,259	-	31,293
Accumulated amortisation	(1,984)	(7,492)	-	(278)	-	(9,754)
Net book amount	852	3,268	16,438	981	-	21,539

As at 31 December 2014, as part of valuation of assets of LESTO AB, the Group tested goodwill for impairment and wrote off full amount of goodwill of EUR 51,582 thousand.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

The fair value of emission allowances is determined with reference to the prices available on the active market, and accordingly, it is within Level 1 of the fair value hierarchy. At the end of each reporting period, emission allowances are measured with reference to year-end market prices, with resulting differences included in operating expenses.

In 2015, the Group did not capitalise any emission allowances. In 2014, as part of testing of the Biofuel Boiler House, the Group capitalised the emission allowances utilised during the testing by adding their value of EUR 4 thousand to the cost of the Biofuel Boiler House.

The Group and the Company have no internally generated intangible assets.

7 Property, plant and equipment

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines and related installations	Gas technological equipment and installations	Structures and machinery of Hydro Power Plant Pumped Storage Power Plant	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
At 31 December 2013	2,011	129,743	1,620,758	-	-	203,770	952,131	26,794	19,964	33,036	27,448	3,015,655
Cost or revalued amount	-	(25,022)	(416,158)	-	-	(63,505)	(948,912)	(11,137)	(10,262)	(13,742)	-	(888,738)
Accumulated depreciation	-	(7)	-	-	-	-	-	-	-	(2)	(7,280)	(7,289)
Accumulated impairment	-	-	-	-	-	-	-	-	-	-	-	-
Net book amount	2,011	104,714	1,204,600	-	-	140,265	603,219	15,657	9,702	19,292	20,168	2,119,628
Net book amount at 31 December 2013	2,011	104,714	1,204,600	-	-	140,265	603,219	15,657	9,702	19,292	20,168	2,119,628
Additions	-	198	1,169	255	-	36	287	4,808	5,899	392	138,371	151,415
Increase on acquisition of subsidiary	-	14,986	1,212	100,102	4,336	-	-	3,274	758	4,590	1,061	130,309
Revaluation	-	(45,625)	(560,866)	-	(26)	-	(139)	(1,063)	56	(9,495)	-	(616,993)
Disposals	-	(373)	(145)	-	(8)	-	(139)	(488)	(259)	(6)	-	(1,436)
Write-offs	-	(81)	(3,820)	(132)	(8)	-	-	(4)	(4)	(6)	(51)	(4,102)
Impairment	-	(383)	(50)	174	-	-	(11,461)	-	-	-	-	(11,720)
Reversal of impairment	-	-	(50)	174	-	-	(11,461)	-	-	-	-	(11,720)
Reclassifications between categories	-	1 817	102,044	5,970	13	557	1,680	-	107	2,232	(114,925)	13
Reclassified to assets, intangible assets	-	60	-	-	518	-	-	-	-	-	(423)	(363)
Reclassified to assets held for sale	-	-	-	-	-	-	-	(421)	-	-	-	(421)
Reclassified from (to) inventories	-	-	-	-	-	55	284	-	(9)	-	-	330
Reclassified to investment property	-	(2,074)	-	-	-	-	-	-	-	-	-	(2,074)
Depreciation charge	-	(6,291)	(90,233)	(1,558)	(222)	(7,900)	(25,373)	(2,873)	(2,837)	(5,104)	-	(142,391)
Reclassified to finance lease	-	-	-	-	-	-	-	(1,106)	-	-	-	(1,106)
Net book amount at 31 December 2014	2,011	66,948	653,911	104,811	4,611	133,013	568,497	17,788	13,413	11,885	44,201	1,621,089
At 31 December 2014	2,011	68,190	658,802	106,368	4,833	204,418	921,772	19,330	24,283	13,382	44,424	2,067,813
Cost or revalued amount	-	(1,242)	(4,891)	(1,557)	(222)	(71,405)	(341,814)	(1,542)	(10,870)	(1,497)	(223)	(435,040)
Accumulated depreciation	-	-	-	-	-	-	(11,461)	-	-	-	-	(11,684)
Accumulated impairment	-	-	-	-	-	-	-	-	-	-	-	-
Net book amount	2,011	66,948	653,911	104,811	4,611	133,013	568,497	17,788	13,413	11,885	44,201	1,621,089

(Cont'd on the next page)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

Group	Land	Buildings	Structures and machinery	Gas distribution pipelines and related installations	Gas technological equipment and installations	Structures and machinery of Hydro Power Plant, Pumped Storage Power Plant	Structures and machinery of Thermal Power Plant	Motor vehicles	IT and telecommunication equipment	Other PP&E	Construction in progress	Total
Net book amount at 31 December 2014	2,011	66,948	653,911	104,811	4,611	133,013	568,497	17,788	13,413	11,885	44,201	1,621,089
Additions	-	44	1,133	15	-	18	1,045	7,325	1,274	377	136,508	147,739
Revaluation	-	1,308	1,125	-	-	-	-	(29)	-	-	-	1,404
Disposals	-	(612)	(66)	-	-	-	-	(330)	(93)	(424)	(21)	(1,536)
Write-offs	-	(14)	(2,609)	(2)	(2)	-	-	(1)	(15)	(17)	(43)	(2,899)
Reclassifications between groups	-	3,658	109,715	9,018	515	722	34,572	10	8,036	(3,863)	(162,383)	-
Reclassified to assets, intangible assets	-	-	-	-	-	-	-	-	(15)	-	(64)	(79)
Reclassified to assets held for sale	-	-	-	-	-	-	-	(46)	-	-	-	(46)
Reclassified to investment property	-	(11,973)	(559)	-	-	-	-	(1,957)	-	-	-	(12,532)
Reclassified to finance lease	-	-	-	-	-	28	175	48	(3)	-	146	394
Reclassified from (to) inventories	-	-	-	-	-	-	(36,734)	(6)	-	-	-	(36,740)
Impairment	-	-	-	-	-	-	148	-	-	-	-	148
Reversal of impairment	-	-	-	-	-	-	(25,426)	(4,923)	(4,704)	(1,902)	-	(84,068)
Depreciation charge	-	(3,380)	(32,093)	(3,232)	(454)	(7,954)	(25,426)	(4,923)	(4,704)	(1,902)	-	(84,068)
Net book amount at 31 December 2015	2,011	55,979	729,571	110,610	4,670	125,827	542,277	17,879	17,893	6,056	18,344	1,631,117
At 31 December 2015												
Cost or revalued amount	2,011	60,698	766,198	115,398	5,344	205,122	887,174	23,801	34,604	8,145	18,567	2,127,062
Accumulated depreciation	-	(4,719)	(36,627)	(4,788)	(674)	(79,295)	(307,330)	(5,922)	(16,711)	(2,089)	-	(458,155)
Accumulated impairment	-	-	-	-	-	-	(37,567)	-	-	-	(223)	(37,790)
Net book amount	2,011	55,979	729,571	110,610	4,670	125,827	542,277	17,879	17,893	6,056	18,344	1,631,117

In 2015 and 2014, the Group's property, plant and equipment (excluding structures and machinery of Hydro Power Plant, Pumped Storage Power Plant and Thermal Power Plant (Combined Cycle Unit, Reserve Power Plant), gas distribution pipelines, gas technological equipment and IT and telecommunication equipment) was accounted for at revalued amount.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

Company	Other PP&E	Construction in progress	Total
At 31 December 2013			
Cost or revalued amount	25	7,057	7,082
Accumulated depreciation	(15)	-	(15)
Accumulated impairment	-	(7,057)	(7,057)
Net book amount	10	-	10
Net book amount at 31 December 2013	10	-	10
Additions	3	-	3
Acquisition cost of assets transferred to VAE SPB UAB	-	(7,048)	(7,048)
Reversal of impairment of assets transferred to VAE SPB UAB	-	7,048	7,048
Depreciation charge	(4)	-	(4)
Net book amount at 31 December 2014	9	-	9
At 31 December 2014			
Cost or revalued amount	28	-	28
Accumulated depreciation	(19)	-	(19)
Net book amount	9	-	9
Net book amount at 31 December 2014	9	-	9
Additions	-	280	280
Depreciation charge	(3)	-	(3)
Net book amount at 31 December 2015	6	280	286
At 31 December 2015			
Cost or revalued amount	28	280	308
Accumulated depreciation	(22)	-	(22)
Net book amount	6	280	286

In 2015, the Group performed valuation of assets of Kauno Energetikos Remontas UAB that are stated at revalued amount. The valuation was carried out by independent property valuers using the sales comparison approach (analogous sale price) for the category of immovable property. For other categories of assets, the sales comparison approach and the replacement cost approach were used in parallel. The impairment test of assets, the valuation of which was based on the replacement cost approach, showed that there were no indications of possible impairment.

In November 2015, the Group company NT Valdos UAB performed revaluation of its buildings and structures with reference to the Reports on Assessment of Market Value of Immovable Property prepared by independent property valuer InReal UAB.

In September 2015, the Group company Lietuvos Dujos AB performed revaluation of its buildings with reference to the value determined by independent property valuers – Korporacija Matininkai UAB and Ober - Haus Nekilnojamas Turtas UAB. The valuation was based on the sales comparison approach.

Information on valuations carried out by other subsidiaries in previous periods is presented in Note 4. The table below contains information on the results of revaluation performed in 2015:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	1,274	130	1,404
	1,274	130	1,404

The table below contains information on the results of revaluation performed in 2014:

Group	Decrease in other comprehensive income and revaluation reserve in equity	Recognised in profit or loss	Total revaluation effect
Increase (decrease) in carrying amount	(195,169)	(421,824)	(616,993)
Grants written off	-	5,323	5,323
	(195,169)	(416,501)	(611,670)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

In the opinion of management, the carrying amount of principally all assets stated at revalued amount as at 31 December 2015 did not differ significantly from their fair value. The table below presents the distribution of the Group's property, plant and equipment based on fair value hierarchy levels as at 31 December 2015 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Land	-	1,880	79	1,959
Buildings	-	6,891	49,088	55,979
Structures and machinery	-	3,078	725,519	728,597
Motor vehicles	-	16,881	971	17,852
Other property, plant and equipment	-	118	5,475	5,593
Construction in progress	-	-	12,297	12,297
Total	-	28,848	793,429	822,277

The table below presents distribution of the Group's property, plant and equipment based on fair value hierarchy levels as at 31 December 2014 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1 Quoted prices in active markets	Level 2 Other directly or indirectly observable inputs	Level 3 Unobservable inputs	Total
Land	-	1,880	79	1,959
Buildings	-	22,720	44,227	66,947
Structures and machinery	-	5,150	648,751	653,901
Motor vehicles	-	17,426	237	17,663
Other property, plant and equipment	-	282	11,418	11,700
Construction in progress	-	-	11,281	11,281
Total	-	47,458	715,993	763,451

Land was mostly attributed to Level 2 of the fair value hierarchy. The valuation was based on the market approach and cost approach.

Buildings were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of buildings attributed to Level 2 was based on the market approach and cost approach. The valuation of assets attributed to Level 3 was based on the income approach.

Structures and machinery were attributed to Levels 2 and 3 of fair value hierarchy. The valuation of assets within Level 2 was based on the market approach and cost approach. The valuation of assets within Level 3 was based on the income approach. The valuation was based on data and information available to the valuer to make accurate forecasts of future cash flows.

Motor vehicles were attributed to Levels 2 and 3 of fair value hierarchy. The valuation was based on the market approach and cost approach.

Construction in progress and other PP&E were mostly attributed to Level 3 of fair value hierarchy. The valuation of assets within Level 3 was based on the income approach.

During 2015, the Group companies capitalised interest expenses of EUR 111 thousand on borrowings intended to finance development of non-current assets (2014: EUR 348 thousand). The average capitalised interest rate was 0.29% (2014: 1.20%).

The Group has significant commitments to purchase property, plant and equipment to be fulfilled in later periods. As at 31 December 2015, the Group's commitments to purchase or construct property, plant and equipment amounted to EUR 20.1 million (31 December 2014: EUR 17.7 million).

As at 31 December 2015, the Group had pledged to the banks its property, plant and equipment in amount of EUR 345,297 thousand (31 December 2014: EUR 333,298 thousand) (Note 19).

8 Investment property

	Group	Investment property
Carrying amount at 31 December 2013		35,225
Reclassified to assets held for sale		(209)
Reclassification from property, plant and equipment		2,074
Increase in value		585
Decrease in value		(281)
Carrying amount at 31 December 2014		37,394
Carrying amount at 31 December 2014		37,394
Reclassification from property, plant and equipment		12,532
Increase in value		515
Decrease in value		(1,922)
Carrying amount at 31 December 2015		48,519

In 2015, the Group's income from lease of investment property amounted to EUR 2,652 thousand (2014: EUR 2,315 thousand).

In 2015 and 2014, the Company had no investment property.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

The table below presents distribution of the Group's investment property based on fair value hierarchy levels as at 31 December 2015 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1			Level 2		Level 3		Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	Other directly or indirectly observable inputs	Unobservable inputs			
Buildings	-	-	-	47,148	-	47,148	-	47,148
Structures	-	-	-	-	1,371	-	1,371	1,371
Total	-	-	-	-	48,519	-	48,519	48,519

The table below presents distribution of the Group's investment property based on fair value hierarchy levels as at 31 December 2014 (see Note 2.30 for the description of fair value hierarchy levels).

Group	Level 1			Level 2		Level 3		Total
	Quoted prices in active markets	Other directly or indirectly observable inputs	Unobservable inputs	Other directly or indirectly observable inputs	Unobservable inputs			
Buildings	-	-	-	-	36,713	36,713	-	36,713
Structures	-	-	-	-	681	-	681	681
Total	-	-	-	-	37,394	-	37,394	37,394

The fair value of investment property as at 31 December 2015 and 2014 was determined in December 2015 and 2014, respectively. Valuations were carried out by independent property valuers using the market approach and income approach. Investment property is attributed to Level 3 of fair value hierarchy. The valuation was based on data and information available to the valuer for making accurate forecasts of future cash flows. Future cash inflows were estimated with reference to comparable object rental prices, adjusted for location, condition and other factors affecting the value, and with reference to the actual rental prices of the subject object, adjusted for the occupancy rate. In the opinion of the Group's management, the value of investment property determined using the above-mentioned approach approximated its fair value as at 31 December 2015 and 2014.

9 Investments in subsidiaries and associates

Acquisition and establishment of subsidiaries

On 19 February 2015, new companies were established: Viniiaus Kogeneracinė Jėgainė UAB (Cogeneration Power Plant in Vilnius) and Kauno Kogeneracinė Jėgainė UAB (Cogeneration Power Plant in Kaunas). Their activity is focused on modernisation of heat sectors in Vilnius and Kaunas by building a complex of cogeneration power plants that use waste and biotuel. The new power plants will generate significant volume of energy at a competitive price enabling to ensure more favourable

prices for end users of electricity. The authorised share capital of these companies is equal to EUR 2,900 each, divided into 10,000 shares with the nominal value of EUR 0.29 each. The subscribed shares were paid up on 20 February 2015.

On 31 March 2015, the Company signed a sale-purchase agreement of shares with Lietuvos Energijos Gamyba AB, under which the Company acquired 100% (15,244,112) of ordinary registered shares of Kauno Energetikos Remontas UAB and 100% (750,000) of ordinary registered shares of Energetikos Tiekimas UAB. The acquisition cost of shares of Kauno Energetikos Remontas UAB amounted to EUR 4,778 thousand, and the acquisition cost of shares of Energetikos Tiekimas UAB amounted to EUR 6,883 thousand. Following this transaction, the Company still has indirectly controlled subsidiaries Geton Energy SIA and Geton Energy OU. The shares were acquired for the market value of shareholding determined by independent property valuer. As described in Note 4, the acquisition cost of Kauno Energetikos Remontas UAB was reduced by EUR 436 thousand as at 31 December 2015 in view of the fact that the loss from biotuel boiler house project increased.

On 31 March 2015, the Company signed a sale-purchase agreement of shares with LESTO AB, under which the Company acquired 100% (18,904) of ordinary registered shares of ELEKTROS TINKLO PASLAUGOS UAB. The shares were acquired for the market value of shareholding of EUR 7,695 thousand, which was determined by independent property valuer.

On 27 April 2015, the Company signed a sale-purchase agreement of shares with its subsidiaries and with Litgrid AB, under which the Company acquired the shares of NT Valdos UAB, which was indirectly controlled before that date. The shares were acquired for the market value of shareholding determined by independent property valuer. The table below presents information on acquisition of the shares of NT Valdos UAB:

Company from which the shares of NT Valdos UAB were acquired	Number of shares	Ownership interest, %	Base purchase price	Price premium (Note 4)
LESTO AB	1,692,666	57.30	41,176	11,120
Lietuvos Energijos Gamyba AB	1,232,897	41.73	29,987	8,099
Duomenų Logistikos Centras UAB	17,384	0.59	424	114
Litgrid AB	10,193	0.35	252	67
Total	2,953,140	99.97	71,839	19,400

The recognised price premium for the shares of NT Valdos UAB amounting EUR 19,400 thousand and payable 2019, was discounted to the present value at an average interest rate of 2.65% published by the Bank of Lithuania (Note 4), and the discounting effect on initial recognition of investment amounted to EUR 1,895 thousand. As a result of these transactions, Lietuvos Energija UAB acquired 100% control over the shares of NT Valdos UAB.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

On 19 August 2015, the Company signed a sale-purchase agreement of shares with Kauno Energaitikos Remontas UAB, under which the Company acquired 100% (100) of ordinary registered shares of Goflitas UAB. The acquisition cost of shares amounted to EUR 61 thousand. In October 2015, Goflitas UAB was renamed to Elektroninių Mokėjimų Agentūra UAB. Elektroninių Mokėjimų Agentūra UAB is engaged in the provision of payment collection services.

An agreement between Lietuvos Energija UAB and FORTUM HEAT LIETUVA UAB came into force on 15 October 2015 in relation to Kauno Kogeneracinė Jėgainė UAB, under which the commitment of partners and joint business conditions were confirmed for making joint investments in a new Cogeneration Power Plant in Kaunas. It is planned to construct a new highly-efficient cogeneration power plant in Kaunas that will use waste as fuel, with electricity capacity of 24 MW, and thermal power generation capacity of 70 MW. It is indicated in the agreement that upon the completion of the transaction, Lietuvos Energija UAB will control 51% of shares of Kauno Kogeneracinė Jėgainė UAB, whereas FORTUM HEAT LIETUVA UAB will control accordingly 49% of its shares. The authorised share capital of Kauno Kogeneracinė Jėgainė UAB will be partly increased from in-kind contributions following the estimation of their fair value, whereas the remaining part will be settled in cash contributions. The European Commission's authorisation in relation to concentration of operations was obtained on 23 November 2015, and increase in share capital was initiated in 2016 (Note 39).

On 6 November 2015, Lietuvos Dujos AB and Amber Grid AB signed a sale-purchase agreement of shares, under which Lietuvos Dujos AB sold the shares of GET Baltic UAB to Amber Grid AB, representing 34% of share capital of GET Baltic UAB. The shares were sold for the market value of the shareholding of EUR 131 thousand, which was determined by independent property valuer.

Increase and decrease in share capital

Based on the decision of the sole shareholder on 24 April 2015, the share capital of ELEKTROS TINKLO PASLAUGOS UAB was reduced by way of annulment of 10,000 thousand ordinary registered shares with the nominal value of EUR 0.29 each. The total value of all annulled shares was EUR 2,900 thousand. The updated Articles of Association were registered and a decrease in the share capital was accounted for on 20 July 2015.

On 4 July 2015, the share capital of Vilniaus Kogeneracinė Jėgainė UAB was increased up to EUR 1,004 thousand by way of issuing 3,450,000 ordinary registered shares.

Following the registration of updated Articles of Association on 14 October 2015, the share capital of Energijos Tiekimas UAB was increased by issuing 782,500 ordinary registered intangible shares with the nominal value of EUR 1 each.

On 23 December 2015, the share capital of Energijos Tiekimas UAB was increased by issuing 16,240,000 ordinary registered intangible shares with the nominal value of EUR 1 each. As at 31 December 2015, the unpaid part of the share capital amounted to EUR 7,240 thousand.

On 24 August 2015, the Company made a decision to increase the share capital of Elektroninių Mokėjimų Agentūra UAB by issuing 347,104 ordinary registered shares with the total issue price of EUR 347 thousand, i.e. the share capital of Elektroninių Mokėjimų Agentūra UAB was increased up to EUR 350 thousand. On 28 August 2015, the amendments to the Articles of Association of Elektroninių Mokėjimų Agentūra UAB were registered with the Register of Legal Entities.

On 26 October 2015, the Company made a decision to increase the share capital of Elektroninių Mokėjimų Agentūra UAB by issuing 350,000 ordinary registered shares with the total issue price of EUR 350 thousand, i.e. the share capital of Elektroninių Mokėjimų Agentūra UAB was increased up to EUR 700 thousand. As at 31 December 2015, the unpaid part of the share capital amounted to EUR 263 thousand. On 6 November 2015, the amendments to the Articles of Association of Elektroninių Mokėjimų Agentūra UAB were registered with the Register of Legal Entities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

The Group's structure as at 31 December 2015:

Company name	Country of business	Company type	Group's effective ownership interest, % (equal to percentage of voting rights)	Non-controlling interest's effective ownership interest, % (equal to percentage of voting rights)	Profile of activities
Lietuvos Energija UAB	Lithuania	Parent company	-	-	Holding company
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.13	3.87	Electricity generation, supply, import, export and trade
LESTO AB	Lithuania	Subsidiary	94.39	5.61	Electricity supply and distribution to end users
Lietuvos Dujos AB	Lithuania	Subsidiary	96.64	3.36	Provision of natural gas distribution services, rational development of natural gas distribution infrastructure
NT Valdos UAB	Lithuania	Subsidiary	100.00	-	Disposition of real estate, other related activities and provision of related services; lease of motor vehicles and provision of related services
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.64	20.36	IT and telecommunication support services
Elektros Tinklo Paslaugos UAB	Lithuania	Subsidiary	100.00	-	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid
Kauno Energetikos Remontas UAB	Lithuania	Subsidiary	100.00	-	Repairs of energy equipment, manufacturing of metal structures
LITGAS UAB	Lithuania	Subsidiary	66.67*	33.33*	Supply of liquefied natural gas via terminal and trade in natural gas
Elektroninių Mokėjimų Agentūra UAB (formerly Gotitas UAB)	Lithuania	Subsidiary	100.00	-	Provision of payment collection services
Energijos Tiekimas UAB	Lithuania	Subsidiary	100.00	-	Supply of electricity and natural gas
Energetikų Mokymo Centras VŠĮ	Lithuania	Subsidiary	100.00	-	Professional training and development of energy specialists
Geton Energy OU	Estonia	Indirectly controlled subsidiary	100.00	-	Electricity supply
Geton Energy SIA	Latvia	Indirectly controlled subsidiary	100.00	-	Electricity supply
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.80	2.20	IT and telecommunication support services
VAE SPB UAB	Lithuania	Subsidiary	100.00	-	Business and other management consultations; development of a new nuclear power plant project in Visaginas
Verslo Aptarnavimo Centras UAB	Lithuania	Subsidiary	97.00	3.00	Public procurement, accounting and employment relations administration services
Lietuvos Dujų Tiekimas UAB	Lithuania	Subsidiary	100.00	-	Purchase (import) of natural gas and sales to end users
Lithuanian Energy Support Fund	Lithuania	Subsidiary	100.00	-	Provision of support for projects, initiatives and activities of public interest
Vilniaus Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.00	-	Modernisation of district heating sector in Vilnius city
Kauno Kogeneracinė Jėgainė UAB	Lithuania	Subsidiary	100.00	-	Modernisation of district heating sector in Kaunas city

* The Group's effective ownership interest is equal to the percentage of voting rights held, except for LITGAS UAB, in which the Group holds 100% of voting rights.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

The Group's structure as at 31 December 2014:

Company name	Country of business	Company type	Group's effective ownership interest, % (equal to percentage of voting rights)	Non-controlling interest's effective ownership interest, % (equal to percentage of voting rights)	Profile of activities
Lietuvos Energija UAB	Lithuania	Parent company	-	-	Holding company
Lietuvos Energijos Gamyba AB	Lithuania	Subsidiary	96.13	3.87	Electricity generation, supply, import, export and trade
LESTO AB	Lithuania	Subsidiary	94.39	5.61	Electricity supply and distribution to end users
Lietuvos Dujos AB	Lithuania	Subsidiary	96.64	3.36	Provision of natural gas distribution services; rational development of natural gas distribution infrastructure
NT Valdos UAB	Lithuania	Indirectly controlled subsidiary	94.71	5.29	Disposition of real estate, other related activities and provision of related services; lease of motor vehicles and provision of related services
Duomenų Logistikos Centras UAB	Lithuania	Subsidiary	79.64	20.36	IT and telecommunication support services
Elektros Tinklo Pasaugos UAB	Lithuania	Indirectly controlled subsidiary	94.39	5.61	Construction, repair and maintenance of electricity networks and related equipment, connection of customers to the grid
Kauno Energetikos Remontas UAB	Lithuania	Indirectly controlled subsidiary	96.13	3.87	Repairs of energy equipment, manufacturing of metal structures
LITGAS UAB	Lithuania	Subsidiary	66.67*	33.33*	Supply of liquefied natural gas via terminal and trade in natural gas
Golitas UAB (renamed to Elektronių Mokejimų Agentūra UAB as from October 2015)	Lithuania	Indirectly controlled subsidiary	96.13	3.87	Accommodation services
Energijos Tiekimas UAB	Lithuania	Indirectly controlled subsidiary	96.13	3.87	Supply of electricity and natural gas
Energetikų Mokymo Centras VŠĮ	Lithuania	Subsidiary	100.00	-	Professional training and development of energy specialists
Geiton Energy SIA	Latvia	Indirectly controlled subsidiary	96.13	3.87	Electricity supply
Geiton Energy OU	Estonia	Indirectly controlled subsidiary	96.13	3.87	Electricity supply
Technologijų ir Inovacijų Centras UAB	Lithuania	Subsidiary	97.80	2.20	IT and telecommunication support services
VAE SPB UAB	Lithuania	Subsidiary	100	-	Business and other management consultations; development of a new nuclear power plant project in Visaginas
Versio Aptarnavimo Centras UAB	Lithuania	Subsidiary	97.00	3.00	Public procurement, accounting and employment relations administration services
Lietuvos Dujų Tiekimas UAB	Lithuania	Subsidiary	100	-	Purchase (import) of natural gas and sales to end users
Lithuanian Energy Support Fund	Lithuania	Subsidiary	100	-	Provision of support for projects, initiatives and activities of public interest

* The Group's effective ownership interest is equal to the percentage of voting rights held, except for LITGAS UAB, in which the Group holds 100% of voting rights.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

As at 31 December 2015, the Company held ownership interest in the following Group companies:

Group company	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Ownership interest (%)
Subsidiaries:					
LESTO AB	538,874	(16,869)	-	522,005	94.39
Lietuvos energijos gamyba AB	294,832	-	-	294,832	96.13
Lietuvos dujos AB	172,047	(20,436)	-	151,611	96.64
NT Valdos UAB	89,373	-	-	89,373	100.00
Energijos tiekimas UAB	16,666	-	-	16,666	100.00
LITGAS UAB	8,689	(1,092)	-	7,597	66.67
ELEKTROS TINKLO PASLAUGOS UAB	4,795	-	-	4,795	100.00
Kauno energetikos remontas UAB	4,342	-	-	4,342	100.00
Duomenų logistikos centras UAB	7,268	(2,563)	-	4,705	79.64
Technologijų ir inovacijų centras UAB	3,218	-	-	3,218	50.00
VAE SPB UAB	1,018	(1,168)	314	164	100.00
Lietuvos dujų tiekimas UAB	869	-	-	869	100.00
Elektroninių mokėjimų agentūra UAB	495	-	-	495	100.00
Energetikų mokymo centras VšĮ	309	-	-	309	100.00
Verslo aptarnavimo centras UAB	295	-	-	295	51.00
Lithuanian Energy Support Fund	3	-	-	3	100.00
Vilniaus kogeneracinė jėgainė UAB	1,004	-	-	1,004	100.00
Kauno kogeneracinė jėgainė UAB	3	-	-	3	100.00
	1,144,100		314	1,102,286	
		(42,128)			

As at 31 December 2014, the Company held ownership interest in the following Group companies:

Group company	Acquisition cost	Impairment	Contribution against loss	Carrying amount	Ownership interest (%)
Subsidiaries:					
LESTO AB	538,874	(65,781)	-	483,093	94.39
Lietuvos energijos gamyba AB	294,832	-	-	294,832	96.13
Lietuvos dujos AB	172,047	-	-	172,047	96.64
LITGAS UAB	8,689	-	-	8,689	66.67
Duomenų logistikos centras UAB	7,268	(2,563)	-	4,705	79.64
Technologijų ir inovacijų centras UAB	3,218	-	-	3,218	97.80
VAE SPB UAB	693	-	4	297	100.00
Lietuvos dujų tiekimas UAB	869	-	-	869	100.00
Energetikų mokymo centras VšĮ	309	-	-	309	100.00
Verslo aptarnavimo centras UAB	295	-	-	295	97.00
Lithuanian Energy Support Fund	3	-	-	3	100.00
	1,026,697	(68,344)	4	968,357	
Investments:					
NT Valdos UAB	29	-	-	29	0.03
	29			29	
	1,026,726	(68,344)	4	968,386	

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

The Group's investments in associates and joint ventures as at 31 December 2015 and 2014 were as follows:

Group	2015		2014	
	Carrying amount	Group's interest (%)	Carrying amount	Group's interest (%)
Geoterma UAB	2,142	23.44	2,142	23.44
GET Baltic UAB	-	-	123	34.00
Nordic Energy Link AS	-	-	-	25.00
Total	-	-	2,265	
Group's share of loss of associates	(2,142)		(2,142)	
Carrying amount	-		123	

The Group did not account for its share of loss of associate Geoterma UAB, because amount of loss exceeded the Group's cost of investment. The share of loss not recognised amounted to EUR 331 thousand (2014: EUR 254 thousand).

The table below presents the financial position and financial performance results of associates as at and for the year ended 31 December 2015 (unaudited):

	Assets	Liabilities	Sales revenue	Net profit/(loss) for the year
Geoterma UAB	7,037	7,782	1,252	(329)

The table below presents the financial position and financial performance results of associates as at and for the year ended 31 December 2014 (unaudited):

	Assets	Liabilities	Sales revenue	Net profit/(loss) for the year
Geoterma UAB	7,893	8,325	2,094	(465)
GET Baltic UAB	3,997	3,635	150	(50)
Nordic Energy Link AS	207	206	96	(1,051)

Movements on the account of investments in associates and joint ventures during the periods ended 31 December 2015 and 2014, were as follows:

Group	2015	2014
	Carrying amount at 1 January	123
Acquisition of joint venture on business combination	-	123
Disposal/liquidation of associate	(99)	(6,417)
Dividends received from associate	-	(1,924)
Share of result of associates and joint ventures	(24)	-
Carrying amount at 31 December	-	123

Disposal/liquidation of associate

On 6 November 2015, Lietuvos Dujos AB and Amber Grid AB signed a sale-purchase agreement of shares, under which Lietuvos Dujos AB sold the shares of GET Baltic UAB to Amber Grid AB, representing 34% of share capital of GET Baltic UAB. The shares were sold for the market value of the shareholding of EUR 131 thousand, which was determined by independent property valuer.

On 19 March 2014, the General Meeting of Shareholders of Nordic Energy Link AS (NEL) decided to put it into liquidation. On 19 March 2014, NEL bought out 10% of shares from its shareholders on a proportionate basis. The Group sold 860,000 ordinary registered shares for LTL 1,898 thousand. On 29 December 2014, NEL bought out the remaining shares from its shareholders. The Group sold 7,740,000 ordinary registered shares for LTL 18,056 thousand. On 19 March 2014, NEL paid out dividends of LTL 6,643 thousand to the Group. Loss on liquidation of associate NEL was recognised in the Group's statement of comprehensive income within 'Finance costs'. On 31 December 2014, NEL was deregistered from the Register of Legal Entities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

Summarised statement of financial position of the Group companies as at 31 December 2015 and 2014:

Company name Year	Current assets and liabilities		Non-current assets and liabilities		Net assets
	Assets	Liabilities	Assets	Liabilities	
AB LESTO					
2015	105,169	(200,521)	(95,352)	(247,907)	433,075
2014	66,167	(228,365)	(160,178)	(193,766)	394,120
Lietuvos energijos gamyba AB					
2015	129,658	(54,741)	74,917	(435,833)	342,900
2014	120,393	(74,286)	46,107	(473,073)	367,278
Lietuvos dujos AB					
2015	32,326	(12,894)	19,432	(43,665)	140,738
2014	36,817	(7,058)	29,759	(42,630)	165,590
Kauno energetikos remontas UAB					
2015	10,685	(10,066)	619	(1,813)	5,369
2014	14,822	(13,503)	1,319	(2,177)	5,232
Energijos tiekimas UAB					
2015	21,452	(8,178)	13,274	-	13,552
2014	11,747	(9,174)	2,573	-	2,870
Geton Energy SIA					
2015	403	(203)	200	-	200
2014	573	(548)	25	-	27
Geton Energy OÜ					
2015	59	-	59	-	59
2014	29	-	29	-	29
Duomenų logistikos centras UAB					
2015	2,534	(3,576)	(1,042)	(408)	4,387
2014	2,221	(791)	1,430	(3,625)	4,819
NT Valdes UAB					
2015	8,073	(21,022)	(12,949)	(1,319)	88,241
2014	8,539	(2,162)	6,377	(1,299)	87,954
ELEKTROS TINKLO PASLAUGOS UAB					
2015	8,216	(7,963)	253	(85)	3,496
2014	7,656	(3,827)	3,829	(69)	7,025
LITGAS UAB					
2015	46,358	(29,331)	17,027	-	17,060
2014	48,962	(37,056)	11,924	-	12,120
Technologijų ir inovacijų centras UAB					
2015	4,397	(2,986)	1,461	(39)	6,684
2014	2,821	(3,601)	(780)	(12)	5,730
Verslo aptarnavimo centras UAB					
2015	1,067	(637)	430	-	465
2014	519	(151)	368	-	368
Lietuvos dujų tiekimas UAB					
2015	92,859	(72,231)	20,628	(2,266)	22,339
2014	112,648	(60,447)	52,201	(5,561)	48,828
Elektroninių mokėjimų agentūra UAB					
2015	482	-	482	-	496
2014	423	(36)	387	-	387

Data in the table above have been taken from the financial statements of subsidiaries and exclude adjustments for consolidation purposes.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

Summarised statement of profit or loss and other comprehensive income of the Group companies for 2015 and 2014:

Company name/Year	Revenue	Profit (loss) before income tax	Income tax expense (benefit)	Net profit (loss) from continuing operations	Net profit from discontinued operations	Other comprehensive income (loss)	Total comprehensive income (loss) for the year	Profit (loss) attributable to non-controlling interest	Dividends paid to non-controlling interest
AB LESTO									
2015	580,961	85,514	(12,967)	72,547	-	-	72,547	3,972	1,898
2014	650,710	(193,552)	28,951	(164,601)	-	(331,480)	(496,081)	(27,830)	6,853
Lietuvos energijos gamyba AB									
2015	214,395	3,889	(4,120)	(231)	-	-	(231)	(9)	943
2014	203,200	37,987	(4,580)	33,407	-	-	33,407	1,292	2,463
Lietuvos dujos AB									
2015	56,442	15,058	(2,123)	12,935	-	443	13,378	449	1,286
As from 30 June 2014	84,681	(54,485)	11,220	(43,265)	-	4,914	(38,351)	360	1,196
Kauno energetikos remontas UAB									
2015	32,855	(689)	144	(545)	-	673	128	45	-
2014	31,415	(3,496)	(21)	(3,517)	-	-	(3,517)	(136)	-
Enerģijas tiekimas UAB									
2015	72,290	2,406	(652)	2,054	-	-	2,054	1,416	-
2014	67,229	850	(108)	742	-	-	742	29	-
Geon Energy SIA									
2015	4,956	207	(31)	176	-	-	173	-	-
2014	1,350	3	-	3	-	-	3	-	-
Geon Energy OÜ									
2015	205	30	-	30	-	-	30	-	-
2014	2	(2)	-	(2)	-	-	(2)	-	-
Duomenų logistikos centras UAB									
2015	4,893	(149)	(12)	(161)	-	-	(161)	(33)	63
2014	5,534	505	(116)	389	-	-	389	79	114
NT Vaidos UAB									
2015	17,401	274	55	329	-	(36)	293	726	-
2014	16,640	637	(80)	557	-	1,272	1,829	97	-
ELEKTROS TINKLO PASLAUGOS UAB									
2015	26,939	(697)	61	(636)	-	-	(636)	(602)	-
2014	23,329	570	(127)	443	-	-	443	25	-
LITGAS UAB									
2015	209,294	5,796	(873)	4,923	-	-	4,923	1,641	-
2014	31,654	(808)	133	(675)	-	-	(675)	(225)	-
Technologijų ir inovacijų centras UAB									
2015	14,362	531	(74)	457	-	-	457	10	-
2014	13,312	609	(105)	504	-	-	504	11	-
Verslo aptarnavimo centras UAB									
2015	3,826	53	12	65	-	-	65	2	-
As from 30 July 2014	331	(180)	-	(180)	-	-	(180)	(5)	-
Lietuvos dujų tiekimas UAB									
2015	226,927	(36,932)	1,904	(35,028)	-	-	(35,028)	-	-
As from 2 September 2014	81,670	(458)	31	(427)	-	-	(427)	-	-
UAB Elektroninių mokėjimų agentūra									
2015	1	(11)	2	(9)	-	-	(9)	-	-
2014	163	4	(9)	(5)	-	-	(5)	-	-

Data in the table above have been taken from the financial statements of subsidiaries and exclude adjustments for consolidation purposes.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

Summarised statement of cash flows of the Group companies for the years 2015 and 2014:

Company name/Year	Cash flows from operating activities	Income tax (paid) recovered	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Net increase (decrease) in cash flows	Cash and cash equivalents at the beginning of the year	Cash and cash equivalents at the end of the year
AB LESTO								
2015	119,738	(12,814)	106,924	(81,188)	(19,133)	6,603	(8,701)	(2,098)
2014	111,094	(9,550)	101,544	(88,811)	(3,489)	9,244	(17,945)	(8,701)
Lietuvos energijos gamyba AB								
2015	27,193	(1,829)	25,364	8,597	(43,535)	(9,574)	75,750	66,176
2014	87,874	(1,302)	86,572	3,086	(65,486)	24,172	51,578	75,750
Lietuvos dujos AB								
2015	28,411	3,049	31,460	(4,944)	(38,333)	(11,817)	19,751	7,934
<i>As from 1 July 2014</i>	44,156	(2,442)	41,713	13,649	(35,611)	19,751	-	19,751
Kauno energetikos remontas UAB								
2015	1,495	-	1,495	(202)	(2,017)	(724)	696	(28)
2014	(2,881)	(29)	(2,910)	(417)	2,199	(1,128)	1,825	686
Energijos tiekimas UAB								
2015	2,622	(282)	2,340	219	8,621	11,180	2,484	13,664
2014	1,826	(120)	1,706	(313)	(873)	520	1,964	2,484
Geon Energy SIA								
2015	260	-	260	-	(262)	(2)	58	56
2014	(253)	-	(253)	-	286	35	23	56
Geon Energy OÜ								
2015	31	-	31	-	-	31	28	59
2014	(2)	-	(2)	-	-	(2)	30	28
Duomenų logistikos centras UAB								
2015	1,216	-	1,216	(2)	(632)	582	892	1,474
2014	(110)	(354)	(464)	3,328	(10,131)	(7,267)	8,159	892
NT Vaidos UAB								
2015	4,744	(55)	4,689	(11,717)	1,490	(5,538)	5,605	67
2014	4,072	80	4,152	(3,897)	(1)	254	5,351	5,605
ELEKTROS TINKLO PASLAUGOS UAB								
2015	3,259	(91)	3,168	(552)	(2,913)	(297)	687	380
2014	1,239	(53)	1,186	(247)	(66)	871	(184)	687
LITGAS UAB								
2015	(19,367)	-	(19,367)	-	(2,105)	(21,472)	4,836	(16,636)
2014	(7,649)	-	(7,649)	(29)	11,913	4,235	601	4,836
Technologijų ir inovacijų centras UAB								
2015	2,650	(378)	2,272	(1,677)	478	1,073	(211)	862
2014	2,940	-	2,940	(9,103)	5,949	(214)	3	(211)
Verslo aptarnavimo centras UAB								
2015	57	-	57	(3)	31	85	294	379
<i>As from 30 July 2014</i>	(254)	-	(254)	-	548	294	-	294
Lietuvos dujų tiekimas UAB								
2015	(28,218)	-	(28,218)	183	-	(28,035)	63,841	35,806
<i>As from 2 September 2014</i>	49,369	-	49,369	13,623	849	63,841	-	63,841
Elektroninių mokėjimų agentūra UAB								
2015	(27)	(16)	(43)	(12)	118	63	416	479
2014	19	-	19	393	-	412	4	416

Data in the table above have been taken from the financial statements of subsidiaries and exclude adjustments for consolidation purposes.

10 Amounts receivable after one year

Amounts receivable after one year consist of as follows:

	Group		Company	
	2015	2014	2014	2014
Mortgage loans granted	738	863	-	-
Amount receivable on disposal of Litgrid AB	209,975	209,974	209,975	209,975
Loan granted	29,000	29,000	29,000	29,000
Unbilled accrued revenue from electricity-related sales	533	-	-	-
Finance lease	1,938	931	-	-
Amounts receivable on emission allowances lent	214	427	-	-
Other non-current receivables	1,844	859	-	-
Total	244,242	242,054	238,975	238,975
Less: impairment allowance	(1,089)	(1,242)	-	-
Carrying amount	243,153	240,812	238,975	238,975

Information on the fair value of amount receivable from EPSO-G on disposal of Litgrid and a loan granted is presented in Note 3.1. In May 2014, a loan was granted and loan repayment terms were amended in relation to the disposal of shares of Litgrid AB in 2012. Based on the amended repayment terms, interest rates were reviewed and changed.

On 17 June 2014, a loan subordination agreement was signed between the bank, the Company and EPSO-G UAB. Based on the agreement, the loan granted by the Company to EPSO-G UAB in amount of EUR 52,000 thousand was subordinate to the bank and to the credit agreement signed between the bank and EPSO-G UAB.

On 13 May 2015, EPSO-G UAB covered its financial debt to the credit institution and the agreement between the Company and EPSO-G UAB on subordination of loans in respect of EPSO-G was treated as expired.

As at 31 December 2015, amounts receivable on emission allowances lent consisted of future proceeds under the lending agreement signed with STX BV. The fair value of amounts receivable on emission allowances lent is attributed to Level 3 in the fair value hierarchy.

Accrued revenue from electricity sales is attributed to Level 3 in the fair value hierarchy. The fair value of accrued revenue does not significantly differ from its carrying amount.

The mortgage loans comprise loans granted to private individuals for the term of 25 years. The mortgage loans are repayable in instalments by the year 2027. The mortgage loans are secured over residential property. The current portion of these loans amounted to EUR 84 thousand (2014: EUR 76 thousand) and was accounted for under 'Other receivables' (Note 14). These loans were issued with a fixed interest rate ranging from 0.1 to 1%.

The fair value of mortgage loans was estimated on the basis of cash flows discounted at a rate of 1.78% (2.11% as at 31 December 2014). The discount rate corresponds to the interest rate published by the Bank of Lithuania on lending facilities to non-financial institutions and households. The fair value of mortgage loans is attributed to Level 3 in the fair value hierarchy. The Group's mortgage loans were discounted using a weighted average interest rate of 7.74% as at 31 December 2015 (2014: 7.69%). The fair values of mortgage loans are presented below:

	Group		Company	
	2015	2014	2015	2014
Fair value of loans granted	765	854	-	-
Carrying amount of loans granted (non-current and current part)	630	708	-	-

Movements on the impairment allowance account during the years ended 31 December 2015 and 2014:

	Group		Company	
	2015	2014	2015	2014
At 1 January	1,242	1,934	-	-
Impairment	-	-	-	-
Reversal of impairment	(153)	(692)	-	-
At 31 December	1,089	1,242	-	-

11 Other non-current assets

Other non-current assets consist of as follows:

	Group		Company	
	2015	2014	2015	2014
Right to receive emission allowances in future	5,087	9,702	-	-
Less: impairment	(1,799)	(2,128)	-	-
Carrying amount	3,288	7,574	-	-

As at 31 December 2011, 400,000 emission allowances were lent under the terms of a lending agreement concluded on 1 December 2009 with STX Services BV. The agreement expires in 2021. On 16 April 2012, additional 650,000 emission allowances were lent under the terms of a lending agreement signed on 13 April 2012 with CF partners (UK) LLP. On 7 April 2015, CF Partners (UK) LLP returned 650,000 emission allowances. Impairment of emission allowances was estimated with reference to the market prices of emission allowances as at 31 December 2015 and 2014.

12 Inventories

	Group		Company	
	2015	2014	2015	2014
Natural gas	29,471	44,246	-	-
Consumables, raw materials and spare parts	5,979	6,332	-	-
Electricity and gas meters	775	803	-	-
Heavy fuel oil	5,519	4,771	-	-
Other	1,110	818	-	-
Total	42,854	56,970	-	-
Less: write-down allowance	(2,880)	(3,957)	-	-
Carrying amount	39,974	53,013	-	-

The Group's inventories recognised as expenses during the year ended 31 December 2015 were as follows:

	Group		Company	
	2015	2014	2015	2014
Natural gas	355,471	219,397	-	-
Heavy fuel oil	1,916	1,360	-	-
Other inventories	16,500	14,432	-	-
Total	373,887	235,189	-	-

Movements on the account of inventory write-down to net realisable value during 2015 and 2014 were as follows:

	Group		Company	
	2015	2014	2015	2014
Carrying amount at 1 January	3,957	4,194	-	-
Additional impairment	106	504	-	-
Reversal of impairment	(1,183)	(741)	-	-
Carrying amount at 31 December	2,880	3,957	-	-

The acquisition cost of the Group's inventories carried at net realisable value as at 31 December 2015 amounted to EUR 16,964 thousand (31 December 2014: EUR 52,244 thousand).

Movements on the account of inventory write-down to net realisable value were recognised in the statement of comprehensive income within 'Other expenses'.

As at 31 December 2015, the Company's subsidiary LITGAS UAB had pledged to Swedbank AB all its current inventories of goods and all rights of claim arising from sale of liquefied natural gas, as an asset complex. As at 31 December 2015, the Group's inventories pledged as collateral amounted to EUR 20,000 thousand (31 December 2014: EUR 34,665 thousand) (Note 19).

The Group's and the Company's prepayments as at 31 December 2015 and 2014 were as follows:

	Group		Company	
	2015	2014	2015	2014
Prepayments for natural gas	28,200	-	-	-
Deposits related to power exchange	8,669	5,171	-	-
Deferred expenses	1,154	474	1	1
Prepayments for non-current assets	721	-	-	-
Prepayments for services	249	239	5	2
Other prepayments	1,177	3,454	-	-
Total	40,170	9,338	6	3

13 Trade receivables

	Group		Company	
	2015	2014	2015	2014
Receivables on sales of electricity in Lithuania	69,706	78,310	-	-
Receivables on exports of electricity	253	2,107	-	-
Receivables on sales of gas from non-household users	30,577	49,221	-	-
Receivables on sales of gas from household users	2,563	1,982	-	-
Other trade receivables	16,945	13,305	-	-
Total	120,044	144,925	-	-
Less: impairment of trade receivables	(12,978)	(14,391)	-	-
Carrying amount	107,066	130,534	-	-

Movements on the account of provision for impairment during 2015 and 2014 were as follows:

	Group		Company	
	2015	2014	2015	2014
At 1 January	14,391	15,804	-	-
Impairment charge for the year	2,009	1,592	-	-
Write-offs	(3,422)	(3,005)	-	-
At 31 December	12,978	14,391	-	-

Impairment of receivables was recognised in the statement of comprehensive income within 'Other expenses'.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

The table below presents the ageing analysis of trade receivables that were not identified as doubtful:

	Group		Company	
	2015	2014	2015	2014
Not past due	89,896	117,409	-	-
Up to 30 days	7,923	5,796	-	-
30-60 days	2,186	1,476	-	-
60-90 days	954	996	-	-
90-120 days	381	597	-	-
Over 120 days	5,726	4,260	-	-
Carrying amount	107,066	130,534	-	-

The fair values of trade receivables as at 31 December 2015 and 2014 approximated their carrying amount.

14 Other amounts receivable

	Group		Company	
	2015	2014	2015	2014
Value added tax	5,611	1,545	211	501
Unbilled accrued revenue from electricity sales (including related VAT)	5,286	6,293	-	-
Unbilled accrued revenue from electricity-related sales	-	5,527	-	-
Accrued revenue for gas	5,061	-	-	-
Current portion of mortgage loans	84	76	-	-
Amounts receivable on LNG shipment for testing	-	4,177	-	-
Current portion of finance lease	1,324	-	-	-
Other amounts receivable	3,860	4,582	4,549	1,601
Total	21,226	22,200	4,760	2,102
Less: impairment allowance of other amounts receivable	(249)	(643)	-	-
Carrying amount	20,977	21,557	4,760	2,102

The fair value of other amounts receivable as at 31 December 2015 and 2014 approximated their carrying amount.

15 Investments

Long-term investments comprise as follows:

	Group		Company	
	2015	2014	2015	2014
Available-for-sale financial assets	-	4,696	-	4,696
Carrying amount	-	4,696	-	4,696

Short-term investments comprise as follows:

	Group		Company	
	2015	2014	2015	2014
Available-for-sale financial assets	4,534	-	4,534	-
Interest receivable	27	15	27	15
Carrying amount	4,561	15	4,561	15

As at 31 December 2015 and 2014, the Group's/Company's available-for-sale financial assets consisted of LTL-denominated Lithuanian Government bonds, the redemption date of which is in 2016. As at 31 December 2015, the weighted average annual interest rate on bonds was 1.67% (31 December 2014: 1.67%).

In 2014 the Group/Company sold part of securities, which were classified as held-to-maturity as at 31 December 2013, prior to their maturity and classified the remaining securities as available-for-sale financial assets, and measured them at fair value. The Company does not expect to classify its securities as held-to-maturity for the upcoming 2 years, i.e. until 31 May 2016.

Fair value of investments

As at 31 December 2015 and 2014, Lithuanian Government bonds were stated at fair value. The fair value of debt securities is attributed to Level 1 in the fair value hierarchy and it was determined with reference to the highest bid price (including accrued interest) offered for the respective debt securities by one of three commercial banks in Lithuania, available as at 31 December 2015 and 2014.

Table of movements on the accounts of available-for-sale financial assets:

	Group		Company	
	2015	2014	2015	2014
At 1 January	4,696	51,803	4,696	51,803
Additions	-	-	-	-
Redeemed (including interest thereon)	(162)	(47,107)	(162)	(47,107)
At 31 December	4,534	4,696	4,534	4,696

16 Cash and cash equivalents

	Group		Company	
	2015	2014	2015	2014
Cash at bank and on hand	164,341	182,296	13,179	31,347
Overnight deposits	-	28,723	-	-
Carrying amount	164,341	211,019	13,179	31,347

For the purpose of cash flow statement, cash and cash equivalents, and bank overdrafts were as follows:

	Group		Company	
	2015	2014	2015	2014
Cash and cash equivalents	164,341	211,019	13,179	31,347
Bank overdrafts (Note 19)	(41,531)	(13,031)	-	-
Carrying amount	122,810	197,988	13,179	31,347

The fair value of cash and cash equivalents as at 31 December 2015 and 2014 approximated their carrying amount.

According to the loan agreements signed with the banks, the Group has pledged current and future cash inflows to bank accounts (Note 19). As at 31 December 2015, the balance of cash pledged amounted to EUR 2,400 thousand (31 December 2014: EUR 1,695 thousand).

17 Equity

As at 31 December 2015, the Company's share capital amounted to EUR 1,212,156,294 and it was divided into 4,179,849,289 ordinary registered shares with the nominal value of EUR 0.29 each.

As at 31 December 2014, the Company's share capital amounted to LTL 4,179,849,289 and it was divided into 4,179,849,289 ordinary registered shares with the nominal value of LTL 1 each.

As at 31 December 2015 and 2014, all the shares were fully paid up.

Pursuant to the Lithuanian Law on Adoption of the Euro and the provisions of the Procedure for Conversion of Share Capital to Euros of the Central Securities Depository of Lithuania (Lietuvos Centrinis Vertybinių Popierių Depozitoriumas AB), on 1 January 2015 the Company's share capital was converted to euros. The difference on conversion of the nominal value of shares from litas to euros amounted to EUR 1,588 thousand, which was accounted for by the Company in profit or loss of the statement of comprehensive income. The difference on conversion was reported within finance costs in the statement of comprehensive income.

The Lithuanian Finance Ministry (the Ministry) who manages by the right of trust the Company's shares owned by the state resolved to increase the Company's share capital by EUR 32,636 thousand based on Order No. 1K-060 of 21 February 2014. *Regarding increase of share capital of Lietuvos Energija UAB and amendment to Finance Minister's Order No. 1K-251 of 16 July 2013. On amendment to Articles of Association of Visagino Atominė Elektrinė UAB and formation of Supervisory Council.* On 21 February 2014, the Ministry and the Company signed an agreement for the subscription of shares, under which the Company committed to provide 112,685,657 ordinary registered shares, whereas the Ministry committed to subscribe for and pay a full issue price of newly issued shares by in-kind contribution representing the shares of Lietuvos Dujos AB owned by the state.

On 6 March 2014, the share capital of Lietuvos Energija UAB was increased from EUR 1,177,932 thousand to EUR 1,210,568 thousand. Nominal value and issue price of newly issued shares was equal to EUR 0.29 each. The value of the Ministry's shareholding in Lietuvos Dujos AB, i.e. 17.7%, was determined based on the provisions of the Law on Companies, and was equal to the weighted average 6-month market price of EUR 32,636 thousand.

18 Reserves

Legal reserve

The legal reserve is a compulsory reserve under the Lithuanian legislation. Companies in Lithuania are required to transfer 5% of net profit from distributable profit until the total reserve reaches 10% of the share capital. The legal reserve cannot be used for the payment of dividends and it is formed to cover future losses only.

As at 31 December 2014, the Group's legal reserve amounted to EUR 28,777 thousand (31 December 2014: EUR 24,362 thousand).

In 2015, the Company transferred EUR 4,207 thousand to the legal reserve.

Revaluation reserve

The revaluation reserve arises from revaluation of property, plant and equipment due to the value increase. The revaluation cannot be used to cover losses.

In 2005, part of the Group's legal reserve was used to increase the subsidiary's share capital. In order to reflect in profit or loss of the Group's consolidated financial statements the result of valuation of assets conducted in 2014, irrespective of any decreases in revaluation reserve in previous periods (valuation results are described in Note 7), amount of EUR 11 million of the reserve, which was used to increase the share capital, was reversed from retained earnings.

As at 31 December 2015, the Group's revaluation reserve amounted to EUR 62,323 thousand (31 December 2014: EUR 67,630 thousand).

This reserve was not formed at the Company.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
 All amounts in EUR thousands unless otherwise stated

Other reserves

Other reserves are formed on the decision of shareholders and can be redistributed on appropriation of next year profits. As at 31 December 2015, the Group's other reserves amounted to EUR 48 thousand (31 December 2014: EUR 47 thousand). In 2014 movement in other reserves encompasses transfers by subsidiary Lietuvos Energijos Gamyba AB from the reserve related to assets and from the reserve for investments. Transfers of EUR 188,7 million to retained earnings were made following the decision of the General Meeting of Shareholders in 2014.

The Company accounts for the changes in fair value of available-for-sale financial assets within other reserves. Amount of EUR 48 thousand was accumulated as at 31 December 2015 (31 December 2014: EUR 47 thousand).

Group	Reserve for reduction of share capital	Reserve for investments	Restricted-use reserves related to non-current assets		Other reserves	Total
			2015	2014		
Balance at 31 December 2013	(17,757)	32,518	173,918	-	-	188,679
Formation of reserves	-	-	-	74	-	74
Utilisation /reversal of reserves	-	(14,786)	(173,918)	(2)	(188,706)	(188,706)
Balance at 31 December 2014	(17,757)	17,732	-	72	-	47
Formation of reserves	-	-	-	1	-	1
Balance at 31 December 2015	(17,757)	17,732	-	73	-	48

The reserve for reduction of share capital on transfer of heavy fuel oil storage tanks was formed in 1999 as a result of transfer of heavy fuel oil storage tanks by Lietuvos Energijos Gamyba AB to a state enterprise Viniūsius Mazuto Saugykla (though expected, the share capital had not been reduced by this amount yet).

The reserve for investments was formed by Lietuvos Energijos Gamyba AB for the purpose of accumulating funds necessary construction and development of non-current assets. Decisions regarding utilisation of these funds are made by the shareholders of a Group company. Restricted-use reserves related to non-current assets were formed when Lietuvos Energijos Gamyba AB first time adopted IFRS starting from 1 January 2004. On transition to IFRS, the company's equity increased and for the purpose of restricting the potential distribution of the increased amount, the reserves related to non-current assets were formed. Based on the decision of shareholders, these funds were transferred to retained earnings in 2014.

19 Borrowings

	Group		Company	
	2015	2014	2015	2014
Non-current				
Bank borrowings	277,805	250,015	-	-
Current				
Current portion of non-current borrowings	99,023	128,076	-	-

	Group		Company	
	2015	2014	2015	2014
Current borrowings	1,490	-	-	-
Letters of credit	206	418	-	-
Bank overdrafts	41,531	13,031	-	-
Accrued interest	5	7	-	-
Total borrowings	420,060	391,547	-	-

All borrowings of the Group bear variable interest rates with repricing intervals of up to 6 months.

Non-current borrowings grouped by maturity:

	Group		Company	
	2015	2014	2015	2014
Between 1 and 2 years	57,138	81,334	-	-
Between 2 and 5 years	161,052	95,928	-	-
After 5 years	59,615	72,753	-	-
Total	277,805	250,015	-	-

The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2015	2014	2015	2014
LTL	-	16,218	-	-
EUR	420,060	375,329	-	-
Total	420,060	391,547	-	-

As at 31 December 2015 and 2014, the fair value of borrowings approximated their carrying amount, except for borrowings of Lietuvos Energijos Gamyba AB with the carrying amounts of EUR 145,674 thousand and EUR 162,886 thousand, respectively. The fair value of these borrowings was approx. EUR 137,590 thousand as at 31 December 2015 (31 December 2014: EUR 154,143 thousand). The fair value was determined at a discount rate of 2.46% (31 December 2014: 2.46%).

The loan agreements contain financial and non-financial covenants that the individual Group companies are obliged to comply with. As at 31 December 2014, the Company's subsidiary LESTO AB failed to comply with one of the financial covenants stipulated in the loan agreement, and accordingly, the total outstanding balance of loan of EUR 6,316 thousand was reclassified to current portion of borrowings. Other Group companies complied with the covenants as at 31 December 2015 and 2014.

To secure the repayment of certain borrowings, the Group pledged its property, plant and equipment (Note 7), inventories (Note 12) and cash balances (Note 16).

As at 31 December 2015, the Group's balance of credit and overdraft facilities not withdrawn amounted to EUR 135,955 thousand (31 December 2014: EUR 230 million).

20 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax relates to the same fiscal authority. Movements on the accounts of deferred income tax assets and liabilities during the reporting period were as follows:

Group	At 31 December 2013 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	Increase on acquisition of subsidiary	At 31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2015
Deferred income tax assets								
Difference on recognition of revenue from new customer connection services	525	(176)	-	-	349	(183)	-	166
Deferred income	3,552	2,591	-	-	6,143	(1,692)	-	4,451
Accrued expenses	641	(7)	-	-	634	1,349	-	1,963
Impairment of assets	5,345	(513)	-	628	5,460	(203)	-	5,257
Tax losses not utilised	953	3,127	-	-	4,080	1,130	-	5,210
Other expenses	638	(638)	-	-	-	-	-	-
Deferred income tax assets before write-down to net realisable value	11,654	4,384	-	628	16,666	401	-	17,067
Less: write-down to net realisable value	(12)	12	-	-	-	(3,241)	-	(3,241)
Deferred income tax assets, net	11,642	4,396	-	628	16,666	(2,840)	-	13,826
Deferred income tax liabilities								
Valuation of PP&E (increase/decrease in value) and differences in depreciation rates	112,635	(66,119)	(29,275)	-	17,241	5,178	191	22,610
Tax relief on acquisition of PP&E	4,432	(700)	-	-	3,732	(1,023)	-	2,709
Increase in value of assets	1	-	13	-	14	-	(4)	10
Accrued expenses	1,110	(107)	-	(1,004)	(1)	1	-	-
Difference on recognition of revenue from new customer connection services	3,110	(285)	-	-	2,825	(37)	-	2,788
Other	3,446	2,642	-	-	6,088	(219)	-	5,869
Deferred income tax liability, net	124,734	(64,569)	(29,262)	(1,004)	29,899	3,900	187	33,986
Deferred income tax, net	(113,092)	68,965	29,262	1,632	(13,233)	(6,740)	(187)	(20,160)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

Company	At 31 December 2013	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2015
Deferred income tax assets							
Accrued expenses	21	24	-	45	14	-	59
Deferred income tax assets, net	21	24	-	45	14	-	59
Deferred income tax liabilities							
Valuation result of financial assets	-	-	13	13	-	(4)	9
Deferred income tax liability, net	-	-	13	13	-	(4)	9
Deferred income tax, net	21	24	(13)	32	14	4	50

As at 31 December 2015, the Group did not recognise deferred income tax on accumulated tax loss from operations of EUR 2,080 thousand (31 December 2014: EUR 22,534 thousand).

21 Grants and subsidies

The balance of grants comprises grants to finance acquisition of assets, funds received from the International Fund for Support of Decommissioning of Ignalina Nuclear Power Plant, from the EU structural funds, and property, plant and equipment and intangible assets received in return for no consideration from the Government of the Republic of Lithuania. Movements on the account of grants in 2015 and 2014 were as follows:

Group	Asset-related grants			Grants for emission allowances	Total
	Other projects of the Group	Projects for renovation, improvement of environmental and security standards			
Balance at 31 December 2013	34,393	281,730	-	-	316,123
Depreciation of property, plant and equipment	(1,249)	(10,714)	-	-	(11,963)
Grants received	7,516	-	2,328	-	9,844
Emission allowances utilised	-	-	(2,328)	-	(2,328)
Utilisation of EU funds	(36)	-	-	-	(36)
Grants reversed	(5,238)	(1,953)	-	-	(7,191)
Balance at 31 December 2014	35,386	269,063	-	-	304,449
Depreciation of property, plant and equipment	(1,539)	(10,663)	-	-	(12,202)
Grants received	10,656	-	2,139	-	12,795
Emission allowances utilised	-	-	(2,108)	-	(2,108)
Grants reversed	(38)	(6,459)	-	-	(6,497)
Balance at 31 December 2015	44,465	251,941	31	-	296,437

Amortisation of grants is included in depreciation and amortisation expenses in the statement of comprehensive income and charged against the depreciation expenses of the related property, plant and equipment. Grants reversed are reported within revaluation/impairment of assets and these expenses are reduced by the amount of grants reversed.

As described in Note 4, the Group made a decision on dismantling of Units 5 and 6 of the Reserve Power Plant, therefore the Group recognised impairment loss of EUR 36.7 million and related grant reversal of EUR 6,459 thousand as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

After revaluation of non-current assets in 2014, the Group reversed asset-related grants of EUR 5,238 thousand, for which impairment was assessed on valuation. In addition, the Group recognised impairment loss related to dismantling of Units 1 and 2 of the Reserve Power Plant, and accordingly, accounted for reversal of grant of EUR 1,953 thousand.

Reversals are made to reflect the result of valuation/impairment of assets, which does not depend on the way of presentation of grants in the financial statements.

22 Deferred revenue

	Group		Company	
	2015	2014	2015	2014
At 1 January	53,973	54,890	-	-
Received during the period	2,136	1,552	-	-
Utilised during the period	(2,507)	(2,469)	-	-
At 31 December	53,602	53,973	-	-

Deferred revenue represents income from connection of new customers to natural gas system and from connection of new customers to the grid.

Income from connection of new customers to natural gas system is recognised over the average useful life of related items of property, plant and equipment.

As from 1 July 2009, all income from connection of new customers to the grid and from relocation of electricity network facilities is recognised in the period when the works are performed. Until 1 July 2009, deferred revenue was recognised over the average useful life of related items of property, plant and equipment (see Notes 2.21 and 4).

23 Provisions

	Group		Company	
	2015	2014	2015	2014
Non-current	5,084	8,543	-	-
Current	23,333	5,884	-	-
Carrying amount	28,417	14,427	-	-

Group	Provisions for litigations and claims	Emission allowance liabilities*	Provisions for employee benefits	Other provisions	Total
At 31 December 2013	112	2,822	1,997	-	4,931
Increase on acquisition of subsidiary	-	-	2,306	6,930	9,236
Increase during the period	-	2,839	540	1,178	4,557
Utilised during the period (Note 6)	(29)	(2,908)	(1,033)	-	(3,970)
Decrease/increase on change of assumptions	-	86	(413)	-	(327)
At 31 December 2014	83	2,839	3,397	8,108	14,427
Increase during the period	-	3,888	807	13,301	17,996
Utilised during the period (Note 6)	-	(2,992)	(1,094)	30	(4,056)
Decrease/increase on change of assumptions	(29)	-	79	-	50
At 31 December 2015	54	3,735	3,189	21,439	28,417

*For the purpose of the statement of comprehensive income, expenses related to provisions for emission allowances utilised are accounted for net of government grants (Note 21).

Under the collective employment agreement, some subsidiaries provide to employees larger than statutory retirement benefits. Actuarial calculations are being performed seeking to obtain a more precise amount of liabilities to employees. Liabilities are accounted for at the present value discounted using the market interest rate.

Other provisions include provisions for onerous gas supply contracts, i.e. the contracts under which the gas sale price will be lower compared to gas acquisition cost. At the end of 2015, these provisions amounted to EUR 21.4 million (2014: EUR 8.1 million). Upon acquisition of natural gas supply operations, the Group company Lietuvas Dujų Tiekimas UAB assumed an obligation to transfer the discount, which was received retrospectively on natural gas import price during January 2013–April 2014, to the end users in future periods. On acquisition of supply operations, Lietuvas Dujų Tiekimas UAB took over the provision for onerous contracts in amount of EUR 6,930 thousand in respect of onerous amount transferred to the household users. As at 31 December 2015 and 2014, the Group adjusted the amount of provision in respect of onerous part of contracts for household and non-household users, by taking into account the prerequisites for the execution of the contracts at the financial reporting date.

The provision for onerous contracts with household users was recognised with reference to forecast sales volume, prices agreed with the Commission for the 1st half of 2016, and forecast prices for the 2nd half of 2016 and for 2017.

24 Other non-current amounts payable and liabilities

	Group		Company	
	2015	2014	2015	2014
PSO services fees received in advance	7,018	15,403	-	-
Non-current trade payables	1,529	1,383	-	-
Non-current amounts payable for the acquired shares of subsidiaries	61	-	17,819	-
Other	425	764	54	23
Carrying amount	9,033	17,550	17,873	23

The current portion of PSO service fees received in advance was classified as advance amounts received (EUR 14,633 thousand as at 31 December 2014 and EUR 20,753 thousand as at 31 December 2014).

25 Trade payables

	Group		Company	
	2015	2014	2015	2014
Amounts payable for electricity and heavy fuel oil	43,353	47,441	-	-
Amounts payable for construction works, services	11,874	10,397	-	-
Amounts payable for gas	30,817	77,436	-	-
Other amounts payable	6,075	7,131	443	188
Carrying amount	92,119	142,405	443	188

26 Other current amounts payable and liabilities

	Group		Company	
	2015	2014	2015	2014
Employment-related liabilities	7,615	5,162	-	-
Accrued expenses and deferred revenue for electricity and gas	470	1,692	-	-
Amounts payable for property, plant and equipment	31,994	27,640	-	-
Taxes (other than income tax)	14,066	13,840	-	-
Accrued expenses and deferred revenue	9,405	9,536	-	-
Current amounts payable for acquired shares of subsidiaries	126	-	45,552	-
Other amounts payable and liabilities	3,425	4,507	361	307
Carrying amount	67,101	62,377	45,913	307

27 Sales revenue

	Group		Company	
	2015	2014	2015	2014
Revenue from sale of electricity	719,523	740,480	-	-
Revenue from sale of gas	314,685	169,983	-	-
Other sales revenue	13,813	15,602	1,992	-
Total	1,048,021	926,065	1,992	-

28 Other income

	Group		Company	
	2015	2014	2015	2014
Repair services	25,128	14,096	-	-
IT and communication services	5,476	7,574	-	-
Lease income	6,254	6,146	-	-
Income from LNG shipment for testing	-	7,430	-	-
Other	10,887	11,378	2	2
Total	47,745	46,624	2	2

The Group companies provide motor vehicle and real estate lease services under operating lease contracts concluded for definite period, which may be extended for additional period ranging from several hours to several years. Income from lease of motor vehicles and real estate is recognised as income in the statement of profit or loss and other comprehensive income on a proportionate basis over the lease period.

29 Purchases of electricity, gas for trade, and related services

	Group		Company	
	2015	2014	2015	2014
Costs of purchases of gas for trade	345,504	144,915	-	-
Purchases of electricity and related services	415,986	391,612	-	-
Total	761,490	536,527	-	-

30 Other expenses

	Group		Company	
	2015	2014	2015	2014
Impairment of PP&E (Notes 7, 21)	30,133	9,754	-	-
Taxes	6,528	6,078	45	42
Telecommunication and IT services	3,725	3,685	222	290
Write-offs of PP&E (Notes 6, 7)	2,790	4,102	-	-
Customer service	2,745	2,728	-	-
Transport	2,701	4,565	113	125
Rental expenses	2,351	2,819	159	158
Business service expenses	-	-	199	-
Utility services	1,667	2,008	55	91
Consulting services	1,526	1,490	566	198
Advertising	1,209	1,060	102	68
Expenses of low-value inventory items	1,093	800	-	-
Personnel development	671	579	118	65
Business trips	535	444	42	52
Goodwill impairment (Note 6)	-	51,582	-	-
Investment impairment (Note 9)	-	-	(16,216)	58,344
Expenses (income) on revaluation of other non-current assets (Note 11)	(329)	(2,404)	-	-
Expenses on revaluation and provisions for emission allowances	(382)	(3,056)	-	-
Write-down allowance for inventories (reversal) (Note 12)	(1,077)	(538)	-	-
Impairment allowance for amounts receivable (reversal) (Notes 13,14)	(1,807)	(2,409)	-	-
Other	6,178	8,260	150	235
Carrying amount	60,257	91,547	(14,445)	59,668

31 Finance income

	Group		Company	
	2015	2014	2015	2014
Interest income	4,857	4,693	6,060	4,870
Dividends received (Note 35)	-	-	93,825	141,720
Other finance income	675	729	-	127
Total	5,632	5,422	99,885	146,717

The Company's interest income mostly relates to a loan granted to EPSO-G UAB.

32 Finance costs

	Group		Company	
	2015	2014	2015	2014
Interest expenses	4,456	6,991	419	116
Other finance costs	505	833	314	4
Share capital conversion expenses	1,588	-	1,588	-
Total	6,549	7,824	2,321	120

33 Business combinations

In 2015, the Company and the Group did not acquire any new entities.

Expansion to gas sector initiated by Lietuvos Energija UAB and further continued by the Group company LITGAS, which is engaged in liquefied natural gas (LNG) supply and trade activities and which was approved as a designated supplier in February 2014, was actively continued in the second quarter of 2014, as well. As the Ministries of Energy and Finance implemented the Government's Resolution No 120 of 12 February 2014 *Regarding investment of state-owned assets and increase of share capital of the companies*, Lietuvos Energija UAB managed 17.7% of shares of Lietuvos Dujos AB.

The main activities of Lietuvos Dujos AB include purchase (import) and sale of natural gas to end users, provision of distribution services, and rational development of natural gas distribution infrastructure.

In June 2014, the Company acquired control over Lietuvos Dujos AB. The acquisition was conducted in three states.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

Acquisition of 17.7% ownership interest in February 2014 resulted in the Company's right of participation at the Board of Lietuvos Dujos AB, and accordingly, the investment in associate was recognised under the equity method. Additional ownership interest of 38.9% acquired in May 2014 did not result in right of control. The investment met the definition of a joint arrangement in a form of joint venture, because significant decisions about the relevant activities of Lietuvos Dujos AB could be made by unanimous consent of the other shareholder sharing control. The investment was further accounted for under the equity method as summarised below:

Investment cost (17.7%)	32,636
<i>Fair value of net assets acquired</i>	<i>29,006</i>
<i>Identifiable goodwill</i>	<i>3,630</i>
Share of results of investments under the equity method for March-May 2014	13,395
Investment cost (38.9%)	63,429
<i>Fair value of net assets acquired</i>	<i>93,198</i>
Identifiable goodwill included in share of results of investments under the equity method	29,769
Share of results of investments under the equity method for June 2014	46
Share of result of investment under the equity method	43,210
Value of investment under the equity method before acquisition of control	139,275

With 56.6% ownership interest in Lietuvos Dujos AB, the Company announced about a mandatory uncompetitive takeover bid to buy out the remaining shares. On 16 June 2014, the mandatory takeover bid was completed. The Company acquired 107,734,925 (one hundred and seven million, seven hundred and thirty-four thousand, nine hundred and twenty-five) shares and 8,622,363 (eight million, six hundred and twenty-two thousand, three hundred and sixty-three) shares of Lietuvos Dujos AB from Gazprom OAO and minority shareholders, respectively.

Following the completion of the mandatory takeover bid, the Company's ownership interest in Lietuvos Dujos AB was 96.6%, and minority shareholder's ownership interest was 3.4%.

Fair value of investment before acquisition of control	110,896
Consideration paid on mandatory takeover bid	75,981
Total cost of acquisition of control	186,877

On the acquisition, assets and liabilities of Lietuvos Dujos AB were identified with the following fair values at the date of acquisition:

	Fair value
Property, plant, and equipment	130,167
Non-current intangible assets	627
Other non-current assets	1,790
Current assets	101,604
Cash	36,664
Grants	-
Deferred income	-
Other non-current liabilities	(2,307)
Current liabilities	(28,967)
Net assets acquired	239,578
Non-controlling interest	(8,040)
Goodwill arising on acquisition	(44,660)
Total cost of acquisition of control	186,878

The Group recognised loss of EUR 28,379 thousand on re-measurement of investment in Lietuvos Dujos AB before acquisition of control to the fair value, with expenses charged to profit or loss. The Company determined the fair value using the discounted cash flow method for supply and distribution operations.

The fair value of property, plant and equipment was determined by calculating the value in use under the discounted cash flow method.

Deferred revenue and grants were written off on acquisition. The fair value of current assets and current liabilities approximated their carrying amount.

Non-controlling interest was estimated on a proportionate basis.

Acquisition-related costs were insignificant and were, therefore, included in other expenses in the statement of profit or loss and other comprehensive income.

With effect from 20 June 2014, revenue of Lietuvos Dujos AB is included in the consolidated statement of profit or loss and other comprehensive income.

34 Income tax expenses

Income tax expenses for the period comprise current year income tax and deferred income tax.

Profit for 2015 was subject to income tax at a rate of 15% (similarly as in 2014) in accordance with the Lithuanian regulatory legislation on taxation.

	Group		Company	
	2015	2014	2015	2014
Current year income tax expenses	2,140	15,394	262	158
Deferred income tax expenses (benefit)	6,740	(68,965)	(14)	(24)
Income tax expenses (benefit) recognised in profit or loss	8,880	(53,571)	248	134

Income tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the Company:

	Group		Company	
	2015	2014	2015	2014
Profit (loss) before tax	64,176	(333,531)	111,265	84,275
Income tax expenses (benefit) at tax rate of 15%	9,626	(50,030)	16,690	12,641
Expenses not deductible for tax purposes	6,664	7,646	3,469	8,751
Restatement of income tax on disposal of part of business*	(1,846)	(8,410)	(19,911)	(21,258)
Income tax relief for the investment project	(8,539)	-	-	-
Adjustments in respect of prior years	(863)	(2,372)	-	-
Tax losses utilised	21	(417)	-	-
Change in realisable value of deferred income tax assets	19	(48)	-	-
Deferred income tax not recognised on tax losses	3,241	-	-	-
Income tax expense (benefit)	557	60	248	134

*Restatement of income tax is related to acquisition of natural gas supply operations by Lietuvos Dujų Tiekimas UAB from Lietuvos Dujos AB in 2014 (see Note 4 *Change in tax treatment of goodwill*).

35 Dividends

Based on the Lithuanian Finance Ministry's Order issued on 29 April 2015, the Company's set of consolidated financial statements for 2014 was approved, and dividends for the state-owned shares of the Company were declared in amount of EUR 28,093 thousand.

Based on the Lithuanian Finance Ministry's Order issued on 22 October 2015, the Company's set of consolidated interim financial statements for a six-month period was approved, and dividends for the state-owned shares of the Company were declared in amount of EUR 29,750 thousand.

On 27 April 2015, the General Meeting of Shareholders of LESTO AB approved payment of dividends in amount of EUR 12,079 thousand from profit for appropriation. Dividends allocated to the Company amounted to EUR 11,401 thousand. On 24 September 2015, the General Meeting of Shareholders of LESTO AB approved payment of interim dividends in amount of EUR 21,742 thousand. Dividends allocated to the Company amounted to EUR 20,522 thousand.

On 27 April 2015, the General Meeting of Shareholders of Lietuvos Energijos Gamyba AB approved payment of dividends in amount of EUR 21,720 thousand from profit for appropriation. Dividends allocated to the Company amounted to EUR 20,880 thousand. On 24 September 2015, the General Meeting of Shareholders of Lietuvos Energijos Gamyba AB approved payment of interim dividends in amount of EUR 2,667 thousand. Dividends allocated to the Company amounted to EUR 2,564 thousand.

On 27 April 2015, the General Meeting of Shareholders of Lietuvos Dujos AB approved payment of dividends in amount of EUR 27,993 thousand from profit for appropriation. Dividends allocated to the Company amounted to EUR 27,054 thousand. On 24 September 2015, the General Meeting of Shareholders of Lietuvos Dujos AB approved payment of interim dividends in amount of EUR 10,348 thousand. Dividends allocated to the Company amounted to EUR 10,001 thousand.

On 8 April 2015, the General Meeting of Shareholders of Duomenų Logistikos Centras UAB approved payment of dividends in amount of EUR 311 thousand from profit for appropriation. Dividends allocated to the Company amounted to EUR 248 thousand.

On 27 April 2015, the General Meeting of Shareholders of Energijos Tiekimas UAB approved payment of dividends in amount of EUR 1,155 thousand from profit for appropriation. Dividends allocated to the Company amounted to EUR 1,155 thousand.

Based on the Lithuanian Finance Ministry's Order issued on 14 November 2014, the Company's set of interim financial statements for six-month period was approved, and dividends for the state-owned shares of the Company were declared in amount of 60% (EUR 24.6 million) of the Company's profit for the 1st half of 2014.

On 4 April 2014, the General Meeting of Shareholders of LESTO AB approved payment of dividends in amount of EUR 39.2 million from profit for appropriation. Dividends allocated to the Company amounted to EUR 27.5 million.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR thousands unless otherwise stated

On 4 April 2014, the General Meeting of Shareholders of Lietuvos Energijos Gamyba AB approved payment of dividends in amount of EUR 43.4 million from profit for appropriation. Dividends allocated to the Company amounted to EUR 41.8 million.

On 30 April 2014, the General Meeting of Shareholders of Duomenų Logistikos Centras UAB approved payment of dividends in amount of EUR 0.6 million from profit for appropriation. Dividends allocated to the Company amounted to EUR 0.4 million.

On 22 July 2014, the General Meeting of Shareholders of Lietuvos Dujos AB approved payment of dividends in amount of EUR 15.4 million from profit for appropriation. Dividends allocated to the Company amounted to EUR 14.9 million.

On 30 September 2014, the Extraordinary General Meeting of Shareholders of LESTO AB approved payment of interim dividends in amount of EUR 19.2 million for a period shorter than the financial year. Dividends allocated to the Company amounted to EUR 18.2 million.

On 30 September 2014, the Extraordinary General Meeting of Shareholders of Lietuvos Energijos Gamyba AB approved payment of interim dividends in amount of EUR 20.2 million for a period shorter than the financial year. Dividends allocated to the Company amounted to EUR 19.5 million.

On 30 September 2014, the Extraordinary General Meeting of Shareholders of Lietuvos Dujos AB approved payment of interim dividends in amount of EUR 20.2 million for a period shorter than the financial year. Dividends allocated to the Company amounted to EUR 19.5 million.

Dividends declared by the Group companies in 2015:

	Dividends received by		
	Lietuvos Energija UAB	Non-controlling interest	Total
Lietuvos Energijos Gamyba AB	23,444	943	24,387
LESTO AB	31,924	1,898	33,822
Lietuvos Dujos AB	37,054	1,287	38,341
Energijos Tiekimas UAB	1,155	-	1,155
Duomenų Logistikos Centras UAB	248	63	311
Total	93,825	4,191	98,016

Dividends declared by the Group companies in 2015:

	Dividends received by		
	Lietuvos Energija UAB	Non-controlling interest	Total
Lietuvos Energijos Gamyba AB	61,212	2,463	63,675
LESTO AB	45,622	6,853	52,475
Lietuvos Dujos AB	34,440	1,196	35,636
Duomenų Logistikos Centras UAB	446	114	560
Total	141,720	10,626	152,346

36 Contingent liabilities and off-balance sheet commitments

Buyout of electricity equipment

In 2015 LESTO AB conducted simplified procedure for buyout of common-use electricity networks that were erected from the funds of homestead cooperatives in accordance with the deadlines set forth in the Lithuanian Government's Resolution No.1257 of 31 August 2010. Regarding the establishment of deadlines for buyout of electricity transmission and distribution lines, transformer substations, electricity cabinets and other electricity and distribution equipment erected on amateur basis inside the homestead territory from the funds of members of homestead cooperatives, i.e. by 1 July 2011.

During 2015, 4 items of common-use electricity networks with the value of EUR 26 thousand (2014: 6 items of common-use electricity networks with the value of EUR 67 thousand) were bought out. Since the beginning of the buyout through to 31 December 2015, 944 items of common-use electricity networks of homestead cooperatives with the total value of EUR 3,459 thousand were bought out. As at 31 December 2015, 10 applications to buyout assets under a simplified procedure for the value of EUR 29 thousand remained open.

Guarantees issued and received

On 28 February 2013, Lietuvos Energijos Gamyba AB signed a guarantee agreement with Swedbank for the total amount of EUR 30 thousand to secure the fulfillment of Lietuvos Energijos Gamyba AB's obligations in relation to payments to Nord Pool Spot AS. As of 31 December 2015, the guarantee amount was equal to EUR 30 thousand.

On 10 June 2013, Lietuvos Energijos Gamyba AB signed a guarantee agreement with Swedbank for the total amount of EUR 400 thousand to secure the fulfillment of Lietuvos Energijos Gamyba AB's obligations in relation to payments to Nord Pool Spot AS. As of 31 December 2015, the guarantee amount was equal to EUR 5,000 thousand.

On 23 December 2013, Lietuvos Energijos Gamyba AB signed a guarantee agreement with Swedbank for the total amount of EUR 195 thousand to secure the fulfillment of Lietuvos Energijos Gamyba AB's

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

obligations in relation to payments to Fingrid Oyj and Elering AS tenders. As at 31 December 2015, the guarantee amount was equal to EUR 195 thousand.

As at 31 December 2015 and 2014, there was a bank guarantee agreement between Lietuvos Energijos Gamyba AB and Nordea Bank AB Lithuania Branch regarding a EUR 1,013 thousand upon guarantee issued by the bank, the amount of which may be increased up to EUR 1,500 thousand upon Lietuvos Energijos Gamyba AB's request. The beneficiary of the guarantee is General Electric International Inc.

As at 31 December 2014, between Lietuvos Energijos Gamyba AB had guarantees from other entities for the total amount of EUR 4,440 thousand. These guarantees are related to projects of Lietuvos Energijos Gamyba AB implemented by various contractors.

On 18 April 2011, Lietuvos Energijos Gamyba AB entered into guarantee agreement with Nordea Bank AB Lithuania Branch in relation to issue of guarantee for the amount of EUR 1,766 thousand under the guarantee agreement concluded by Kauno Energetikos Remontas UAB on 18 January 2007. Under this agreement, Lietuvos Energijos Gamyba AB guaranteed a proper fulfillment of obligations of Kauno Energetikos Remontas UAB, but not in excess of EUR 1,766 thousand. On 8 September 2014, the guarantee amount was EUR 1,665 thousand. Lietuvos Energijos Gamyba AB's guarantee to the bank for proper fulfillment of obligations of Kauno Energetikos Remontas UAB (for maximum amount of EUR 1,665 thousand) was issued under Overdraft Agreement No OS 14/09/01 signed on 5 September 2014 between the Bank and Kauno Energetikos Remontas UAB. As at 31 December 2015, the guarantee was expired and it was not extended after the reporting date.

As at 31 December 2014 and 2013, Lietuvos Energijos Gamyba AB issued a guarantee for Kauno Energetikos Remontas UAB to Nordea Bank AB Lithuania Branch to secure an irrevocable and unconditional payment of EUR 1,883 thousand upon first written demand. Based on credit agreement No KS 12/12/01 signed between the Bank and Kauno Energetikos Remontas UAB on 4 December 2012, Lietuvos Energijos Gamyba AB issued a guarantee to the Bank for proper fulfillment of obligations by Kauno Energetikos Remontas UAB (for maximum amount of EUR 1,882 thousand).

On 3 December 2014, Lietuvos Energijos Gamyba AB signed a guarantee agreement with Svedbank under which Lietuvos Energijos Gamyba AB issued a guarantee to secure the fulfillment of obligations of Geoterma UAB under the credit agreement signed between the bank and Geoterma UAB. As at 31 December 2015, the guarantee amount was EUR 236 thousand.

As at 31 December 2014, Energijos Tiekimas UAB received guarantees from Danske Bank A/S Lithuania Branch for the total amount of EUR 98 thousand.

As at 31 December 2014, Kauno Energetikos Remontas UAB had guarantees from the banks for the total amount of EUR 6,509 thousand. These guarantees were related to participation at tenders.

On 8 April 2011, a guarantee limit agreement was concluded between Energijos Tiekimas UAB and Danske Bank A/S Lithuania Branch for the issue of bank guarantees and sureties. The guarantee and surety limit amounts to EUR 6.15 million. The guarantee and surety limit is valid until 7 April 2017. As at 31 December 2015, the withdrawn balance of the guarantee and surety limit amounted to EUR 4.72 million. The guarantees expire during the period between 19 February 2016 and 5 June 2018.

As at 31 December 2015, Lietuvos Dujų Tiekimas UAB had the guarantee limit amounting to EUR 290 thousand granted by Nordea Bank AB Lithuania Branch. EUR 126 thousand of this amount was used by issuing guarantees on behalf of Lietuvos Dujų Tiekimas UAB for the fulfillment of contractual obligations.

As at 31 December 2015, Kauno Energetikos Remontas UAB had guarantees from the bank in relation to its participation in tender procure for the total amount of EUR 6,391 thousand (31 December 2014: EUR 6,509 thousand).

On 3 October 2014, an Agreement on Surety and Guarantee Limit was signed between the Company and LITGAS UAB for the amount of EUR 100 million, which may be increased (if necessary) to EUR 125 million, and which will serve as a security under the Company's credit agreements with the credit institutions and long-term LNG purchase agreements with the LNG suppliers. As at 31 December 2015, the balance of surety and guarantee limit used by LITGAS UAB amounted to EUR 67.43 million (31 December 2014: EUR 73.65 million).

SEB Bankas AB issued a guarantee on behalf of NT Valdos UAB for the total amount of EUR 987 thousand; cash balances on bank accounts of NT Valdos UAB were pledged as a security for the guarantees.

Contractual commitments

Under the provisions of the natural gas supply agreement with Gazprom OAO (the agreement was taken over on business acquisition), in 2014 Lietuvos Dujų Tiekimas UAB did not consume 128.3 million m³ of gas compared to the established minimum natural gas consumption volume of 1 billion m³. Under the provisions of the agreement, Lietuvos Dujų Tiekimas UAB can further consume it over the next 3 years, provided the contractual payment and natural gas consumption commitments have been fulfilled. The unused quantity of natural gas had no impact on the financial position of Lietuvos Dujų Tiekimas UAB in 2015, however, in 2015 Lietuvos Dujų Tiekimas UAB made a prepayment of EUR 26.9 million for natural gas not consumed in 2014 (Note 12).

In May 2014, Lietuvos Dujos AB and Gazprom OAO signed an agreement regarding the reduction of the price for natural gas imported by Lietuvos Dujos AB for the period from 1 January 2013 to 31 December 2015. Natural gas import price reduction effects for the period from 1 January 2013 to 30 April 2014 relates to household and non-household natural gas users. Natural gas import price difference effect on non-household users is expected to be transferred to the users during 2015-2016 or beyond, the difference effect to household users is expected to be transferred during 2015-2016-2017.

On 3 August 2015, Lietuvos Dujų Tiekimas UAB, Lietuvos Dujos AB and Gazprom OAO signed a tripartite agreement, under which all rights and obligations pertaining to the natural gas supply agreement (which was concluded on 16 December 1999 between Gazprom OAO and Lietuvos Dujos AB) were officially passed to Lietuvos Dujų Tiekimas UAB.

Legal disputes

Legal dispute between LESTO AB and the National Control Commission for Prices and Energy

In November 2014 and January 2015 LESTO AB filed a complaint to Vilnius Regional Administrative Court with request to annul the respective resolutions of the National Control Commission for Prices and Energy ("the Commission") and to oblige the Commission to eliminate the violations and include in the level of revenue (which is used in price cap calculation when determining the price caps for electricity distribution services provided by LESTO AB through medium and low voltage networks for the next period) the following:

- the difference of EUR 7.78 million for 2015 resulting from inappropriate WACC amount applied by the Commission;
- the difference of EUR 4.64 million for 2015 resulting from the Commission's inappropriate application of the requirements of legal acts in respect of the allowable return on investments for LESTO AB;
- unjustified expenses of EUR 16.46 million identified during the audit conducted by the Commission, which are treated by LESTO AB as part of operating expenses of regulated activities;

In addition, LESTO AB requested to oblige the Commission to eliminate the violations, whereby:

- LESTO AB's public electricity supply revenue for 2015 was reduced by EUR 862.78 thousand;
- LESTO AB's costs of electricity purchases for 2015 were reduced by EUR 311.63 thousand.

LESTO AB disagrees with the Commission's interpretation and application of the effective laws and other legal acts in making the relevant resolutions. Accordingly, in the opinion of LESTO AB, the price caps for 2015 were calculated on the basis of unjustified reduction of revenue by EUR 30.04 million. In the event of favourable court ruling for LESTO AB, the aforementioned amounts would be included in the tariff for the next year, thereby resulting in higher revenue and profit for LESTO AB.

The case was investigated on its merits by Vilnius Regional Administrative Court during the hearings held in December 2015 and January 2016, and the complaint filed by LESTO AB was rejected in its entirety. In disagreement with such court ruling, LESTO AB filed an appeal.

In February 2015, LESTO AB filed a complaint to Vilnius Regional Administrative Court with request to annul the Commission's resolution regarding the establishment of price caps for distribution services rendered by LESTO AB via medium and low voltage networks for the period 2016-2020. In its complaint LESTO AB also stated that amount of EUR 11.93 million was not included in the level of revenue (which was used in price cap calculation for 2016), due to the Commission's inappropriate application of legal acts defining the allowable return on investments and the required operating expenses of regulated activities for LESTO AB.

During the period from the date of filing the complaint, the Commission introduced substantial changes in the regulatory environment that affected directly the Claimant's position in the case and the requirements set forth in the complaint. In view of the fact the aforementioned changes in the regulatory environment (including the disputed resolution) no longer exposed LESTO AB to the legal and financial consequences specified in LESTO AB's complaint, on 20 February 2016 LESTO AB applied to Vilnius Regional Administrative Court to confirm withdrawal of its complaint.

In July 2015, LESTO AB filed a complaint to Vilnius Regional Administrative Court with request to annul the Commission's resolution regarding the breach of the terms of regulated activities by LESTO AB, whereby it was concluded that LESTO AB breached the terms of licensed activities, namely, that expenses allocated by LESTO AB to regulated distribution and public supply services were on no valid grounds higher than LESTO AB was actually allowed to allocate. In its complaint, LESTO AB also requested that the Court recognise the penalty of EUR 300 thousand as ungrounded.

The hearing of the case is currently suspended until the ruling is passed in the administrative case, in which LESTO AB objects to the results of audit conducted by the Commission. In view of the ruling of Vilnius Regional Administrative Court, LESTO AB accounted for the above-mentioned penalty in its financial statements by recognises the expenses and the liability.

Legal dispute between LESTO AB and Vilniaus Energetika UAB

Vilniaus Energetika UAB (the claimant) filed a claim to Vilnius Regional Administrative Court, whereby it requested to award damages of EUR 9.284 million from LESTO AB.

According to the claimant, it incurred losses of EUR 9.284 million, because in 2014 LESTO AB purchased only that volume of supported electricity, which was produced under the technical minimum mode at the thermal power plants owned by the claimant, for the purpose of ensuring compliance with the Lithuanian Government Resolution No 1051 of 20 November 2013 and the provisions of the agreement on purchase-sale of electricity signed with the claimant. The claimant noted that according to the requirements of legal acts LESTO AB was obliged to purchase the maximum volume, and that LESTO AB failed to comply with such requirement.

In its claim, the claimant requested as follows: to recognise the provisions of the agreement on purchase-sale of electricity (No 80000/232945/753, dated 30 December 2013) between the claimant and the respondent as void *ab initio*; to oblige the respondent to purchase the maximum volume of supported electricity in 2014 from the claimant, which was established for the claimant's thermal power plants No 2 and No 3 by the Lithuanian Government Resolution No 1051 of 20 November 2013; and to award damages of EUR 9.284 million from the respondent, plus 6% annual interest on the awarded amount of damages from the respondent starting from the date of initiation of the case until a full fulfilment of the court's ruling, plus litigation costs incurred.

LESTO AB disagrees with the claimant's position that the respondent should be obliged to purchase full volume of supported electricity produced at thermal power plants No 2 and No 3, because the Description of PSO Services and other effective legal acts do not stipulate that the respondent is obliged to purchase full volume of electricity produced at thermal power plants No 2 and No 3.

Considering that during the investigation of the case: (i) the claimant requested to apply to the Constitutional Court in order to investigate whether certain provisions of the above-mentioned resolution are not in conflict with the Lithuanian Constitution; (ii) such request of the claimant was rejected by the court; and (iii) LESTO AB drafted the disputed provisions of the agreements based on the provisions of the above-mentioned resolution – it is probable that the court will reject the claimant's claim. In LESTO AB's opinion, the claimant's claim has no grounds and should not be satisfied, and accordingly, this claim was not accounted for in the financial statements.

The case is currently investigated at the court of the first instance.

Legal dispute between Lietuvos Dujos AB and the Lithuanian Ministry of Energy

On 25 March 2011, the Lithuanian Ministry of Energy (holding 17.7% of Lietuvos Dujos AB's shares by the right of trust at that date) filed a claim to Vilnius Regional Court in relation to investigation of the legal entity's operations, wherein Lietuvos Dujos AB, the Board Members of Lietuvos Dujos AB delegated by Gazprom OAO, and the Managing Director were named as the respondents. In its claim, the Lithuanian Ministry of Energy demanded initiation of investigation of operations of Lietuvos Dujos AB and application of relevant requirements set forth in the claim in case the results of investigation showed that operations of Lietuvos Dujos AB and/or the aforementioned Board Members and/or the Managing Director were inappropriate. During the investigation of the requirement of the Lithuanian Ministry of Energy to commence the investigation of operations of Lietuvos Dujos AB, on 3 September 2012 Vilnius Regional Court ruled in favour of the claimant to initiate investigation of operations of Lietuvos Dujos AB. Lietuvos Dujos AB objected to the ruling of the court of the first instance and filed an appeal against it to the Court of Appeal of Lithuania. The Court of Appeal of Lithuania left the ruling of Vilnius Regional Court unchanged. On 29 April 2013, Lietuvos Dujos AB appealed by cassation to the Lithuanian Supreme Court with request to annul the decision passed by the Lithuanian Court of Appeal on 21 February 2013, and not to proceed with the case or reject it. On 20 November 2013, the Lithuanian Supreme Court suspended a judgment until the final resolution of the civil case by the Arbitration Institute of the Stockholm Chamber of Commerce (Kingdom of Sweden) (hereinafter "the Arbitration"). On 23 October 2015, the Lithuanian Supreme Court passed a ruling whereby it recognised and enforced the decision passed by the Arbitration Tribunal in the Republic of Lithuania and under the ruling of 28 October 2015 renewed the investigation of the case pertaining to the initiation of investigation of operations of the legal entity. On 7 December 2015, the Lithuanian Supreme Court received the request of the Lithuanian Ministry of Energy and Lietuvos Energija UAB for the inclusion of Lietuvos Energija UAB as a co-claimant and suspension of the investigation of the case until the passing of the ruling in the case investigated by the Arbitration Court of the Stockholm Chamber of Commerce, which is investigated on the basis of the claim of the Lithuanian Ministry of Energy against Gazprom OAO. The final outcome of the case is unclear and cannot be reasonably assessed.

A claim filed by the Prosecution Service of the Republic of Lithuania against Lietuvos Dujos AB

On 14 July 2014, the Prosecution Service of the Republic of Lithuania filed an indictment to Vilnius City District Court whereby Lietuvos Dujos AB and its former employees were charged with allegedly causing damage in establishing the supply activity tariffs for domestic users. On 13 August 2014, Vilnius City District Court initiated examination of the criminal case. The Prosecutor General obliged the court to impose a fine on Lietuvos Dujos AB in amount of 25,000 times the minimum monthly wage or EUR 950 thousand. Lietuvos Dujos AB disagreed with the charges and requirements of the Prosecution Service. Lietuvos Dujos AB expected the court to pass an acquittal. On 27 February 2015, Vilnius City District Court passed an acquittal whereby it acquitted Lietuvos Dujos AB as it was not established that the acts attributed were made. On 18 March 2015, the Prosecutor General appealed against the acquittal. Currently, the case is investigated under the appeal procedure. The date of court decision announcement is not known yet. In the opinion of Lietuvos Dujos AB, the decision of the court of the first instance is valid and well grounded, and accordingly, it expects that will not be changed.

Legal dispute between Lietuvos Dujos AB, Lietuvos Dujos AB, Lietuvos Dujos AB, and Vilniaus Energija UAB

On 23 January 2015, Vilniaus Energija UAB filed a claim to respondent Lietuvos Dujos AB regarding the amendment to the pricing rules (formulas for the calculation of the price for natural gas set in the agreements) established in natural gas supply agreements dated 28 December 2012 and 30 December 2013, and regarding the awarding of the overpaid amount for natural gas acquired. The initial claim amounted to EUR 19,132 thousand. On 14 July 2015, Vilniaus Energija UAB filed a revised claim, whereby Lietuvos Dujos AB was named as the second respondent and the court was requested to oblige Lietuvos Dujos AB and Lietuvos Dujos AB to pay jointly and severally the overpaid amount for natural gas plus interest thereon. On 3 December 2015, Vilniaus Energija UAB requested to revise the subject matter of the claim by reducing the amount of the claim down to EUR 15,235 thousand (the overpaid amount of EUR 15,200 thousand plus interest of EUE 35 thousand). On 21 January 2016, the court passed the ruling whereby the claim of Vilniaus Energija UAB was dismissed.

Legal dispute between Lietuvos Dujos AB, Lietuvos Dujos AB, Lietuvos Dujos AB, and Amilina AB

On 18 March 2015, Amilina AB filed a claim to respondent Lietuvos Dujos AB regarding the amendment to the pricing rules (formulas for the calculation of the price of natural gas set in the agreements) established in natural gas supply agreements dated 19 December 2012 and 6 December 2013, and regarding the awarding of the overpaid amount for natural gas acquired. The claim amount was equal to EUR 1,266 thousand and it consisted of the following two elements: the overpaid amount for natural gas of EUR 1,254 thousand and interest of EUR 13 thousand. On 27 July 2015, Amilina AB filed a revised claim, whereby Lietuvos Dujos AB was named as the second respondent and the court was requested to oblige Lietuvos Dujos AB and Lietuvos Dujos AB to pay jointly and severally the overpaid amount for natural gas plus interest thereon. In the opinion of Lietuvos Dujos AB, neither the legal acts nor the natural gas supply agreements obliged Lietuvos Dujos AB and Lietuvos Dujos AB to pay to Amilina AB any amounts due to the change in import prices of natural gas or to recalculate the natural gas price in case such changes occur; Lietuvos Dujos AB had properly fulfilled its contractual obligations under the agreements. As a result, in the opinion of the Lietuvos Dujos AB's management, the claim was ungrounded. The case is under investigation by the court of the first instance. The court's hearing is scheduled on 26 February 2016.

Based on its Resolution No O3-557 of 22 October 2015 *On the scheduled audit of Lietuvos Dujos AB*, the Commission approved the Scheduled Audit Report No D3-1, wherein (in paragraph 2) it was noted that Lietuvos Dujos AB's price cap for distribution services for the years 2016 and 2017 was adjusted by taking into account the allocated amount of unjustified expenses and the amount of eliminated revenue from regulated activities for the period 2009-2013. Based on its Resolution No O3-566 of 29 October 2015 *On the adjustment of the cap for distribution services of Lietuvos Dujos AB for the year 2016*, the Commission reduced Lietuvos Dujos AB's revenue level by EUR 1,646 thousand (in view of the conclusions described in the Scheduled Audit Report) when determining the price cap for natural gas distribution services effective from 1 January 2016. Lietuvos Dujos AB noted that no complaints had been filed to court in respect of these Resolutions.

Legal disputes between Lietuvos Energijos Gambyba AB and the Commission

Lietuvos Energijos Gambyba AB filed a complaint to Vilnius Regional Administrative Court with request to annul Resolution No O3-757 of the Commission of 7 August 2014 *On survey results of electricity generation market*. On 30 April 2015, Vilnius Regional Administrative Court made a decision to reject Lietuvos Energijos Gambyba AB's complaint. In disagreement with the Court's decision, Lietuvos Energijos Gambyba AB appealed to the Supreme Administrative Court of Lithuania regarding the

decision of 30 April 2015 of Vilnius Regional Administrative Court. By the aforementioned Resolution, the Commission declared the Company as an undertaking having significant power in the market of electricity generation services and *inter alia*, with effect from 1 January 2015, placed obligations on Lietuvos Energijos Gamyba AB in relation to the application of the prices and disclosure of information on the regulated activity expenses. During the public consultation procedure, Lietuvos Energijos Gamyba AB provided comments on the Draft Resolution and stated that the survey of electricity generation market was conducted using inappropriate assumptions. As a result, in Lietuvos Energijos Gamyba AB's opinion, the Commission's Resolution, whereby Lietuvos Energijos Gamyba AB was declared as an undertaking having significant power in the market of electricity generation services and related obligations were placed thereon, should not be applicable to Lietuvos Energijos Gamyba AB.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court with request to annul the Commission's Resolution No 03-818 of 30 September 2014. On scheduled audit of Lietuvos Energijos Gamyba AB. On 21 September 2015, Vilnius Regional Administrative Court made a decision to reject Lietuvos Energijos Gamyba AB's complaint. In disagreement with the Court's decision, Lietuvos Energijos Gamyba AB appealed to the Supreme Administrative Court of Lithuania regarding the decision of 21 September 2015 of Vilnius Regional Administrative Court. By the aforementioned Resolution, the Commission approved the Scheduled Audit Report No E3-2 of 19 September 2014 and decided to reduce the claimant's revenue from supported electricity produced at Lithuanian Power Plant (controlled by Lietuvos Energijos Gamyba AB) by EUR 6.14 million, and to reduce the claimant's revenue from capacity reserve services by EUR 7.44 million. The Resolution states that these decisions of the Commission should be implemented during the accounting years 2015-2016. Based on the above-mentioned Resolution, Lietuvos Energijos Gamyba AB's revenue from PSO service fees for the year 2015 was reduced by EUR 6.14 million, and its revenue from capacity reserve services was reduced by EUR 3.72 million. Management decided to account for the above-mentioned revenue reduction in Lietuvos Energijos Gamyba AB's financial statements. In Lietuvos Energijos Gamyba AB's opinion this Resolution of the Commission has no grounds and contradicts its previous decisions on the same issues. In addition, during the audit the Commission failed to support its decision by applicable legal acts. Taking this into consideration, the Resolution is to be considered as having no grounds and unlawful.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolution No 03-852 of 17 October 2014. On determining cap prices for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2015 and on the Commission's Resolution No 03-866 of 30 October 2014. On determining buy-up prices for the year 2015 for electricity produced at Lithuanian Power Plant of LIETUVOS ENERGIJOS GAMYBA UAB. By these Resolutions, the Commission implements its Resolution of 30 September 2014. On scheduled audit of Lietuvos Energijos Gamyba AB. In respect of which Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court. As it was mentioned Lietuvos Energijos Gamyba AB's announcement on significant events on 31 October 2014, by the Resolution in respect of which Lietuvos Energijos Gamyba AB filed a complaint, the Commission approved Scheduled Audit Report No E3-2 of 19 September 2014 and decided to reduce Lietuvos Energijos Gamyba AB's revenue from supported electricity produced at Lithuanian Power Plant, controlled by Lietuvos Energijos Gamyba AB, by EUR 6.14 million, and to reduce Lietuvos Energijos Gamyba AB's revenue from capacity reserve services by EUR 7.44 million. The Resolution stated that the implementation period of the Commission's resolutions would cover the accounting years 2015-2016. In Lietuvos Energijos Gamyba AB's opinion, the estimates of return on investments given in the resolutions are inaccurate and incorrect. In view of this and considering the fact that by these resolutions the Commission

implements the Resolution in respect of which Lietuvos Energijos Gamyba AB filed a complaint, the resolutions should be considered as having no grounds and unlawful.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolution No 03-939 of 19 December 2014. On Amendment to the Commission's Resolution No 03-866 of 30 October 2014. On Determining Buy-up Prices for the Year 2015 for Electricity Produced at Lithuanian Power Plant of LIETUVOS ENERGIJOS GAMYBA UAB. Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolution No 03-941 of 30 October 2014. On Amendment to the Commission's Resolution No 03-940 of 19 December 2014. On Determining Funds From PSO Service Fees and Prices for the Year 2015. Alongside the paragraphs of the resolution demanded to be annulled, the Commission, based on Resolution of 7 August 2014. On survey results of electricity generation market, reduced the budget of PSO services fees allocated to Lietuvos Energijos Gamyba AB for the year 2015. In Lietuvos Energijos Gamyba AB's opinion, this Resolution has no grounds and is in conflict with the legal acts that have superior legal power. PSO service fees receivable by Lietuvos Energijos Gamyba AB in 2015 were reduced by EUR 5.44 million based on Resolution of 7 August 2014. On survey results of electricity generation market. The management decided to account for the above-mentioned reduction of revenue in Lietuvos Energijos Gamyba AB's financial statements.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolution No 03-875 of 30 October 2014. On recalculation of price components for heat production at the Lithuanian Power Plant of Lietuvos Energijos Gamyba AB. By this Resolution, the Commission declared Lietuvos Energijos Gamyba AB as being not in compliance with the requirements for estimation of return on investments set forth in the Methodology for Determining Prices for Thermal Power, and obliged Lietuvos Energijos Gamyba AB to eliminate the alleged violation. In Lietuvos Energijos Gamyba AB's opinion, the Resolution has no grounds. The Commission's estimates of return on investments are inaccurate and in conflict with the legal acts. In addition, Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolution No 03-934 of 11 December 2014. On unilateral establishment of price components for heat production at the Lithuanian Power Plant of Lietuvos Energijos Gamyba AB. By this Resolution, the Commission implemented the Commission's Resolution No 03-875 of 30 October 2014. On recalculation of price components for heat production at the Lithuanian Power Plant of Lietuvos Energijos Gamyba AB. In respect of which Lietuvos Energijos Gamyba AB has filed a complaint to Vilnius Regional Administrative Court. Accordingly, these two disputes were combined into one case at Vilnius Regional Administrative Court, in respect of which on 17 November 2015 Vilnius Regional Administrative Court made a decision not favourable to Lietuvos Energijos Gamyba AB. In disagreement with such decision of the Court, Lietuvos Energijos Gamyba AB appealed to the Supreme Administrative Court of Lithuania regarding the decision of 17 November 2015 of Vilnius Regional Administrative Court.

Lietuvos Energijos Gamyba AB filed a complaint to Vilnius Regional Administrative Court in respect of the Commission's Resolution No 03-562 of 22 October 2015. On determining the price caps for capacity reserve services of Lietuvos Energijos Gamyba AB for the year 2016 and on the Commission's Resolution No 03-579 of 30 October 2015. On determining the PSO service fees and price for the year 2016. Lietuvos Energijos Gamyba AB finds the Resolutions of the Commission as having no grounds and unlawful, and accordingly, they have to be annulled.

As at 31 December 2015, Kauno Energietikos Remontas UAB was involved as a respondent in a litigation procedure at Kaunas Regional Court. The subject matter of the case relates to the claimant's

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

request to award the debt plus late payment interest and 6% interest from Kauno Energetikos remontas UAB. Preliminary, the amount claimed may reach EUR 342,699. The management believes the claim has no grounds, and accordingly, the related liabilities were not accounted for in the financial statements.

Tax audits

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

37 Related-party transactions

As at 31 December 2015 and 2014, the parent company was the Republic of Lithuania represented by the Lithuanian Ministry of Finance. For the purposes of disclosure of related parties, the Republic of Lithuania excludes central and local government authorities. The disclosures comprise transactions and balances of these transactions with the shareholder, subsidiaries (the Company's transactions), associates and all entities controlled by or under significant influence of the state (transactions with these entities are disclosed only if they are material), and management.

Transactions with related parties are presented below:

The Group's transactions with related parties during 2015 and year-end balances arising on these transactions as at 31 December 2015 are presented below:

Related parties	Finance income (costs)	Amounts payable	Amounts receivable	Sales	Purchases
EPSO-G UAB	3,919	-	239,959	6	-
Litgrid AB	(2)	6,997	2,370	21,638	64,395
BALTPOOL UAB	-	15,253	10,700	82,939	92,458
TETAS UAB	110	4,042	183	1,693	15,382
Amber Grid AB	-	77	34	316	8,594
Associates and other related parties of the Group	-	232	138	304	1,483
Total	4,027	26,601	253,384	106,896	182,312

The Group's transactions with related parties during 2014 and year-end balances arising on these transactions as at 31 December 2014 are presented below:

Related parties	Finance income (costs)	Amounts payable	Amounts receivable	Sales	Purchases
EPSO-G UAB	4,062	-	240,372	-	-
Litgrid AB	-	8,976	3,198	31,173	78,402
BALTPOOL UAB	-	19,487	9,983	104,359	133,404
TETAS UAB	23	3,275	359	1,745	13,076
Amber Grid AB (since 1 July 2014)	-	349	297	2,059	5,054
Associates of the Group	5,779	494	73	272	28
Total	9,864	32,581	254,282	139,608	229,964

The major sale and purchase transactions with related parties within the Group in 2015 and 2014 comprised transactions with the entities controlled by the Group and the Lithuanian Ministry of Finance: Litgrid AB, BALTPOOL UAB, and Amber Grid AB (since 1 July 2014). The Group's purchases from these entities mainly included purchases of electricity, capacity, transmission, PSO services and gas. Sales transactions included sales of electricity, capacity and PSO services. Amount receivable from EPSO-G UAB represents unpaid amount on disposal of Litgrid AB, the outstanding balance of the loan granted and interest accrued thereon. Finance costs include interest charged during the year.

Purchase and sale transactions with GET Baltic UAB exclude purchases and sales of natural gas, since GET Baltic UAB acts solely as an intermediary who provides intermediation services in return for a certain commission fee.

Transactions with other state-owned entities included regular business transactions and therefore they were not disclosed.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

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

Related parties	Finance income	Finance costs	Amounts payable	Amounts receivable	Sales	Purchases
Subsidiaries						
LESTO AB	-	402	34,682	144	645	58,906
Lietuvos energijos gamyba AB	-	324	28,253	-	350	48,520
Lietuvos dujos AB	-	-	-	119	369	-
Lietuvos dujų tiekimas UAB	-	-	-	47	160	-
NT Valdos UAB	-	-	35	39	109	294
Kauno energetikos centras UAB	-	-	-	102	85	61
Verslo aptarnavimo centras UAB	-	-	-	3	199	35
Energijos tiekimas UAB	-	-	-	20	48	-
LITGAS UAB	2,003	-	-	170	30	-
ELEKTROS TINKLO PASLAUGOS UAB	-	-	-	2,939	78	-
Technologijų ir inovacijų centras UAB	-	-	8	26	215	44
VAE SPB UAB	-	-	-	4	22	-
Energetikų mokymų centras VšĮ	-	-	-	13	26	11
Duomenų logistikos centras UAB	-	2	321	-	29	529
Other related parties	3,919	-	-	239,957	6	-
EP-SO-G UAB	-	2	188	-	-	312
Litgrid AB	-	-	-	-	-	-
Total	5,922	730	63,487	243,583	2,371	108,712

The Company's transactions with related parties during 2014 and year-end balances arising on these transactions as at 31 December 2014 are presented below:

Related parties	Finance income	Finance costs	Amounts payable	Amounts receivable	Sales	Purchases
Subsidiaries						
LESTO AB	-	34	-	-	12	5,527
Lietuvos energijos gamyba AB	-	74	-	-	7	11,975
NT Valdos UAB	-	2	27	-	-	315
Verslo aptarnavimo centras UAB	-	-	22	-	-	24
LITGAS UAB	369	-	-	204	-	-
Technologijų ir inovacijų centras UAB	3	-	81	-	-	290
Energetikų mokymų centras VšĮ	-	-	1	-	-	4
Other related parties	4,063	-	-	240,372	-	-
EP-SO-G UAB	-	-	131	240,576	19	18,135
Total	4,435	110	240,576	240,576	19	18,135

In 2015 and 2015, purchases included the purchases of services and acquisitions of entities. In 2015, sales included sales of management services that the Company started rendering to the Group entities.

The dividends declared in 2015 and 2014 are disclosed in Note 35.

Compensation to management:

	Group		Company	
	2015	2014*	2015	2014
Salaries and other short-term employee benefits	4,517	3,434	700	628
Whereof: Termination benefits and benefits to Board Members	733	415	92	94
Number of management staff	71	77	10	8

Management in the table above includes heads of administration and their deputies.

* Salaries and other benefits of Lietuvos Dujos AB since 1 July 2014.

38 Events after the reporting period

Reorganisation of subsidiaries

On 1 January 2016, LESTO AB and Lietuvos Dujos AB were reorganised by way of merger under Art. 2.97(4) of the Lithuanian Civil Code, as a result of which a new entity Energijos Skirstymo Operatorius AB (ESO) was established with company code 304151376 and office address at Agonuų g. 24, Vilnius. As from 11 January 2016, the shares of ESO have been quoted on the Main List NASDAQ OMX Vilnius stock exchange. Following the reorganisation, ESO took over from Lietuvos Dujos AB all its non-current and current assets, non-current and current financial and other liabilities, amounts receivable and payable under the agreements signed between LESTO AB and Lietuvos Dujos AB, including any other otherwise arising obligations.

On 1 January 2016, ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB were reorganised by way of merger under Art. 2.97(4) of the Lithuanian Civil Code, as a result of which ELEKTROS TINKLO PASLAUGOS UAB and Kauno Energetikos Remontas UAB ceased to exist as legal entities and a new entity was established under the name of Energetikos Paslaugų ir Rangos Organizacija UAB, company code 304132956, office address: Motorių g. 2, Vilnius.

The merger of Lietuvos Dujų Tiekimas UAB and LITGAS UAB planned on 1 January 2016 was postponed until the finalisation of the regulatory framework pertaining to the liquefied natural gas (LNG) terminal and the designated supplier, and the completion of negotiations of amendments to the agreement with Statoil. The merger is expected to be completed in the middle 2016.

Transfer of commercial part of business

On 12 October 2015, Lietuvos Energijos Gamyba AB and Energijos Tiekimas UAB (hereinafter "Energijos Tiekimas") signed an agreement on sale-purchase of the commercial part of wholesale electricity trade activities. The part of business sold to Energijos Tiekimas covered trade in derivative financial instruments not related to physical trading in electricity, and provision of balancing services. The title of ownership to the part of business (representing the commercial part of wholesale electricity trade activities) was passed to Energijos Tiekimas on 1 January 2016. Until 31 December 2015, these activities were carried out by Lietuvos Energijos Gamyba AB.

Buyout of shares to ensure compliance with the ruling of the Supreme Court of Lithuania

Under the Finance Minister's Order, the Company is obliged to implement the Lithuanian Government Resolution No 1126 of 26 October 2015 *On Buyout of Shares* (the Resolution), and to buyout (acquire ownership of) the shares of the former AB LIETUVOS ELEKTRINE from minority shareholders, which were obtained under the title of ownership in return for the shares of Lietuvos Energija AB (currently known as Lietuvos Energijos Gamyba AB) following the reorganisation of AB LIETUVOS ENERGIJA and AB LIETUVOS ELEKTRINE, and which were not disposed to any third parties.

On 9 February 2016, the date for commencement of buyout of shares was published. The shares to be bought out from minority shareholders of AB LIETUVOS ELEKTRINE in return for the shares of Lietuvos Energijos Gamyba AB based on the proportion approved under the Resolution – 1.37 shares of Lietuvos Energijos Gamyba AB in return for one share of AB LIETUVOS ELEKTRINE. The price of

one ordinary registered share of Lietuvos Energijos Gamyba AB to be bought out was equal to EUR 1.2959.

During the period of 90 (ninety) calendar days after the date of placement of notice on buyout of shares of Lietuvos Energijos Gamyba AB in an electronic publication of the state enterprise Centre of Registers (administrator of the Register of Legal Entities) on 9 February 2016, all minority shareholders can exercise an option to request that the Company buy out the shares from minority shareholders, which meet the above-mentioned criteria. The shareholders who fail to exercise such option upon expiry of the above-mentioned period of 90 (ninety) calendar days, will no longer be entitled to request the buyout of the shares specified in the Resolution for the price indicated in the Court's ruling and the Resolution.

As at 31 December 2015, the Company did not account for any liability in relation to the buyout of shares from minority shareholders, since the existence of such liability became virtually certain in January 2016, i.e. after the relevant decision was made by the shareholder Lithuanian Ministry of Finance. Moreover, in the opinion of the Company's management, the amount of liability could not be measured reliably because it was impossible to assess the quantity of shares eligible for buyout before the commencement of buyout.

Acquisition and disposal of investments

On 18 January 2016, the Company acquired 209,662 ordinary registered shares of EURAKRAS UAB, representing 75% of share capital of EURAKRAS UAB and 75% of voting rights during the General Shareholders Meeting. The cost of acquisition of shares amounted to EUR 17,058 thousand. The acquired entity is based in Lithuania and it operates a park of 8 wind turbines with overall capacity of 24 MW, located in Geišiai and Rotuliai II villages, Jurbarkas district.

On 20 January 2016, the Company acquired 100% of ordinary registered shares of Estonian company HOB OU and 43.28% of ordinary registered shares of Estonian company Tuuleenergia Osuaging for the total amount of EUR 11,350 thousand. HOB OU owns 56.72% of shares of Tuuleenergia Osuaging, therefore, following this transaction the Company holds 100% of shares of Tuuleenergia Osuaging. Tuuleenergia Osuaging operates a part of 6 wind turbines with overall capacity of 18.3 MW, located in Mall and Tamba, Estonia.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2015
All amounts in EUR, thousands unless otherwise stated

On business combination, assets and liabilities of EURAKRAS UAB, HOB OU and Tuuleenergiija Osaühing were identified with the following fair values at the date of acquisition:

	EURAKRAS UAB	HOB OU and Tuuleenergiija Osaühing
Property, plant and equipment	32,036	30,636
Other non-current amounts receivable	124	605
Inventories and prepayments	13	-
Amounts receivable within one year	319	499
Cash and cash equivalents	580	154
Non-current liabilities	(24,001)	(21,538)
Current liabilities	(1,219)	(3,993)
Net assets	7,852	6,363
Non-controlling interest	1,963	-
Goodwill arising on business combination	11,169	4,987
Purchase consideration paid	17,058	11,350

The Group has 12 months after the date of business combination to review and determine the fair values of the assets and liabilities.

On 9 February 2016, the Company established a new entity, Energijos Sprendimų Centras UAB with the authorised share capital of EUR 10 thousand, which is divided to 10,000 ordinary shares with the nominal value of EUR 1 each. The total issue price of shares was equal to EUR 150 thousand. Energijos Sprendimų Centras UAB is engaged in the provision of energy saving (efficiency) services and development of renewable energy sources. The Articles of Association of Energijos Sprendimų Centras UAB were registered with the Register of Legal Entities on 17 February 2016.

On 15 March 2016, the Group's subsidiary Kauno Kogeneracinė Jėgainė UAB issued 10,756,300 ordinary registered shares with the nominal value of EUR 1 each. The total issue price of shares was equal to EUR 10,756,300. The Company acquired 5,484,292 newly issued shares with the nominal value of EUR 1 each, which were settled in cash contribution of EUR 5,484 thousand. As a result of this transaction, the Company holds 51% of shares of Kauno Kogeneracinė Jėgainė UAB. Accordingly, 49% of shares of Kauno Kogeneracinė Jėgainė UAB are held by FORTUM HEAT LIETUVA UAB.

Borrowings

In January 2016, the Group company NT Valdos UAB signed with the bank a long-term agreement for the loan of EUR 16.9 million intended to finance the acquisition of immovable property and refinance the investments. The loan was withdrawn and the payments were made in full for immovable property acquired. Immovable property of NT Valdos UAB was pledged to secure the fulfilment of obligation under the loan agreement. The loan agreement is valid until January 2021.

In January 2016, the Company signed with the bank a long-term agreement for the loan of EUR 25.6 million intended to finance the acquisition of wind-power park. The deadline for repayment of the loan is 18 January 2026, and variable interest is payable on the loan.

In March 2016, the Company signed with the bank an overdraft agreement for the amount of EUR 40.0 million to refinance the Company's day-to-day operations. The amount of overdraft facility can be increased to EUR 52 million. The deadline for its repayment is 7 March 2018, and variable interest is payable thereon. As at the date of signing these financial statements, no amount of the overdraft facility was withdrawn.

Sale of assets

On 25 January 2016, part of immovable property belonging to the Group company NT Valdos UAB with the value of EUR 15.4 million was approved for sale by auction.

REGISTERED OFFICE OF THE ISSUER

„Lietuvos energija”, UAB

Žvejų g. 14,

LT-09310

Vilnius

The Republic of Lithuania

ARRANGER

BNP Paribas

10 Harewood Avenue

London NW1 6AA

United Kingdom

DEALERS

BNP Paribas

10 Harewood Avenue

London NW1 6AA

United Kingdom

AB SEB Bankas

Gedimino Ave. 12

LT-01103 Vilnius

The Republic of Lithuania

FISCAL AGENT, PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon

One Canada Square

London E14 SAL

United Kingdom

REGISTRAR AND LUXEMBOURG LISTING AGENT

The Bank of New York Mellon SA/NV, Luxembourg Branch

BNY Mellon

Vertigo Building—Polaris

2-4 rue Eugène Ruppert L-2453, Luxembourg

LEGAL ADVISERS

To the Issuer as to English law:

Dentons UKMEA LLP

One Fleet Place

London EC4M 7WS

United Kingdom

To the Issuer as to Lithuanian law:

Sorainen

Jogailos 4

LT-01116 Vilnius

The Republic of Lithuania

To the Dealers as to English law:

Clifford Chance LLP

10 Upper Bank Street

London E14 5JJ

United Kingdom

To the Dealers as to Lithuanian law:

Law Firm Ellex Valiūnas

ir partneriai

Jogailos 9

LT-01116 Vilnius

The Republic of Lithuania

AUDITORS

UAB „PricewaterhouseCoopers”

J.Jasinskio 16B

LT—03163 Vilnius

The Republic of Lithuania